



**MINISTRY OF DEFENCE AND MILITARY VETERANS
Republic of South Africa**

**STATEMENT BY THE MINISTER OF DEFENCE AND MILITARY VETERANS TO
THE JOINT STANDING COMMITTEE ON DEFENCE
AND MILITARY VETERANS ON THE AIRBUS A400M PROGRAMME**

On December 1, 2004 Cabinet approved the participation of the South African Government, through the Departments of Public Enterprises, Trade & Industry and Defence in the A400M programme through the purchase of eight airbus A400M Strategic lift aircraft at a cost of R17. 646 Bn.

At the time of Cabinet approval delivery was expected and staggered between 2010 and 2012. The then Minister of Defence signed a Declaration of Intent with Airbus Military Sociedad Limitada (AMSL), part of the Airbus Company, a subsidiary of the European Aerospace and Defence Systems (EADS) December 15th, 2004.

A special meeting of the Armaments Acquisition Council approved the participation of the Department of Defence. The participation agreement was signed by Armscor and the Department of Defence with AMSL on April 28th, 2005.

The programme has since experienced challenges in delivery against the agreed contract. The contract made provision for the customer to unilaterally terminate participation in the programme if a critical milestone is delayed by fourteen months. The first flight of the Aircraft is one of the Critical Milestones, and the contract stipulates that it should be achieved by 31 January, 2008.

On 1 April, 2009, ARMSCOR on behalf of the Department of Defence informed AMSL that the DOD reserves the right to terminate the contract based on the fact that AMSL has not met a critical milestone of first flight by 31 January 2008.

A standstill agreement was entered into in April 1, 2009. This agreement protects the customer's right to terminate participation in the programme to the end of December 2009.

During the standstill period customers are entitled to withhold Pre – Delivery Payments, which fund the production of aircraft, whilst interacting with AMSL and other parties without prejudice to their contractual position. We have since withheld payment totalling R1.1Billion.

On October 8, 2009, AMSL indicated that there will be minimal degradation to the aircraft technical baseline and confirmed the four years delay to the programme and a further one year delay depending on the Test Flight Programme results.

It was during this interaction that it became clear that the acquisition costs will increase by more than 25% and another 15 – 20% increase to the initial logistic package which translates to an overall programme cost increase to over R30 Billion by the time we take delivery of the first air craft.

At this point, South Africa had to evaluate the cost of the programme and its benefit to the South African Air Force and aerospace industry. After detailed consultation with all stakeholders and all affected Departments Cabinet has taken a decision to withdraw from the programme. The R2.9 Billion already paid would be returned to the country as provided in the contract.

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