

ANP/001/0002/1

VIOLA OPTIONS (SUPPLY CONTRACT)			
OPTIONS	DESCRIPTION	PRICE AS % OF EXISTING QUOTE AND IN USD	DELIVERY SCHEDULE
<b>ORIGINAL QUOTE 78 X G6</b>	<b>4 X BATTALIONS + 6 G6'S FOR TRAINING AND ALL SUPPORT</b>	<b>100% USD 1408M</b>	<b>COMPLETED 43 MONTHS AFTER EFFECTIVE DATE</b>
<b>OPTION 1 78 X G6</b>	<b>4 X BATTALIONS + 6 G6'S FOR TRAINING WITH NO SUPPORT VEHICLES OR TRAINING SIMULATORS</b>	<b>82% USD 1155M</b>	<b>COMPLETED 59 MONTHS AFTER EFFECTIVE DATE</b>
<b>OPTION 2 60 X G6</b>	<b>3 X BATTALIONS + 6 G6'S FOR TRAINING AND ALL SUPPORT</b>	<b>84% USD 1183M</b>	<b>COMPLETED 53 MONTHS AFTER EFFECTIVE DATE</b>
<b>OPTION 3 42 X G6</b>	<b>2 X BATTALIONS + 6 G6'S FOR TRAINING AND ALL SUPPORT</b>	<b>67% USD 943M</b>	<b>COMPLETED 41 MONTHS AFTER EFFECTIVE DATE</b>
<b>OPTION 4 42 X G6</b>	<b>2 X BATTALIONS + 6 G6'S FOR TRAINING WITH NO SUPPORT VEHICLES OR TRAINING SIMULATORS</b>	<b>54% USD 760M</b>	<b>COMPLETED 41 MONTHS AFTER EFFECTIVE DATE</b>

## AIDE MEMOIRE : SAUDI ARABIA

### 1. HISTORIC OVERVIEW

- 1.1 Starting in 1992 Denel endeavored to market its G6 system to the Royal Saudi Land Forces, and up to 1996 all requirements as dictated by Saudi Bureaucratic procedures were met during the marketing process. These procedures included Saudi Ministerial authorisation for the introduction of the system to the user, Saudi Ministerial authorisation for a demonstration of the system to the user, and a successful demonstration of the system to the user during 1995.
- 1.2 This demonstration was followed by an executive proposal to the Saudi Armed Forces. This in turn was followed by a directive from the Minister of Defence in Saudi (Prince Sultan) via the Chief of Staff (COS) of the Saudi Armed Forces that Denel must reconfigure its offer to match that which had already been submitted by the Peoples Republic of China. This directive was received by Denel on 11 February 1996.
- 1.3 On receiving this directive, Denel reconfigured the offer by reducing the hardware on offer to fit within the existing budget of 1.4 Billion USD. This offer was then resubmitted to the COS in Saudi Arabia, who submitted it to Prince Sultan.
- 1.4 On 15 May 1996 Denel was shown the Minister's response to the new offer which in essence indicated that he was satisfied and Denel was advised by the Denel agent, (Esam Hakeem) that we should now await an invitation to negotiate the contract.
- 1.5 By the end of July 1996, Mr Gerrit Prinsloo. (the Denel representative resident in Saudi Arabia), received a telephone call from General Hussein (Director of Foreign Procurement), who summoned Mr Prinsloo to a meeting. During this meeting Mr Prinsloo was told that the "green light" for this project had been received, and that Mr Prinsloo must ensure that the Denel negotiation team be in Saudi Arabia within the week.
- 1.6 Contract negotiations commenced very soon thereafter and lasted until 10 March 1997, when foreign procurement voiced their satisfaction with the contract and referred it to Prince Sultan for signature.
- 1.7 Subsequent to 10 March 1997, Prince Sultan paid an official visit to South Africa, and had an audience with Inter alia President Mandela and Deputy President Mbeki. During November 1997 President Mandela paid an official visit to Saudi Arabia. Despite these visits and constant reassurances, no further progress has been made on the project.
- 1.8 During early November 1998, Deputy President Mbeki visited Saudi Arabia, and addressed the issue of both the Seeker and G6 with Prince Sultan and Crown Prince Abdullah. Re-assurances were once again given, but without commitments as to firm contracting dates.

## 2. CURRENT POSITION

- 2.1 The state of play within the Royal Court of Saudi Arabia is complicated at present due to inter alia the ill health of the Monarch (King Fahad) and the resultant jockeying for political position that this has created. Although King Fahad is both Head of State and Premier, the country is effectively being run by his half-brother, Prince Abdullah, who is the Crown Prince and the First Deputy Premier.
- 2.2 The relationship between Prince Abdullah and his half-brother, Prince Sultan, (Second Deputy Premier and Minister of Defence and Aviation) is less than ideal, mainly due to alleged political and financial excesses perpetrated by Prince Sultan and his sons during the years that King Fahad (the full brother of Prince Sultan) ran the Country. (1982 to 1997).
- 2.3 In line with his distaste for corruption, it is said that Prince Abdullah is considering various forms of investigation into these "excesses", but that these would be done against the potentially sensitive situation within the Saudi Royal Court vis a vis the attenuating perceived legitimacy of the Saudi Royal Family world-wide.
- 2.4 Conventional wisdom is that Prince Sultan (who is currently the number three person in the Kingdom) will become Crown Prince when Prince Abdullah formerly accedes the throne. It is therefore improbable that Prince Sultan will be seen to make any controversial political decisions or recommendations at present, as it is generally understood that major Royal Court decisions are based on consensus of the Senior Princes.
- 2.5 In this lies the dilemma facing Denel. Sufficient documentary evidence exists to make the assumption that Prince Sultan is willing and eager to award the G6 transaction to South Africa. So called "sublime", i.e. Head of State authorisation is however still needed for the transaction to proceed. During the visit of President Mandela to Saudi Arabia, the "sublime" level delegated the project to Prince Abdullah. Because of the contents of paragraph 2.2 it is probable that Prince Abdullah is creating a de-facto moratorium on all such transactions, and the financial turmoil within Saudi Arabia (created by the low oil price and the cost of the gulf war) is aggravating the situation further.
- 2.6 A situation therefore exists in which the present position is convenient for Saudi Arabia, although various promises regarding the prognosis of the project have been made at a high level. **Unfortunately, the ability of Denel to execute this project has been severely eroded both technically and financially. It is unlikely that Denel will be in a position to honour this contract if a decision by Saudi Arabia is not reached without delay.**

### **3. RECOMMENDATION**

- 3.1 To avoid further costs to Denel (The marketing cost for these two projects currently exceed R100m) it is important to accurately determine the prognosis for both these projects from Crown Prince Abdullah.**
- 3.2 Depending upon the message received, Denel has to exercise one of three options:**
- **Withdraw from the projects to avoid incurring further costs**
  - **Invest further funds if the projects are going to be announced imminently**
  - **Offer reduced quantities of goods to Saudi if indications are that the total price is presently unaffordable**

## **AIDE MEMOIRE : KUWAIT**

1. Denel successfully demonstrated the G6 to Kuwait during 1996.
2. The competition during the demonstration came from the USA, UK and PRC. Denel had the best technical results.
3. Minister Modise subsequently travelled to Kuwait to voice his support for the Denel initiative.
4. Kuwait was in the market for three battalions, but has awarded an order for one battalion to the PRC in the interim as a political gesture. That leaves two battalions to still be decided upon and awarded.
5. With the tensions in the Gulf, the USA and UK have very strong political lobbies to further their proposals. (Gore, Blair, Cohen et al have recently visited).
6. A positive message by President Mandela or Deputy President Mbeki (letter, meeting, telephone call) will enhance the probability of South Africa being awarded the order considerably.
7. The contract is worth USD500m and a decision is expected after Ramadan (early 1999).

## AIDE MEMOIRE : UNITED ARAB EMIRATES

1. Denel has a proven track record with the G6 Artillery system in Abu Dhabi: The system (78 Guns, Ammunition, Logistics and Long Term Product Support {LTPS}) was delivered in 1994 and is maintained on a very successful basis until current.
2. Unfortunately Denel was unable to capitalise on this success and very little follow-on business has realised in this market (with high potential).
3. There are currently two main reasons for this:
  - lack of funding due to low oil revenue
  - lack of political lobbying from RSA government (competition very strong on this point)
4. Currently Denel has a high potential window of opportunity to finalise a contract for follow-on 155mm ammunition to the value of USD 52 Million.
5. A positive message by President Mandela will enhance the probability of South Africa (Denel) being awarded this contract considerably.
6. The contract details are finalised between the User and Denel. A final approval by HH Sh Khalifa to be obtained by end December 1998.