



Department of Trade and Industry

**The Report of the National Industrial
Participation Programme
2005/2006**

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1 Overview

This latest review of the National Industrial Participation Programme (NIPP) of the Department of Trade and Industry (**the dti**) reveals that offset investments from international organisations in return for major state purchases abroad has reached that stage of maturity where an overall review of the programme is merited.

As will be seen, any such objective overview now must vindicate the vision of the Government in launching the NIPP. It has borne fruit with remarkable beneficial impacts, both short and long term, on South Africa's economy and its future.

Looking back on what has been achieved, it is clear that the NIPP has produced sustainable ventures in a variety of crucial industrial sectors, some entirely new to South Africa. These are not charitable handouts but well-founded business ventures that are succeeding – and will remain sustainable when the NIP programmes that launched them come to an end.

NIPP investments have also allowed major new injections of technology and skills transfer in South Africa. The vision of **the dti** with regard to innovation, high growth sectors and integrating South Africa as a vital part of high-value global supply chains is being realised. Our leather is being turned into car seats. Our platinum is used to produce catalytic converters. We have taken our raw materials and moved them up the value-chain. The NIPP has opened entirely new markets for us, sometimes with unique new products.

At the same time the NIPP has become a major point of leverage for Government's wider vision of growth with equity, as expressed most recently in the Accelerated and Shared Growth Initiative for South Africa (Asgi-SA). Concerted efforts have been made to maximise job creation, to involve small, medium and micro enterprises (SMMEs), to build black economic empowerment (BEE)-owned enterprises and to spread the benefits wherever possible to neglected regions and towns. Often NIPP projects have proven to be catalytic investments whose ripples spread far beyond the actual project itself.

In the process, **the dti** has learned a great deal. We have full confidence in the viability and sustainability of NIPP projects. There have been a few failures, but these are only a handful out of the more than 150 implemented projects – there must be some testing of the limits.

Obligors are required to invest in offsets, often in high-risk projects, in return for large-scale state foreign purchases. Not all obligors have performed equally well and some are still falling short of their targets, for which action is being taken. But the majority of obligors have exceeded expectations and passed their milestones successfully. The NIPP is also looking at making contributions towards meeting South Africa's infrastructure expansion, from transport to ports, from high technology to the nuclear industry.

Our focus in this review is on the NIPP's performance over the past two years, in particular on the higher risk capital investments accompanied by skills and technology transfers. Import replacement and export (and forex) growth are also notable consequences of success. Offset investments are often much closer to the obligor's own core business, which further aids viability and assists opening up markets which in other circumstances would never be opened to us.

As an illustration of the NIPP's victories, this review begins by highlighting some key success stories that give an insight into how the NIPP is working:

1. The aerospace programme
2. The oil rig construction and maintenance programme
3. The use of hi-tech industrial technology to create a startlingly new commercial export; and
4. A loan via the Industrial Development Corporation (IDC) with remarkable small and medium enterprise (SME) outcomes.

2 Four Success Stories

Success Story No.1

Aviation and Aeronautics

Aviation has long been targeted as a priority high potential sector in Government industrial policies. In this sector the NIPP has played an important role.

The Obligor

The obligors involved, Airbus, Boeing, and BAE Systems (BAES), have secured the development of a private South African company, Aerosud, which provides aircraft systems and aeronautical solutions for the civil and military aviations industry with key and catalytic support.

Aerosud

In the case of Aerosud, the support of the obligors has gone beyond actual investments, important though these are. The obligors have made South Africa part of the global supply chain in this industry, assisting with access on a competitive basis in terms of both price and quality to sustainable, long-term contracts with these obligors. Such exports, along with other prestigious projects such as parts for the UK's Typhoon fighter aircraft, underline Aerosud's recognition as a preferred supplier on the global stage as if it were a British – not a South African – supplier with all the benefits that this brings.

Backing this up is intensive integration with **the dti** on innovative programmes to the benefit of the sector as a whole. Thus the programme is locked into the Centurion Supplier Park Development initiative. This focuses on aviation-specific supply chain development, enabling the clustering of SMMEs and local industry partners and the development of associated integrated supply logistics systems software, which makes the supply-chain run smoothly and effectively.

Aerosud supplies sheet metal fabrications and galley fittings, seats, etc. for Airbus, parts for Typhoon, internal assemblies for Boeing aircraft and military applications such as engine suppressors and armoured seats for AgustaWestland helicopters. And it does so with strong BEE participation and skills transfers and training for 440 staff, now growing to over 700 as production expands to meet demand, with a total

order book of R4 billion. New technology is being injected into South African industry, in this case ranging from advanced aviation manufacturing and testing to e-Engineering, while Aerosud itself is constructing its own Innovation and Training Centre, partnered with **the dti** and Gauteng tertiary education institutions.

Looking Ahead

In the longer run, with the doors now opened to becoming a supplier to companies ranging from Lufthansa to Indigo, Aerosud will continue operating long after the NIPP has come to an end. But the catalytic interventions which the NIPP has enabled will have done their good work, and created a bigger, more vibrant, forex-earning, globally competitive export sector for the economy (95% of Aerosud's production is for export).

Finally, there are the less obvious, but no less important spin-offs. The maturation of Aerosud will have important and useful ramifications for Africa, in the full spirit of NEPAD. Aerosud will act as the channel for third country offset obligations, while emerging African aero industries are already being involved directly as suppliers, benefiting from our economies of scale, ease of location and knowledge of African conditions and appropriate technologies.

In sum, by placing work with Aerosud the obligors guarantee the financial risks involved by lending their own international reputation to local products and thereby locking South Africa into new markets with medium to long-term contracts – all based on the shared business interests of both obligors and beneficiaries – a key element of sustainability. Thus Aerosud is not locked in as simply a low-cost supplier – the NIPP leverage has made it a bigger player far sooner than it would otherwise have been. The benefits for the broader society speak for themselves.

Aerosud already has a Bronze Quality (>99.55%) rating for Boeing, and is a competitive supplier both in terms of cost and reliability.

Success Story No.2

The Oil Industry

Recent developments around the Middle East have underscored global uncertainties about oil and gas supplies, with predictions of highs of US\$100 a barrel no longer being dismissed out of hand. South Africa itself has limited gas supplies and successful oil-from-coal technology. Yet it lies on a continent where, in Angola and West Africa, one of the fastest new significant sources of energy is being developed. The result is booming exploration offshore, resulting in a shortage of oil rigs and long waiting lists. Moreover, for major repairs and refitting the existing oil rigs must be laboriously towed as far as Singapore, at huge costs in downtime alone. The opportunities for South Africa seem obvious.

But the barriers to entry into this market are formidable, not least the dominance of the very powerful (and rich) oil majors. Yet with the help of the NIPP, South Africa is breaking into this strategically vital and prosperous market.

The Obligor

In this case, the obligor is MAN Ferrostaal as part of the GSC. MAN Ferrostaal will be investing in the local industry via local companies, in cooperation with Grinaker Ltd, SA Five, Dorbyl Heavy Engineering, Dorbyl Marine and Globe Engineering in the form of improved and upgraded port facilities at Saldanha Bay and Cape Town in Western Cape Province. This infrastructure includes the construction of an entire new fabrication yard, with new workshops, offices, stores, electrification and lay down areas – all of which will become the property of the state.

The obligors' investments break down the very high barriers to entry into this lucrative market. Oil rigs can now be towed from the West African oil corridor to South Africa for refurbishing and repair, and oil rigs can be constructed here. Downstream there are many benefits for SME suppliers. MAN Ferrostaal paid for the two-and-half-years of research that went into the project, provided the initial investment capital and lent their name and reputation as a major international company for the South Africans to take on the oil majors.

Jobs created at Saldanha alone are in excess of 740. MAN Ferrostaal is taking on 10-15-year leases, underscoring the long-term sustainability of the business. The ratio of indirect jobs created through outsourcing to local suppliers is 8:1. In Cape Town and Saldanha 300 new jobs are to be created immediately for the site construction phase, thereafter sustaining an additional 600 permanent jobs in Cape Town. Skills are not being imported, but provided through intensive training within the local community.

Oil rigs are certified to international ISO standards and an associated benefit is that the standard of security has been beefed up to meet stringent international requirements – which benefits other port users. And the local companies, Grinaker and Dorbyl, were in part selected for the joint venture because of their good BEE accreditation. Towing a rig from Angola to Cape Town takes seven days – to Singapore takes 28 days. The oil rig programme is thus an excellent example of the NIPP at its best.

Success Story No.3

New Dental Technology

Sometimes swords can be beaten into ploughshares. Such is the case with the Global Eagle Strategic Empowerment Alliance's Global Eagle Medical Corporation (GEMCO).

Role of the Obligor

GEMCO essentially integrates proprietary software technologies facilitated largely through NIPP obligors to create something no less than revolutionary in the field of dental prosthetics. In this case the obligor is BAE Systems (BAES) and without it GEMCO would not exist. BAES provides investment funding, global market research and assistance with exporting (BAES has a presence in over 120 markets worldwide)

How it Works

GEMCO combines e-Dentistry via 3D Scanning to a laser machine that can now be programmed to sculpt prosthetic teeth to exact requirements out of a combination of rare metals. The result is that – from the dentist's chair to the delivery of the new tooth – dental prosthetics can be produced within 48 hours and much more cost effectively. This unique and proprietary technology platform draws on software from the aviation industry to provide an industrial environment for dental prosthetics that makes them more competitive in the international market. And it is not just Africans who will benefit. This product is attracting intense interest in the Middle East, Brunei, and in Europe and North America. The value of the investment equates to US\$20 million, and it gives South Africa business access to global markets in excess of US\$120 million. Here again, these markets are accessed through a mixture of GEMCO initiatives and through BAES's own network in foreign markets.

Jobs

Already GEMCO has created over 30 jobs, which will rise to 400 within three years and 700 within ten years, with intensive training and skills transfer courses for staff. What's more, Global Eagle Strategic Empowerment Alliance, which focuses broadly on the empowerment of previously disadvantaged individuals, is 64% BEE-owned.

Success Story No.4

Soft Loans for SMEs

Not all the NIPP success stories are about technology breakthroughs. Sometimes they can be about other, less spectacular achievements that nonetheless have a very wide beneficial ripple effect – especially to those formerly marginalised from the mainstream of the economy in South Africa.

Such a project was developed under the NIPP in the form of a loan facility between **the dti**, the Industrial Development Corporation of South Africa (IDC) and Thales International. The amount involved was US\$50 million over five years, and the intention is for **the dti** to widen the reach of the NIPP to remote rural areas and to small business enterprises using the IDC as the channel. Such enterprises are often too small to be supported or strengthened through single interventions by big corporates.

Often big obligors such as Thales find it difficult to find and interact with small and emerging businesses. This programme overcomes these obstacles. For the IDC the loan provided an opportunity to raise normal commercial finance at very competitive rates for supporting small enterprises (which create more jobs per rand compared with larger projects). It is also aligned with Government priorities regarding poverty alleviation. The funds are directed at poorer regions and rural areas, and the full amount of the loan was fully allocated within a year. The results speak for themselves (see Table 1 below).

Table 1: Thales/IDC Loan Control Schedule

Facilities	Sector	No of Facilities	Jobs Created or Saved	BEE
Eastern Cape				
Chemicals	Chemtex	1	124	
Metals	Metals	1	20	✓
Sub-Total:		2	144	
Free State				
Timber	Wood & Paper	1	66	✓
Chemicals	Chemtex	1	25	✓
Technology	Techno Industries	1	15	✓
Metals	Metals	1	52	✓
Sub-Total:		4	158	
Gauteng				
Business development	Franchising	1	17	✓
Call centres	Techno Industries	1	110	✓
Chemicals & textiles	Chemtex	3	96	✓
Cleaning services	Transport & Services	1	75	✓
Diamond mining	Mining	1	56	✓
Engineering	Metals	1	53	✓
Entertainment	Media & Motion pictures	3	658	✓
Food & restaurants	Franchising	1	24	✓
Food & restaurants	Franchising	1	320	
Franchising	Franchising	1	77	✓
Health Care	Health	1	65	✓
Juice processing	Agroprocessing	1	86	
Metals	Metals	3	67	
Technology	Techno Industries	2	170	✓
Training	Franchising	1	17	✓
Sub-Total:		22	1 891	
KwaZulu Natal				
Food & restaurants	Tourism	2	193	✓
Food processing	Agroprocessing	1	225	✓
Hospitals	Health	1	16	✓
Wood & paper	Wood & Paper	1	106	✓
Sub-Total:		5	540	
Limpopo				
Agroprocessing	Agro	1	348	
Retail	Franchising	1	19	✓
Sub-Total:		2	367	
Forestry	Wood & Paper	1	45	✓
Retail: supermarkets	Franchising	1	18	✓
Sub-Total:		2	63	

Facilities	Sector	No of Facilities	Jobs Created or Saved	BEE
North West				
Mining	Mining	1	504	✓
Tourism lodges	Tourism	1	54	
Sub-Total:		2	558	
Western Cape				
Tourism	Tourism	1	87	
Transport engineering	Metals	1	92	✓
Yacht & boat manufacturing	Metals	2	85	
Sub-Total:		4	264	
National				
Food & restaurants	Franchising	3	1 019	✓
ICT	Franchising	1	34	✓
Retail	Franchising	1	170	✓
Retail: supermarkets	Franchising	1	320	✓
Sub-Total:		6	1 543	
TOTAL		49	5 528	78%

3 Cross-Cutting Themes and Impacts

This review does not set out to provide exhaustive details on every NIPP project but rather highlights the achievement of the last couple of years. The aim here is to give a flavour of the NIPP at work. In that sense it is useful to identify cross-cutting themes and national priorities when assessing the reach and depth of NIPP projects.

The four success stories discussed above show key emphases in South Africa's NIPP. These include the following:

- Creating jobs
- Transferring new technology
- Supporting industrial innovation, easing market access
- Embedding South Africa high up in global supply chains (from aircraft to automobiles)
- Direct investment
- Export and forex growth
- Black economic empowerment
- Developing SMEs
- Priority economic sectors as informed by Asgi-SA
- Skills and training, and
- Access to new and often formerly protected markets

All are based on the principles of practical business sense and sustainability into the future.

But other cross-cutting issues also emerge from a helicopter view of the over 150 projects in the NIPP. They are worth drawing out in a little more detail, as the emphasis varies from project to project. The following examples will suffice.

3.1 Beneficiation and Value-Add

There is no sustainable future in mining raw materials and exporting them to other countries only to have to re-import the finished products at great cost. Thus Government is determined to beneficiate or value-add at every possible stage, and to retain that value in the form of jobs and revenue within South Africa. The following NIPP projects underscore this.

The obligor:	AgustaWestland
Project name:	ADEPT Airmotive
Project description:	The first ever all-South African designed and produced modern aviation engine.
Adding value to:	South African companies, South African research facilities in the sector, South African technology and raw materials
The obligor's role:	Technology transfer, R1.1m low interest loan, training, certification and quality assurance assistance, design
Jobs:	5 now, 40 to come
Downstream:	New technology adaptable for combustion, avionics, marine propulsion and light metals
Local content:	Eventually reaching 90%
Sales projected:	R82m by 2010

The obligor:	Mitsui
Project name:	South African Japan Vanadium (SAJV)
Project description:	A partnership between Highveld Steel and Vanadium and two Japanese companies, namely, Nippon Denko and Mitsui, for the manufacturing of ferro vanadium
Adding value to:	The main raw material in the production of ferro vanadium is vanadium pentoxide that is sourced from a local company, Vanchem. A small percentage of aluminium obtained from Japan is also used in the production of the final product
The obligor's role:	Mitsui has a 10% shareholding in the joint venture and it is responsible (together with Nippon Denko) for the marketing of ferro vanadium produced by the SAJV to the Japanese markets
Jobs:	25
Downstream:	Ferro vanadium is used mainly in the making of steel and stainless steel
Local content:	100%
Sales projected:	R930m for the years 2006 and 2007
Partners:	Nippon Denko and Highveld Steel and Vanadium

The obligor:	BAES/SAAB
Project name:	Ferrochrome Beneficiation Project
Project description:	Long-term expansion of ferrochrome into stainless steel markets by increasing supply from Buffelsfontein mine
Adding value to:	Stainless steel
The obligor's role:	Finance and investment @ R2.1bn and technology
Jobs:	2 750 during construction, 960 permanent
BEE:	Via GSEAS, 100% black owned, will own 26%
Location:	North West Province
Sales projected:	US\$575m to 2014

The obligor:	Sumitomo
Project name:	Armoured Systems and Projects
Project description:	Armoured Systems and Projects is a South African company manufacturing and exporting armoured vehicles mainly to the Middle Eastern countries.
Adding value to:	Most components used to produce the armoured vehicles are sourced from local suppliers, while the base vehicles are imported.
The obligor's role:	Marketing and sales, logistics management, procurement of the base vehicles and financing throughout the progression. Assistance in getting into new markets
Jobs:	30 now and 40 envisioned

The obligor:	Thales
Project name:	Geratech Zirconium Beneficiation
Project description:	Adding value to South African zirconium by using new technology and chemical processes derived from proprietary knowledge
The obligor's role:	Training, marketing assistance, transfer of secret technology, product innovation for the following fields: cosmetics, leather, paint, ceramics, bio-ceramics, refractories, paper, catalysts, solid oxide fuel cells, nuclear, environmentally-friendly
Jobs:	50
Sales projected:	R100m

The obligor:	Rolls-Royce
Project name:	Avalloy Superalloy
Project description:	Superalloys based on nickel are used to produce casings or forgings for finished products in the aerospace, turbines, industrial gas turbines, automotive, oil and gas lines and the chemicals industries
Adding value to:	Nickel and other mineral resources for high-value manufacturing in strategic sectors
The obligor's role:	Investing in R&D, linkage to key UK supply chains, new product development
BEE:	Abante Virtus
Sales projected:	US\$100m per annum

3.2 Downstream Activities Supporting Upstream Industry

Downstream activities are an outcome of existing industry and manufacturing. The clearest example in the case of the NIPP is that of motor vehicle components for motor vehicle manufacture, both locally and abroad. Once again value is added to raw materials, and South Africa becomes embedded in global supply chains to leading international motor companies.

The obligor:	Agusta
Project name:	Flexider SA
Project description:	Manufacture of stainless steel flexible exhaust couplings
Adding value to:	Essential for fitting catalytic convertors
The obligor's role:	Investment, assisting Italian investors with R30m investment
Jobs:	45 new, rising to 90
Upstream:	OEM in the SA motor industry
Local content:	70% (steel)
Sales projected:	R45m p.a.

The obligor:	Daimler-Chrysler
Project name:	Automotive Leather Company
Project description:	Manufacture of leather seat covers for left-hand drive Mercedes Benz E Class. Capital investment in tools and equipment of R6.3m
Adding value to:	SA leather goods industry
The obligor's role:	To provide export markets in Germany and Austria
Jobs:	250
Local content:	65%
Sales projected:	R1.2m

The obligor:	Daimler-Chrysler
Project name:	Auto Industrial Spartan
Project description:	Manufacture of wheel carriers, brake discs, front wheel hubs, rear axle flanges and steering knuckles for Mercedes Benz C Class and gearbox covers for Mercedes Benz commercial vehicles. Capital investment of R14.2m
The obligor's role:	Providing the market, expanding exports
Local content:	42% for C Class vehicles components 98% for commercial vehicles components
Sales projected:	R820m

The obligor:	Daimler-Chrysler
Project name:	Takata-Petri
Project description:	Manufacture of steering wheels for commercial vehicles and passenger cars for Daimler Chrysler and Mercedes Benz in Europe, Brazil and the US, and in South Africa
The obligor's role:	Guaranteed contracts
Jobs:	35 new
Upstream	Local OEM
Local content:	70%
Sales projected:	R510m

The obligor:	Agusta
Project name:	Capstone 528
Project description:	Manufacture of home and industrial textile products for local and international customers
The obligor's role:	Assisting Roberto Papini and Co to identify a suitable partner for their new technology Italian textile manufacturing business and investing in it
Jobs	Fluctuates seasonally, but about 600
Local content:	94%
BEE	BEE ownership of Capstone
Sales projected:	R1.3m to 2010

3.3 The Services Sector

Some interesting offset investments have occurred in the services sector, the fastest growing sector worldwide. Here the NIPP provides South Africa with invaluable opportunities to “leapfrog” technology, innovation and knowledge developments, to establish itself in new markets or simply to grow local services. Big industrial plants attract attention; services are less easily photographed but also interesting and just as important for South Africa’s development. In this review we focus on a selection of projects with community spin-offs in this sector.

	The obligor:	GE
	Project name:	Mamelodi Medical Transcription Services
	Project description:	A medical transcription business in Mamelodi township, whereby a major US physician billing and practice management firm outsources medical transcription work to South Africa
	The obligor’s role:	GE-Aviation established the link between the US Scroggins Information Services and the Mamelodi providers, assisted by Faith-based operators. The first five Mamelodi employees were selected and training was provided at the Scroggins facility in the United States. These employees are now working and are also expected to train future Mamelodi employees. Space has been provided by the local BEE Company, with GE & Scroggins providing the balance of resources required including computers, communication/high speed lines and other technology required.
	Jobs Upstream	5 medical transcription workers, rising to 26 US\$3.6 million by 2011-2012

	The obligor:	Cisco Systems
	Project name:	ICT Precinct
	Project description:	Investing in an ICT R&D centre to bring IT into various business and education environments, in partnership with the dti and the Innovation Hub, using Cisco-powered networks, providing services
	The obligor’s role:	R140m investment, product development, technology transfer, training and certification of local network engineers to help South Africa become globally competitive in the areas of network technology

The obligor:	Subsea 7
Project name:	Training and Development Programme
Project description:	UK-based company Subsea 7 contracted by local parastatal, PetroSA, for the installation of subsea pipelines and provision of the necessary infrastructure. The company will fulfil its IP obligation by training PetroSA personnel in subsea installation engineering, subsea instrumentation and control systems, offshore project engineering, offshore/subsea construction management, subsea surveying, etc.
The obligor's role:	Five-year training programme in the UK and elsewhere for 15 to 20 PetroSA personnel in subsea technical and engineering fields, at a cost of UK£ 847,179

The obligor:	Allseas
Project name:	Training and Development Programme
Project description:	Swiss-based Allseas Pipeline Contractors SA contracted by local parastatal, PetroSA, for the installation of subsea pipelines and provision of the necessary infrastructure. The company will fulfil its IP obligation by training PetroSA personnel in subsea installation engineering, subsea instrumentation and control systems, offshore project engineering, offshore/subsea construction management, subsea surveying, etc.
The obligor's role:	Five-year training programme in the Netherlands and elsewhere for 15 to 20 PetroSA personnel in subsea technical and engineering fields, at a cost of € 1,395,504

3.4 Building on what we have: Agro-Processing and Mariculture

The development of agro-processing in South Africa is a central part of Government's poverty alleviation equation for rural development. Here too the NIPP is helping, sometimes in unexpected ways.

The obligor:	Thales
Project name:	Laroche South Africa
Project description:	Laroche is a leading winemaker based in France. Leveraging on its well-established international reputation, it is seeking to exceed its "New World" wine range. It has invested in L'Avenir wine estate in Stellenbosch, and is lending its name and its international sales capacities to the South African product.
The obligor's role:	Access to trading; and concessionary financial support
Jobs	50
Local content:	100%
Sales projected:	R85m

The obligor:	AgustaWestland
Project name:	Worldfish SA
Project description:	Construction of innovative inflatable cages for tuna line fishermen in South Africa to store their catch live, tow it back to port and build up stocks to meet the considerable international trend for higher value superfrozen tuna exports worldwide – this requires new technology
The obligor's role:	Low-cost finance, linking Worldfish SA to markets in Europe
Jobs	23, plus an unknown number whose jobs (in a declining, inefficient sector of South African fishing which draws heavily on the previously disadvantaged) are now sustainable well into the future
Local content:	100%
Sales projected:	Cages export = UK£9.5m

Customers are willing to pay a premium for high quality fresh tuna, which before was being sold for less locally, often for the production of tinned fish. The cages also ensure that quotas can be met and long-term supplier agreements can be signed. While mariculture has grown rapidly worldwide (from shrimps to salmon), South Africa, despite the wealth of its marine resources, is only starting to exploit the great potential of this sector.

The obligor:	Thales
Project name:	Ithemba Farm
Project description:	Mining Act requirement for local community development, via Total Coal SA: hydroponics, greenhouses
The obligor's role:	Finance of R2m
Adding value to:	Agriculture, local natural resources
BEE:	40% on completion
Jobs	13
Sales projected:	R600 000 per annum

The obligor:	Areva
Project name:	Green Coal
Project description:	The production of an alternative to coal or wood, using straw, grasses, reeds, maize stalks, etc. to create a biomass which produces charcoal for fuel. The benefits are to the environment, to people's lives (a cheaper source of fuel) and to relieving poverty
Adding value to:	New sustainable agribusiness for rural areas
The obligor's role:	Providing new technology, financed by Areva (€300 000), producing a safe household fuel derived from agricultural residues not used for animal feed, via the patented Pro-Natura International process
Starting Jobs:	Starting with 10, plus 28 new jobs for every biomass machine produced (30 a year) plus 280 unskilled jobs per unit in rural areas
Value add	90%
Local content:	BEE ownership 100%
Sales projected:	€100 000 per biomass machine

3.5 High Technology

Government economic strategies consistently highlight international trends towards knowledge-intensive, high-level manufacturing exports. There are several reasons for this. The higher up the scale of value-add, especially knowledge value-add, the higher the profitability. New sectors lead old economies into global competitiveness in the 21st century. And high-end jobs are better paid and sustainable well into the future. South Africa cannot compete with cheap unskilled labour. Nor is this in line with our view of a better life for all. The answer is to move into the future with confidence and compete with world-class countries like our own.

The obligor:	ThyssenKrupp
Project name:	Mechatronics
Project description:	Training of previously disadvantaged students in automation engineering suitable for knowledge-intensive manufacturing, in partnership with South African universities
The obligor's role:	US\$2m investment
Upstream benefits	High-technology manufacturing

The obligor:	Oracle
Project name:	iFactory
Project description:	New project for products useable for business via mobile devices in a wireless environment, from Financials to HR and CRM, via a software development centre linked to Oracle Corporation's international markets
The obligor's role:	R6.5m investment, plus technical assistance and marketing and sales support
Jobs	60
BEE:	Projected 91%
Sales projected:	R69m by 2010, 95% for export

The obligor:	MAN Ferrostaal
Project name:	SAMES
Project description:	Design, manufacture and marketing of high performance mixed signal integrated circuits (ICs). SAMES is a pioneer and world leader in single chip electricity metering
The obligor's role:	Technology transfer, training, acquisition of plant and equipment, access to other markets. Capital expenditure of €9m
Downstream	If successful SAMES will be the only micro-chip manufacturing plant in Africa. Future opportunities in telephony, identification and security, cellular phones and PC memory sticks. Generation of R4bn in revenue over 5 years
Jobs	133
Sales projected:	€22m over 5 years

4 Recent Major NIPP Milestones

'Milestone' is the term used for the critical timeframes within an obligation where performance is assessed and non-performance is punishable. Of particular relevance within this timeframe to **the dti** are the milestones achieved by the following obligors:

4.1 Ferrostaal

Ferrostaal, on behalf of the German Submarine Consortium, met its first milestone within this reporting period, achieving €655 million worth of credits.

Projects that have assisted Ferrostaal in meeting this milestone are the Magwa Tea Estate close to Umtata, the Atlantis Training Centre in the Western Cape, HOSAF Recycling, a High Quality Call Centre and an investment into SAMES, all in Gauteng. Even more good news relates to Ferrostaal's involvement in the oil and gas projects planned for Cape Town and Saldanha Bay. These relate to the onshore service hub for offshore oil and gas platforms in the port of Cape Town and a maintenance, repair and fabrication facility for offshore platforms in Port Saldanha.

4.2 BAES/ SAAB

BAES/SAAB have met their first milestone with US\$2.3 billion worth of credits. Their total obligation of US\$7.2 billion is amongst the largest worldwide in any offset agreement. The main contributing projects towards these achievements have been Ferrochrome, GEMCO, Gold Loan Fund, Strategic Exports, Dunlop Tyres, Dunlop Industrial Products, Gold Beneficiation and SA Bio Products.

4.3 Thales

Thales has performed exceptionally well towards meeting its second milestone and is well on its way to exceeding its NIP milestones. It has achieved this via the Industrial Development Corporation's (IDC) SME Fund that has assisted in the financing of small and medium-sized business that would not have otherwise benefited from the NIPP, and the Independent Wire project in Gauteng. In addition, Thales has facilitated the SA Wine project in Cape Town that will place South African wines on par with some leading international wines.

4.4 Boeing

Through Boeing's industrial participation activities, credits to the value of US\$266 million were awarded up to the end of May 2005. They have offset their obligation against South Africa's purchases of commercial jets and already have banked excess credits. Boeing's most prominent NIP activities include Aerosud and Denel.

4.4.1. Aerosud Work Package

Boeing transferred capital equipment (vacuum forming machines and axis routers) from its operations in the USA to Tshwane-based Aerosud for the manufacture of aircraft interior components. In addition, Boeing has assisted in obtaining quality and process approvals and has provided on-site support and training to Aerosud employees. Aerosud has been exporting components to Boeing under this project for the past two years. In 2006 Aerosud was named as a strategic supplier to Boeing. Aerosud has supplied more than 70 000 parts to Boeing during the past four years.

4.4.2 Denel Work Package

Boeing has provided capital equipment to Denel Aviation for the manufacture of aircraft components and has also assisted in quality and process approvals. The Boeing Manufacturing Cell is now fully operational and was officially opened in May 2006. Boeing has also provided on-site support in manufacturing practices.

5 Other Selected NIPP Projects

Obligor & Project	Sector	Investment	Skills / Technology Transfers	BEE	Jobs Created / Sustained	Geographic Spread	Exports / Sales Projected
ALCOM MATOMA Digital Radio Communications System	Technology	R9m	Training, Technology	✓	13	N/A	R349m
ALSTOM Konkola Mine Winders	Electrical engineering & manufacturing	R500 000	Training, Technology	✓	38	Zambia	R50m p.a.
BAES/SAAB 40 NIPP projects	Biotechnology, Automotive, Minerals and precious metals beneficiation, Health care, Aviation	N/A	Skills, Technology, Marketing	✓	N/A	Gauteng, KZN, North West, Western Cape, Free State, Mpumalanga, Northern Province	N/A
BOEING Boeing Parts Manufacture	Aero industry	Tooling initiative	Training and Mentoring	SOE and Private company Aerosud	10-12	Gauteng	R3.8m p.a. and Aerosud's export sales
DAIMLER-CHRYSLER Atlantis Forge	Automotive	R16m	Greenfields	N/A	730	N/A	R2bn
DAMEN Sarah Baartman, Harbour Tugs	Shipbuilding	Joint ventures	N/A	✓	N/A	Western Cape, KZN	N/A
FERROSTAAL Hosaf Pet Recycling System	Recycling	N/A	New Technology	✓	700	N/A	N/A
ROLLS ROYCE Tay Gearbox (Boeing engines)	Aero industry	N/A	Technology, Marketing, Training	SOEs	N/A	N/A	N/A
THALES Independent Wire	Industrial	US\$15m	Technology, Marketing	✓	100	N/A	US\$110m
THYSSENKRUPP Housing II	Construction	US\$15m	Training, Technology	✓	70	North West	US\$300m
VOLVO Fleetguard	Automotive spares manufacturing	US\$3m	New Technology	N/A	75	N/A	US\$60m p.a.