



**PRESENTATION
to
PORTFOLIO COMMITTEE ON DEFENCE
12 September 2006**

AMD Representatives

MRS KHAPAMETSI MALEKE (Chairperson)

MR SIMPHIWE HAMILTON (Portfolio Chairperson : SMME/BEE)

MR LORRIS DUNCKER (Portfolio Co-Chairperson : Policy/Planning)

MR THEO KLEYNHANS (Portfolio Chairperson : Policy/Planning)

MR MARK MINNIES (Portfolio Chairperson : Marketing)

PROF ANDRÈ BUYS (VuXaka: Researcher)

SCOPE OF PRESENTATION



INTRODUCTION: 9:00 – 9:05

Mrs Khapametsi Maleke

PART 2: ROADMAP: 9:25 – 9:35

Mr Lorris Duncker

PART 1: STATE OF SADRI : 9:05 – 9:25

Mr Simphiwe Hamilton

- Definition of SADRI
- Motivation for SADRI
- SADRI's International Position
- Key Statistics
- Factors influencing SADRI
- Conclusion on State-of-Industry

- Definition of SADRI as Defence Sector
- Review of Government Initiatives
- Drafting of a *Defence Sector Strategy* by AMD in association with:

- DoD
- dti
- DST
- DPE

CONCLUSION: 9:35 - 9:40

Mrs Khapametsi Maleke

QUESTIONS: 9:40 - 10:20



PART 1
STATE OF SADRI

DEFINITION OF SADRI



The South African Defence Related Industries (SADRI) is a cluster of those organisations in the South African Private and Public Sector which are directly or indirectly involved in activities related to the industrial and trade processes of defence related materials, goods and services.

CLASS A COMPANIES [Yearly Turnover More Than R250M]



Saab Grintek

REUTECH Limited



Advanced Technologies & Engineering Co. (Pty) Ltd



CLASS B COMPANIES [R50M < Yearly Turnover < R250M]



ARMSCOR
Armaments Corporation of South Africa Ltd

BAE SYSTEMS

Land Systems OMC



Turbomeca Africa
SAFRAN Group



CLASS C & D COMPANIES [R10M < Yearly Turnover < R50M]

AEROSUD

Tellumat



IST
dynamics



CONTACTSERVE
PTY (LTD)

CLASS E & SPECIAL MEMBERS
[Yearly Turnover less than R10M]

ASSOCIATE MEMBERS
[Vested Defence Interest]

Members of AMD

TOTAL
44

MOTIVATION FOR SADRI



Reason for South Africa to have a Defence Industry:

- SADRI is a strategic asset ensuring sovereignty of the Republic.
- Provides African Products for African Conditions.
- Ensures Long Term Support and Maintenance.
- Enables Future Upgrades / Mid-life Extensions.
- Activates economic activity through Defence Spending.
- Contributes to National Wealth by Exports.
- Positions South Africa as a Peace Keeping Leader in Africa.

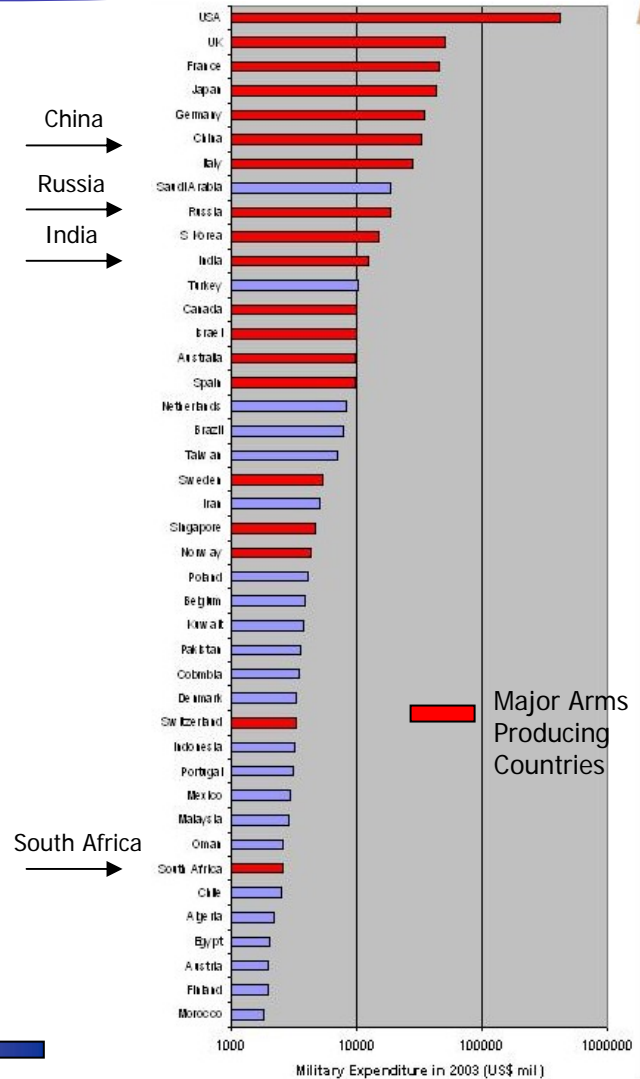
Entrenched in the

- White Paper on Defence.
- Defence Review.
- White Paper on Defence Related Industries.

SADRI's INTERNATIONAL POSITION



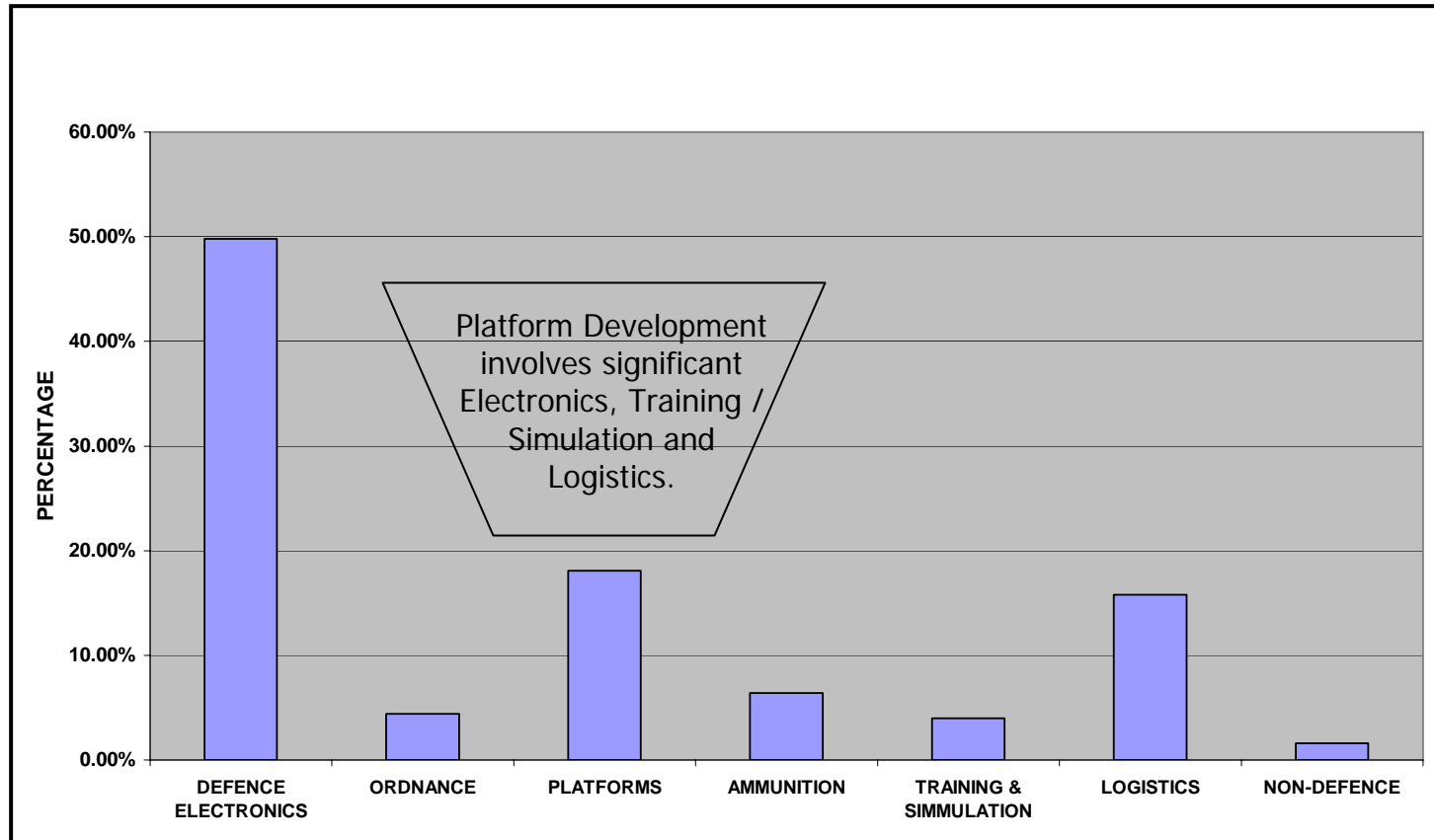
- Internationally, there are only 19 Major Arms Producing Countries.
- South Africa has the smallest Defence Budget of these Arms Producing Countries.
- Only a few lower / middle income countries have Domestic Defence Industries such as:
 - China
 - Russia
 - India
 - South Africa
- SADRI is therefore internationally comparatively small, but has to compete against these major players both in the **local** and international market place.
- South Africa is the only Major Arms Producing Country in Africa.
- SADRI is thus member of an elite International Fraternity who require Government strategies to prosper and survive.



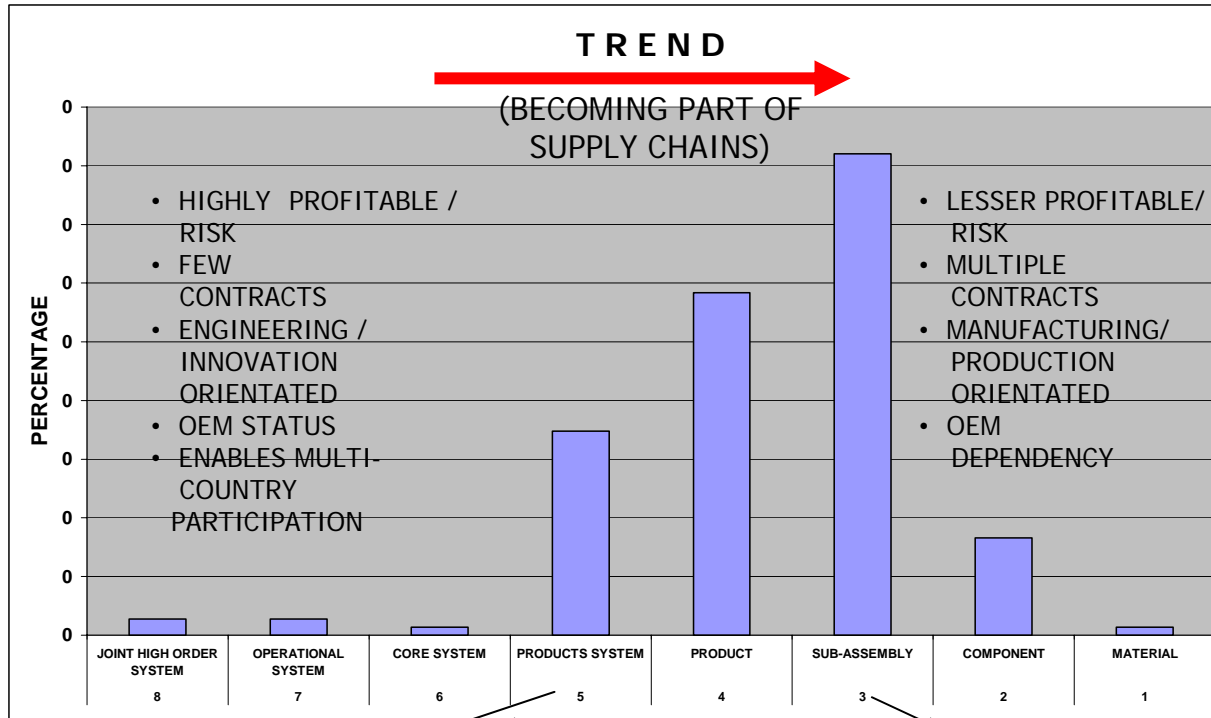
KEY STATISTICS



	PARAMETERS	STATISTICS (DATED 2005)	COMMENTS
1.	Number of Companies registered with SADRI	74 (44 members of AMD) (Represents 92% of turnover) (Represents 97% of exports)	Industry is more than DENEL. • DENEL needs the Industry as much as • Industry needs DENEL.
2.	Ownership	81% Private Companies (or part of)	
3.	Product/Service Categories	49,8% Electronics; 15,8% Logistics 18,1% Platforms	Close to Electronics, Transport and IT Sectors.
4.	Product Hierarchy	Trend towards Sub-Assemblies	Lack of Major Systems.
5.	Employees	15 024 (50% Black, 26% Female, 55% Denel)	In Transformation
6.	Equity Ownership	12,4% Black, 22,7% Foreign	In Transformation
7.	Turnover	R10,15 billion: Inclusive of Inter Company Trading (Denel: 39% of total)	Significant Sector
8.	Exports	R3,98 billion (39,2% of turnover)	Major Exporter
9.	Technology Expenditure	R0,9 billion	Highly Innovative Industry.
10.	Technology Personnel	1 614	



TREND ON PRODUCT HIERARCHY



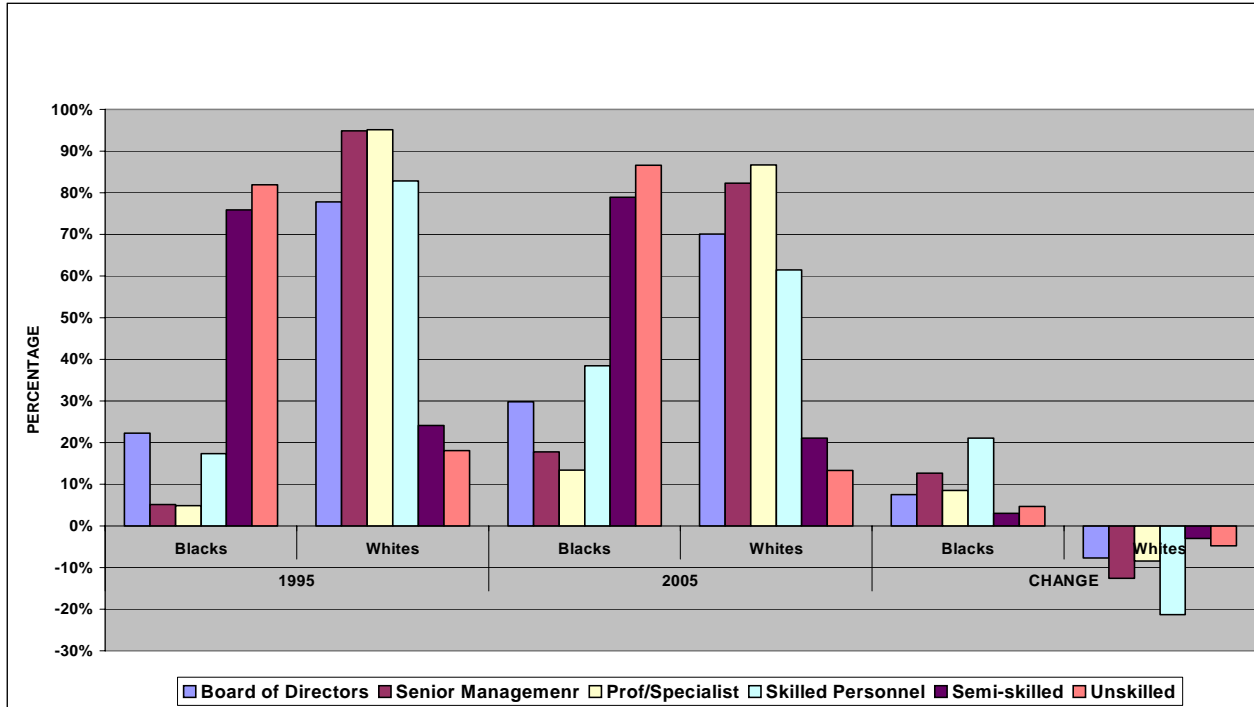
- Historically, strategic considerations made SADRI develop Major Product Systems.
- Currently, New Major Product Systems are being procured from foreign suppliers.
- Focuss is now on Economic Sustainability in being part of an International Supply Chains (Boeing, Airbus).
- Perceived Strategic Facilities are being kept alive, thus influencing profitability.



IN-COUNTRY BALANCE IS NEEDED WHERE CAPABILITY EXISTS



TREND OF RACIAL COMPOSITION



- SADRI is in the process of Transformation.
- Skilled high level manpower is scarce.
- Senior Managers / Specialists / Skilled Personnel often migrate into the Civilian Industry.
 - Telecommunications
 - Pebble Bed Modular Reactor (PBMR).
 - South African Large Telescope (SALT)
 - Stellenbosch Satellite Programme
- SADRI in process of finalizing its BEE Charter, awaiting DoD comments.

TREND ON FOREIGN OWNERSHIP / GLOBALISATION

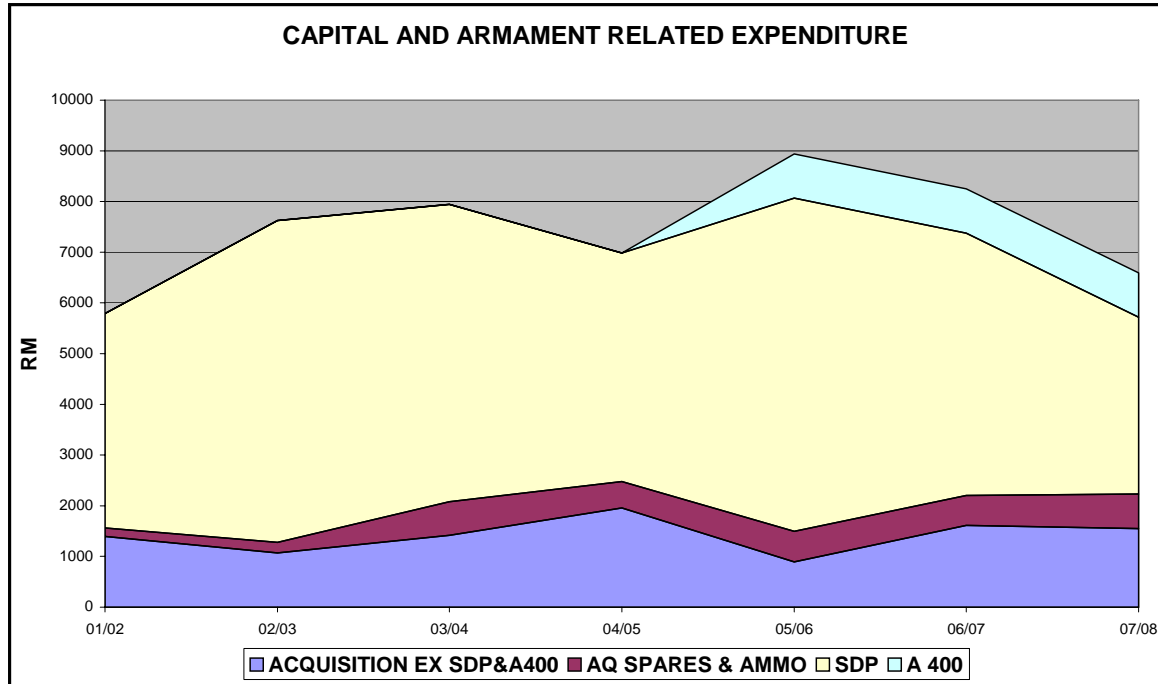


REASONS

- Defence Industries are becoming foreign owned:

Grintek	-	SAAB	Denel	-	TBD
ATE	-	French	REUTECH	-	TBD
ADS	-	Thales			
OMC	-	BAE Systems			
 - SDP and associated DIP / NIP have focussed international attention on SADRI.
 - Foreign Business is required to remain sustainable given a diminishing Local Defence Budget.
-
- Government Intervention Programmes (SDPs and A400M) have brought SADRI into a Globalisation Phase and part of the International Supply Chains, however:
 - Intervention has caused disruption in Defence Spending / Priorities.
 - SADRI has reaped benefits from these interventions.
 - Interventions could have produced more benefits if all stakeholders were involved in planning.
 - Company focus is changing from *National Security Agenda* to *Business Agenda* leading to:
 - loss of strategic direction
 - diversified planning
 - duplication
 - confrontation

TREND OF DEFENCE SPENDING (ACQUISITION)

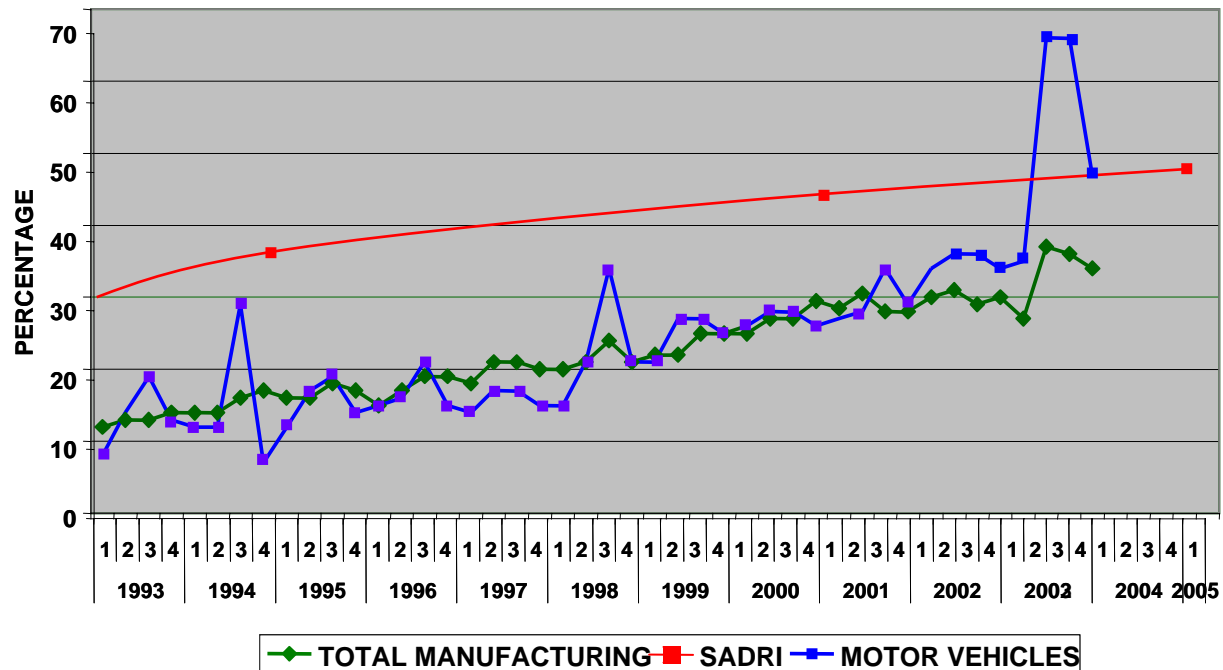


- Defence Acquisition Expenditure Trend (ex SDP, A400M) remains low to negative, with a decreasing proportion to Local Industry.
- SDP and A400M inflate the Budget, but is coming to an end.
- SDP and A400M Operations and Logistics are not adequately budgeted for.
- New Development Programmes seem unlikely in a Defence Budget which is under pressure.

Overall Defence Budget should typically cater for:

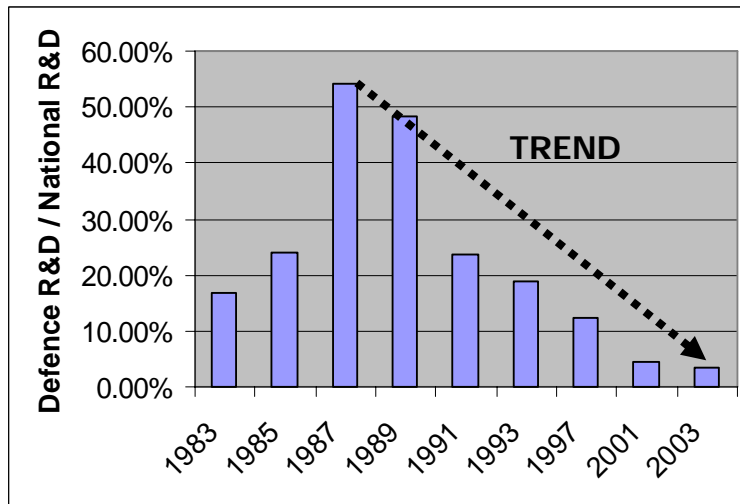
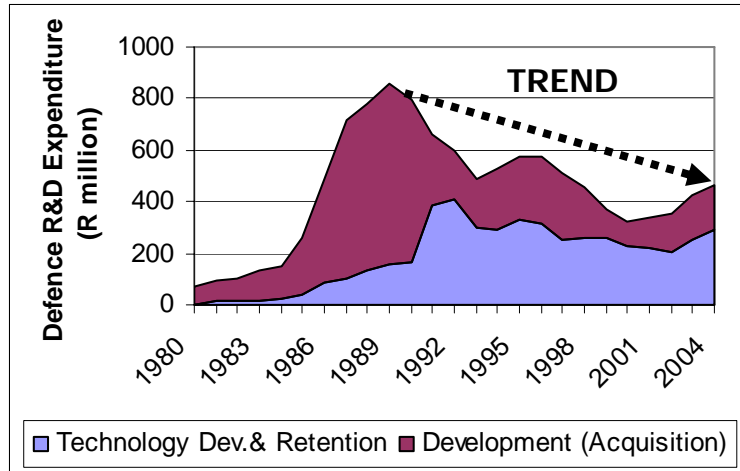
- Acquisition (1/3 of budget).
- Operations, Logistics and Personnel (2/3 of budget).

TREND OF EXPORTS



- SADRI's Loyalty is to the SANDF.
- SADRI's Business is becoming foreign.
- Exports will decline:
 - SDP and associated DIP / NIP is coming to an end.
 - SANDF using less new local products (industry reference base is declining).
- Imports are increasing because of:
 - Lack of Defence Acquisition joint planning with Industry, causing short timescale requirements and subsequent overseas procurement.
 - Perception of low performance of local industry against perceived high performance of foreign supplier (rules are different).

TREND OF TECHNOLOGY CAPABILITY



- RSA Budget for R&D is a fraction of that of competing countries:
 - China
 - Brazil
 - India
- Low funding and non-focussed technology development leads to no New Products.
- Companies fund R & D (R450 million in 2004) out of own profits and when turnover allows, to remain competitive.
 - Products become out of line with SANDF Requirements.
 - IPR belong to companies.
- Technology funding for innovation is lost by maintaining non-critical infrastructure and not innovation.
- 91 Technologies have been lost (55 were strategic):
 - Sonar
 - Fixed Wing Electronic Counter Measures (ECM)
 - Extreme Temp Electronics

TREND OF INNOVATION



	SOCIO – ECONOMIC INDICATOR	SA Ind. Base (1998 – 2000)	SADRI (1998 – 2000)
1.	Employment growth	-7%	+1.8%
2.	Sales Growth	+2.3%	+14.4%
3.	Export ratio	13.7%	44.7%
4.	Growth in export as percentage of sales	+1.6%	+3.46%
	INNOVATION INDICATOR	SA Ind. Base (1998 – 2000)	SADRI (1998 – 2000)
5.	Partners	SADRI has more partners	
6.	Local partners	18%	44%
7.	Foreign partners	26%	69%
8.	Sales of innovations	30%	65%
9.	New product sales	11%	23%
10.	Innovators (all types)	44%	100%
11.	Product innovators	57%	94%
12.	Process innovators	39%	65%
13.	R & D workforce / total	1.8%	14%
14.	R & D spend / sales	1.55%	5.47%
15.	Innov. Spend / sales	2.6%	10.45%

- SADRI has proven its capability to develop Product Systems with world-class quality products.
- Military specialist migration to civil sector is causing Technology Loss.
- Lack of a Technology Strategy causes innovative technologies to vanish.

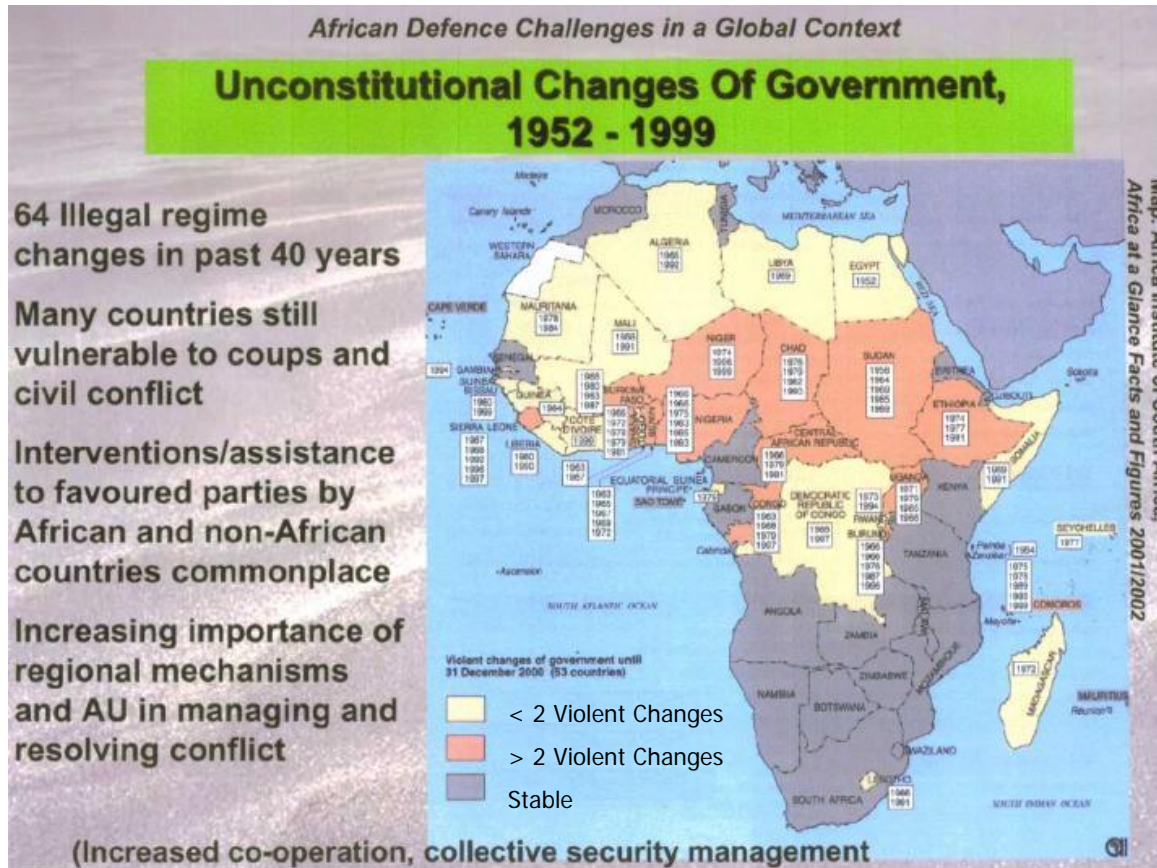
DESPITE CHALLENGES, SADRI IS HIGHLY INNOVATIVE



In Summary

- Relatively small and vulnerable in a highly competitive market.
- Trend toward being Sub-Assembly Suppliers to International Supply Chains.
- Addressing globalisation, profitability, transformation and restructuring simultaneously.
- Increased foreign ownership follows a Business Agenda and not a National Security Agenda.
- Future Defence Budget priorities of SDP / A400M Operations and Logistics threatens funding for New RSA Developed Products.
- Decreasing exports due to lack of New RSA Developed Products.
- Decreasing R+D Budget with a fragmented Technology Strategy.
- Despite the above, still highly innovative.

ADDITIONAL CONSIDERATIONS ~ SOUTH AFRICA RESPONSIBILITY TO NEPAD ~



- South Africa has an international obligation to peacekeeping on the African Continent.
- African Battlespace requires:
 - Products for Africa to be operated by Africans.
 - Light, agile equipment.
 - Interoperability between friendly forces.
 - Equipment on short timescales.
- Lack of planning leads to foreign procurement.
- South Africa is a leader in Arms Manufacturing in Africa.

ADDITIONAL CONSIDERATIONS ~ ARMS CONTROL PROCESS ~



AMD Supports NCACC/NPC

- As a responsible member of the International Community, South African Industry adheres to and supports the policy and legislation of:
 - National Conventional Arms Control Committee (NCACC).
 - The South African Council for the Non-Proliferation of Weapons of Mass Destruction
- Companies have their own internal Arms Control Procedures.

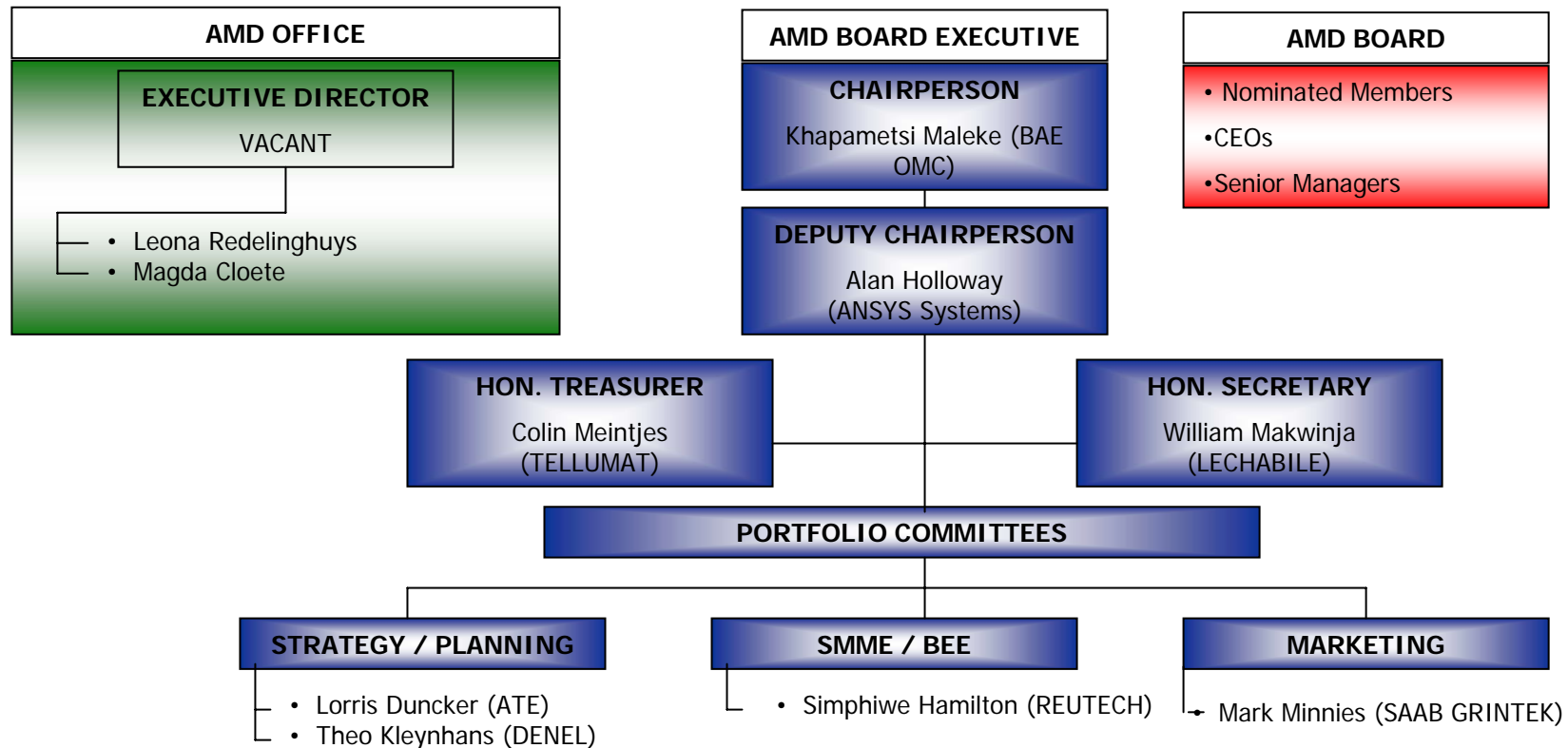
NCACC Process can be streamlined

- Complex processes (such as NCACC Permits for Warranty Repairs) clutters the channels and influences business
- NCACC and NPC are the “gates” to the International Market:
 - A slow opening gate due to DCAC manpower shortages are critical.
 - A postponed NCACC meeting means the gate opens a month later, putting at risk potential international contracts at the cost of local companies.

ADDITIONAL CONSIDERATIONS ~ HISTORIC AMD ~



- AMD was not regarded as an Effective Player.
- AMD has restructured and is ready to play a Major Role.



STATE-OF-INDUSTRY



- SADRI has, in response to these challenges, remained sustainable, however not highly profitable through:
 - Diversification into Commercial Products
 - Focus on Exports
 - Restructuring
 - Transformation
 - Globalisation

BUT

- Threatened by:
 - Declining R+D Budget and lack of Technology Strategy
 - Non-Alignment of various State Departments
 - Diminishing Capital Acquisition Budget

THUS

- Future of SADRI is at stake; hence the need for Pro-Active Strategy



PART 2

ROADMAP



Recognition of SADRI as a Formal Economic Sector by dti, with DoD Alignment

REQUIREMENT FOR A SECTOR	SADRI ADHERENCE
Consist of a number of companies.	Consist of 74 Companies.
Substantial Turnover.	R10 billion Turnover.
Represented by an Association	Represented by a Revitalised AMD.
Skills / Capabilities	Recognised as a Major Exporter and Highly Innovative.
Competitive Advantage	Currently holds an advantage but losing it.
Strategic Relevance to SA Government	Remain to be a Strategic asset to SA Government.

INDIVIDUAL GOVERNMENT INITIATIVES



- DOD
 - Local Military Client/ Buyer
 - Responsible for SA Defence Planning which includes:
 - White Paper on Defence
 - Defence Review
 - White Paper on SADRI
- ARMSCOR
 - Local Procurement Agency
- DPE
 - Responsible for Denel Restructuring
 - Leads Interministerial Task Teams
 - *Armscor
 - *Defence Sector Strategy
 - *DERI
 - *SCAMP (20 yrs) with Acquisition Policy / NIP and DIP
- DTI
 - Focussed on Aerospace Industry Support Initiative (AISI) within Customised Sector Programme
 - Balance of Defence Industry not catered for.
- DST
 - Responsible for Advanced Manufacturing Technology Strategy (AMTS) not integrated with Defence Planning
- AMD
 - Originally participated in Defence Policy, Planning and Strategy
 - Currently only briefed on initiatives

**NON-ALIGNMENT
OF
STATE DEPARTMENTS**

- **Priorities**
- **Budgets**
- **Inter – Dept Mechanisms**



- SADRI's future lies in its own hands.
- A SADRI Defence Sector Strategy **could** include the following fundamental aspects (not limited to):
 - DoD Definition of Strategic Requirements.
 - dti Definition of Commercial Requirements.
 - Definition of Local Industry (considering Foreign Ownership).
 - Definition of a *Defence Sector* or *Aerospace and Defence Sector* as part of a Customised Sector Programme (CSP).
 - 70% Defence Acquisition Budget to be contracted to Local Industry.
 - Local Industry to have Right-of-First-Refusal based upon Price Competitiveness (not Multi-Tender) and adherence to Specifications / Timescales. Protection of Local Industry's Preferred Supplier Status without transgression of WTO Regulations.
 - Guidance to DST / CSIR on Technology Roadmap.
 - Address methods of reducing duplication.
 - Companies with Self-Regulating Arms Control Procedures to have preference in Tender Process.
 - Funding strategies to develop new Product Systems.
 - Government interventions to be funded by New Funding, without disruption of existing programmes.
 - Acquisition requirements to be evenly spread over years.
 - Defence Council (AMD, DoD, Armscor) to perform Joint Long Term Planning.
 - RSA Government support to Private Companies in International Marketing.



While a robust industry strategy is being developed, request support for the implementation of the following projects "Quick-Wins", which will help secure the SADRI and meet SANDF needs.

- Interim Product and Logistics Support for Maritime SDP.
- Interim Product and Logistics Support for Aerospace SDPs.
- Support for SA Peacekeeping Deployment in Africa.
- Alignment of defence science and technology stakeholders.
- National Programme for Persistent Surveillance for possible application in World Cup 2010 and BCCOC (Border Control Coordinating Committee)

IMPLEMENTATION



- AMD to focus on the following :
 - Draft a Defence Sector Strategy with the full participation of DoD, dti, DPE, DST and others
 - Assist DoD in the Defence Update 2005
 - Participate as Partner in Joint Future Planning
- Motivate “Quick–Wins” as immediate Projects
- AMD to seek funding from dti for such Sector Strategy Generation
- AMD to engage with Government on the Interministerial Task Teams

REQUEST FOR SUPPORT FROM PORTFOLIO COMMITTEE ON DEFENCE



WHY SUPPORT ?

- Despite recent sustainability, based upon Government Interventions and Industry Initiatives, SADRI's future is in the balance.

WHAT SUPPORT ?

- Short Term : Quick-Win Projects (Log Support & Africa)
- Medium Term : Support AMD plan for Defence Sector Strategy
 - : Recommend AMD application for dti Funding
 - : Available for continued AMD Interactions
 - : Interaction with other Parliamentarians for alignment of State Departments