**MEDIA STATEMENT**

**LACK OF SYNERGY BETWEEN DENEL AND ARMSCOR CONCERNS JOINT COMMITTEE ON DEFENCE**

**Parliament, Friday, 29 May 2020 –**The Joint Standing Committee on Defence has resolved to ask the Minister of Defence and Military Veterans to intervene in the inability of Denel Land Systems to meet its contractual obligations to Armscor with respect to hoefyester project, and report back to the committee. Armscor is a defence materials acquisition agency for the Department of Defence.

Denel appeared before the committee yesterday in a virtual meeting to brief it on Defence Projects, specifically Projects Hoefyster, Biro and Hotel.

Denel was contracted to develop and deliver 264 infantry combat vehicles (badger) to replace the Ratel Infantry Combat Vehicle to the total value of R9 billion. The delivery of the project was expected to start from 2019 and end in 2023. The committee heard from the briefing that the project is three years and nine months behind schedule, and that Denel is unable to deliver on the agreed contractual technical specifications and price.

The committee raised concerns over what it said is a clear inability of Denel to deliver on the project according to the specification of the client. “The unfortunate thing is that there seems to be a misalignment on progress status between Denel and Armscor. The committee has called upon all the parties involved to converge and agree on where the project is, and what is the best possible way forward,” said Mr Cyril Xaba, the Co-Chairperson of the committee.

The delayed delivery of the project and the resultant escalation of costs was also an issue of concern for the committee. The concerns the committee highlighted are in the context of the dwindling defence acquisition budget and the capability gap created by the inability to deliver the 264 Badger to replace the Ratel.

Furthermore, the committee has noted the liquidity position of Denel as another problem that contributes to the delayed completion of the project and a serious risk to the entire defence industry. According to Denel, currently the suppliers are not supporting the programme because of the outstanding unsettled invoices due to legacy debts.

While the committee is cognisant about the problems of Denel that are historical, and the fact that the entity is currently implementing a turnaround plan, the committee called for a greater reflection on the plausibility of completion of the project, especially in the context of the huge investment that the Department of Defence, through Armscor, has made on the project.

The committee raised concerns over the reputational damage that Denel has suffered as a result of the delay of Denel Land Systems to deliver on its contractual obligations, especially at a time when the State Owned Entities should reposition and rebrand themselves, and improve their technical capability to contribute towards job creation in South Africa.

Meanwhile, the committee has noted the progress in the implementation of Project Hotel and Project Biro. However, despite the commendable progress in the implementation of the projects, the committee is concerned by funding risk factors on both projects due to reduction of the acquisition budget of the Department of Defence. The committee has called upon Armscor and the Department of Defence to reflect on the funding challenges and offer possible solutions to the funding shortfalls.

**ISSUED BY THE PARLIAMENTARY COMMUNICATION SERVICES ON BEHALF OF THE CO-CHAIRPERSONS OF THE JOINT STANDING COMMITTEE ON DEFENCE, MR CYRIL XABA AND MR MAMAGASE NCHABELENG**