

**MINISTRY OF DEFENCE & MILITARY VETERANS**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTENREPLY**

**2145. Mr S J F Marais (DA) to ask the Minister of Defence and Military Veterans:**

(1) Whether, with reference to the financial problems experienced by Denel, the Department of Defence and Armscor which hinder their delivery on their mandates, especially Denel’s challenges to deliver on contractual obligations to the SANDF, there are any considerations to restructure Denel and Armscor; if not, what is the position in this regard; if so, what are the relevant details;

(2) Whether a decision has been made to cancel the project considering the challenges to fund and deliver on Project Hoefyster; if not, why not; if so, what are the relevant details;

(3) whether, with reference to the reduced budget of the department, specifically the Special Defence Account allocation to Denel and Armscor, she is able to confirm (a) if projects Biro and Hotel will not be delayed and (b) that no payment will be defaulted; if not, why not; if so, (i) how will the management of the dockyard activities be impacted and (ii) what are the relevant details? NW2710E

**RESPONSE**

(1) The performance of Denel against contracts for the DOD is currently being hindered to a great extent as a result of their financial distress which is impeding the procurement of subsystems and components required for meeting their contractual deliveries, as well as a significant loss of capability in certain critical areas.

 Armscor and the DOD have developed alternative options with respect to the future of Denel, which will be presented for consideration by decision makers within government. It is clear that, without a significant bailout by Government, Denel will not be in a position to exist in its current form, nor will it be in a position to meet its contractual obligations to Armscor.

 Denel possesses specific critical strategic and sovereign capabilities that are not duplicated elsewhere in the RSA, and the proposed options for going forward are aimed at maintaining at least those identified strategic and sovereign capabilities.

At present there is no imperative to restructure Armscor. Armscor recently completed a turnaround process which resulted in a restructuring that was aimed at optimising the performance of the organisation and which furthermore focussed on increased revenue generation in view of the decrease in the Defence budget and anticipated decreases in the transfer payment allocated to Armscor.

(2) Over the past few years, Project Hoefyster has suffered from significant delays and Denel is currently reneging on their contractual deliveries on this project. During 2018, Denel formally indicated to Armscor that it cannot complete the project within timescales, specifications or within budget, and requested a reset of the contract.

 Armscor has presented several options with respect to going forward with the project to all relevant forums within the DOD. These options were thoroughly considered by both Armscor and the DOD, and a preferred option of deferment of the project was further developed and motivated. This option was supported by the SA Army, and has been presented to the respective governance forums within the DOD and was eventually recommended to the Armaments Acquisition Council (AAC) which is chaired by the Minister of Defence and Military Veterans. The AAC is the final decision making authority on projects, and it will provide guidance with respect to the preferred option regarding going forward with the project.

(3) In spite of the decline in the Capital Budget of the DOD which forms part of the Special Defence Account, sufficient funding is available to fund both projects Biro and Hotel. Neither of the projects will thus be delayed as a result of insufficient funding and Armscor will not be defaulting on any of the contractual payments. The worsening Rate of Exchange of the South African Rand against the Euro and other major currencies is placing significant pressure on the available budget for both projects, but the DOD has to date been able to provide sufficient funding to maintain the required budget for the projects.

Some delays on both projects have however been incurred as a result of the COVID-19 Lockdown and the resultant inability to import certain critical subsystems, but both projects are endeavouring to make up the delays that have been suffered. At present, project Biro is still expected to deliver the first vessel on time (January 2020), while a number of the contractual deliverables on project Hotel have been completed ahead of time.

 In this regard, it is not expected that there will be any negative impact on the management of the anticipated Dockyard activities.