



MINISTRY OF DEFENCE AND MILITARY VETERANS
Republic of South Africa

**Keynote Address by the Hon. NN Mapisa-Nqakula, RSA
Minister of Defence and Military Veterans, on the occasion
of the 1st Annual Work Session of the National Defence
Industry Council, Denel Landward Systems, PRETORIA, 19
May 2017**

Program Director

Deputy Minister Kebby Maphatsoe
Chairperson of the NDIC, and Secretary for Defence, Dr Sam Gulube
Chief of the SANDF, Gen S Shoke
Members of the Steering Committee and Secretariat of the NDIC
Our host, Denel SoC, the Chairperson of the Board and the A/Group CEO
Members of the Plenary Staff Defence Council
Members of the Board and CEO of Armscor
Chairperson and Executive Director of the AMD
CEOs of the SA Defence Industry (SADI)
Defence and Military Attaches
Members of the Diplomatic Corps
Senior Government Officials
Our most distinguished Guests
Fellow colleagues and friends

May I request that before we proceed, we all stand up to observe a moment of silence in remembrance of young Karabo Mokoena, and all our children and women who have fallen victim to the cowardice actions of violence against women, children and the aged in our society. To offer prayer and silent meditation for their souls and to rededicate ourselves here to joint program and tangible support we can give to the fight against this scourge of violence and criminality.

(1 Minute of silence)

Thank you. I have already requested that the Session finds time, at some point to dedicate a pledge we can make as a sector towards combating violence against women and children.

Program Director,

Last year we congregated at the Birchwood Hotel to lay the first foundation in the establishment of this Council when officially launched it. We knew even as we dispersed on that afternoon of March 3rd last year, that what we had set ourselves was a truly ambitious but unavoidable task to reenergise our Defence Industry and bring it into alignment with the other sectors and industries in our economy. Recognising the importance of the work that laid before us, and the delicate challenges of galvanising all our stakeholders in charting a common way forward, some of us could have justified to manage our expectations. We however, all of us parted from that forum determined that we cannot afford to fail and that a year later we will meet in this first annual work session to assess our progress, review our plans and set ourselves further targets.

It gives great pleasure, in particular, to welcome back our key partner in this regard, my colleague the Minister of Small Businesses Development, cde Lindiwe Zulu, who has been there at the beginning. I must also indicate that due to the appreciation of the obvious synergy in the work of the Council and that of her department, we have received valuable input into the many strategic and policy documents that the NDIC work streams have been engaging with over the past year. The requirements for this relationship and cooperation will intensify as we get to the implementation phases of our work, in order to give practical expression to our joint commitments.

I also want to welcome Minister Mahlobo of State Security, and although you are not stranger to the work of the NDIC yourself, I am glad that this year you are able to join the Ministerial Session, wherewe as the Executive Component of the NDIC, we are able to receive reports and provide strategic guidance on the future direction of this industry that is so integral to the various functions of our Security Cluster. Welcome once more.

There is no doubt, that we are, for all intents and purposes, in full throttle mode in the implementation phase of the Defence Review 2015. The finalisation of the full blue print towards the level of defence ambition we have set ourselves, as well as the costing thereof is now in place. The cost and funding model for the implementation of the first milestone has been tabled and we have registered significant progress in implementing those quick wins in the Review, that could be implemented without additional budget allocation to the DoD. The work of the NDIC falls squarely within the scope of these targets.

The SA Defence Industry occupies a unique place in the attainment of both our security and economic objectives, both in terms of its peace and war time activities, as well as extent of local and global potential reach. Within the context South Africa's

current politico-economic challenges, the versatility of this sector gives the country a number of options in terms of a serious launch pad for a future economic outlook. The global surge in high-end technology as both a commodity and economic enabler, places the SADI as a real stimulator for other skills incubation, research and development, and foreign direct investment, without the need for much adjustment in the current structures of the sector. The challenge lies in how the sector is directed, supported and regulated to support national objectives, while encouraging more private sector investment and collaboration. Government should however see the benefit of greater involvement, facilitating common objectives setting and standardisation. This must of course be done without suffocating business activity.

For the future survival of the industry, our key considerations, including discussions within the NDIC, point to the need for greater cooperation within the SADI, as the industry faces greater competition from the amalgamated national strength of other countries. A greater share of activity that can truly inject the kind of investment in our economy, will have to be galvanised from international markets, and it will be important that the SADI structure itself in such a way that it can compete as a country, rather than compete with, or against itself in these markets.

The SANDF, and the security cluster of government as a whole, continue to face financial challenges in line with the pressurised fiscal allocations. Given the reduction in spending, government will have less and less funds to stimulate the kind of regrouping of the industry we are thinking about. It would have been unwise and difficult, in any event, for us to depend on just domestic activity to launch the kind of industrialisation requirement and investment in skills and future initiatives. It is for this reason that the work of the NDIC had to be aligned to the National Development Plan, as per the requirements of the Defence Review 2015.

South Africa is a largely industrialised trading economy that still depends too heavily on raw material exports. South Africa must accelerate industrialisation and increase its exports of manufactured goods. That requires prosperous markets. The potentially most profitable markets are those of the SADC and the rest of sub-Saharan Africa, because we enjoy the advantages of proximity, reducing the cost of exports to those countries. But our region must be secure and stable, to enable its countries to develop and expand their economies and build the prosperity that will make them substantial markets for South African goods. Therefore participation in peace and stability operations is in South Africa's own direct and immediate interest. Based on the recent studies by independent econometrists, security leads to economic growth which improves human security thereby reducing conflict. In the absence of interstate war, defence forces and peace missions must therefore play a substantial developmental role in support of economic development. In this mode the military and its related industrial activities renders a good return on investment in the form of a substantial peace dividend. This can be observed in the recovery of economies such as that of Sierra Leone, Cote d'Ivoire, Burundi and the Democratic Republic of the Congo subsequent to the deployment of peace missions. South Africa's peace dividend, calculated through its peace operations and related

economic activity on the continent, contributed about R73 billion to the GDP, with approximately 480,000 jobs within the RSA linked to such activity in Africa in 2015.

Over the past year or so, the NDIC has worked hard to galvanise a common approach between government and other role players, for the nature and role of the SADI we want to see. These have culminated into amongst others, the development of the Defence Industry Strategy and work towards its Implementation Master Plan.

As a country we need to have a coherent defence industry strategy which commits both government and the defence industry to key deliverables, not only in support of the SANDF, but input in a clearly defined manner into our economic and other national objectives. This draft Defence Industry Strategy document is designed to provide guidelines for government on how it can support the defence industry, while the industry is expected to transform, procure and manufacture locally, satisfy the defence requirements of the SANDF and to compete globally.

Today, as part of the program of this work session, we release the Draft Defence Industry Strategy document for public comment. It can be downloaded from the DOD website or the AMD website or the Armscor website. We encourage the public, analysts, academia, defence industry experts, defence industry companies and the rest of the government departments to analyse this draft and provide inputs as indicated in the websites.

The Strategy, which will be supported by the Master Plan or Implementation Plan, is characterised by the following:

- It identifies four (4) courses of action that government can pursue in respect of the defence industry, namely, 1) *Business as Usual*, 2) *Planned Shut-Down*, 3) *Stabilise and Sustain*, and lastly *Stabilise and Develop*. Given the fiscal constraints that the country is facing and the muted global demand for military equipment, while security threats continue to increase, the strategy recommends that government should pursue the 3rd option i.e. “**Stabilise and Sustain**”.
- It proposes measures to be taken in order to ensure that the needs of the National Defence Force and other security services and agencies such as the South African Police Service (SAPS) are provided for and that South Africa continues to enjoy a reasonable strategic independence.
- Transformation of the defence industry remains a critical strategic goal. The Defence Sector Charter has been released for public comment and this strategy proposes pathways for transforming the industry, especially in relation to Black-owned, women-owned and military veteran-owned defence SMMEs.
- In addition to identifying key technology domains that the industry has to focus on, the strategy proposes potential strategic interventions that the government can make in order to support the defence industry.
- The draft strategy also analyses South Africa’s national interests and security considerations that are associated with peace missions.

In addition, the NDIC has also finalised the Defence Sector Charter, which will provide for a new sustainable economic transformation and growth of the industry. The charter proposes new requirements for the BBBEE qualifications, and sets new ownership targets at 25% for the first year of implementation, 30% in the second year and 35 % in the third year. It also specifically sets ownership for black women at 10% in the first year and 15% in the second and third year. The Charter's new targets are intended to boost the support of entrants from previously disadvantaged communities, including women and the youth, while ensuring that those who are empowered in this manner also attain the necessary skills and knowledge transfer. It is also introduced as a mechanism to promote localisation. 60% of defence materiel products will be procured from local suppliers and there will be an incentive to reward local companies that develop new technologies within the defence industry. This will support the stimulation of local manufacturing and increase global competitiveness.

Another important provision is the rejection of the "once empowered, always empowered" principle that has been the contention in many transformation charters in the recent past. This will mean black ownership will not be recognised after the sale or loss of equity of a black shareholder. This charter will also ensure that a target of 4% of payroll is contributed to skills development, and a further 1% specifically to military veterans skills development. Most importantly the charter directs the establishment of a Defence Enterprise and Supplier Development Fund. The turnover threshold for emerging and small enterprises will be lowered to R5m per annum.

After a long process of consultation across all stakeholders, including government departments, the charter is currently submitted to the Minister of Trade and Industry for concurrence. It is our intention that we will officially launch the Charter on June 16 this year.

Fellow colleagues,

The Defence Review calls for a clear defence development program, that allows the SANDF to continue carrying out its current obligations in peace operations, support human and economic development and to support other government functions.

We have a responsibility to support the effective implementation of the Defence Review, in fact we have no option but to realise all the targets of the five implementation milestones, starting with the need to arrest the current decline of the SANDF. In order to do this we need to ensure that the country has a defence force:

- with sufficient troops to sustain several long-term peace operations simultaneously;
- that is able to conduct a crisis response operation within the region;

- that has the right equipment for such operations, particularly in the face of irregular forces becoming ever-more heavily armed; and
- has the means to deploy such forces promptly and quickly, by air and perhaps by sea, and to sustain them; and
- is able to provide air support for deployed forces and deny air space to those who would smuggle weapons to spoilers.

Equally, South Africa's economy is primarily dependent on seaborne trade for successful exports and for importing oil, and with surrounding seas rich in fish and also potentially in undersea resources. That makes South Africa vulnerable to threats such as piracy, particularly in adjacent waters through which our trade flows and through which our oil imports flow (i.e. the Mozambique Channel), and to maritime criminal activity such as illegal fishing and pollution. Therefore it is essential to patrol our waters and the key adjacent waters to protect our economic interests. In addition, it is also in South Africa's interests to assist others in the region to protect their maritime economic assets because their prosperity is in our interest.

If South Africa is to protect its own waters and assist friends, it must have a Navy with enough ships of the right types to conduct sustained patrols of our and neighbouring waters effectively; and enough maritime aircraft to conduct surveillance and reconnaissance operations to support those ships effectively.

We also has certain vital national interests lying outside our borders, which are vulnerable should conflict affect those countries, and also to terrorist attacks. South Africa must be able to work with the host countries to protect those assets, which means that the Defence Force must have quick response and rapid deployment forces suited to the varying protection requirements of those assets.

Finally, it is important to understand that the world and the continent are in an era of great uncertainty and potentially escalating instability. Crises and threat can arise much more quickly than a defence force can be rebuilt or modernised. South Africa must, therefore, ensure that we have a Defence Force of the strength, balance of capabilities and readiness to deal with unforeseeable crises in addition to the deliberate employment in national interests.

But an effective Defence Force is an expensive asset, costly to develop and to maintain. Defence funding is, like an insurance premium, essential but still a 'grudge purchase'. It is possible to turn it from a pure expense into an investment, hence the imperative for an innovative funding model anchored on a dynamic and vibrant Defence Industry. In addition let's improve this investment through a self sustaining defence force:

- i. by employing it in the national interest, ensuring the security of our borders and national waters, protecting vital external assets and ensuring the free flow of maritime trade.
- ii. by using suitable service contracts to develop young people to take a leading role in the economy after their service.
- iii. by sourcing as much of the necessary equipment and stores within South Africa, and by means of judicious exports of defence equipment.

This is where the defence industry comes into the picture both as a strategic asset and as an economic asset. In its strategic role, an effective defence industry enables South Africa to:

- Retain sovereignty in key areas, such as secure communications;
- Retain a measure of strategic independence and freedom of action by ensuring the ability to maintain equipment and supply the Defence Force with munitions and spares in the event of conflict;
- Provide the Defence Force with equipment optimised for its needs.

In its economic role, an effective defence industry can transform defence spending into defence investment. In short, an effective defence industry will reduce the need to 'export' currency and jobs to other countries, instead retaining them here and bringing in foreign currency revenues.

The Rooivalk project provides an outstanding example. The project brought South Africa a healthy return on its investment of R 6.25 billion in the development and production of the Rooivalk and its Mokopamissile.

By the end of 2013 exports of Rooivalk sub-systems and of aircraft components manufactured using the skills learned from the project, had generated revenues of some R 15.4 billion in foreign currency and sustained or created employment.

The skills and capabilities that grew out of the project had also enabled the local industry to take on some R 10.5 billion of work on aircraft and ships purchased for the Defence Force, saving that amount of foreign currency and sustaining employment.

Engineers from the Rooivalk project are now to be found in many other sectors of the economy, including the Square Kilometre Array (SKA) telescope project, while skills learned from that project have also spread around the wider economy,

So an investment of R 6.25 billion Rand brought foreign currency revenues or savings of almost R 26 billion, and established a range of skills and capabilities in South Africa that are being employed in many other sectors of the economy.

This is the trajectory we should sustain and ensure that other defence equipment that has been exported has brought similar benefits.

I am certain that the reports of the work streams today will touch on these and also outline the other challenges we face. Our country is at an important cross roads, but that has always brought with it good opportunities as well.

While we are gathering inputs and comments from the defence sector stakeholders, the NDIC workstreams will continue to strengthen and work on the Implementation Plan of the strategy. The Defence Charter will help us meet our transformation targets and contribute to our goal of an inclusive growth of our economy.

My friends,

The work for the NDIC has just begun and our challenges are still greater. I therefore urge all our partners to continue working with us in this endeavour as we finally put the full gear into the Defence Review.

I thank you