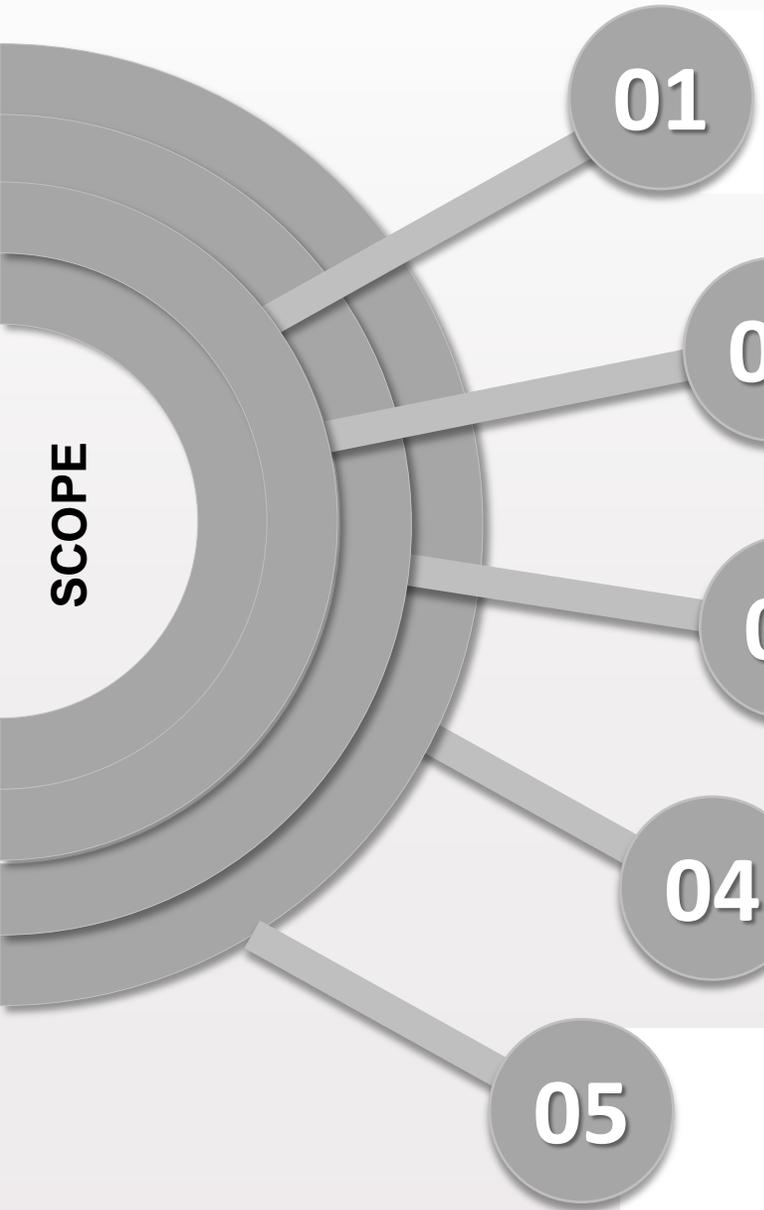




SADI PRESENTATION

Joint Steering Committee on Defence (JSCD)

05 November 2020

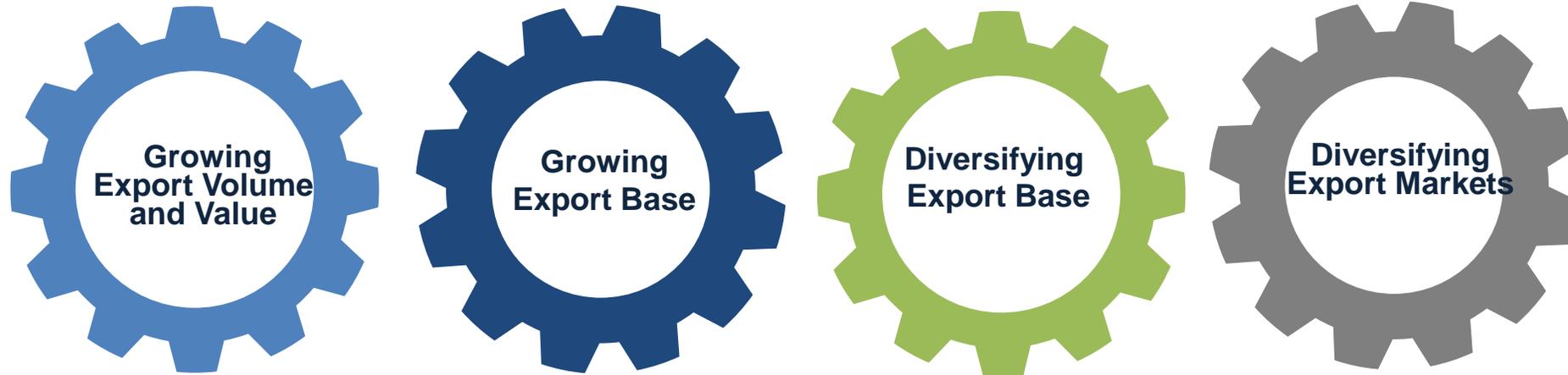


01	SADI Introduction & Profile
02	State of the SADI
03	SADI Challenges
04	Proposed solution and way forward
05	Q&A

AMD represents the **South African Industries (SADI)**:

- As an Industry Funded Association, serving the common interest of its members;
- Recognised as such by Government and the broader aerospace and defence industry;
- Governed by an elected Board of Directors comprising CEO's of SADI Companies

The South African Aerospace, Maritime and Defence Export Council (SAAMDEC) is the only government recognised and supported **Export Council for the Defence and Aerospace Sector**
Established jointly by the dtic and AMD



Both organisations are recognised by the following Departments:



AMD/SAAMDEC Members







Revenue **declined** by R 7 billion from R19,5 billion to R12,5 billion



Exports **declined** by almost half to R6,5 billion from R12 billion



There was a **reduction** in R&D spend from R1,7 billion to R500 million



Due to retrenchments, employees **declined** from 15,000 to 12,500



Revenue declined from R31,6 bn in 1990 to R12,5 billion in 2019



Exports grew from R873m in the mid 1990s to R6.5bn in 2019/20



12,500 employees in 2019 compared to 130,000 in 1990



The number of companies declined from 3,000 companies in 1990 to about 120 in 2019

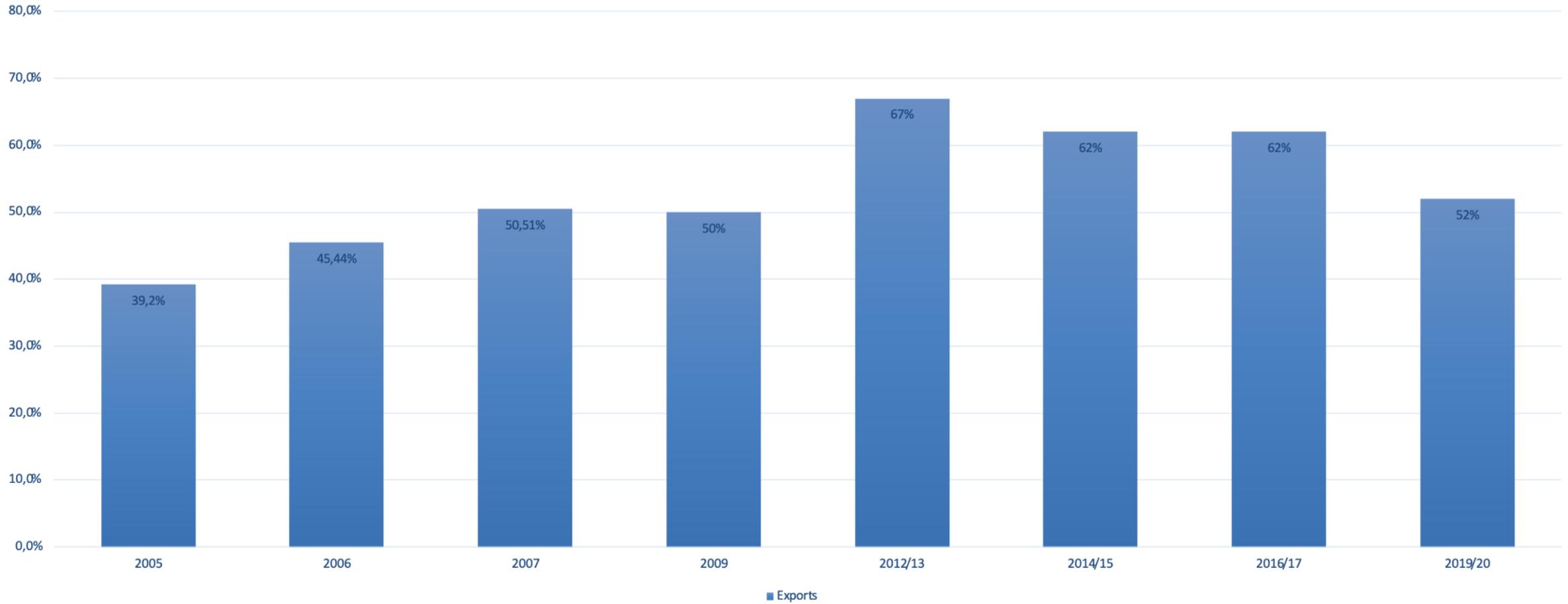


R&D spend declined from R6.1bn in 1990 to R500m in 2019

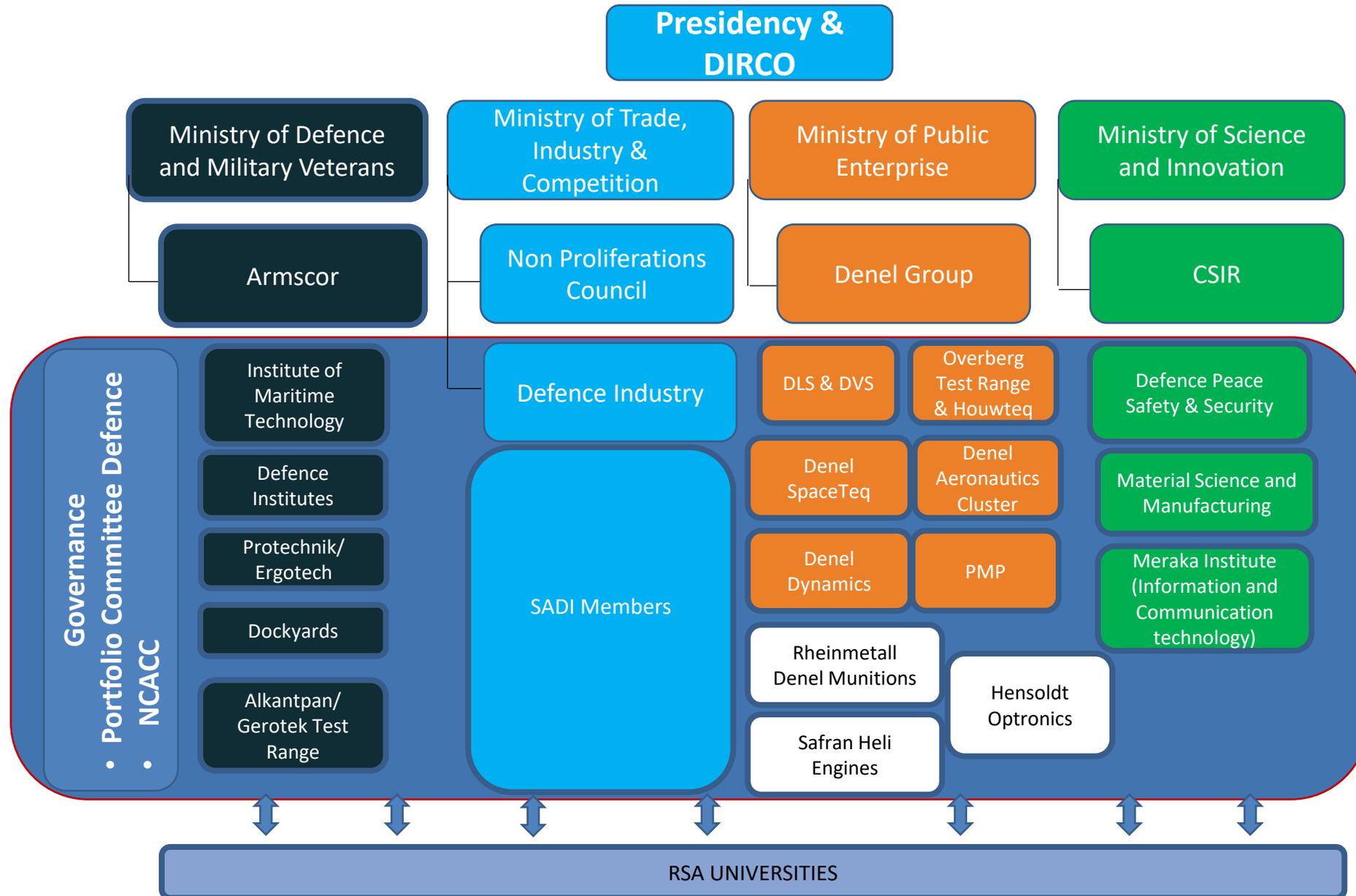


Defence acquisition declined from R26.2 bn in 1990 to R11bn in 2018/19

SADI Exports as a % of total defence revenue



- Constitution
- Companies Act
- PFMA (DOD/Armcor, Denel and CSIR)
- Defence Act
- SADI B-BBEE Charter
- NCAC Act (as well as 2 other control regulations on Small Arms and WMD)
- NDP
- IPAP
- PPGI/Masterplan – SADI included as one of 4 hi-tech priority sector as part of govt. focus



- The medium-term budget allocation for defence and State security is R52.20-billion in 2020/21, R50.50-billion in 2021/22 and R52.70-billion in 2022/23.
 - The funding shortfall means that the army, air force, navy and military health services cannot modernise or acquire new equipment and systems, while maintenance, repair and overhauls are falling behind. To have a "technologically advanced military force, capable of executing its functions" as per the Constitution s226(4) a strong local industry is key.
 - The National Treasury has calculated that the recommendations flowing from the Defence Review, if implemented in full, would add R53.03-billion to defence expenditure over the next six years
- Government has expressed its wish to support the defence industry to become export driven on the back of international investment by having a policy stance favouring international joint ventures (JVs) with local industry.
 - South Africa has many unique factors that international partners find appealing.
 - Owing to its history, there is a large and independent defence industry, which has created a culture of innovation and decades' worth of intellectual property (IP),
 - But only some have been converted into products- number of highly marketable products have not been optimally commercialised or industrialised
 - Government wants foreign direct investment in defence to double from R12-billion to R24-billion in five years.

- **The industry's competitive advantages include not only its price and quality of products but also its "independence" as an industry that can offer a viable alternative to nonaligned or non- NATO defence clients.**
- **The South African industry continues to increase its market share in Africa, Asia and Europe in products such as land systems, weapons and ammunitions, fire control and related warning equipment, as well as other electronic equipment, including rangefinders and communication equipment.**
- **The value of combat armoured vehicles authorised for export was R881.69-million. The UAE was the biggest buyer, with 42 vehicles acquired at R348.60-million. Other notable exports were to Senegal, Mali and a United Nations (UN) acquisition for Somalia.**
- Exports orders for large-calibre artillery amounted to R127.70-million, with Egypt, Germany, France, Saudi Arabia, Thailand and Indonesia acquiring weapons.
- Malaysia imported R175.50-million worth of missiles and missile launchers in 2018.
- Light weapons were exported to Canada, Brazil, Germany, France, Jordan, Italy, Pakistan, Saudi Arabia, Austria, India, Singapore, UAE and the US. The Netherlands, UAE, Saudi Arabia and Sweden acquired bombs and rockets.
- The export market is critical for the survival of most defence companies, for some foreign sales account for 85% to 100% of their revenue.

The SADI is recognised as an integral part of the SANDF's capabilities and assists with the following:

- **Sovereign control over key capabilities** which in turn guarantees a degree of strategic independence, security of supply, tailoring/optimisation of equipment and cost saving through the life of the equipment as sustainment is localised.
- A capable defence industry can also be a **useful tool of foreign policy**, by making it possible to support and assist the armed and security forces of friendly countries.
- The defence industry can also **support other government departments and agencies** with equipment and services, for instance intelligence services, the Police, the Correctional Services, the Border Management Authority, Home Affairs and Sea Fisheries. By way of example, the industry has as already cited above contributed immensely to border control, anti-poaching and nature conservation, mine and rail safety as well as water purification all of which are key to the government's ability to deliver on its mandate which can be enhanced if the sector's role is supported and enhanced.

There is still significant and untapped value in the SADI in favour of the country, the economy and the people through:

-  Employment – quality, hi-tech jobs at 12,500 whilst supporting 50,000 indirect jobs;
-  Import replacement – prevention of outward flows of at least R6bn in defence, safety and security spend;
-  Export revenues – forex income at R6,5bn in favour of the RSA BoP;
-  Fiscal input – at-least R2 – 3bn per annum towards a constrained tax base;
-  Skills development and diffusion – scarce and critical skills; and
-  Technology development and diffusion – innovative and IP generating towards a true knowledge based economy and active/lead participant in the 4IR.
-  Spin-Off/Spill-Over: SA integration into the global value chain of aerostructures manufacturing value chain supplying directly to Boeing and Airbus, railway and mine safety systems, automated maintenance management systems, vibration monitoring systems, the eBridge programme management software, space and astronomy (EO-SAT, Meerkat/SKA and SALT), the Pebble Bed Nuclear Reactor project and the Joule electric car project.

REPURPOSING AEROSPACE AND DEFENCE TO IMPROVE SOUTH AFRICAN LIVES-FOR GENERATIONS TO COME

Key objectives

Increase local production of selected products by 50% from current baseline levels by end 2024;
Improve export sales by 100% from current baseline by end 2022;
Increase formal employment from current levels by 50% by end 2025;
Retain advanced skills in the ecosystem
Participation of black and/or women participants in industry will double from current baseline by end 2022.

**PILLAR ONE:
INCREASE
MARKET
ACCESS**

**PILLAR TWO:
LOCALISATION**

**PILLAR THREE:
INDUSTRY
COMPETITIVENESS**

**PILLAR FOUR:
HUMAN
CAPITAL
DEVELOPMENT
AND
INCLUSION**

“Rigorous, focussed, coordinated and visible government involvement is necessary for the successful marketing of South African Armaments and related equipment and services. Government will assist the defence related industries by facilitating those initiatives that support strategic defence technologies and capabilities. Government will also specifically support those industry initiatives, which are supportive of existing or identified political initiatives and broader industrial policy and initiatives”

White Paper on Defence Related Industries, 1999

SADI would thrive and contribute to the key SA Government imperatives if the following was to be facilitated:

-  Direct, deliberate, focused and highest political support;
-  Government wide/ all of government approach to SADI support;
-  Stable and predictable local defence spending including R&D;
-  Stable and sustainable Denel;
-  Effective arms control regime to facilitate arms export
-  Financing and related instruments

- The SADI depends on exports and accounts for more than 50% of total revenue;
- Threat to the current jobs with a potential reduction of >40% in the workforce;
- Further loss of supply chain and >25,000 jobs will be lost;
- Potential decline in technology investments;
- Reputational damage to the South African brand;
- Reduction in tax revenues and;
- Halt in training and development of students in the engineering field. Which will impact the STEM programme and output.

- Arms Control regime ensures that SA remains a respected member of the international community in relation to the maintenance of global and regional peace and security whilst the SADI views its compliance thereto as an **unassailable competitive advantage** in a difficult defence market where integrity and reputation are key currencies. At more than 60% of SADI revenues, exports are effectively the only and primary market for the immediate and sustainability of the Sector and this should be optimally enabled an efficient and predictable policy framework.
- On the negative side (and in light of the current importance of exports - and the need to grow them - to the SADI's continued existence) the current capacity, capability and modus operandi in the implementation of this framework has and continues to **hamper the SADI's competitiveness and ability to successfully export due to inefficiencies, ineffectiveness and unpredictability of the system** resulting in loss of not only currently contracted exports but future ones as well.

RSA GOVERNMENT

NCAC ACT

NON-PROLIFERATION ACT

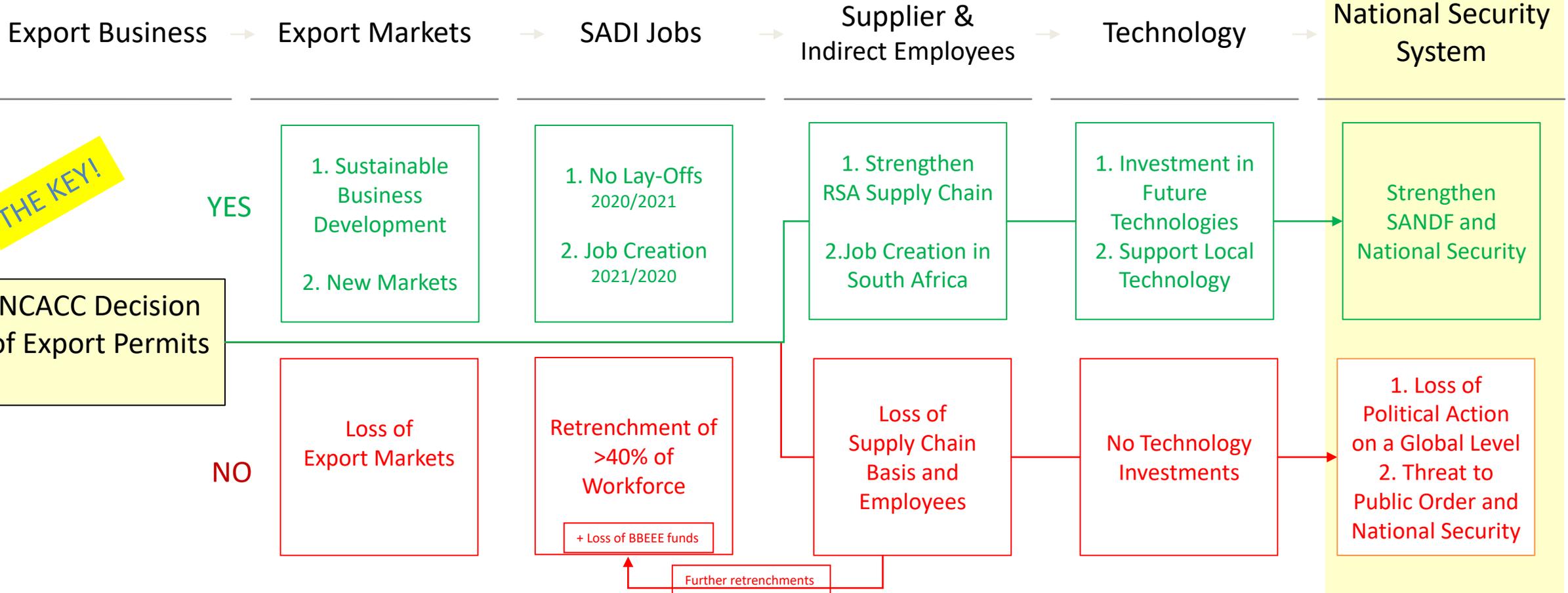
FIREARMS CONTROL ACT &
EXPLOSIVES ACT

Challenges faced by the SADI in relation to this policy framework:

- Regularity and predictability of Cabinet Committee meetings;
- Resourcing of DCAC;
- DCAC permit application system – manual vs. digitised

If unresolved, the national strategic and economic/industrial impact of this framework will leave SA without the jobs in this sector, the critical skills will also disappear and so will the forex revenues, tax contribution, sovereign IP and even global political/diplomatic influence.

> 85% Export quota



THE KEY!

Regions	Types of permits	Estimated Value
 <p>Africa Middle East Asia Europe North America South America</p>	<ul style="list-style-type: none"> • Contracting • Import • Export • Multiple Export • EUC • Export extension • TTW • TW • Extension authorisation TTW • DU Letter • Contracting Dep Review 	<p>Over R1,2 billion</p>

- R20,5 BN (Estimated value of lost opportunities)
 - Denel stands to lose \$160m (R2,7bn) worth of opportunities over 5 years.
- Middle East (KSA, UAE, Oman, Kuwait and Jordan) presents a special challenge to SADI as the current impasse has resulted in the cancellation or stalling on negotiations for future contracts.
- This has jeopardised our standing as an Industry and Country in the countries mentioned.

WAY FORWARD



- International defence industry relations are highly political and need to be driven by political leaders;
- Relations underpin or undermine international relations between countries;
- Brand reputation management with the crisis specifically in the Middle East region and a number of African countries
- Engagement with the Presidency on the implications and image of the country;
- Instruments used by the state should support defence industry exports (NCACC);
- NCACC approval process needs to be fast tracked and benchmarked with other countries to ensure competitiveness;
- Interim measure to allow the industry to operate during emergency periods and election cycles and;
- Digitization of the system.

1. Political instruction for the implementation of government policy on designation and localization (e.g. 2 ways radios, ammunition, clothing and textiles) and the urgent commencement of additional designation and localization in the following areas:
 - Command and control technologies;
 - Communications intelligence and cyber intelligence technologies;
 - Optical, radar and electronic surveillance and exploitation technologies;
 - Data capture, fusion, analysis and dissemination technologies;
 - Weapons and ammunition;
 - Personal protective equipment;
 - Training simulation systems, for instance at the command and control level and at the level of firearms, driver and vehicle crew training;
 - Unmanned vehicle technologies (airborne, ground and marine); and
 - Vehicles for rural patrol operations.
2. Lack of fleet/bulk procurement approach to safety and security requirements across state depts.
3. Expediting and prioritising (especially eastern land and sea borders – Moz, Zim & Zam, as well as abalone poaching) the implementation of the BMA and the related enabling projects by DHA.

1. Compile and implement an industry friendly and enable IP management and exploitation framework that ensures optimal industrialization of IP and – where possible – allowing for the reasonable generation of royalty-based revenues where this is not compromising competitiveness (DSI, CSIR, Armscor).
2. Arms Control – review the current legislation and update, restructure and capacitate

Chair to also engage counterparts in other portfolios especially dtic, DIRCO, DSI as well as support engagements with clusters (Economy, JCPS and IRPS)



QUESTIONS & DISCUSSIONS