How the frigate contract was swung the GFC's way

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We explain why, despite having the better offer, Bazan ended up with a worse score

JOHANNESBURG - The *Sunday Times* this week published further details of a August 3 1998 memorandum prepared by Christoph Hoenings, an Thyssen Krupp executive and member of the German Frigate Consortium (GFC). The GFC was awarded the contract to supply the South African navy with four frigates in the infamous 1999 'arms deal.'

According to the newspaper the memorandum reads:

"The last trip (27-30.07.1998) was suggested by C Shaikh [Chippy Shaik] , Director Defence Secretariat. During one of our meetings he asked once again for explicit confirmation of the verbal agreement made with him for payment to be made in case of success, to him and a group represented by him, in the amount of $3-million. I confirmed this to him and offered to record this agreement in writing at any time and proposed to put the latter in a safe that can only be accessed jointly. C Shaikh will report back on this shortly."

The memo goes on to say: "Mr Shaikh has emphasised that the B+V/TRT offer was pulled into first place in spite of the Spanish offer being 20% cheaper. The Spanish offset was according to him also higher than ours. In this respect, it had, according to him, been no simple exercise to get us into first place."

In an earlier April 2008 article on Politicsweb we detailed how exactly the contract was swung the GFC's way. We are re-publishing it below in light of these latest revelations:

The mystery of why Bazan lost despite (it seems) having the better offer (April 8 2008)

In its indictment of Jacob Zuma the National Prosecuting Authority notes that up until the final decisions were made on the arms deal there were two separate and parallel processes. On the one hand there was the "The formal evaluation of the competing bidders ... conducted through an ostensibly rigorous and scientific evaluation process." On the other, there was an "informal process" through which "persons and entities interested in participating in the contracts sought to glean information about the process and exert influence, directly or indirectly, on formal decision makers."

From the evidence already gathered by German, British and South African investigations it seems that, with most elements of the arms deal, the "informal process" subverted the prescribed one. Choices were predetermined in backroom meetings, and the evaluation of the different bidders was then manipulated to ensure the desired outcome.

This seems to have been the case in the corvette contract as well. What other inference can one draw from the payment of $25m in bribes by the German Frigate Consortium (GFC) to "South African officials and members of cabinet" following its successful bid?

There is a contrary view that the GFC's Meko A200 won the corvette contract on legitimate grounds and if the Germans "did pay any bribes, they were wasting their money." [The GFC has also denied the bribery allegations.] Certainly, the GFC's bid was a good deal less bad than certain of the other winning contenders (most notably BAe's Hawk 100 - which won the jet trainer contract.)

It is a matter of public record that the GFC beat Bazan of Spain on the strength of their National Industrial Participation (NIP) offer. However, there is evidence to suggest that if the integrity of formal evaluation process had been maintained Bazan would have come out ahead of GFC in the assessments - even with their lower rating on the NIP.

Each of the bidders for the corvette contract (as on the other elements of the arms deal) was supposed to be assessed on a formula combining price, military performance, financing cost, defence industrial participation (DIP), and NIP. The closing date for the Request for Final Offers was May 11 1998 and the assessments by each of the evaluation teams began very soon after.

They were all completed by the end of June that year and consolidated at a SOFCOM meeting on July 1-2 1998. By the time of a meeting of the Armaments Acquisition Council on July 13 1998 the GFC's Meko A200 had come out ahead of the other bidders on the best value rankings. By this stage each of the process the bidders were assessed on the following formula:

Best Value (BV) = Military Value (MV) + Industrial Participation (IP) + Financing Index (FI)

Military Value was determined by dividing military performance over cost. Industrial Participation by a combination of each bidder's NIP and DIP ratings. If the information presented by the Auditor General in their report into the arms deal is correct, the result of the evaluations of the different bidders (in mid-July) would have been as follows:

Table 1. Original best value results (BV = MV + IP + FI)

Bidders	MV	IP	FI	BV score	BV normalised	Ranking
GFC MEKO A200 (Germany)	91.9	100	79	270.9	100	1
Bazan 590B (Spain)	100	82	84	266	98.2	2
GEC F3000 (UK)	74.7	57	100	231.7	85.5	4
DCN Patrol Corvette (France)	65	82	90	237	87.5	3

It is clear then that by this stage the GFC bid had come out slightly, but not insubstantially, ahead of Bazan with 4.9 points between them. The normalised scores on "best value" were 100 for the GFC bid to 98.2 for Bazan's.

Originally the value system that was supposed to be used to assess the different bids was:

$$\mathbf{BV = \frac{MV + IP}{FI}}$$

However, this was changed to BV = MV +IP + FI at the July 1-2 SOFCOM meeting. The minutes of the meeting recorded that "*The Chairman [Chippy Shaik] emphasises the importance of showing the values of the three evaluation domains in a progression which culminates in a best value of Military value + IP value + Financing value."*

The minutes of the special Armaments Acquisition Screening Board meeting on July 8 1998 further recorded:

"The Chief of Acquisition [Chippy Shaik] briefly reviewed the process, stressing the integration of the results of four independent evaluations per equipment undertaken by SOFCOM. Due to disproportionate influence of the financing result in the top-level value system, the SOFCOM accepted a modified equation prior to integration, i.e. Ranking = Technical + IP + Financing (each evaluation contributing one third to the final ranking)."

This decision to change the formula was highly irregular as SOFCOM was an ad-hoc committee with no formal decision making powers. In his interview with arms deal investigators in 2001 Erich Esterhuyse, the co-chair of SOFCOM, said that he had been on holiday at the time this decision was made. "When I came back, I was presented with this particular slide that says, this is now the value system."

"I looked at this and I said, this does not make sense from a mathematical point of view. You cannot change a multiplier into a plus-factor and I could not figure out why it was done. And I said, fine, if I look at the results of, from the project, the study teams, if this new formula changes the outcome from one contractor to the other, then I will object violently. I could not find a single case where the outcome was effectively changed by the change in approach."

At that time the main concern of Esterhuyse (and others) was with the efforts to push through the contract for the Hawk 100 - regardless of cost - and the change in formula did little to help BAe's bid in that regard. However, if the original formula had been used for rating the corvette contract the results would have been as follows:

Table 2. Results using the original formula (BV = (MV + IP)/FI)

Bidders	MV	IP	FI denominator	BV score	BV Normalised	Ranking
GFC MEKO A200	91.9	100	100	1.92	100	1
Bazan 590B	100	82.00	95.4	1.91	99.37	2
GEC F3000	74.7	57.00	79.2	1.66	86.63	4
DCN Patrol Corvette	65	84.44	89.6	1.67	86.89	3

Thus, although the GFC bid still came out ahead on the original value system, the differential between it and Bazan was much smaller.

In the NIP evaluations, carried out by at team at the Department of Trade & Industry (Minister: Alec Erwin), the GFC had been given over double the score (100) to Bazan (48). This was despite the fact that their offers were - in dollar terms - about the same. Bazan had however presented a far superior DIP offer to the GFC both qualitatively and quantitatively.

It was the only bidder to provide a detailed business plan for its counter-trade offer on the combat suite. It had promised 21.9% counter-trade on the platform component, as well as indirect defence counter-trade to the value of $406m. By contrast the GFC offered only 11.5% direct DIP on the platform, and only $6m indirect defence counter-