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PRESENTATION BY THE MINISTER OF TRADE AND INDUSTRY, ALEC ERWIN, TO PARLIAMENT ON THE STRATEGIC ARMS DEBATE - AN EDITED TRANSCRIPT, Cape Town, 13 August 2002

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"Madam Speaker, this matter has been debated in this House before and as we have seen, it is very widely commented on in many different areas. As government we have to be realistic and accept that those opposed to the purchase of the arms, and for those who see their sole purpose in life to oppose anything that this government does, they will try and ensure that we will have no closure on this matter.

What I find somewhat distasteful, Madam Speaker, although I accept your ruling that we should not comment on the constitutional structures, is just the fact that certain individual members seem to see themselves as somehow paragons of virtue. What they can't seem to accept is the fact that it is not what I say is right that matters. I also find it extremely distasteful that persons make a long string of allegations here in the house, but are not prepared to subject themselves to the scrutiny of the investigation. I think this is sad, but more than that I think it is indicative for the complete disregard for what we are trying to achieve as a nation with our constitutional structures. It is a very sad day when we experience the events we experience by certain speakers earlier today, and I sincerely hope that their parties will reflect on the wisdom of such actions.

This strategic arms procurement has been subject to close scrutiny of this Parliament and by the institutions and structures, both of this Parliament and the constitution. Government has and will continue to respect the right of many persons who express reservations on this defence procurement. It was and remains a major decision that utilises considerable resources. If we look at this more sensibly, you realise that when we made that decision, we knew we were making choices. What has been clear in the time since making those decisions and subsequent events, is that we have not detracted from our social expenditure obligations. We have been able to meet those obligations and continue to meet those obligations. It is really fairly cheap politics to try and claim that we are ignoring and denying our social responsibilities in favour of our defence force. All governments, other than those - and there is only one that I am aware of - who askew any defence force whatsoever, have to make a choice between spending on defence and social expenditure. The evidence - the extensive budget and expenditure reviews - is detailed. No one can claim that they don't have enough information on whether we do or do not meet our social expenditure obligations. We quite clearly do.

Government has stated time and time again, and I wish to state it again on behalf of the Government and my colleagues in the Cabinet, we welcome and continue to welcome the oversight of Parliament. Parliament must exercise its responsibilities and its obligations. We also welcome the fact that three essential agencies of our new democracy, and this is why it is so distasteful when they are treated in the manner that they are, undertook extensive investigation, which, as has been indicated by previous speakers of the ANC, weighed the evidence and made the finding. The fact that particular party members and individuals whose particular views have not been borne out and possibly whose political ambitions have come short, don't like that, cannot be cause to attack our constitutional structures. We must desist from this kind of activity. It is disrespect for our future.

Let me address a point raised by our very last speaker, the honourable Koornhoff. Have we acted on recommendations made by the findings, and here I wish to speak for the dti as one of

the major departments with responsibilities for a particular and important component of this total package. We have undertaken what we were asked to do. We were asked to ascertain once again whether the performance guarantees have in fact been effective. We have done that. We have taken further legal advice and shared the advice with the Auditor General in some detail. The further legal advice supports the findings of the joint study in that these contractual obligations in the form of performance guarantees are as effective as we can get, and are certainly in line with best practice internationally.

During the course of his annual audit when he specifically had full access to the national industrial participation programme in March this year, we asked the Auditor General to look at our capacities and our procedures. We believe the Auditor General did a very thorough investigation and I wish to place on record our thanks to the office of the Auditor General. In general he found that our procedures were in conformance with our obligations to monitor this process. He made certain procedural recommendations as to what we should do. Furthermore, we also brought in an outside accounting firm and asked them to make further procedure evaluations and recommendations. As a result, we have introduced a range of administrative measures in the form of new databases, new manuals and procedures, new manuals that define conflict of interest.

We accept that we had to improve our records of decision-making, and we have done that. We have upgraded the division dealing with this matter to a chief directorate, and the Auditor General, I think, has also expressed his view that this is acceptable. He has thanked us for the information we have given him and we will continue to give him information. The National Industrial Participation Programme (NIPP) will be regularly subject to audits by the Auditor General's office.

The Auditor General asked us to motivate what was the logic in substituting one project for another. The argument essentially is that there is a considerable time span between proposals made for projects and them being realised. It is fundamentally in our interest to maintain the viability and economic sustainability of these projects by ensuring that we adjust to changes in market conditions. Therefore, substitutability, we believe, is an important process. However, substitutability does not reduce the obligations that the suppliers have, and our intentions in the line for these substitutions, is to improve the quality of projects that we achieve through the National Industrial Participation Programme.

As recommended, we reported to Parliament in March this year and gave a progress report on the national industrial participation programmes. As that report indicated, we are well ahead in schedules in terms of the benchmarks. Though the first major benchmark is in 2004, we are currently way ahead of schedule. These contracts began in 2000, and we began in the first period to define the projects, negotiate some very extensive and detailed projects, and they began to become operational. As I reported in March, many of them are currently operational, while others will become operational during the course of this year.

We believe that the range and quality of projects that have come in do meet our objective to use any major purchase by the public sector to support and strengthen the industrialisation process in South Africa by strengthening its manufacturing capacity. When we look at the range of products and investment projects that have come in, we are meeting this obligation.

Now it has been argued recently using inaccurate information and contradictory information that many of these projects may have come anyway. People not familiar with the competitiveness of international investment decisions, I think, may feel that investment comes easily. Investment does not come easily and from our point of view, we would value far more highly projects that actually take place than projects that may have taken place.

A recent example was the gold projects around Harmony in the Free State Province. It really puzzles me. I see this as somewhat of an auspicious argument that we would have exported the gold anyway. The point that we are making with these projects precisely is that we are not just exporting gold. We are exporting beneficiated and processed gold. The project has a number of components. One of those is a facility to manufacture gold at Harmony and therefore make that available to the jewellery industry. The other aspect is the jewellery industry, where we have brought in investors who have access to major markets in the US and elsewhere, to come

in and begin manufacturing.

The other aspects of the process are new technology introduced by Mintek, which allows two very important processes to take place. One is chemical products associated with gold production, and the other is 99.9% refined gold that can be used for a range of electronic and jewellery purposes. And finally, we have the jewellery training school, which for an area like Welkom, which has been subject to considerable economic decline as a result of the mining industry, we believe is a major step forward. Now to say that we would have exported the gold anyway and discount some up to \$9 million US of investment over the coming years, really, I think, is an auspicious argument, and misses the point as to what it is that we are trying to achieve with these projects.

The point that we wish to make very strongly, once again, is that there are two processes involved in the strategic defence procurement. The one process is a decision to re-equip the South African National Defence Force to maintain its integrity as a defence force. And we did that within what we felt would be affordable figures for this economy. Those figures, the estimates, the amount of money we have drawn down on the foreign loans, all of these figures are in the expenditure review, and the budget review. So I am not going to re-enter the whole issue of what the costs are. The costs are visible to all as they proceed and unfold; everyone can make their own calculation and see what is happening, and everyone can see that contrary to the predictions, the budget position has not worsened, it has improved.

So, the risk factors that we have rightly considered at the time thus far are not eventuating, and it is for this reason that these risks were not there that we agreed to a second tranche. But we can monitor these risks as we go along. So the dire predictions of what could happen to our budget have not happened. But that decision to re-equip the South African National Defence Force, was taken like any other decision by any public sector entity, where the procurement will result in more than \$10 million US imported content, it immediately becomes liable to the national industrial participation programme where they must meet a minimum of 30% of that imported content through a range of specified obligations in a domestic economy. And we believe that the National Industrial Participation Project, both its defence component and its civilian component, are meeting the objectives that we originally said.

Much has been said that these are foreign purchases. I think anyone who examines the impact on the South African defence industry of these purchases, will see that it is massively positive. Without these projects that have come through the procurement, our defence industry would certainly have been in much direr straights. There are many people that would welcome that, but I think the majority of South Africans would accept that we need both a defence force and a defence industry.

Chair, there were allegations made in my own department against a particular individual. We processed those allegations through due process. We did it following the guidelines and the prescriptions of the public service act, and we carried out that investigation. A finding was made against the individual, not a finding of corruption, but a finding of misconduct. The individual exercised his right to appeal to myself as minister. I considered the matter once again and upheld the original decision. The individual, quite rightly, a young person with a future, exercised further rights, which he did earlier some week or two back, which was to go for a conciliation process. That conciliation process failed and during the course of this month an arbitration process will take place. The point I am trying to make here is that whistle blowing and allegations, as was said by the honourable Kannemeyer, are one thing. Due process and finding a person guilty of any misconduct or criminal conduct must then be followed.

We cannot, just because it suits our political purpose or suits our own predisposition about our opposition to arms, make any wild allegation that we want. We can't come up here and having had an exhaustive process of investigations with findings made that are public, then string together a whole lot of other innuendo and insinuations about the arms industry and this thing that is outstanding, and that thing is outstanding. Really, should we not conduct ourselves with more dignity and circumspection as leaders of our people?

If allegations are made, allegations are investigated and the due process of law, or the due

process of administrative procedure in the case of my department, must then continue. And surely, no matter who we are, as parliamentary members and leaders we should respect those processes. And I don't think we should get up and abuse parliament by making all sorts of accusations against all sorts of companies about how rotten they are, how corrupt they are, et cetera. If we are going to do that, we might as well accuse every major corporation in South Africa as well of corruption et cetera. And for a young person like you to call me naïve, is just a little bit thick at times, actually. Where were you when I was learning? (addressing member of Parliament).

Madam Speaker, as I have said, regrettably, for reasons which have little to do with the facts, but more to do with particular emotive feelings, or particular individual sadness that your facts were not listened to because maybe they were not facts, this matter is unlikely to lie down. I am sure that it will continue to come up because it looks as if it is convenient. But the truth of the matter is, Madam Speaker, Members of this Parliament, contrary to the continual attempts to be negative and destructive, I believe both this Parliament and the agencies of our constitution have come through well. They have drawn to our attention matters where we are clearly in the wrong; they have drawn to our attention shortcomings in our procedures; and they have made it clear that we must in future conduct ourselves even more professionally than we attempted to do on this occasion.

Now that seems to me, for a new democracy coming out of some very, very opaque and dark times, and I never recall the DA disputing any arms purchases as the Democratic Party, but still, coming out of those times, I think we have done very well. The Government continues to accept the oversight due exercised. We have reported; and if we do not implement the recommendations that are made, you will hold us to account. South Africa does need a defence force, we needed to re-equip it, and in the process of re-equipping it, we used the leverage that gave us to strengthen South Africa's industrial economy, which have to be to the benefit of our people.

Thank you, Madam Speaker. "

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