

Hon Nosiviwe Noluthando Mapisa-Nqakula

RSA Minister of Defence and Military Veterans

**Opening Address to the Aerospace Maritime and Defence (AMD)
Annual General Meeting**

11 June 2015, Denel Irene Campus, Pretoria

Chairperson of the AMD Board, Mr. Dean Mogale;

Messrs Riaz Saloojee – Group CEO of Denel and Thys Zondagh – GM of RCS
our two respective hosts;

Members of the Board

Representatives of AMD Member enterprises

Executive Director of AMD, Simphiwe Hamilton

Senior leadership of the Department of Defence

Commanders of the SANDF

Good morning,

After many interactions with representatives of the AMD on many challenges facing relationship issues, I'm glad that today I can attend this AGM that represents a broader stakeholder forum under the umbrella of the Association.

For us as government, AMD is an important partner and in terms of the Defence portfolio, one of our key stakeholders in the fulfilment of our expressed mandate.

It is my wish therefore that, at the conclusion of this engagement today, we should have been able to establish a process to develop a structured way for ongoing interaction between the AMD and the Ministry.

Chairperson and Colleagues,

Last week, on the afternoon of Thursday, 5th of June, Parliament finally held the long overdue debate on the report of the Joint Standing Committee on Defence, dealing with the finalisation of the Defence Review 2014.

It gives me great pleasure to inform you that this Annual General Meeting of the AMD is the first official gathering to which I can announce that the Defence Review 2014 has now been finalised.

As we welcome this development with great enthusiasm, all of us should equally be mindful of the implications that this carries for our various responsibility in the joint execution of the defence mandate.

The finalisation of the Defence Review not only marks an important milestone in the continuous journey to build the new SANDF, but it also sets new targets and identifies areas of effort we should be focusing on for the next twenty to thirty years.

When approving the Review for submission to Parliament, Cabinet directed that as Minister of Defence and Military Veterans, I should ***“ensure that the military strategy, force structure, force design, capability strategy and acquisition plans and funding trajectory are translated into an extended long-term defence development programme which is aligned and integrated into government planning cycle”***

I have already indicated that this programmatic directive of the Cabinet constitutes the broad programmatic thrust of the Ministry, our two Departments and all our entities.

In fact, during the engagements on the Defence Review in Parliament, we emphasised that the Defence Review, and its implementation, is not only urgent task, but one that requires the combined efforts of all sectors of our society, more so those of us who operate directly in this sector.

In this regard we have warned that we all do not have a choice, but to respond with urgency to put plans to arrest the decline within the current five years, starting immediately during this financial year.

In terms of the Defence Review, five years is averagely the amount of time it will take us to develop a limited and sustainable defence capability.

Simply put, the longer the neglect is perpetuated, the greater the effort, time and cost it will take to arrest the decline.

At times when we paint the picture of the decline, many people seem to think we are alarmist, and this is because due to the resilience of our women and men in uniform, the SANDF has been able to maintain operational presence. Sometimes I don't understand how we do it. The fact however is this, if we do not start now, the decline will get worse. Our mandate in the next five years is to act fast to restore the minimum capabilities required to safeguard South Africa, protect its maritime resources and trade routes, conduct peace missions and humanitarian interventions.

The Defence trajectory and Defence Development Plan for the next 30 years has not been clearly mapped out and the Review gives us a clear marching orders for all of us, including the SA Defence Industry.

That is why we are here. Any engagements that we have at this level, therefore, should be geared at assessing our collective capacity to carry out this task.

This collective capacity should start with our individual strengths as stakeholders and partners.

In our case as a department, we have recognised that such capacity should start within, and have been working hard to develop our own implementation framework, even before parliament could finalise the Review.

In previous discussions with Armscor, I have also emphasised the need to strengthen the corporation's organisation and systems in order to execute its mandate. In this regard I'm glad that since the appointment of the new Board last year, we've made some notable strides in harmonising relations and engagements with stakeholders, including industry, much of whom are represented here. As of last month, Armscor also has a new and permanent Chief Executive Officer, Mr Kevin Wakeford, whom I'm sure some of you have already interacted with.

Although we have emphasised many times before, that Armscor, by virtue of its position as an acquisition agency of the department, is not a regulator of the industry, it does however perform an important catalyst role in;

- Ensuring qualitative transformation of the SA Defence Industry
- Providing support for the rejuvenation and growth of the industry and thereby sustaining our defence capabilities as a country.

Ensuring Qualitative Transformation of Industry

Colleagues,

It is time that we cultivate a common understanding of what transformation of the industry means, and agree on what we must achieve in the best interest of the industry and the country's objectives.

The fundamentals must be clear and well communicated.

We need a deliberate and focused effort to encourage new players in the Industry to ensure its transformation. Such effort however cannot be successful or sustainable without the buy-in and active role by the established players currently in the industry. We are talking here of transforming the industry, not its destruction and reinventing of the wheel.

We need commitments from both sides, to a fundamental principle, that growth of the industry can't just be for the sake of its size and its market share, but it should contribute to national objectives of broadening the skills base, economic inclusion, jobs and a greater share by the previously disadvantaged in the ownership of knowledge and means of production.

The change has to be qualitative and that's why it tends to take time.

I did caution all of us, during our discussion at the Armscor Strategy Session last year, that transformation cannot simply be based on percentages of ownership, but also on who possesses the knowledge and skills in such companies and in the industry.

Our emphasis on preferential procurement qualifications should not just be about how many blacks, women or people with disability own shares in the industry, but how many do indeed possess the technical knowledge and skills to be the future drivers of the industry.

This is a matter that talks to our R&D approach, the training and education of young black professionals, as well as the structured manner of bringing them and growing them into this industry. In addition, we need to look at what is the role of our Defence Industry Participation programmes or set-offs, in facilitating the objectives of economic transformation.

One key aspect, which I have raised with the AMD leadership on various occasions, is how we use enterprise development as a tool not only of transformation and economic empowerment but also for the benefit of our Military Veterans. In particular I refer to those veterans of the struggle for liberation who are currently destitute together with their families and other dependents. As I indicated, I have already asked that the AMD should lead the defence industry in developing partnerships with government, through the DMV in pursuit of this objective.

It is possible that we may even need an empowerment charter for the defence industry if we are to pursue a mutually agreed and legally binding future trajectory in this regards.

Colleagues,

We also need to move away from the short sighted manner in which we do offsets, and use our investments worth billions in expenditure to benefit future sustainable growth of our economy.

The Defence Acquisition process, given its size and innovation potential, should contribute to the transformation of our economy and support macro level economic objectives. In this regard, I have requested both Armscor and the DoD to develop and submit plans based on the requirements of the National Development Plan and the national objectives as set out in the Government's Medium Term Strategic Framework for 2014-2019.

In this regard we should develop a Defence Industrial Participation strategy that will ensure amongst others, the following:

- Knowledge and technology transfer
- Joint Research and development
- Shared and common exploitation of resultant IP (in the case of international players)
- Investment in local infrastructure to ensure local production and assembly
- Human resource development in the area of technology and research
- Quality Job creation (including the reskilling of exiting military personnel and veterans)
- Black economic empowerment including the economic inclusion of our Military Veterans

Defence Industry Council

The process of establishing the National Defence Industry Council is underway and I am aware that AMD is part of the planning team. We are anticipating that the Council should be launched during the last quarter of the 2015 calendar year.

I have also noted the amount of progress the task team has made in getting us this far, and I am certain that save for a few issues of representation, the ground work has been laid for the launch of the Council.

What is important though, is that the Council should become the policy and strategy capacity for government's support to the Industry and to ensure convergence on what the priorities should be.

The medium to long term projections of the Industry, its contribution to the economy and its overall viability are an important function of the Council.

Chairperson and members

The AMD and the industry have an important role to play in rebuilding and sustaining the country's and the region's defence capabilities. For our part as government, we remain committed to facilitate access to markets for our industry and to lend government support.

In this regard Armscor's role as the agency through which government lends support will have to be enhanced, including the creation of a distinct capacity to support such a role. Armscor is well positioned not only as an acquisition agency of the department, but also as the marketing agency for the industry and the facilitator and gateway for other governments to access South African Defence solutions.

This is a role that Armscor can play without additional costs to itself and can sustainably be pursued off balance sheet.

This function does not deter or undermine Armscor's mandate to meet the defence material requirements of the SANDF. It actually enhances it and e necessary revenue that can be reinvested directly to support the operational readiness of the SANDF.

The Defence Industry is unique and strategically placed differently from other sectors of our economy, and government needs to think very seriously about what we mean by industry support, including the need for marketing support.

The international functions of both the DoD and Armscor should align their activities in so far as industry support is concerned and if additional capacity is required, then we should look at ways of acquiring it.

It will be important therefore that in the improvement of our Acquisition Plans, proper coordination between government and the Industry is achieved. This will ensure common and timeous planning for our requirements, in order to reduce the lead times for acquisition and commissioning of projects. This is the only way we can address the issue of Industry capacity and readiness to support our acquisition requirements.

Part of this will include the need to develop an Acquisition strategy and Annual Acquisition plans based on the new Military Strategy and Force design anticipated in the Defence Review.

The role and position of Denel as a state owned assembler that is created to deliver requirements of the SANDF cannot be overlooked in this regard. The relationship between the DOD, Armscor and Denel is essential to the joint planning imperative and for the capacity of Industry to deliver.

It is important however that the emphasis on the role of Denel not be done to the detriment of private industry. In fact the role of Denel as a state owned assembler should enhance better cooperation between Denel and other industry players on sound business grounds and in support of the country's objectives.

Research and Defence Intellectual Property

The Defence Review correctly diagnosed the limitations of our current research, development, and evaluations as not being in accordance with defence strategic direction. This has also resulted in the absence of a defence research and development strategy.

Simply put, we are not changing the basis of what we inherited. Our current research and development efforts are only directed at support for anticipated acquisition projects. There is no emphasis on innovation, but in maintaining the current technology.

A number of our capabilities are deteriorating and will continue to do so. We can't simply direct our efforts at them with improved versions of same. We need to identify direct and focused interventions.

It is for this reason that we should enhance the our capability for Defence science, engineering and technology support, with the appointment of the Chief Defence Scientist.

We need a dedicated capacity to advice on the development and maintenance of capabilities, including the provision of strategic direction in research and technology development.

AAD

I want to congratulate AMD as the lead partner during the previous instalment of the AAD, once again on a successful exhibition last year.

With regard to the governance arrangements for the AAD, my previous communication to both AMD and Armscor, stands. The future leading role of Armscor in the AAD going forward, is something that must be discussed and resolved with the other partners. I have however, also expressed my support for a greater government role and ownership of the show in the future. This should however be done in consultation with the other partners to ensure buy – in and the best value extraction for the whole country.

Let me conclude by once more thanking the AMD for your invitation here today, and for your willingness to give us a hearing as we lay the foundation for future engagements.

WELCOME TO THIS, THE YEAR OF IMPLEMENTATION, AND SINCE IT SEEMS WE WILL ALL NEED IT, I WISH YOU GOOD LUCK!

Thank you