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The Future of the SA Defence Industry and its Complex Relationship with the Government

SIGLA Webinar

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Scope



1. Overview
2. Defence Industry & Government interface
3. SANDF Challenges: Indicators of Defence Industry Disconnect
4. Defence Industry Market Trajectory
5. Discussion



OVERVIEW

- ❑ SA Defence Industry (SADI) comprises companies that are :
 - manufacturing products and/or providing services **exclusively** for the defence market only
 - manufacturing **some** products and/or providing **some** services for the defence and security market

- ❑ Companies could be:
 - privately owned or state owned;
 - locally registered or foreign registered/headquartered

- ❑ Recognised industry association and entities:

- Aerospace, Maritime and Defence Association (AMD)
- SA AMD Export Council (SAAMDEC)



- ❑ Government Acquisition Agency: Armscor



OVERVIEW ...

Demand-side

Domestic Market

- SANDF
- Other Govt Depts
- Private Security Industry



Export Market

Supply-side



National Conventional Arms Control Committee (NCACC)

Issues permits per transaction



❑ Provision of services:

- * Supply new equipment and services
- * Maintenance, repair and overhaul (MRO)
- * Research & Development

❑ Consultative structure:

- * National Defence Industry Council (NDIC)
 - Comprises industry & heads of government (security cluster and other departments)
 - Chaired by the Minister of Defence & Military Veterans but delegated to the Secretary for Defence



SANDF Challenges: Indicators of Defence Industry Disconnect



❑ Operational

- Air Force : Reduced → Flying hours (25 000 to 13 726); contractor budget; fuel, oil & gas (from R358m to R253m)
- Navy: Reduced → Sea-hours (from 10 000 to 6 818); patrols (from 4 to 3); allocation for fuel, oil & gas (from R107m to R53m); impact on training & operational capacity

❑ Manufacturing:

- Denel projects eg Hoefyster
- Supply chain eg specialist suppliers
- Commercialisation of key projects eg A-Darter missile technology

Denel:

- FY2019/20: R1,8bn recap
- FY2020/21: R576m recap & R5,9 guarantee extended
- FY2021/22: R2,9bn (MTBPS)



SANDF Challenges: Indicators of Defence Industry Disconnect



❑ **Special Defence Account (SDA):**

- Almost depleted; R1,4bn
- Threat to current projects for completion
eg Project Biro and Project Hotel

Armcor: In FY2019/20 & FY2020/21 Armcor managed R12,7bn

- R4,7bn: Maintenance
- R7,4bn: Acquisition

❑ **Research & Development:** linked to the depletion of SDA

❑ **Sustainability of Armcor** as an acquisition agency of government

- Armcor manages SDA
- Absence of complex acquisition and research projects makes Armcor redundant



Key questions:

- Should the local defence industry be gearing itself up for **export market primarily**?
 - What should be the role of govt?
 - Role of NDIC?
- Is the SA government be **prepared to forego** what the industry has to offer SANDF currently?
 - Is government aware of the **national security implications** for the demise of the local defence industry esp Denel?
- Will it be possible for SA government to **revive** the defence industry in future?
- What do we do with defence **industry personnel**, with unique and specialized expertise in critical areas that are in demand globally?



Discussion

