

THE SOUTH AFRICAN DEFENCE SECTOR GOES GLOBAL

South Africa's National Conventional Arms Control Committee's (NCACC) 2018 annual report recorded the local Defence Sector as exporting products and services valued at more than R4b for that calendar year. The sector exported to 66 countries using 776 export permits which were approved by the NCACC.

In the 12 months to 31st December 2018, 137 South African armoured combat vehicles valued at more than a billion Rand were exported to 26 countries, with the United Nations listed as a separate buyer of 120 vehicles on behalf of the Federal Government of the Somali Republic.

Other notable buyers were the United Arab Emirates with 42 vehicles, Senegal 23 and Mali 13. Other countries where South African armoured vehicles are now in service include Egypt, Burkina Faso, Nepal, Nigeria, Jordan, Saudi Arabia, Republic of Congo, Guinea, Niger, Uganda, Thailand and the United States.

Egypt, Germany, France, Saudi Arabia and Thailand are owners and operators of new South African-made large caliber artillery. Between them, they acquired 24 artillery pieces valued at more than R1.2b. The largest buyers were Thailand who bought seven, then Saudi Arabia who bought six, followed by Germany who bought five.

According to the report, Malaysia was the only buyer of South African missiles and missile launchers in the period under review. It acquired 153 units with a value of R175.5m. More than 1,600 light South African weapons were sold to 14 countries valued at just on R1b. The biggest single buyer was Saudi Arabia with a thousand followed by the UAE with 188 and Pakistan 129.

Close to 10,000 locally manufactured bombs and rockets worth more than R1.5m were sold to The Netherlands, UAE, Saudi Arabia and Sweden. The arsenals of Australia, Nigeria, Jordan, Greece, The Netherlands, Saudi Arabia, Uganda, Zimbabwe and the UAE have over 1.3m rounds of South African ammunition valued at more than R1.1b.

South Africa imported less in terms of arms, ammunition and other defence equipment during the period under review. The NCACC report states that the value of imports was R128,277,369 brought into the country in terms of 531 permits issued to 35 countries¹.

According to The South African Aerospace Maritime and Defence Export Council, the sector invests R1.7b in research and development annually. It offers meaningful skilled employment opportunities to an estimated 15,000 engineers, technicians and artisans. Many of these highly skilled engineers, technicians and artisans contribute to key national projects in space, transportation, rail safety, mining, construction, power generation and telecommunications. A conservative estimate of the sector, having a multiplier factor of one to four in terms of direct additional job opportunities, thus means the sector supports a further 60,000 skilled jobs².

The Minister of Trade and Industry gazetted the Defence Sector Code on the 9th of November 2018 as Gazette #42391. The scope of application applies to all organisations operating in the South African Defence Industry in its entirety including national and provincial departments, organs-of-state and public entities. The South African Defence Industry is defined as a collective term for South African Defence Related Industries. It means those operating in the public and private sector, including commercial organisations and business units of such organisations that are directly or indirectly active in the design, research, development, manufacture and marketing of Defence Material. The scope includes private organisations providing Defence Material and/or any other supplies, products and services to the Department of Defence, whether procured locally or from foreign suppliers.

Definitions

The reference to 'Defence Material' in this sector code means any material whether raw or processed, including equipment, facilities, weapons, munitions, pyrotechnics, systems and services used principally for military purposes.

The Defence Sector Code clarifies the qualifying criteria for 'Black Military Veterans'. For this Sector Code, any 'Black' South African Citizen who:

- > Rendered military service to any of the Non-Statutory Military Organisations that were involved in South Africa's Liberation between 1960 and 1994;
- > Served in the Union Defence Force before 1961;



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- > Became a member of the new South African National Defence Force after 1994; and
- > Completed his or her military training but no longer performs military services and has not been dishonourably discharged from that military organisation or force. The definition does not exclude any person referred to in paragraph 4.5.1 or 4.5.2 who could not complete his or her military training due to an injury during military training or contracted a disease.

Defence Sector Code vs Generic Codes

The Defence Sector Code does not deviate from the Generic Codes in terms of Priority Elements, Sub-Minimum Requirements or the Discounting Principle.

The threshold qualifications and method of verification of Ownership and financial status are outlined below.

Exempt Micro Enterprise	Qualifying Small Enterprise	Large Enterprise
Annual turnover of less than R5m per annum.	Annual turnover of between R5m and R50m.	Annual turnover of more than R50m.
100% 'Black'-owned organisations qualify for Status Level 1 Enhanced Recognition.	100% 'Black'-owned organisations qualify for Status Level 1 Enhanced Recognition.	No Enhanced Recognition is applicable.
51% 'Black'-owned organisations qualify for Status Level 2 Enhanced Recognition.	51% 'Black'-owned organisations qualify for Status Level 2 Enhanced Recognition.	No Enhanced Recognition is applicable.
An Affidavit is required to confirm Ownership and financial status.	An Affidavit is required to confirm Ownership and financial status. Organisations that are less than 51% 'Black'-owned must provide a B-BBEE Certificate verified by a SANAS accredited verification agency.	All organisations must provide a B-BBEE Certificate verified by a SANAS accredited verification agency.

The Defence Sector Code Scorecard introduced the 'Localisation' element which is illustrated hereunder.

Element	Weighting Points
Ownership	25
Management Control	15
Skills Development	20
Enterprise and Supplier Development	40
Localisation	10
Socio-Economic Development	5
Total	115

Ownership

- > Is identified as a Priority Element;
- > Targets are expected to be met within three years of the implementation of this sector code. In Year One, the target is set at 25% 'Black' Ownership, of which 10% must be 'Black' Woman-owned. In Year Two and Three expected increases should be 30%, 35% and 15% respectively.

Management Control

- > As per the Generic Codes, EAP targets are applicable.
- > The compliance target is broken down over three years, with targets increasing for each respective occupational level.

Skills Development

- > The targets closely resemble those set out in the Generic Codes. The differentiating factor is the indicator targets expenditure for 'Black' Military Veterans. The compliance target is set at 1% of the overall 6% expenditure required.
- > It includes a Learnership, Apprenticeship or Internship requirement aimed at 'Black' People from Designated Groups.

Enterprise & Supplier Development

- > Introduces a target of 1% Net Profit After Tax (NPAT) to be contributed to the Enterprise and Supplier Development Fund for an additional 5 Weighting Points.
- > Supplier Development only requires a 1% NPAT investment in contrast to the 2% NPAT target required in the Generic Codes.

Localisation

The Localisation element introduced is unique to this sector code. This element aims to encourage local procurement of Defence Material and other services in exchange for 10 Weighting Points. The Localisation Scorecard is calculated as follows:

Indicator Description	Weighting Points	Compliance Target
Procurement of Defence Material produced and/or manufactured in South Africa by Local Enterprises.	6	60%
Procurement from Local Enterprises that introduced new, locally developed technology in the South African Defence Industry that is not older than 24 months.	2	60%
Procurement of technologies that are developed in South Africa by Local Enterprises from intellectual property owned by such local enterprises, or technologies that are produced in South Africa by local enterprises from intellectual property licensed to or by Local or Foreign Enterprises	2	60%

If at least 60% of procurement is not possible, a written request for exemption from compliance must be submitted to either Armscor or the Department of Defence. A clause in granting an exemption is that an Enterprise and Supplier Development plan must be developed over and above the contribution to the Enterprise and Supplier Development Fund. Compliance as per the clause will afford 6 Weighting Points under this element.

Socio-Economic Development aligns with the requirements set out in the Generic Codes.

Source of reference
<https://www.defenceweb.co.za/featured/sas-defence-industry-exports-top-r4-billion-in-2018/>
<https://www.defenceweb.co.za/industry/industry-industry/saamdec-aiming-for-positive-growth-of-sa-defence-exports/>