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CHAIRPERSON: Good morning. Advocate Lebala.

ADV LEBALA: Chairperson, Commissioner Musi, we are ready to proceed except just to tidy up. We just want to verify as to whether the outstanding three documents which were  
5 supposed to be part of your bundle, which you unfortunately got on the self-same day on which we stood down have become part of your index and paginated witness's statement bundle. We just want to verify that and those are pages 163 to 166. Commissioner Musi, Chairperson, that relates to the witness's  
10 bundle. Just to refresh you the documents that we'll be utilising to lead Mr Smith's testimony is the Critics Bundle, it's the Declassified Documents bundle and it's the witness's statement bundle with annexures.

Now the only issue that was outstanding that  
15 morning before the lights off was we inserted page 163 to 166 and unfortunately those pages were made available to us that morning. We assumed that by the time we start leading the evidence of Mr Smith those documents would have already been part of your bundles and we noted when we were just about to  
20 start that those documents were not part of your bundle, we just want to verify as to whether have those documents become part of your witness's statement bundle and I see the chairperson is nodding, I'm waiting for Commissioner Musi to signal whether is his bundle in order. I note that Commissioner  
25 Musi is also nodding.

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What we'll do Chairperson before the witness is sworn in, there are three sets of documentation that we would be utilising, that is the witness's statement which ends at page 166, it is sworn statements and annexures and then there is the  
5 Declassified Documents bundle and there is a Critics bundle and if you have the three bundles then we are ready to proceed, the witness could be sworn in.

CHAIRPERSON: Advocate Lebala, we don't have the Critics bundle, unless if at all there is one which was given to us  
10 earlier on, if it's that one I have left that one at home.

ADV LEBALA: Self-same bundle, we'll take you through it if need be, I don't know whether we'll get to the Critics bundle as at the stage when there would be need for us to refer you to this morning, but you might not even have to agonise about  
15 that. If need be we'll refer you to the relevant quotations in the Critics bundle, I wouldn't like us to delay the proceedings more than what has occurred previously Chairperson, Commissioner Musi, we are ready to proceed.

CHAIRPERSON: Thank you. Can the witness take an oath?  
20 **(Witness is sworn in.)**

ADV LEBALA: We are ready to proceed Chair. Mr Smith, just to assist all and sundry to be with us let's refresh ourselves where we were when we unfortunately adjourned during the previous week. You remember that you informed the  
25 Commission that the Project Sitron could be equated or it's one

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and the same as the Corvette Project?

MR SMITH: Correct.

ADV LEBALA: You informed the Commission that for the Commission to appreciate the distinction between a submarine  
5 and a frigate/Corvette it needs to appreciate that the vessel has two hardware parts, the ship platform and the combat suite.

MR SMITH: That's correct Chair.

ADV LEBALA: And you also advised us that you are a  
10 programme manager, you have been throughout the past 23-odd years, more significantly in your view a project manager coordinates projects.

MR SMITH: That's correct Chair.

ADV LEBALA: You simplified these two important  
15 hardware of this vessel that we would be looking at bearing in mind that your testimony to the Commission is to advise about the life cycle of the acquisition of the frigate/Corvette programme.

MR SMITH: Correct Chair.

ADV LEBALA: You mentioned that the combat suite  
20 relates to the fighting component of the frigate.

MR SMITH: Correct Chair.

ADV LEBALA: The platform could be equated to the  
floating/moving function of the frigate.

MR SMITH: That's correct.  
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ADV LEBALA: And we requested you to try and draw a distinction between a submarine and a Corvette to assist the Commission, not the commissioners, I think the commissioners do read given a chance, just so that there should be clarity, not to confuse the two, that there is a distinction between a submarine and a Corvette. If I remember well please refresh us. You said that in a submarine there is already an existing customisation, it's standing there, but in a Corvette it still has to be designed, it's a design project.

5  
10 MR SMITH: Whether it's a submarine project or a surface vessel project you can break it down to the hardware elements of ship platform and combat suite, the distinction I was making is that in the case of the submarines it essentially was an existing design or an existing submarine so that it was just customisation that needed to take place in terms of the combat suite whereas for the Patrol Corvette or the Corvette Project which had a long history it had, it was being dealt with as separate elements, so you had the combat suite which was being developed and then you had the ship platform element and as we go through my statement this distinction will become clearer Chair.

15  
20  
25 ADV LEBALA: Now let's appreciate what you are saying so that we should appreciate the importance of your testimony and the rationale, explaining the acquisition of this important frigate programme. You are saying with the submarine it's an

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existing design but with the Corvette it's separate elements that you could break down into a ship platform and a combat suite.

MR SMITH: With the Corvette's, and you will see later  
5 in the statement, we were in the early 1990's, and it's covered by my section two of the, of my statement, the ship platform, the approach was to investigate and as it were find an existing ship platform design and in parallel to that we were developing locally, we were developing a combat suite as a separate  
10 hardware element and with the intention of integrating this later on in the project.

ADV LEBALA: Now I would like you to simplify it in such a manner that we appreciate it, try not to be mechanical, try not to be technical about it. Is it true that a submarine has a  
15 combat suite?

MR SMITH: That's correct.

ADV LEBALA: Does a submarine have a platform?

MR SMITH: That's correct Chair, you could say that.

ADV LEBALA: The same holds with the Corvette, it has  
20 got a combat suite which is a fighting mechanism of it and a platform. Now draw a distinction that one could appreciate, assume that in A, B, C one wants to appreciate this distinction in relation to the acquisition process that we'll be taking the Commission through in as far as the Corvette is concerned. At  
25 this stage if you were to use your own words in as far as these

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parts are concerned what would you say?

MR SMITH: Chair, in my statement in 2.1 and onwards

...

ADV LEBALA: Before you go to your statement I would  
5 like you to use your own words, I know what your statement  
says because by the time we go to the statement it will have  
been simplified.

MR SMITH: Yes.

ADV LEBALA: Forget about your statement for the time  
10 being, use your own words.

MR SMITH: In my own words Chair, the Patrol Corvette  
project, Project Sitron started in 1992. At that stage there  
were three hardware elements to the project or three  
components to the project. One was the ship platform, the  
15 second was the combat suite and the third in fact was Maritime  
Helicopters. With regards to the combat suite we were busy  
with a technology programme to develop elements of the  
combat suite locally, the ship platform was always intended to  
be something that we would acquire from overseas and at some  
20 stage integrate the combat suite into the ship platform to form  
a vessel.

ADV LEBALA: Now we know that once you think of a  
Corvette you could think of three components, the platform, the  
combat suite and if need be, the Maritime Helicopter.

25 MR SMITH: That's correct Chair.

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ADV LEBALA: What do you think in simple terms when you think of a submarine in parts?

MR SMITH: In simple terms you can do a development or conduct a submarine project in the same vein except that in the case of the submarine there was no prior, shall we say  
5 development that was taking place on the combat suite with regards to the, that I'm aware of, with regards to the submarine, there may have been some (indistinct), I don't know, but the, by the time the SDPP started that project, and I  
10 don't want to speak on behalf of another project but that project went to look for existing vessels or submarines in the market which included both the ship platform, both the platform and the combat suite. In the case of the submarines you would have noted that there was a certain amount of customisation  
15 that needed to take place because of some of the local systems that needed to be integrated.

ADV LEBALA: Now to complete the picture would I be right to say the following, with the submarine you could talk of two parts, the platform and the combat suite and the element of  
20 customisation, am I right?

MR SMITH: Correct.

ADV LEBALA: We'll draw this distinction further as we go deeper into your testimony. Previously when we adjourned we were busy with your *Curriculum Vitae*, I would like to draw the  
25 commissioners' attention to pages 9 and 10, Annexure "BS1" of

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your sworn statement, the Annexure "BS1" to your sworn statement. To refresh ourselves we noted that you had a Masters in Science Ocean Engineering from the United Kingdom, you were explaining what does it entail. I remember, to refresh myself, you said that you are looking at the floating/standing/moving structure in the ocean and in the context of Naval Architecture, is that correct?

MR SMITH: That's correct Chair. I think just as I stated previously it was a Masters, Masters of Science in Ocean Engineering and I specialised in Naval Architecture which is essentially the design of ships.

ADV LEBALA: We also noted that from the University College of London you also had a Post-Graduate Diploma in Submarine Design.

MR SMITH: That's correct Chair.

ADV LEBALA: Explain what submarine design refers to.

MR SMITH: Well, it's submarine design from concept through right to final design, it's the complete design of a submarine whether it's ... All elements of the submarine, the design of the vessel.

ADV LEBALA: Have you done anything along the lines of Corvette's/frigate design?

MR SMITH: The Corvette/frigate design and (indistinct) form part of the basic degree.

ADV LEBALA: I think at this stage it would be very

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important for us to bring clarity. Are we talking about the acquisition of Corvette's or frigates?

MR SMITH: This wasn't the acquisition process, this was the actual, this was an engineering degree in actual design  
5 of ships.

ADV LEBALA: I asked you a broad question, I just want us to retreat, let's retreat from your CV.

MR SMITH: Yes?

ADV LEBALA: I would request that we should bring  
10 clarity at the outset as to whether are we talking as you are testifying, are we going to talk about the acquisition, the acquisition process of the product Corvette or frigate?

MR SMITH: We are going to talk about the acquisition process over that period 1998 for the Corvette which was later  
15 reclassified as a frigate.

ADV LEBALA: Now in your own words what's the distinction between a Corvette and a frigate?

MR SMITH: Chair, generally speaking a Corvette is slightly smaller, shorter if you will, than a frigate. The, I don't  
20 want to go into technical detail, so in terms of mass and all that sort of thing, but basically a Corvette is a smaller vessel than a frigate and generally its combat suite is of a, what we call a general purpose nature as opposed to a frigate which is the larger vessel which needs to be specialised in a particular,  
25 with a particular role.

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5 ADV LEBALA: At this stage let's reconcile what we have, we know that we have Project Sitron which is also called the Corvette Project, but you are testifying, and we heard the Naval officers telling us that in actual fact we acquired the frigates, is that correct?

MR SMITH: If they testified that way, yes, I assume it's correct.

ADV LEBALA: What do you say about that, did we acquire the Corvette's or the frigates?

10 MR SMITH: We acquired the Corvette which was reclassified as a frigate.

ADV LEBALA: I would like us now to use one word because I keep on saying Corvette/frigate. Could we confine ourselves to frigates?

15 MR SMITH: Chair if the Evidence Leader wishes to do that that's fine, I'm quite happy with that.

ADV LEBALA: Thank you. From now on we'll be talking to frigates to avoid this confusion and remember there's a reason why I had to start at the back to talk about Project  
20 Sitron, Corvette Project and we know that it relates to one and the same thing, we heard the Naval officers telling us that in actual fact we acquired four frigates. From now on we'll be talking to frigates, thank you. Still on your *Curriculum Vitae* you obtained the Post-Graduate Systems Engineer Diploma in  
25 1981 from the Pretoria University. We heard what the Systems

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Engineering Diploma entails. In your own words do you, would you quickly run it down for us, using your own words.

MR SMITH: Chair, this is an audit process of tackling a development from concept through to final production, going through various phases starting in a very rudimentary form, things like mission analysis *et cetera*, and eventually ending up with the detailed specification of your product, so it's a process, it's an audit process of tackling a development. This particular diploma took place over the course of the year part-time.

ADV LEBALA: That's what your colleague said in explaining this to us, and we note that in 1986 you were with the South African Naval Staff College where you qualified for Senior Naval Command and Staff Course. I though this is for Naval officers. Please explain.

MR SMITH: Chair, at this stage I was still in the Navy and this particular course is a senior course which Naval officers, senior Naval officers are expected to do to (indistinct) before they can take up a command or senior staff post within the Defence Force.

ADV LEBALA: Were you civilian or were you an officer at that stage?

MR SMITH: I was an officer, Chair.

ADV LEBALA: What experience ... Now for us to appreciate your work experience we have to start on page 10,

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I'm going to request the commissioners to start bottom at page 10 and come up, in actual fact it goes in that sequence, I appreciated the eccentricity of the detail in this regard and I struggled but I decided that for us to appreciate it, if you agree, we have to start at page 10 and come up, not start from page 9 and go down to page 10. Do you agree?

MR SMITH: I agree Chair.

ADV LEBALA: Commissioner Musi, Chair, we've got to go to page 10 and your work experience spans from 1976 to 1977 where you were Design Engineer seconded into the engineering company, is it YARD or Y-ARD (Ltd) Glasgow, Scotland, is it YARD or Y-ARD?

MR SMITH: Those can be used interchangeably, it was known colloquially as Yard at the time, but it could be Y-ARD as well. It's an acronym.

ADV LEBALA: What does it mean to say you were seconded there?

MR SMITH: I went to go and work for about a year in the ship design office in Scotland doing design work.

ADV LEBALA: Design Engineer (indistinct) relates to ship design exclusively?

MR SMITH: That's correct.

ADV LEBALA: Then let's go up, 1979 to 1980 you were a Naval Constructor. Explain that.

MR SMITH: Chair, just to put into context maybe, I'm

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using my own words here, when, after finishing my studies in the UK and the one year in Scotland in the design office I returned and the designation that you normally have in the Navy is something that comes back from tradition, is you're  
5 called a naval constructor, it just goes back many years, and after completing that, because I returned to South Africa where I was immediately posted to Durban to oversee the building of strike craft and to establish a ship design office in the Durban Naval Dockyard and that's the period 1979 to 1980.

10 ADV LEBALA: Now Naval Constructor, does it relate to building and constructing ships?

MR SMITH: It includes that as well Chair.

ADV LEBALA: Let's go up, 1980 to 1982 Senior Engineer, please explain?

15 MR SMITH: In my own words Chair I was recalled to Simonstown in 1979/1980 to head up the Naval Architectural Design section responsible for the design of the ship SAS Drakensberg, so we as a team designed the ship and then over that period as well I was also appointed as project engineer for  
20 the detailed design and also as project engineer during the construction of the ship in Durban. I just want to add here a note that I'm proud to say that after 30 years of faithful service that vessel is still operational.

ADV LEBALA: Now at that stage we know that at one time  
25 you mentioned to us that you were a Naval officer. Explain to

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us as you were going through these processes from Naval Constructor to Senior Engineer to Project Engineer, were you a civilian or were you a Naval officer?

MR SMITH: I was a Naval officer Chair.

5 ADV LEBALA: Was there ever a time when you were in the Navy serving as a civilian?

MR SMITH: No Chair.

ADV LEBALA: You have explained a project engineer, senior engineer, Naval officer. Going up, I see, is it 1983 to 10 1989, the Chief of the Engineering Design Bureau, just explain that, we've heard about it before, use your own words quickly.

MR SMITH: Chair I was, as I've said just a moment ago I was project engineer for what was known as Project Energy at the time which was the building of the vessel SAS Drakensberg 15 in Durban, but I carried on in my position as in the Naval Engineering Bureau and I eventually ended up as Chief of the Engineering Design Bureau, that's in 1989.

ADV LEBALA: Now were you a Naval officer, because we are parting ways with that area and territory of your life, what 20 rank were you in?

MR SMITH: At that point I was a commander.

ADV LEBALA: Equating to admiral, captain?

MR SMITH: No. No Chair, just, it's commander, captain.

25 ADV LEBALA: Now you are leaving the Navy now, we are

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going up to 1989 to 1992, is it the time when you joined ARMSCOR?

MR SMITH: Correct Chair, this was the time when ARMSCOR recruited me to become part of their organisation.

5 ADV LEBALA: We know that you were a Programme Engineering Manager in 1989 to 1992. Is it different from a programme manager?

MR SMITH: It is Chair, the, at that stage in ARMSCOR I was appointed as what you could call a programme engineer  
10 or project engineer, essentially it is the person responsible for all the engineering activity that takes place in a project, so I was then a project engineer, recruited as project engineer for a Cardinal Naval Project, that was a relatively short spell before that project stopped and immediately after that I was appointed  
15 as a project engineer on a Corvette project.

ADV LEBALA: Let's go up at the top of the page, page 10 Commissioners. 1992 to 1999 you have conflated almost three managerial posts, Programme Manager, Manager Technology Projects and Office Manager, please just unpack them and  
20 explain them, we know what is a programme manager, what is Manager Technology Projects?

MR SMITH: In parallel with being a programme manager as you can see over that period I was programme manager for Project Sitron, there were also a number of  
25 technology, smaller technology projects that were taking place

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and for those I acted in the role of manager of those technology projects and I also headed up the ARMSCOR office in Cape Town at that stage.

ADV LEBALA: Let's go to page 9, it will be the last capacity, let's take it from the top "Work Experience", Armaments Corporation of South Africa (SOC) Limited, Senior Technical Manager, you have conflated also positions there, Senior Programme Manager, Technology Transfer Manager, Manager Maritime Technology Projects. We know what is a Senior Technical Manager, you explained, we know what's a Senior Programme Manager. What's a Technology Transfer Manager?

MR SMITH: Chair, as we will come to probably in the statement at in 1998 my role changed, the role of programme manager was handed over or passed on to my colleague Mr Frits Nortjé, and one of the appointments I had from there onward, I was appointed as the Technology Transfer Manager across all the maritime projects, in other words the submarines, the Corvette's and Maritime Helicopters and in that role I assisted my DIP colleagues who will be testifying later or giving me witness statements later, in the execution of the DIP agreements with specific focus on Technology Transfer.

In parallel I just need to note that I continued being a programme manager and programme manager of the acquisition of the ship SAS Outeniqua and more recently I was

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the programme manager, I understand this project was mentioned by Admiral Higgs, Project Millennium, which is an expeditionary vessel, large expeditionary vessel to transport troops, transport troops and helicopters (indistinct) and that project was deferred a few years ago and I'm currently the programme manager of Project Biro which has also been mentioned, which is the acquisition of offshore patrol vessels and inshore patrol vessels, that's my current position.

ADV LEBALA: We see that you are also Manager Maritime Technology Projects and we are still looking at the period 1999 to 2010. Explain Manager Maritime Technology Projects?

MR SMITH: Chair that is similar to what I said earlier, in parallel with this we were also carrying on with technology work, smaller projects separate to the acquisition project, it's the, ARMSCOR is involved in research and development activities all the time and I then had a role of looking after some parallel research and development projects that were taking place.

ADV LEBALA: Now at what stage were you a senior programme manager? We know that according to your *Curriculum Vitae* and statement currently as you are testifying you are a programme manager, not a senior programme manager. This is the last question as far as your *Curriculum Vitae* is concerned. At what stage were you a senior programme manager?

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MR SMITH: That's put there Chair, but it's really the senior technical manager, programme manager we don't have the post or the function, you are a programme manager, there's no differentiation between different levels of programme manager.

ADV LEBALA: I beg your pardon Chair. Let's go back to your sworn statement page 1, paragraph 1.3, we have taken you through your *Curriculum Vitae*, that has been confirmed, but just for the sake of completeness please read paragraph 1.3 into the record.

MR SMITH: Chair, Commissioner:

*"I was employed by ARMSCOR as a programme manager before, during and after the Strategic Defence Packages Procurement Acquisition, hereinafter referred to as the SDPP".*

ADV LEBALA: Now for the sake of clarity and completeness was there ever any time where you were employed as a Senior Programme Manager throughout this period that you are talking about?

MR SMITH: No Chair, not with the title of Senior Programme Manager, just programme manager.

ADV LEBALA: Let's go to paragraph 1.5, I'll read it:

*"I've been asked to provide evidence within my knowledge that may be relevant to the rationale, the specifications, the request for offers and the value*

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*system for the assessment of offers for the Patrol Corvette platforms in the SDPP”.*

Now we have agreed that we are going to talk to frigates, each time we refer to Corvette platforms we will be referring to frigate platform. Now the specification, the rationale, we've  
5 heard about it and you are still going to explain it when we take you through a number of annexure bundles. The specifications in as far as the acquisition of the frigate platform is concerned, summarise it for us at this stage before  
10 we go deeper.

Let me refresh you, remember your statement says: “I have been asked to provide evidence with my knowledge that may be relevant to the rationale”, I'm not going to bother you about the rationale, which means the reasons why we obtained  
15 these frigates, I think the Naval officers testified to that, we'll get back to that if need be, we are not going to spend time, but the specifications get to be technical because it relates mainly to your testimony before the Commission now. What do you mean by “specifications”?

MR SMITH: The specifications cover the specifications that were drawn up for the ship platform part, to a certain extent also for the combat suite, the request for offers, you could put in the Request for Information which leads through to the request for offers, that will be covered by the statement,  
25 including that, the value system, the compilation of the value

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system and the assessment of the offers of the ship platforms and what was noted there it's the patrol frigate platforms that we will be concentrating on.

ADV LEBALA: Now you are confirming the significance of appreciating the frigates in parts, you have said it earlier on that you should think of three parts, the platform, the combat suite and Maritime Helicopter, we'll clarify that if need be. Now we are going to talk to the specifications pertaining to the platform and the specification pertaining to the combat suite, is that correct?

MR SMITH: It is correct Chair, although I will be concentrating on the platform, (indistinct).

ADV LEBALA: Then the request for offers, a large component part of your testimony is going to talk to request for offers. You did prepare an RFO, am I right?

MR SMITH: That's correct Chair, I prepared the main RFO document for this project.

ADV LEBALA: We are not going to spend time on it, the Commission have heard what the Request for Offer stands for, we will be taking you through examples that we have attached as annexures to your statement and then comes the value system for the assessment of offers for the frigates in the SDPP. Now at this stage am I right that we are going to talk to the value system pertaining to the RFI?

MR SMITH: Correct Chair.

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ADV LEBALA: We are also going to talk to the value system pertaining to the RFO?

MR SMITH: Correct, Chair.

5 ADV LEBALA: By the RFI for the sake of completeness we are going to talk to the value system pertaining to the request for?

MR SMITH: The Request for Information.

ADV LEBALA: And the RFO refers to request for?

MR SMITH: Offers. Offers, Chair.

10 ADV LEBALA: Let's go to paragraph 1.6:

*"My colleague Mr David Griesel in his testimony has dealt with most of the policy issues and gave a high level overview of the services that ARMSCOR renders to the South African National Defence Force".*

15

Page 2, 1.7:

*"In this statement I intend to deal with project specific issues relating to the acquisition of the Corvette's under the project code name Project Sitron".*

20

We've already heard about it.

*"I will cover the project prior to the SDPP up to and including the project [sic] before November 1998, ...".*

25 Let's pause there. Explain to the Commission why do you want

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to cut off this period November 1998? We are still going to deal with, we are just giving a background. The Commission has to appreciate the following; why you are qualified to talk about the specifications in as far as the platform and the combat suite is concerned, albeit you are emphasising the platform, why you are qualified to talk about the request for offers, more significantly the value system of the RFI and the RFO, but of importance is there are periods within which you are going to address the Commission on the development of this acquisition process of this product, the frigate. Now you are talking about the period before November 1998, why is it so significant?

MR SMITH: It is significant in that if you look in paragraph 1.7 you will see that in November 1998 the programme manager role was transferred to Mr Frits Nortjé, so at that point November 1998 I ceased to be the programme manager for Project Sitron and the period then from 1992 to 1998 covers the full vessel, but the, as far as from during the SDPP the focus between when that started 1997/1998 the focus was on the ship platform and that's why I am talking mainly to the ship platform. The combat suite activities, if you will, followed from after November 1998.

ADV LEBALA: We are going back to where we started. You see, the importance of us appreciating these parts of the frigate platform, the combat suite and the Maritime Helicopter,

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we'll pause again the Maritime Helicopter for the time being. Bring to the fore what you have just said about the full vessel, what's the relevance of the full vessel in this context?

MR SMITH: In this context at this stage up to  
5 November 1998 within the SDP activities up to there, the concentration was on the ship platform, and that will become clearer when we get to the value systems as well, the value systems were compiled specifically around the ship platform element, so that was being dealt with in this period leading up  
10 to 1998 and yes, that's it.

ADV LEBALA: Perhaps it would be important for us to appreciate your testimony in this context. Explain the distinction between these frigates where you have a ship platform and the combat suite against where you have the ship  
15 platform, the combat suite and the Maritime Helicopter.

MR SMITH: Mr Chair, later in my statement I point out that in the earlier part of this project from 1992 right up to the time that the project was deferred in 1995 we were, the project was being conducted with three hardware elements. After it  
20 was deferred the combat suite, nothing was being done on the ship platform but the combat suite, the local combat suite elements were carrying on with their development, technology development and that is covered by my statement that we continued with the development to the combat suite for the  
25 local combat suite companies or combat suite suppliers, and

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that continued right up, that continued right up until the contract in fact was signed or just prior to that the combat suite development continued. So, the process on the SDPP started off up until that period of 1998 or November 1998 was, 5 it was very much focused on the ship platform as the start of that process.

ADV LEBALA: Let's come back. Thanks for the additional information. I wanted to come back and address the following positively. Up to so far we've tried to show the Commission 10 that for it to appreciate the distinction between the submarine that the Commission heard about and the frigate, the Commission has to appreciate that we are dealing with three hardware parts. Now I want you to explain to the Commission about an instance where we can only talk to the platform and 15 the combat suite in an instance where we can talk about the ship platform, the combat suite and the Maritime Helicopter.

MR SMITH: Up to the point where the project was deferred in 1995 you could talk to three different or separate elements. From there onwards the combat suite followed a 20 technology project route, retention, so-called retention programme and when the SDP process commenced that was focused at least up until November in 1998 that was focused primarily on the ship platform. What occurred in that process is that the combat suite was a, there was, in previous 25 testimony they talked about a line item, it was a ceiling amount

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that was allocated in the RFO's to the combat suite, so it was a fixed as far as the overseas offerers were concerned, up until November 1998 it was just a fixed amount in the request for offers that went out.

5 ADV LEBALA: Now let us become clear, now I would like you to tell the Commission about the Maritime Helicopter, how does it angle and come in, in as far as the ship platform and the combat suite is concerned, at what stage would you think of it?

10 MR SMITH: If I can recall correctly Chair, when the project was deferred in 1995 the Maritime Helicopter project almost followed a separate route to a large extent and in fact when it, and so in that interim period up to the point where the SDPP's kicked in it was almost seen to be a separate project  
15 although it was very strongly linked to the Corvette project and as you are aware it never formed part of the ..., although it appeared originally in the start-up to the SDPP procurement it never materialised as one of the SDPP projects, it then, it became a separate project in its own right.

20 ADV LEBALA: Now the relevance of that will come as we go deeper in your testimony. Paragraph 1.8, let me read it:

*"In this statement I will deal with the period preceding and leading up to the evaluation of the Patrol Corvette platform".*

25 Now we have to appreciate this statement in the context of

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what you say that up to a certain point in the period before November 1998 Mr Frits Nortjé who is still coming to testify took over, do you remember?

MR SMITH: That is correct Chair.

5 ADV LEBALA: Now explain broadly what did Mr Frits Nortjé took over from you?

MR SMITH: Mr Frits Nortjé took over the role of programme manager.

10 ADV LEBALA: The specifics that you were dealing with as a programme manager that Mr Frits Nortjé took over from you, would you like to qualify them?

MR SMITH: Well Chair, he took over the complete role of programme manager. Mr Nortjé was part of my team, my programme team up to November 1998, I had a number of  
15 people who were involved in my project team and Mr Nortjé was part of that project team and he was at that stage, he actually as part of my team looked after the combat sub-element of the project and in 1998 when I left the project he then was appointed as taking over the full role of programme manager.

20 ADV LEBALA: Now let's try to be specific in this context. Up to so far it has become clear, I think this one has become a mantra that once we look at these Corvette's, the frigates, we look at the hardware which consists of the platform and the combat suite, if need be that will be qualified, will you get the  
25 Maritime Helicopter. Let's be specific, Mr Frits Nortjé, did he

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take over all the hardware or did he focus only on the combat suite?

MR SMITH: He took over the whole programme Chair, that includes then from November 1998 he took over the whole  
5 programme which includes then the, shall we say the ship platform element as well as the combat suite.

ADV LEBALA: Can you talk about the Maritime Helicopter?

MR SMITH: AS I said Chair at this point the Maritime  
10 Helicopter was almost following a parallel or separate route as a separate project. It was always considered to be, the term that was used "organic" to the vessels, it formed a component on the vessels but because it wasn't, it was going to follow a different route in terms of the SDPP, it wasn't going to be part  
15 of the SDPP but even when it became activated the Project Sitron still took overall responsibility for the Maritime Helicopter although it was a separate project.

ADV LEBALA: Now let me ask a precise question, did Mr Nortjé also took over this third hardware element of the  
20 Maritime Helicopter, yes or no?

MR SMITH: In an overarching role as programme manager, correct, he did that.

ADV LEBALA: Paragraph 1.9, 1.10, 1.11 Commissioners on page 2, relates to that issue that ignited controversy on the  
25 previous occasion that led to the postponement, I would just

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like to enquire from Mr Smith as to whether does he want to comment on it. Just to refresh you Commissioner Musi and Chair, this paragraph relates to the classified and confidential documents that the witnesses are not able to testify to. You will note that it's common amongst all the three ARMSCOR witnesses that we are leading that I wouldn't like to agonise much about because it has become clear that there is no classified and confidential documentation, hence we have the declassified bundle, but permit me at this stage just to pose the following question to Mr Smith, is there any classified and confidential documents you are not able to testify to?

MR SMITH: I'm not aware of any classified documents Chair, nor do I recall any classified documents which is relevant to my statement.

ADV LEBALA: Commissioner Musi and Chair, for the sake of completeness I'm supposed to read paragraph 1.9, 1.10, 1.11 to you but the response of the witnesses and the processes that have happened up to so far have cleared it up and we are proceeding to page 3 of the witness's statement. Now we are starting with the historical part, I wouldn't like us to spend time on it because the real nub of your testimony has to come when we talk to the Declassified bundle which envelopes a large component of your evidence, but let's look at paragraph 2.1 "The SDPP in Relation to the Corvette's". We have made peace that we are talking to the frigates:

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*“Originally in the early 1990’s the intention was to execute the Corvette programme in distinct parts, ...”.*

Now remember what has become clear is anyone who wants to appreciate the Corvette/frigates, is to appreciate component parts, the hardware, ship platform and the combat suite, if need be the Maritime Helicopter. Now we are going on:

*“... namely a contract for overseas ship platforms, contracts for the local combat suite systems and a separate contract for the Maritime Helicopters”.*

Those are the three component parts when one thinks of this frigate that you participated in the process of acquiring. Now please explain to the Commission why do we talk of overseas ship platform?

MR SMITH: Chair, we did not have the capacity to design the ship platform in South Africa at that stage, a frigate ship platform at that stage, so very early in Sitron the whole approach was to go to a proven design which meant that we would go to an overseas shipyard to acquire a proven ship platform design, so that from the very early stages in 1992 was the strategy with regards to Project Sitron, there was never intention to try and do this ourselves, we would go and acquire an existing or ship platform design and build from overseas.

ADV LEBALA: I thought that you testified when we were taking you through your CV that in South Africa including

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yourself you had ship designers, to be specific you studied submarine design and you mentioned that the Corvette/frigate's design was the prelude study to studying submarine design. Why is that so?

5 MR SMITH: Chair, if a reference is made why did we not design this frigate ourselves, the ship platform, years ago before that we would have probably have done it, but as time passed we lost the capacity to do this for a frigate, to do a frigate design. Frigate is a totally distinct from any other ship  
10 platform, that is a very specialist design, we lost that capacity. We did have a lot of designers, we had quite a number of design engineers in our project team but we felt that we just did not have enough capacity, if we did tackle it, it would take a long time with inherent risks and there was no need to pursue  
15 that path, it probably would have turned out in any case to be a more expensive way to have acquired the frigate platform.

ADV LEBALA: Now estimates, just estimate, around that time in the 1990's how many were you, those who were qualified in ship design?

20 MR SMITH: Chair I'm just guestimating but for instance when we design and built the SAS Drakensberg we were looking at a design team of probably in the order of about a 100 people of which at least 50 to 60 were engineers, qualified engineers. As time passed when we got to the frigate  
25 we were probably down to a team of in the order of 20 to 30,

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maybe even less engineers to tackling Sitron.

ADV LEBALA: Now you mentioned that we lost this capacity, how did you lose it?

MR SMITH: Chair, it was just through natural attrition  
5 and that that capacity was lost, unfortunately it continued even until today.

ADV LEBALA: Now just explain what do you mean with this natural attrition, were they lost to overseas ship builders, did they occupy other positions, were they attracted to other  
10 fields, just clarify that.

MR SMITH: All of the above Chair, they, it was either people got older and retired or that the training turnaround was not enough to keep up in terms of placement and mainly a lot of the engineers, and unfortunately I classify myself in one of  
15 those, left the Navy and went into industry, so the Navy lost that design capability.

ADV LEBALA: Now let's go to the second leg. We know that industry hardware, the ship platforms were concentrated to overseas ship builders. Now contracts for the local combat  
20 suite systems, just explain that, contracts for the local combat suite systems, the three hardware parts now are being unraveled, we are unpacking them, we know that when we look at the ship platform we go overseas. Now something is informing us that we do focus on local, contracts for the local  
25 combat suite systems, just explain that.

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MR SMITH: Chair, prior to 1995 we, there was an ongoing technology projects with local suppliers of combat suite elements. In the earlier days of Project Sitron prior to 1995 the intention was to also take over as much as we could from the strike craft at that stage which were getting a bit old in the tooth, so as far as possible the idea was to take over equipment which could still be used from the strike craft and the areas where the equipment had now aged and we needed to move on there were technology projects, developmental projects on the go with local suppliers and that was the situation at that stage.

ADV LEBALA: And a separate contract for maritime helicopters, we know that ship platform overseas, combat suite local, what happened to these separate Maritime Helicopters, did you combine the two or you brought unique people?

MR SMITH: At that stage in the early 1990's it was run as a parallel or a part, it was part of Project Sitron and a component of Project Sitron, the Maritime Helicopters and it was run within another division of ARMSCOR. The interfaces to the vessel aren't extremely sophisticated, so it could be dealt with almost as an encapsulated project in its own right.

ADV LEBALA: Was it local because I understand you to be saying it was run by a local division of ARMSCOR?

MR SMITH: It was never intended, the Maritime Helicopter, a Maritime Helicopter is a very specialist type of

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helicopter, there are only very few manufacturers in the world that actually produce Maritime Helicopters and they are not just your general type of helicopter and so that was dealt with as a separate project, always intended to be acquired from  
5 overseas. It was never intended to do anything locally.

ADV LEBALA: So we now know that the three hardware parts are as follows, ship platform overseas, combat suite local, Maritime Helicopter overseas, am I right?

MR SMITH: Correct Chair.

10 ADV LEBALA: Let's go on:

*"The vessel integration was to be done by the South African Navy in conjunction with ARMSCOR".*

What does "vessel integration" mean?

MR SMITH: Well Chair, you have a ship platform and  
15 you have these combat suite elements, systems that are being developed and you want to end up with an integrated operating vessel at the end of the day, so someone needs to make sure that your interfaces and your integration takes place, although noted there the Navy in conjunction with ARMSCOR, even then  
20 we realised that we would have to co-opt local industry to participate in that process too.

ADV LEBALA: What does that mean, does it mean you have a vessel which is a platform and a combat suite, you have an integrated vessel, it's a platform, a combat suite and a  
25 Maritime Helicopter, am I right?

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MR SMITH: Yes Chair, I don't want to confuse the terminology but the way it was defined, and this is specifically for Project Sitron, this is the definition we use just to make sure that everybody could understand and use the right terminology. We had a vessel, as I explained last week, which consisted of a ship platform and a combat suite. If you now add to the vessel this way we have a helicopter, Maritime Helicopter and in fact people who now get to what they term a vessel system, so the terminology for a vessel system which is now one high order thing, you would have heard the terms used by my colleagues earlier as a product system, we, instead of using, calling it a product system we call it a vessel system because we are talking about vessels, so the vessel system consists of vessels, Maritime Helicopters and personnel and if you look at vessels you can break that down further into ship platforms and combat suite, so it's a sort of a hierarchical breakdown of the system.

ADV LEBALA: Now these separate parts, you know if we are not going to appreciate them we are not going to appreciate your testimony and the weighing that's going to happen when you go to the Declassified Documentation, there's a reason why we are spending time on it, this has not been done in the abstract, it might sound boring but if you miss it we are gone. Now in terms of percentages attributed is it more on the side of the ship platform or more on the side of the combat suite

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looking at the vessel? Before we go to the vessel system we know that the Maritime Helicopter is a separate entity, specialist that's being done by foreign companies that specialise in that area, but in terms of according percentages  
5 in these two parts, looking at the vessel, the hardware part of the platform and the hardware part of the combat suite, in terms of percentages which one is it allocated more?

MR SMITH: Chair, right from the start the emphasis was on the ship platform and that would be the larger  
10 percentage of the total acquisition would be taken up by the ship platform in terms of cost. The approach was, as I've stated, was to obtain a ship platform that would last at least 30 years and then populate it with, and now I'm talking early days of the project, with an inexpensive, largely local combat suite  
15 which was tailored specifically to the Navy's requirement and the view then in the early days of the project was to actually at some stage later we would upgrade the frigates not under Project Sitron but eventually the frigates would be upgraded for (indistinct) maybe even the combat suite elements that needed  
20 to be renewed.

ADV LEBALA: I did not specify the percentages in terms of cost or funding, but I'm happy that you are specific that it relates to the funding, am I right?

MR SMITH: You are right.

25 ADV LEBALA: So 60% more of costing and funding went

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to the ship platform and 40% went to the combat suite?

MR SMITH: Chair, I don't know where those percentages come from, but if they come from one of the documents then yes, I would confirm that.

5 ADV LEBALA: Actually that's wrong leading of evidence on my part. In terms of percentages I don't know why I'm suggesting answers to you and let's go back, let's go back and I beg your pardon, thanks for drawing my attention to this important aspect of the integration of the vessel and the  
10 separate parts. Now let's break them down into percentages, are you able to mention how much percentage were according to the ship platform as against the combat suite?

MR SMITH: Chair, I can't recall actual percentages. I would, rather than guessing, I wouldn't want to just guess but  
15 other than to say that the ship platform was always seen to be the larger percentage of the acquisition.

ADV LEBALA: We consulted with the-then Chief of the Navy Vice-Admiral Simpson Anderson who advised us during that period that the emphasis was 60% on the ship platform and  
20 40% on the combat suite, do you agree or disagree?

MR SMITH: Chair, it sounds in the right ballpark.

ADV LEBALA: Now will you agree if I were to say, or please comment, the 40% on the combat suite was attributed to the fact that the combat suite was locally based?

25 MR SMITH: That's correct Chair.

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ADV LEBALA: Now we've clarified these aspects on the component parts, the integrated vessel, now we are going on to what's the real rudiments of your testimony, we are still on paragraph 2.1. Chair, we have five minutes towards tea break,  
5 I would like to take these remaining five minutes to finish this paragraph. We are on paragraph 2.1 line number 4:

*"The bulk of the available funding was allocated to the ship platforms. The approach was to obtain a ship platform that would at last at least 30 years  
10 and populate it with an inexpensive and largely local combat suite of modest capability, with a view to upgrading it [sic] in the future".*

You've explained that, that you could have a local combat suite that you could adapt as time goes on but the ship platform was  
15 very critical and important, am I right?

MR SMITH: Correct Chair.

ADV LEBALA: Paragraph 2.2, we are still on history:

*"Pursuant to the Project Sitron, with the advent of the democratic dispensation during 1994, 1995 the  
20 project was deferred in order to allow the White Paper on Defence as well as the Defence Review process to be completed. Around the same time the Secretary of Defence organisation was established which gave rise to the new responsibilities with  
25 respect to acquisition".*

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I think we have heard testimony a lot about that part but probably at this stage we need to ask you the following question; the critics say it is not correct that the Project Sitron was deferred, now to be specific one of the critics is Mr  
5 Richard Young who might come to testify here, we are not certain whether we speak with authority that he would, but he says that the whole process was (indistinct) by the interest of the Deputy President of the-then Republic South Africa Mr Mbeki who wanted to carry a favour for the German Frigate  
10 Consortium to succeed because as at this stage when this process was deferred in 1995 the successful bidder the ship builder Bazán from Spain had already been identified. What do you say about that? We could continue with this after tea  
Chair, Commissioner Musi, we are in your hands, or the witness  
15 could start responding to this question now or after tea adjournment.

CHAIRPERSON: Maybe let's adjourn for tea, then in the meantime the witness will get an opportunity of thinking about how to deal with your question. Thank you, we'll adjourn for  
20 tea.

**(Commission adjourns)**

**(Commission resumes)**

CHAIRPERSON: Can the witness confirm that he is still under oath?

25 MR SMITH: I do.

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CHAIRPERSON: Thank you.

ADV LEBALA: Thank you Chair, Commissioner Musi. Let's refresh ourselves with the last part of your testimony before we adjourned. Remember that you testified and it's in line with your statement that you were involved with the Project Sitron from 1992 up until November 1998.

MR SMITH: That's correct Chair.

ADV LEBALA: And we referred you to paragraph 2.2 on page 3 of your statement where reference is being made to the Project Sitron being deferred due to the advent of the democratic dispensation in 1994 to 1995, you remember?

MR SMITH: I do Chair.

ADV LEBALA: And we mentioned to you that the critics will come and say, and we do not know whether they would like to cross-examine you, it's within their right, but they would come and say the following, and I think let me put it in a proper context, the critics say during 1993 to 1995 the South African Navy, the Defence Force and ARMSCOR completed an acquisition process that saw Spain, Bazán being the successful bidder. Do you know about that process?

MR SMITH: Chair, I was programme manager from 1992 onwards, so I would be able to, if there is a question about that process I can answer it as far as I can recall.

ADV LEBALA: Now taking the Commission into your confidence here comes an incremental question. Are you aware

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of an acquisition process where Bazán, Spain because the  
successful bidder and in that bidding process, the invitees  
were Germany, Bazán, France, UK, Denmark and Germany was  
not even shortlisted and the only two shortlisted companies  
5 became the Yarrow of the United Kingdom and Bazán of Spain  
and Bazán of Spain became the successful bidder, do you  
remember?

MR SMITH: Chair to be honest with you I don't recall  
the Bazán from Spain becoming the successful bidder. We did  
10 follow the normal acquisition process from 1992 onwards  
through to the time of deferment in 1995 and I stand under  
correction but as far as I can recall we went out on RFI and we  
got to a shortlist of Bazán and GSC, that's as far as I can  
recall Chair.

15 ADV LEBALA: Let's start here, and thanks for that  
information. Is it true that Germany, the German Frigate  
Consortium was one of the bidders?

MR SMITH: Chair, I would caution about using the  
word "bidder", this was, at this stage as far as I can recall we  
20 went out on RFI, it wasn't a matter of bidders, it was a matter  
of soliciting information and yes, Germany were part of that  
process and as I said as far as I can recall we got to a point in  
that process which there was a shortlisting and as far as I can  
recall the shortlist consisted Bazán and GSC.

25 ADV LEBALA: Mr Smith, for your edification when you

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invite service providers they bid, let's not be mechanical or technical. When I say there were bidders let's be comfortable, then we'll say they were invited, is it true that Germany was invited?

5 MR SMITH: Correct Chair.

ADV LEBALA: Is it correct that Bazán of Spain, France, United Kingdom and Denmark were also invited?

MR SMITH: Correct Chair.

10 ADV LEBALA: Is it correct that Germany Frigate Consortium was excluded during that time because of its price and the sophistication of its product, it means it was found that its price was high and it was also found that its product, the Corvette/frigate was too sophisticated?

MR SMITH: Chair, I don't recall that detail.

15 ADV LEBALA: Do you recall whether the German Frigate Consortium ... Remember we are talking about 1995 during the period when you were involved in line with your testimony and in line with your statement. Is it correct that during that period two companies got to be shortlisted, one was Yarrow of the  
20 United Kingdom and Bazán of Spain to the exclusion of all the others including the German Frigate Consortium?

MR SMITH: As far as I can recall Chair, yes.

ADV LEBALA: Is it correct that then Spain, Bazán during that period in 1995 became the successful bidder, whether you  
25 call it an invited party or bidder or successful contestant but

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Spain, Bazán became the successful bidder or contestant or invited party?

MR SMITH: Chair, I don't recall that at all.

ADV LEBALA: Who was successful?

5 MR SMITH: Well, as I said Chair we ..., as far as I can recall, and I stand under correction, as far as I can recall we'd only got to a process of going out on RFI and getting to a shortlist. I don't recall us having formally gone out for offers and going through an evaluation process on offers.

10 ADV LEBALA: In all fairness to you Mr Smith, remember I'm giving you a version of what the critics are saying and if need be if they were to cross-examine you this is what they would say. Now let's start here, you have confirmed that the German Frigate Consortium was not shortlisted, am I right?

15 MR SMITH: That's correct Chair.

ADV LEBALA: Now you are confirming that the process went past the RFI stage, isn't it?

MR SMITH: As far as I can recall, yes.

20 ADV LEBALA: Now the fact that the German Frigate Consortium was not shortlisted informs us that we even went into the Request for Offer stage, isn't it?

MR SMITH: No Chair, that's not necessarily the case. The mere fact that we're talking about shortlist means that we haven't yet got into an RFO period.

25 ADV LEBALA: But let's go back, I think we have heard

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that testimony and I'm happy that Mr Vermeulen was here and I take it that you were present when Mr Vermeulen was testifying, am I right?

MR SMITH: I was here Chair, that's correct.

5 ADV LEBALA: Now let's refresh ourselves, do you remember that he mentioned about the process of the RFI as the first stage, request for invites as the first stage, do you remember?

MR SMITH: I do Chair.

10 ADV LEBALA: And he mentioned to the Commission that at that stage you are trying to eliminate isn't it?

MR SMITH: We were trying to get to a shortlist. You must just note Chair, are we talking about the SDPP process or are we talking about the Project Sitron process that took place  
15 prior to 1995 which was a normal acquisition process?

ADV LEBALA: No I, we are talking about the SDPP's in relation to what Mr Vermeulen testified, not what you are saying. Remember I'm saying to you, you will remember that Mr Vermeulen testified about the following; I'm not asking you  
20 about what do you think or what you are saying, please bear that on your mind, my question is do you remember Mr Vermeulen informed us that the RFI stage as the initial stage is intended to eliminate, he said that they are not adjudicating, they are intending to eliminate, do you agree or not?

25 MR SMITH: Yes Chair, I agree. In the SDP process it

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was decided to go out, in fact for all the components of the SDP, to go out and initially on RFI and then to get a shortlist and then to go into an RFO process, so in the SDP process the main aim of the RFI was to get to a point of a shortlist.

5 ADV LEBALA: Yes, of course he did say that you want to get to a point of the shortlist but he mentioned, he tried to simplify it in simple terms to draw a distinction between the RFI and the RFO, he said that with the RFI you are eliminating and in the RFO you are adjudicating, do you remember?

10 MR SMITH: I remember what he said, yes Chair.

ADV LEBALA: And he told us that the RFI has got its value system, do you agree?

MR SMITH: I agree.

15 ADV LEBALA: And he told us then after the value system of the RFI a report gets prepared and then we go into the RFO stage, is that correct?

MR SMITH: That's correct Chair.

ADV LEBALA: And the RFO has got its value system and a report gets prepared after that value system, am I right?

20 MR SMITH: That's correct Chair.

ADV LEBALA: You told us that with the RFO you are adjudicating, you are not eliminating because you have already eliminated isn't it?

25 MR SMITH: Chair, the frigate project followed a slightly different process in terms of the RFO process. We'll

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get to it but the frigate project you've got an RFI process or period that followed which led you to a shortlist, the RFO was sent out to those shortlisted companies but during the RFO or offer period there was a two-stage process that was followed with the Corvette's, it was known as part 1 and part 2, so during the offer phase of the frigates the, shall we talk about the offer phase, the two part process, the first part was looked on as an elimination, it was a critical minimum performance part and thereafter followed an evaluation, but that was in the offer phase, so that was the difference, there is a difference between the way that the frigates in the offer phase were dealt with as opposed to the submarine project.

ADV LEBALA: Mr Smith, do you want to have a glass of water, I'm going to request that you should answer my question, you are not responding to my question, have a glass of water, take your time. We are coming to what you are telling the Commission about. Remember we are building blocks, I wish we could go to the conclusion of your testimony, unfortunately it can't happen that way. I wish I could go to page, look at your statement, look at page 8 "Conclusion". I wish I could go there but I can't short-change this Commission, I'll be failing in my duty, I can't go there, we have to start somewhere and it is building blocks towards the apex of your testimony. Now please respond to my question, that information that you gave us is very critical and important, we

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are coming to it, now let me repeat my question, I'll restate it.  
Is it true that Mr Vermeulen told us the following; after the RFI  
stage, after you eliminated you remained with the few and then  
you go to the RFO where you have to adjudicate that few that  
5 remains, is that correct?

MR SMITH: That's correct in terms of the submarine  
project.

ADV LEBALA: Now we do know that the RFI is the initial  
phase, we do know that it has got its value system, we also  
10 know that the report gets to be prepared, we also know that the  
RFO is a process on its own, it has got its value system and a  
report gets prepared, I think that has become clear and that's  
applicable to both submarine and frigates, am I right?

MR SMITH: That's correct Chair.

15 ADV LEBALA: As to how the intricacy is coming we'll  
demonstrate there are distinction, I agree, and you have  
already laid a foundation for that, we will demonstrate to the  
Commission that in as far as the frigates are concerned when  
you come to the RFO weighing its different because it's a  
20 filtering stage and then you go to the final stage, am I right?

MR SMITH: That's correct Chair.

ADV LEBALA: Let's not go there yet, we follow a  
sequence and we are struggling you know, it's not nice to start  
at the back to go forward and we keep on traversing the same  
25 distance so that we should appreciate your testimony, it is not

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going to be easy for us to take your conclusion, that's why we struggle to explain these component parts so that the Commission should appreciate when we get to the nitty-gritties as to what are we talking about, but let's go back now.

5           The critics are saying in line with what Mr Vermeulen said, in line with what you have confirmed the critics say after the RFI stage was completed during that 1995 period, we are back to 1995 period before the SDPP's, two companies were shortlisted, others were eliminated. Remember  
10 I was just trying to explain the RFI against the RFO in simple terms, I'm not going into the mechanics and the simple terms make sense because we know in the RFI you eliminate, with the RFO you adjudicate now, we went past the RFI according to you in 1995, two companies. Amongst those companies was Bazán  
15 of Spain and the Yarrow of the UK and the German Frigate Consortium was not shortlisted, is that correct?

MR SMITH:           Prior to 1995 that's correct.

ADV LEBALA:       Now do you agree that because the German Frigate Consortium was not shortlisted it means it was  
20 eliminated?

MR SMITH:           At that stage correct, it wasn't on the shortlist.

ADV LEBALA:       It was eliminated because it did not meet some requirements?

25 MR SMITH:       The requirements that existed at that

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stage, yes.

ADV LEBALA: Now I'm going to mention those requirements to you according to what the critics say. The critics say during 1995 the German Frigate Consortium was  
5 excluded, it means it was eliminated at the RFI stage, it did not survive into the RFO, it means it was not one of the two remaining contestants because of its price and because of the sophistication of its product, it means the Corvette that they were presenting was sophisticated. Bearing in mind that you  
10 were involved do you agree or not?

MR SMITH: Chair, as I said earlier I can't recall the actual detail as to why the Germans or others for that matter were not on the shortlist, I don't have recollection of that detail, all I know is that the shortlist did not include Germany.

ADV LEBALA: Now let's go to what the critics further say, amongst that shortlist was Bazán of Spain during that period of 1995, do you recall or not?

MR SMITH: Yes, I recall Chair.

ADV LEBALA: And the critics say that Bazán of Spain  
20 was successful, the other party that was shortlisted was the Yarrow's of the United Kingdom, are you alive to that?

MR SMITH: For the process followed up to 1995 I concur.

ADV LEBALA: Now the critics are saying after that Bazán  
25 Spain was identified as the successful bidder or invitee or

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successful contestant according to you and then the final Cabinet approval was sought during that time in 1995 and a new government was in place, am I right?

MR SMITH: A new government was in place Chair, I  
5 can't recall as I said earlier, I can't recall that only one, to use the terminology, not a bidder but a respondent was forward as a winner, I can't recall that.

ADV LEBALA: Well we now know that you don't recall  
10 that, but the critics say it was Bazán Spain, and during that time Mr Mbeki was the deputy president, do you agree?

MR SMITH: I agree.

ADV LEBALA: And the critics say that the final Cabinet  
15 approval was sought from him informing him that be informed that Bazán Spain is the successful invitee, is the successful contestant, is the successful bidder, please approve. Do you remember?

MR SMITH: I don't recall that Chair, sorry.

ADV LEBALA: Fair enough. The critics say Deputy  
20 President Mbeki refused to give the approval despite the formalities that you say were fulfilled, remember you conceded that some of the formalities appears to have been fulfilled, the RFI, the elimination, two contestants remaining, Bazán being identified. Now that process was fulfilled, now the critics say at that stage Bazán Spain was identified and final Cabinet  
25 approval was sought from the Deputy President and he refused.

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Are you alive to that?

MR SMITH: No Chair, I can't say I could, I'm not alive to that. As I said earlier all I can recall is that I ... Well, let's put it another way, I can't recall us having gone out on offer and going through an evaluation of that offer leading to one preferred bidder, I can't recall that process.

ADV LEBALA: Fair enough. Now let's pose the following question, if the RFO process was engaged in during that time would you have known about it?

10 MR SMITH: Yes I'm sure I would have recollected exactly what took place.

ADV LEBALA: You are not responding to my question. I'm not asking whether would you have recollected, would you have known about it. It's a broad question and you will appreciate the next question, would you have known about it?

MR SMITH: Chair, I would respectfully say that if there was a winner or a preferred bidder put forward to the higher levels I would recollect that.

20 ADV LEBALA: You are still not responding to my question, let me restate. If the RFO, the RFO document was compiled, would you have known about it during that time?

MR SMITH: Yes, I think I would have known about it. But look here, the RFO, sorry Evidence Leader but if I may add, if it was an RFO process it would have gone, I would have been involved in that and I can't recall us going out on an RFO

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in all honesty prior to 1995.

ADV LEBALA: How would you have been involved in the RFO if it had effectuated?

MR SMITH: Well, in the same way it happened in the SDPP, I would have been probably the scribe of the main RFI, RFO document. An RFO document may have existed prior to 1995 but I don't recall it being issued or being sent out to offerers.

ADV LEBALA: Fair enough. You are saying, let me understand because the next question will shed light in relation to what the critics are saying. If the RFO was effectuated would you have compiled?

MR SMITH: If an RFO was sent out and I was the programme manager, I would have compiled the RFO document.

ADV LEBALA: We understand from your testimony that you did not compile any RFO during that time.

MR SMITH: What I said Chair is that I can't recall having issued an RFI, I would have been ..., because we work in advance and get ourselves prepared for the next phase I can almost say with confidence that I would have started work at least on an RFO.

ADV LEBALA: You know, I'm still having tribulations, I wish I could go to the conclusion, you are still not responding to my question, you will appreciate why this is very important. We know that you compile RFO's and it's been demonstrated

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that the current RFO of the SDPP's post-1997 compiled it, that the Commission will see. We know that you can't recall, that's one thing, let's start that you can't recall. The question is precise, did you compile any RFO during that time, yes or no?

5 MR SMITH: Prior to 1994?

ADV LEBALA: During that period of 1995.

MR SMITH: During the period of 1995 I would have probably drafted a document but I can't recall having, it being submitted and distributed, that's ..., but I probably would have drafted an RFO document.

ADV LEBALA: So, during that time there was an RFO that might have been prepared by yourself?

MR SMITH: That's correct Chair.

ADV LEBALA: Let's go to what the critics say. The critics say after Bazán was identified as a successful bidder the deputy president declined to give the final Cabinet approval despite all the formalities having been fulfilled, those formalities starting with the RFI, the RFO, shortlisting, elimination, adjudication and they say here we want to know whether you know or not. Within weeks the deputy president went to Germany, are you aware, after he declined to give the Cabinet final approval?

MR SMITH: I'm aware of what I read in the newspaper yes, but not what, I wasn't personally aware of that, of the visit.

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ADV LEBALA: Are you alive to the fact that when he was in Germany he told the German politicians and the executives of the German Frigate Consortium, remember this is what the critics say, that the bid was to be opened and the German Frigate Consortium was welcome to bid, do you know about that?

MR SMITH: I've read about it Chair.

ADV LEBALA: Now having heard what the critics say are you still standing on what you say in paragraph 2.2, let's go back to paragraph 2.2 of your statement, page 3 Chairperson, Commissioner Musi, paragraph 2.2 and let me take the liberty to read it to you:

*"Pursuant to Project Sitron, with the advent of the democratic dispensation during 1994/1995 the project was deferred in order to allow the White Paper on Defence as well as the Defence Review process to be completed".*

MR SMITH: As far as I can recall Chair, that was what happened in 1994/1995, the project was deferred as far as I can recall.

ADV LEBALA: Remember we've demonstrated to you that the version of the critics say that in actual fact the project was completed and the deputy president declined to give the final Cabinet approval, what do you say about that?

MR SMITH: Well, I've read what the critics say but I

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stand on what I said here that I can only recall that the project was deferred, I can't, I don't have any other detail at hand that I can give you.

ADV LEBALA: Okay, let's soldier on, I think it's on record,  
5 paragraph 2.2:

*"Around the same time the Secretary of Defence organisation was established which gave rise to new responsibilities with respect to acquisition".*

Mr David Griesel and Captain Jordaan testified to that, let's  
10 not spend time on that, let's look at paragraph 2.3, page 3:

*"When the project was deferred in 1995, ...".*

You have heard what the critics are saying:

*"... approval was given to launch a technology retention programme in order to maintain the combat suite technology based on the local industry in anticipation of the Corvette programme being revived".*  
15

You see, the separate parts are starting to make sense now. We've been struggling to appreciate the separate parts, now we  
20 are dealing with the combat suite technology and the local industry, but before we go to this paragraph the other critics will say what actually occurred was not even a deferment, they say there was a media furore around that time, there was also resistance from the African National Congress MP's and  
25 student protests during that time, remember that's what the

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critics are saying. Now as a result of that they say the Corvette Sitron Project was placed on hold until the Defence Review was completed, do you know about that?

MR SMITH: I've read what the critics said Chair, yes.

5 ADV LEBALA: That's one thing what you have read, I would like to know as to whether were you alive to the fact that during that time a lot of media furore, a lot was written in the media about the resistance from some of the African National Congress MP's. Remember the African National Congress is  
10 the government I suppose, the MP's relate to their role in Parliament and there were student protests during that period and short of saying the critics are saying it was not deferred actually because of the pressure that was put on the whole process, the Corvette/frigate Sitron project was placed on hold.

15 MR SMITH: Chair, I can't comment on what were the reasons for the project going into deferment or on hold as the advocate has said, there is no doubt that from early 1990's through into 1995 the project enjoyed a high profile in the media and in the public domain, it was one of the only projects  
20 that was really active at the time and it did enjoy a lot of debate and discussion in the newspapers *et cetera*, so yes, I concur, there was a lot of discussion around it, there was a lot of in the public domain but I don't have, I'm not privy to why the authorities made the decision to defer or to put it as stated  
25 here, put the project on hold, I am not privy to why that

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decision was made, it may be at a political level.

ADV LEBALA: But you were the programme manager as at that time, am I right?

MR SMITH: That's correct Chair.

5 ADV LEBALA: And you remember we asked you to simplify in your own terms what the programme manager means, I remember the themes, the important themes of what you said, you said the programme manager according to you is a coordinator, am I right?

10 MR SMITH: As the coordinator of the acquisition activities that take place Chair, yes.

ADV LEBALA: Short of saying the programme manager plays a significant role in the project isn't it?

MR SMITH: That's correct Chair.

15 ADV LEBALA: Now all these details when they were happening around you, I know that you keep on informing and advising the Commission that you would read about the, you would hear about them, were you not receiving first-hand information in as far as they were concerned?

20 MR SMITH: No Chair, I was not receiving that information from the top as to why decisions were made, political, positive, negative, we had an acquisition process we were following and we were keeping to that acquisition process and anything beyond that would be you know, in the realm of  
25 speculation on my part.

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ADV LEBALA: Well, this could be left for argument at a later stage, but please explain this coincidence, the country is going through a transition in 1994 to 1995, a new government comes in, a process has started in 1993 to 19995 t acquire  
5 Corvette's/frigates, a very important process, costly, the Naval officers told us about the processes involved, the Staff Requirements, the costs, how important it was, very critically important and the programme manager does not get first-hand information around it. How is that, won't you explain?

10 MR SMITH: I can only explain that and say that it's normally the case, it's not a situation where the programme manager is involved in certain, you heard in Mr Griesel's testimony, were involved in certain fora, in certain levels. Beyond a certain level the programme manager is not involved  
15 in authorisation committees or the higher level committees and discussion for a that take place, so yes, I would be told that what decision had been made, but as to why, what the discussion was around that decision at a higher level I was not privy to that, I wasn't in those for a or in that situation and  
20 that's the process, that's the normal acquisition process.

ADV LEBALA: My last question on this is from the information that you gathered as a programme manager I'm going to use what you are using in your statement that the project was deferred, why was it deferred bearing in mind what  
25 the critics are saying. Now in your view or from your

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information and knowledge that you acquired during that time why was it deferred?

MR SMITH: Chair as I have stated in 2.2, as far as I can recall it was deferred because there was a whole process  
5 of the Defence Review and the Defence White Paper that needed to take place within the new dispensation, so things were put on hold until these processes were compacted and concluded and that's as far as my recollection goes.

ADV LEBALA: Are you saying that excludes what the  
10 critics say? I note that you are rehashing what you are saying in your statement and we've put it to you what the critics are saying, you still stand firm that irrespective of what you heard during that time, the newspaper clippings that you have read, the information that came to your knowledge in line with what  
15 the critics say, it does not carry weight, what you know it was deferred based on what you say in your statement?

MR SMITH: What I can recall is what I say in my statement. Obviously being the programme manager involved  
20 in a particular project I'm interested in anything that is said about my project in the newspaper or else, or otherwise, so I would, I am aware of everything that was said but as far as the process goes, as far as I'm aware the, and can recall, the project was deferred pending the outcome of the Defence Review and the Defence White Paper.

25 ADV LEBALA: The beauty of all this is that the SDPP

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starting as early as 1993 to 1995 to the real SDP process and programme starting 1997 to date, to the date of acquisition of the last product that was acquired has been a phase of programmes, you agree isn't it?

5 MR SMITH: Yes, it's been a ... As far as the Corvette project is concerned, I'm sure some of the other projects as well, we had already gone a way into these projects. As far as myself is concerned the SDPP brought in a new, start of a new process if you will, around those elements that were going to  
10 be included in the SDPP.

ADV LEBALA: Now as we are going through these phases of progress, the developments that were surrounding them, your role as a programme manager to date, to date, as you are standing there, what the critics say, what you have stated in  
15 the, in your statement, are you willing to add to what you say in your statement in line with what the critics are saying?

MR SMITH: No Chair, I can only put in the statement what I can recall that I was involved in or have knowledge of personally and I wouldn't change this statement, it's a recent  
20 statement, that is where I stand.

ADV LEBALA: We note, fair enough, that you are telling us about what you recall, let's put it aside. I'm talking, put your cap on what you know today, bearing in mind that some of these details as the phase of programme was unfolding, Project  
25 Sitron was a process, (indistinct), as it was unfolding the

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realisations that came to your attention, what you discovered, what you learnt, the newspaper cuttings, the information that came to you, what you recall today as you are standing before the Commission in line with what the critics are saying, does it refresh you that there could be other reasons that made the process to be deferred, using your words?

CHAIRPERSON: I'm sorry Advocate Lebala, you know with this last question you lost me, I couldn't quite understand the question. And then secondly would it not be much better if the witness finishes his evidence and from there you know, only then tribute and move to what the critics are saying? It's just a suggestion, because then I'm getting a bit lost now with the question.

ADV LEBALA: Fair enough Chair, we'll do it that way, actually it simplifies things, very refreshing. Let's soldier on. Paragraph 2.4, we are still on the history:

*"During 1996 ...".*

Page 3 Commissioner Musi, Chair:

*"During 1996 and 1997 it became evident that the capability to integrate the complete vessel and more significantly a modern combat suite did not exist to a sufficient extent in the local industry"*

I think you have explained that, that's why we started with different parts.

*"The envisaged Programme contracting model was*

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*changed to a single main contractor responsible for the complete vessel”.*

This one I would like you to explain.

MR SMITH: F Chair as I said earlier, prior to 1995 we  
5 were going to tackle this project in that we were going to  
acquire ship platforms and then we were going to, we had  
projects or contracts in place on local industry to provide the  
combat suite elements and we ourselves, ARMSCOR and the  
Navy and with the support of industry we were going to  
10 integrate these into a vessel. As I've said here as time went  
on the size of the task and the complexity of the task became  
more and more evident to us, so when we got to this situation  
of the SDPP in 1996/1997, thereabouts, we realised that this  
would entail quite a big risk, this integration aspect, trying to  
15 do it ourselves.

So, at that stage we decided to change our  
approach which was one of therefore contracting a vessel  
contractor, contracting someone at the vessel level, take full  
responsibility for the integration of the platform and the combat  
20 suite elements and therefore to provide a total operational  
vessel.

ADV LEBALA: Was it a realisation during that time that  
there was lack of local capacity to produce a modern combat  
suite?

25 MR SMITH: Yes Chair, there was, as we went along it

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became more and more evident to us that the size of the task and the complexity of the task that the ... It went around capability as opposed to capacity, a capability. It was something new, it was something that we had not done before, so that was the time that we decided to switch and to reduce our risk and then to contract the vessel (indistinct).

ADV LEBALA: Paragraph 2.5 is very precise and clear, it's what has been testified to going into the SDPP's. 2.7 still emphasises this component hardware parts of the vessel, let me take the liberty to read it to you:

*"When the Corvette Programme was resumed in 1997 offers for the complete vessels, excluding the Maritime Helicopters were solicited and the local Combat Suite equipment/capabilities and companies were specified by the South African Navy as 'nominated' systems".*

Would you like to simplify this? Perhaps we could start here, when the Corvette programme was resumed in 1997 offers for the complete vessels, excluding the Maritime Helicopters were solicited, explain.

MR SMITH: Yes Chair, as at ... So, when we went out on RFO, and it will become clearer later, although the RFO was for the complete vessel the, at that stage of the RFO the combat suite, the amount allocated for the combat suite was set. The variable therefore, and in a broad sense at that point

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was the ship platform because the combat suite was set the same for each of the offers by ourselves, it was set by the Navy, in fact it was the same. And then just to go further in that paragraph what the Navy actually did was that they identified and in one of their applicable documents there is this, the actual local companies and the equipment that those companies would provide to form part of the combat suite and that's, I borrowed one of their words "nominated", they actually then nominated if you will the local combat suite systems and the companies who would provide those systems.

ADV LEBALA: Let's proceed, 2.7 page 3:

*'Local development and funding of the combat suite continued until the Vessel Contract Baseline ("VCBL") was established'.*

You have testified that one way or the other the benefits that had to be enjoyed by the local industry were reserved, priority had to be given to assist the local industry to function in as far as the combat suite is concerned, but the platform had to be done by an overseas company, that has become clear, but we still see local development interest and the funding of the combat suite still being secured in the vessel contract baseline, I mean we know now that the (indistinct) of the contract vessel baseline, use your own words what does it mean, we heard a lot from Mr Vermeulen what it entails, but in your own words summarise it.

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MR SMITH: Chair, as we were going out the project was deferred in 1995 and we were given authorisation to carry on through with the development of the combat suite, the local combat suite elements, and the primary reason there is because if those companies needed funding to carry on surviving they couldn't just exist without us continuing on funding them and developing the combat suite, so there was a technology project which will probably be touched upon by my colleague Mr Nortjé, but there was a technology project, Project Suvecs which was, it started up in about 1994/1995 so that the combat suite element could stay alive if you will, the local combat suite element could stay alive pending the decision, eventual decision on the ship platform, so as the RFO's went out and as I said earlier mainly at, primarily addressing the ship platform the combat suite funding and development carried on in parallel.

Once the decision was made of the preferred contractor based on the ship platform we then negotiated for the incorporation of the local combat suite or the combat suite into the ship platform to form a vessel which then led us to a vessel contract baseline, so that's in layman's terms or in short terms the process that we followed.

ADV LEBALA: In actual fact Mr Vermeulen simplified it for us, let me hear your opinion on it, but when you look at the contract baseline you are looking at the contract and conditions

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in the life cycle of the Corvette. Now that includes the specifications, the industrial participation and all those negotiations up until this product that is produced, am I right?

MR SMITH: That's correct, but you've just got to add  
5 that the, at the point of the selection of the preferred contractor the combat suite was still in the, had to still be negotiated into the contract baseline, there's a variation, that wasn't part of, Wills didn't follow or the submarine programme didn't follow that and quite correctly all the other terms and  
10 conditions also had to be confirmed and ratified to form the vessel contract baseline.

ADV LEBALA: In line with those contract and conditions we are reading on page 4 at the top, paragraph 2.7:

15 *"The incorporation of the combat suite element onto the Vessel Contract Baseline ("VCBL") was therefore subject to negotiations post identification of the preferred bidder to the ship platform".*

I think that has been explained.

MR SMITH: Yes, that's correct Chair.

20 ADV LEBALA: Do you want to add to it?

MR SMITH: No Chair.

ADV LEBALA: Now we come to real nub of your  
testimony, the Request for Information. You see, the background has made us to twist and turn, huff and puff, it was  
25 leading us to where we start to really refer to what happened

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when we produced this product, the frigates, these four frigates, what happened, where we started, how we weaved and how we've compared them, how we eliminated, what value systems did you apply, there we start, Request for Information.

5 Now you want to add? You have already laid a foundation ...

CHAIRPERSON: Advocate Lebala, shouldn't you perhaps deal with the RFI just after lunch?

ADV LEBALA: Thank you Chair, thank you.

CHAIRPERSON: Would you mind to deal with the issue after  
10 lunch?

ADV LEBALA: Chair, I was unaware that we've gone past the time and I apologise. Thank you.

CHAIRPERSON: We'll adjourn until 14h00.

**(Commission adjourns)**

15 **(Commission resumes)**

CHAIRPERSON: Can the witness confirm that he is still under oath?

MR SMITH: I do.

CHAIRPERSON: Thank you.

20 ADV LEBALA: Thank you Chair, Commissioner Musi. Before adjournment we traversed your testimony in as far as you explaining the acquisition process of the frigates up to a point where the contract baseline has been drawn and we are now starting with the process of making requests and we are on  
25 page 4 of your, of the index and paginated documents, your

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sworn statement paragraph 3.1, and may I read it to you:

*“When the project recommenced in September 1997 under the auspices of the SDPP initiative, ARMSCOR issued a Request for Information (“RFI”) to at least 7 (seven) embassy offices”.*

Let’s pause there. Am I right to equate Request for Information as an invite?

MR SMITH: I think one would caution slightly against the invite because sometimes an invite has got a, when it is used in this context has got a stronger meaning to it, it almost equates to a Request for Proposal offer. This is a Request for Information, just it’s a market survey, please just give us information so that we can see where we are at, it’s just information.

ADV LEBALA: Thank you Mr Smith, I’ll caution myself because in one instance I wanted to equate Request for Information to invites, I’ll desist from that. Now:

*“ARMSCOR issued a Request for Information (“RFI”) to at least 7 (seven) embassy offices. An extract of the RFI is attached hereto marked Annexure ‘BS2’”.*

Let’s quickly run through pages 11 to 18 of your statement, we’ll be quick. Chairperson, Commissioner Musi, let’s start on page 11 Annexure “BS2” of the statement bundle. Now I would like you to identify this document by looking to the right, what do you read to the right at the top? Please identify in relation

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to what you read to the right on page 11 at the top, which company's document is it?

MR SMITH: This is Director General Economic Affairs Federal Foreign Office, BONN, Germany.

5 ADV LEBALA: Okay, you are reading to the left. Please read to the right.

MR SMITH: Oh, to the right?

ADV LEBALA: Yes. Let's start at the right, just identify whose document is it, the letterhead of the document to your  
10 right?

MR SMITH: It's a Strategic Defence Alliance and the enquiries go to Mr R F Haywood. Sorry Chair.

ADV LEBALA: Okay let's pause, let's pause, let's pause. Let me direct you to where I would like you to read. Before you  
15 even read to those enquiries, at the top, the letterhead to your right under just below the number 000681 what do you see?

MR SMITH: ARMSCOR letterhead.

ADV LEBALA: Yes, to whom does the document belong to?

20 MR SMITH: It belongs to ARMSCOR.

ADV LEBALA: Now I would like you to identify who is the writer of this document at the bottom?

MR SMITH: Mr R F Haywood, Executive Chairman.

ADV LEBALA: He is the executive chairman of which  
25 entity?

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AMR SMITH: ARMSCOR.

ADV LEBALA: Now we know that this document is written on ARMSCOR letterhead, directed by the Executive Chairman of ARMSCOR, so do you agree that this is ARMSCOR's document?

5 MR SMITH: I agree Chair.

ADV LEBALA: Let's look at the date right below those letterhead, please identify the date.

MR SMITH: 23<sup>rd</sup> of September 1997.

10 ADV LEBALA: And I would like you to read the theme of the document under "Dear Sir", what does the heading say under "Dear Sir"?

MR SMITH: Heading is "Strategic Defence Alliance".

ADV LEBALA: Now read for the record the first paragraph: "Attached ...", starting with "Attached ...".

15 MR SMITH: *"Attached please find a copy of a letter from the Minister of Defence, stating the requirements for a response to the listed Defence hardware".*

ADV LEBALA: I'll read paragraph 2:

20 *"In addition to the above please note that the process applicable to the response is attached hereto as Appendix 'A' and the applicable documentation attached as Appendix 'B'".*

That's just formalities. Please read the last paragraph.

25 MR SMITH: *"We look forward to your response, and*

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*remain. Yours Sincerely”.*

ADV LEBALA: Now to the left where you started reading you will see that this document is directed to a country, can you see?

5 MR SMITH: I can see Chair.

ADV LEBALA: Which country is it?

MR SMITH: Germany.

ADV LEBALA: Now go to page 12. Just identify to the left, because the content is similar, do you agree?

10 MR SMITH: I agree Chair.

ADV LEBALA: The country to which this document is directed to is?

MR SMITH: Spain.

15 ADV LEBALA: Now up to so far two requests for information have been sent to two countries, Germany and Spain, and page 13, please identify to which country is it sent to, the content is similar, am I right?

MR SMITH: Correct Chair, and it's addressed to Italy.

20 ADV LEBALA: Page 14, page 15, page 16, page 17 and page 18, the contents are similar, just identify the countries for the record, let's start on page 15.

MR SMITH: Page?

ADV LEBALA: 15.

MR SMITH: 15 is Canada.

25 ADV LEBALA: Page 16?

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MR SMITH: Sweden.

ADV LEBALA: Page 17?

MR SMITH: France.

ADV LEBALA: Page 18?

5 MR SMITH: Brazil.

ADV LEBALA: Now we note it's approximately seven or eight, we could count them just to clarify for the record, are they seven or eight, starting on page 11 to page 18, I read them to be eight, not seven, please correct me.

10 MR SMITH: Chair, there are eight. We did not read number 14, page 14 which was addressed to the UK.

ADV LEBALA: Thank you. Let's complete the picture, I would like you to look at page 19. Now what we've seen from page 11 to page 18 is letters addressed to particular countries and we know that the letter has been addressed on the letterhead of ARMSCOR to different countries, but accompanying those letters is a letter from the Minister of Defence in as far as the contents of the letters that we have read from page 11 to 18 is concerned, do you agree?

20 MR SMITH: I agree Chair.

ADV LEBALA: Please recognise and identify the document on page 19. Please start at the top, start at the top, identify the heading of the document for the record.

25 MR SMITH: "Armaments Corporation of South Africa Ltd. (ARMSCOR), Request for Information".

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ADV LEBALA: Now below that is "Request for Information". What's the relationship between this document and the letters that you have read from page 11 to page 18?

5 MR SMITH: This is Appendix 'A' to the letter that was quoted earlier.

ADV LEBALA: Thank you. And the reference number, mention the closing date for the record that you see below.

MR SMITH: The reference number is ERFI/97/1047 closing at 11h00 on 31<sup>st</sup> of October 1997.

10 ADV LEBALA: In actual fact what is more significant and important is the closing date, and below that who is it addressed to?

MR SMITH: Addressed The Manager Procurement Secretariat ARMSCOR.

15 ADV LEBALA: Now how important was The Manager Procurement Secretariat of ARMSCOR as at that stage?

MR SMITH: The Secretariat operates a tender box, I think that's the important part here and as at the bottom of that page says that:

20 *"All submissions must be delivered to the above address by the closing hour, South African time, ...">*

Into the tender box of ARMSCOR.

25 ADV LEBALA: Now let's look at page 20. Identify the document at the top, it's headed?

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MR SMITH: It's a Memorandum.

ADV LEBALA: And it's dated, please for the record?

MR SMITH: It's dated the 25<sup>th</sup> of September 1997.

ADV LEBALA: And to whom is it addressed to and from  
5 whom, look to your left.

MR SMITH: It's addressed to, it's an internal  
memorandum, it's addressed to the distribution list, André  
Kock, Roelof Blignaut, André Louw and myself Byrall Smith.

ADV LEBALA: And from whom?

10 MR SMITH: It's signed by Mr K P Hanafey, the Senior  
Manager Maritime Division.

ADV LEBALA: Now let's read the content and I'll read it  
to complete the picture:

15 *"Attached please find one (1) full copy of the letter  
from the Minister of Defence and seven (7) and  
seven (7) copies of the front letterheads, for your  
information".*

Are they eight or seven? I suppose that they are eight, I think  
that has become common cause, there would be eight, let's not  
20 waste time on it. You will appreciate why we are going through  
this because there are interested parties who read the record  
and they can't be here, so they would like to appreciate the  
correlation between your testimony and the documents that you  
are talking to. Now page 21 is the letter from the Minister of  
25 Defence, we have read it earlier, we are going to take one

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letter which is an example because the following letters go into different embassies of countries are similar in content, context and form. Now please identify the letterhead on page 21.

MR SMITH: Ministry of Defence South Africa.

5 ADV LEBALA: Look at the date to your right.

MR SMITH: 23<sup>rd</sup> of September 1997.

ADV LEBALA: To whom is it addressed to, to your left?

MR SMITH: In this instance it's addressed to the High Commission of Canada.

10 ADV LEBALA: Now I'm going to read paragraph 1. I know that we have gone through this during the testimony of Mr Vermeulen, the content is the same but let's complete the picture:

15 *"1. In response to presentations made and proposals received on a Strategic Defence Alliance, herewith a response to such and an overview of the way forward".*

Please read paragraph 2.

20 MR SMITH: *"2. Numerous products have been offered to the Ministry of Defence for consideration in response to the SANDF equipment requirements".*

ADV LEBALA: Paragraph 3:  
25 *"We are, as you are aware, wanting to produce [sic] a number of key products in our Government-to-Government procurement arrangement".*

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Now does that relate to the SDPP?

MR SMITH: That's correct Chair.

ADV LEBALA: Let me complete:

*"The full product range comprises of the following:*

- 5                   • *Corvette's (including the Maritime Patrol Helicopter)".*

Please read the next one.

MR SMITH: *"Light Utility Helicopters".*

ADV LEBALA: *"Main Battle Tanks".*

10 MR SMITH: *"Submarines".*

ADV LEBALA: *"Light Fighter Aircraft".* In as far as you are concerned you were involved in which items from the five that we've read?

15 MR SMITH: Chair, I was involved in the first item, *Corvette's (including the Maritime Patrol Helicopter)".*

ADV LEBALA: Let's go to the next page, 22. Please read the first sentence at the top.

20 MR SMITH: *"The technical details of the hardware element requirements are available through ARMSCOR".*

ADV LEBALA: Why ARMSCOR?

MR SMITH: We are normally the organisation who submit tenders *et cetera* and Request for Information to industry.

25 ADV LEBALA: Thank you. Next paragraph:

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*“Please tender for all or some of the hardware elements as listed above, on a combined and individual basis”.*

Is that a Request for Information or an invite?

5 MR SMITH: The terminology used here is “please tender for all or some of the listed above” when in fact the, as we read earlier this is part of a Request for Information.

ADV LEBALA: Thank you. Paragraph 4, please read.

10 CHAIRPERSON: I’m sorry Advocate Lebala, just for my own understanding what should one understand when it says that: “Please tender for all or some of the hardware elements as listed above on a combined and individual basis”, does “individual basis” mean that they must tender for item by item or how should one understand that to mean?

15 MR SMITH: Chair, thank you. Having not compiled this I can only say how I would interpret that is that you could put in information on any, on all the items listed in the letter or you can provide information. If you’ve just got information on one particular item that you are wanting to participate in and  
20 you just provide that information on that one item. That’s the way I would interpret it Chair.

ADV LEBALA: Chairperson, is there an incremental question thereto?

25 CHAIRPERSON: Yes, let me follow up. You know for instance let me give an example, when they talk about

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Corvette's, is one expected to give a price of one Corvette or four Corvette's because I know that you know (indistinct) of equipment, for instance like Corvette's. Was one expected to give a price for one Corvette or can one only say that for the  
5 four Corvette's this will be our asking price?

MR SMITH: Chair, thank you. I don't have further information on the request, on the contents of this Request for Information but I assume based on the project, and I'm only talking here about the Corvette project, the frigate project  
10 because we consistently, and it would have happened in this case, only asked for four, there was, and you will, and if we go into the detail there was an option of a fifth, but I'm not, I can't answer that categorically, so I don't have information about the other maybe information that went with this Request  
15 for Information. I don't know if it asked specifically for four Corvette's or not. I'm sorry, I can't answer that question  
Chair.

ADV LEBALA: Just for the sake of clarity with regard to this important question which has been raised by the  
20 chairperson, what does the expression "Strategic Defence Procurement Package" mean in relation to the question raised by the chairperson in the context of the sentence?

MR SMITH: Well Chair, as you see before you, if they can go to another item, there's nothing other than these  
25 documents in front of you which indicates how many

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submarines there are for instance that were quoted or Light Utility Helicopters. I can only assume that there must have been something else that gave the numbers for these items but unfortunately I don't, I can't point you to that.

5 ADV LEBALA: Fair enough. Let's go to paragraph 4, please read it.

MR SMITH: *"In order to ensure that decision making can be effected on a sound basis, the following aspects are highlighted for your consideration and response per project and/or hardware element".*

ADV LEBALA: Please read paragraph 4.1.

MR SMITH: Paragraph 4.1:  
*"Substantive information is required in order to evaluate the offers and concepts provided".*

15 ADV LEBALA: Continue to 4.2.

MR SMITH: 4.2:  
*"Functional performance parameter must be presented in line with the stated requirements".*

ADV LEBALA: Now does 4.2 assist in the value system because there you are going into weights and parameters, am I right?

MR SMITH: That's correct Chair.

ADV LEBALA: 4.3.

MR SMITH: *"Life cycle costing, broken down into its constituent elements must be presented in line with*

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*the stated requirements”.*

ADV LEBALA: Finance and costing, have they always played a significant role throughout from the RFI stage to the completion?

5 MR SMITH: Correct Chair.

ADV LEBALA: 4.4:

*“Financial considerations per hardware element”.*

There comes the issue of finance. 4.5:

10 *“Cash-flow requirements before financing, considered ...”.*

CHAIRPERSON: I’m sorry Advocate Lebala, can you just explain to me what 4.4 means. It says:

*“Financial consideration per hardware element”.*

15 What does “per hardware element” mean? I’m sorry, before you answer that you will see that the same term appears again at 4.8. Maybe when you answer you can keep in mind what is contained in 4.8 at the bottom of this page.

20 MR SMITH: Chair, I’m trying to interpret this letter which is compiled by another organisation Ministry of Defence, and if I look at 4.8 where it reads:

*“Kindly indicate whether a pricing preference is applicable for a combination of hardware elements and present such in addition to the individual hardware elements as requested”.*

25 Going back to your earlier question Chair my first

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interpretation of that would be that under paragraph 3 that that list could be interpreted as hardware elements, in other words each one is a hardware element in its own right and then the combination might be a combine of that, however, you could  
5 also interpret it as for instance Light Utility Helicopters could be the individual cost per helicopter and the combined being the total of ..., I'm not a hundred percent sure Chair.

ADV LEBALA: I wonder whether we could assist with this important question that has been raised by the Commission.  
10 Go to page 21. Would the elements include what you see in:

*"The full product range comprises of the following'  
...".*

Those five hardware and the component parts of them.

MR SMITH: Yes, as I mentioned to the chair my first  
15 take would have been to consider each one of those lines as an element and then any combination as an individual element and any combination would be a combination of the elements, but that's open to interpretation based on what is in the letter here, it's not a hundred percent clear Chair.

20 ADV LEBALA: Any incremental question Chair, Commissioner Musi? Thank you, thank you Chair. 4.6:

*"Financing options, conditions and prescripts per project and/or hardware element".*

I think it has been clarified, finance plays a significant role.  
25 4.7, please read it.

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MR SMITH: 4.7:

*“A statement of compliance with the requirements of the Industrial Participation policy in support of the Government national objectives, including the Defence Industrial Participation programmes”.*

5

ADV LEBALA: Is that where we talk about the NIP element and the DIP element, am I right?

MR SMITH: That’s correct Chair.

ADV LEBALA: When we take you through the RFO we’ll see that this is incorporated in the RFO, am I right?

10

MR SMITH: That’s correct Chair.

ADV LEBALA: 4.8 please read it.

MR SMITH: 4.8:

*“Kindly indicate whether a pricing preference is applicable for a combination of the hardware elements and present in addition to the individual hardware elements as requested”.*

15

Or:

*“... present such in addition to the hardware elements as requested”.*

20

ADV LEBALA: Now would you agree with me if I were to say price, cost, finance played a significant role in as far as the SDPP’s are concerned as early as the Request for Information stage?

25

MR SMITH: Price played a significant role throughout

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the process, yes.

ADV LEBALA: Of course that includes industrial participation, NIP element and DIP element.

MR SMITH: That's correct Chair.

5 ADV LEBALA: 4.9 on page 23:

*"Please note that there is a strong incentive for the participating governments and industries to consider the suspension of repayments on interest or capital or both, until the year 2001".*

10 Do you want to explain that? Is it an incentive?

MR SMITH: It would appear that from the statement that a, it's indicating that they should consider the suspension of payments, they are putting the incentive forward on interest as well as capital on 2001.

15 ADV LEBALA: Okay, then if it's an incentive what does it seek to achieve in your words?

MR SMITH: It seeks to achieve, I'm assuming Mr Chair it seeks to achieve, well as it's stated there payments later in the term.

20 ADV LEBALA: With a view to achieve?

MR SMITH: To achieve probably a better cash-flow and some benefit, cost benefit.

ADV LEBALA: Thank you. Paragraph 5:

25 *"A response to the above on or before 11h00 on the 31<sup>st</sup> of October 1997 is required".*

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That has been dealt with. Paragraph 6, please read it.

MR SMITH: Paragraph 6:

*“In consideration of the above, the status of the individual projects and the time available to prepare these proposals and presentations, kindly note that the response is required in the typical Request for Information format”.*

5

ADV LEBALA: Is there a relationship between paragraph 6 mentioning the status of individual projects and what the chair enquired about in as far as individual hardware elements in 4.8 and 4.6 are concerned, individual projects and individual hardware elements?

10

MR SMITH: Yes, yes Chair, you could then relate the individual projects as being individual elements as stated in paragraph 3.

15

ADV LEBALA: Thank you. And who is the scribe of this letter at the bottom?

MR SMITH: Chair, it's the Minister J Modise, Minister of Defence.

20

ADV LEBALA: Now for the sake of completeness the same letter was sent to which country as depicted on page 24?

MR SMITH: Sweden.

ADV LEBALA: Please take the Commission through the following pages 25, 26, 27 and 28.

25

MR SMITH: 25 Chair, went to Brazil. 26 went to Italy.

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27 went to Germany. 28 went to Britain, 29 went to Spain, 30 went to France and that's the end Chair.

ADV LEBALA: Let's recapitulate, let's go back a bit, you remember we referred you to the phase of programme to use  
5 what you say in your statement, I'm talking about the 1995 process that was deferred, do you remember?

MR SMITH: I remember Chair.

ADV LEBALA: Some of the countries that Request for Information was directed to were the self-same countries that  
10 also submitted their Request for Information in 1995, am I right?

MR SMITH: That is correct Chair.

ADV LEBALA: To be specific France on page 30 during 1995 they did submit, is that correct?

15 MR SMITH: Chair, which page are we now?

ADV LEBALA: Page 30, France. We start at the back and go forward.

MR SMITH: Yes, correct.

ADV LEBALA: Page 29, Spain?

20 MR SMITH: Spain is also there, it's correct Chair.

ADV LEBALA: British, United Kingdom?

MR SMITH: That's correct Chair, they were involved previously.

ADV LEBALA: Was that through the Yarrow Shipbuilding  
25 Company, am I right?

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MR SMITH: Yes, this was, this letter is addressed to Britain, of course there are a number of shipyards and companies in Britain that can provide ships and in this particular case it would have gone to GSC Yarrow.

5 ADV LEBALA: Thank you. I was just asking as to are we refreshed that during 1995 that process, Yarrow Shipbuilding Yard was the company that also sent requests for information during that time, that's all I'm trying to establish and to refresh you.

10 MR SMITH: That's correct.

ADV LEBALA: Germany?

MR SMITH: Correct.

ADV LEBALA: Now as at that stage in 1995 was it the self-same German Frigate Consortium?

15 MR SMITH: Chair, just the terminology of German Frigate Consortium may not have been the case prior to 1995, I'm not sure, it could have been to the Shipyard Blohm & Voss prior to 1995 and not to the German Frigate Consortium, so I'm not quite sure when the consortium was formed, but Blohm &  
20 Voss yes.

ADV LEBALA: Thanks for the clarity. Italy, 26?

MR SMITH: Correct Chair.

ADV LEBALA: Brazil?

MR SMITH: Correct, Chair.

25 ADV LEBALA: Is your memory well refreshed that even

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during 1995 Brazil did send a Request for Information?

MR SMITH: I was just about to correct myself Chair. I can't recall, I don't think, or I'm not sure but Brazil did not request, did not receive prior to 1995 a Request for Information.

5

ADV LEBALA: I think I should correct myself for the record, I ought to have said are we refreshed as to whether a Request for Information was sent to the country Brazil during 1995 as depicted on page 25 that you have responded to that? Come again, just to summarise, what was your response?

10

MR SMITH: I'm almost sure that Brazil did not receive a Request for Information prior to 1995.

ADV LEBALA: And on page 24, Sweden?

MR SMITH: I don't recall Sweden having received a Request for Information prior to 1995.

15

ADV LEBALA: Well, just to refresh you the critics do say that Sweden was one of the countries that was sent Request for Information in 1995. In actual fact let's correct ourselves, I'm confusing Denmark and Sweden, it was not Sweden, in 1995 it was Denmark, may the record reflect, and I stand corrected Mr Smith, it was Denmark, not Sweden.

20

MR SMITH: That's correct Chair, Denmark did receive a request for information prior to 1995.

ADV LEBALA: Now we have summarised the countries that we know were a common denominator between 1995 and

25

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the SDPP's post-1997, am I right?

MR SMITH: That's correct Chair.

ADV LEBALA: Now let's look at paragraph 3.2:

5

*"The ARMSCOR Procurement Secretariat received expressions of interest from the defence industry players, specifically in respect of the Corvette platforms".*

10

Let's pause there. We've heard what Mr Vermeulen told us and we spent a lot of time, and I don't want us to repeat that, on him explaining to us the difference between the RFI and the RFO, the RFI Value System, the RFI Report, the RFO Value System, the RFO Report. Now the RFI during the SDPP had its own value system, am I right?

MR SMITH: That's correct Chair.

15

ADV LEBALA: Now please look at the Declassified bundle, there is a bundle called Declassified bundle. Chairperson, Commissioner Musi, we are going to the declassified bundle which I'm told is standing before you. I would like to draw your attention and to cast your eyes to page 20 12 and 13 of the Declassified bundle. Commissioners, kindly draw your attention and let us know when you have identified the bundle and the pages. The commissioners have identified the pages. Now please identify this document and I'm just going to simplify it by directly asking you to read the title of 25 the document itself, you see there on the self-same page

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there's a title page and the title, can you see?

MR SMITH: Chair, the title, the title is "Project Sitron: Corvette Military Value System".

ADV LEBALA: Please identify the date.

5 MR SMITH: The date is the 21<sup>st</sup> of October 1997.

ADV LEBALA: Please go to page 13. Read for the record who compiled this document?

MR SMITH: Compiled by J E G Kamerman, Project Officer, Project Sitron.

10 ADV LEBALA: And below that the responsible authority, please read for the record.

MR SMITH: Responsible authority A M Howell, Chief of Naval Staff Plans, Commodore.

15 ADV LEBALA: There's a common denominator above the date on both the approval portion and the responsible authority portion, can you see?

MR SMITH: I can see Chair, they were both compiled by, well they are both signed on the 21<sup>st</sup> of October 1997.

ADV LEBALA: And the approval?

20 MR SMITH: The approval is given by R G Simpson Anderson, Chief of SA Navy, Vice Admiral on the 21<sup>st</sup> of October 1997.

25 ADV LEBALA: Now of significance is what I would like you to read in (indistinct) under "Approval" on page 13 just above the signature of Rear Admiral Simpson Anderson, please

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read it for the record.

MR SMITH:           *"This document is authorised for issue as  
the Military Value System for the evaluation of  
international offers for the Patrol Corvette Vessel  
Element as solicited by the Minister of Defence on  
5 the 23<sup>rd</sup> of September 1997".*

ADV LEBALA:       We now know that in as far as the frigates  
process is concerned there was an RFI that was the initial  
phase and that RFI had its own value system. Now let's deal  
10 with the value system of the RFI's. Please go to page 15. Let  
me read the "Introduction" paragraph 1(a), page 15 of the  
Declassified bundle Commissioners:

*"The aim of the Patrol Corvette Military Value  
System is to enable the evaluation of international  
15 offers for the Patrol Corvette Vessel Element as  
solicited by the Minister of Defence on the  
23<sup>rd</sup> September 1997".*

That's the reason why we had to take the Commission through  
those letters written by the Minister and the RFI that was  
20 inviting various countries. Now (a):

*"In order to eliminate those offers that are militarily  
unacceptable to the SA Navy and;*

*(b) Achieve a relative figure of merit for the Military  
Value for each of the acceptable offers".*

25 Let's pause there. The importance of the RFI being used to

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eliminate is emphasised here once again, is that correct?

MR SMITH: That's correct Chair.

ADV LEBALA: But also in (b) the emphasis of the Military Value for each of the acceptable offers comes to the fore and that's where you played a role, am I right?

MR SMITH: Yes Chair, I played a role in terms of the Value System which is attached here as Appendix "B" to this document.

ADV LEBALA: But particularly in the area of Military Value that goes to the technical side of the evaluation, am I right?

MR SMITH: Correct Chair, if I can just correct what I said earlier I think it is Appendix "A" to this, it's Appendix "A" to this document.

ADV LEBALA: And we know that when you look at the Military Value we are not looking at the financial options, we are not looking at the industrial participation, the NIP and DIP Element, is that right?

MR SMITH: That's correct Chair.

ADV LEBALA: You are focusing on for instance the Corvette's performance, you are looking at the engineering side of it, you are looking at probably responses to the RFI itself, isn't it?

MR SMITH: That's correct Chair.

ADV LEBALA: Paragraph 2, "Scope" please read it.

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MR SMITH: Paragraph 2, "Scope":

5 *"Although it is expected that the offers for the Patrol Corvette Element will be made at the vessel level i.e. for complete ships including their combat suits, the combat suite element has been fully and identically specified and costed by the (indistinct) to all contenders. The scope of this value system is therefore primarily aimed at evaluating the offered ship platforms".*

10 ADV LEBALA: Now the Commission will start appreciating where we were struggling, huffing and puffing in explaining this distinction between the submarine and the Corvette frigate, the component parts. It's coming again, in simple terms I would like us to take it sentence by sentence if we can, "Scope":

15 *"Although it is expected that the offers for the Patrol Corvette Element would be made at the vessel level i.e. for complete ships including their combat suites, ...".*

Why is it important to separate it this way?

20 MR SMITH: It's important to separate it this way because we were looking for a breakdown of the costs and also to bring to the attention that they are going to take full responsibility for the full vessel, the complete vessel which includes not, not only the ship platform element but the combat  
25 suite as well and in fact later on you will see that we also

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highlighted that they must make sure that they made allowance for this responsibility as prime contractor at the vessel level.

ADV LEBALA: Let's finish:

5                   *"... that the combat suite element has been fully and identically specified and costed by the South African Navy to all contenders".*

What does that mean, was there a prescribed identified figure which was put in as far as the combat suite element is concerned?

10   MR SMITH:           There are two parts to this Chair in terms of the combat suite, the one part is the costed part, there was a fixed amount reserved for the combat suite, a ceiling amount, we will come to that later, but then there is also the identically specified, fully and identically specified, that refers to that the  
15   Navy had specified the local subsystems by company and by name as well, so it's on the technical side it was, the term we used earlier on was "nominated", they had identically specified for each of the contenders, before each of the contenders had exactly the same specification for the combat suite as well as a  
20   ceiling amount which they would include as a fixed item.

ADV LEBALA:           Now two important aspects come out from this paragraph or scope, one is there was a costed part in as far as the combat suite is concerned which was the ceiling amount, it means it was put in place, it was X-Rand, and the  
25   other part was that there was already identified local

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subsystems of particular companies by name which were going to provide the combat systems, combat suites.

MR SMITH: That's correct Chair.

ADV LEBALA: The last portion emphasises the importance of the Value System:

*"The scope of this Value System is therefore primarily aimed at evaluating the offered ship platforms".*

We know that the competition would be in as far as ship platforms are concerned because the combat suite, there's a static amount which is the ceiling and put in place.

MR SMITH: That's correct Chair.

ADV LEBALA: Let's go (indistinct) Derivation:

*"The description of the Value System ...".*

Without reading it, it appears that in as far as the RFI of the Corvette's/frigates are concerned there was a two-part build system, do you quickly want to summarise it without reading it, for instance if we look at page 15 Part A relates to the critical performance filter. If you go to page 16, B relates to the relative military performance evaluation. I just wanted to simplify to the Commission, I don't want us to spend time on it. Look at page 16, paragraph 8, there's a graphic representation of the Military Evaluation Process. Now is there a way in which you can use this graphic representation of the Military Evaluation process to explain this two-part Value System? Now

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we know that the RFI has a value system and that value system is two-part and with the value system at this stage we are looking at the technical side, we are not looking at finance, we are not looking at industrial participation, we are looking at the technical side. Now please simplify it.

MR SMITH: I'll attempt to do that Chair, noting of course this is a DoD document or an ARMSCOR document, however, if we look at the graphic at the top of the graphic there you will see "Corvette Offer", so the technical offer would come in plus the acquisition cost. It would then pass through a critical performance filter which is described under paragraph 4(a) and if it should pass the critical performance filter it would move to the relative performance evaluation.

Maybe just pause on the critical performance filter, if it should fail then it doesn't, isn't considered further, so if it passes the critical performance filter it would be move to the relative performance evaluation and it's noted there, there's a score and then when that raw score is obtained after the relative performance evaluation what then happens is that the price which comes from the offer which we brought together with the performance evaluation to give you a result which is figure of merit, which was also referred to in our documentation as military value. Just a bit more detail on that, that, typically that figure of merit is achieved by dividing the evaluated score, the raw evaluated score by the acquisition,

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total acquisition cost which would give you the figure of merit, which is the military value.

ADV LEBALA: Now I'm going to try to get us to simplify it. Look at paragraph 8, the graphic representation of the military evaluation process, remember we are looking at the technical side, we are not bothered about finance, we are not bothered about industrial participation, we are just looking at the technical of this Corvette. Now why are we talking about Corvette offer at this stage because we are talking about the RFI?

MR SMITH: Chair, I don't know. As I said this is a DoD document, it's not an ARMSCOR document, but I would maybe just comment on that. In all probability as you are aware this Project Sitron has a long history behind it and this document has probably already had its first draft prior to 1995 when it was considered to be used for a later evaluation, so it seems like they used the terminology "offer" here. For the purposes of this document at this stage that offer would then seem to, what was provided with the Request for Information.

ADV LEBALA: Now under the heading "Corvette Offer" we see price and technical parameters, are you with me?

MR SMITH: Sorry, which paragraph we are now?

ADV LEBALA: We are still on paragraph (a), "Graphic Representation of the Military Evaluation Process", I'm just trying to save time for us to go through what you see on page

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15 paragraph 4, page 16 paragraph 5, 6, 7, 8. I believe that we can only appreciate what is being said there if you go directly to this graphic representation on military evaluation process, that still confuses me and I hope it's not going to  
5 confuse the commissioners. Now we are looking at this graphic representation of the military evaluation process. We, you have told us that the RFI Value System is two-pronged, firstly you look at the critical performance filter and then you go to the relative performance evaluation, that we have heard, you  
10 have explained to us by way of examples what do you mean, but you've tried to explain to us why are we talking about the Corvette offer at this stage where you are talking about Request for Information.

MR SMITH: At this stage Chair as I said this is a DoD  
15 document which I'm just commenting on here, this is Request for Information content, so although budgetary prices for instance would be included in a Request for Information they are non-binding information, so in a sense to analyse or to obtain a figure of merit at this stage is, doesn't hold much  
20 water in the process, however, it was done here and the price that was obtained in the offer and by stamped, I must immediately say in the information provided by the RFI, so it's the RFI information, was used in this in terms of the terms that were given here as an offer, but in fact it's not an offer, it's a  
25 response to a Request for Information that was evaluated

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through this graphic.

ADV LEBALA: Now this graph tells us that we want to appreciate the outcome which is depicted by, and Chairperson and Commissioner Musi, we've been having tribulations with the stamps from the Defence Intelligence that's stamped on top of a large component part of the pages that we'll be taking through, even on this page. Now you will see at the bottom hidden by the "Defence Intelligence Declassified" to the left at the bottom is "Cost of Offer". Are you with me?

5  
10 MR SMITH: I am Chair.

ADV LEBALA: I want to see whether Commissioner Musi and Chairperson are with us, whether they see cost of offer to the left, it's between, it's on the left side of "FOM", Figure of Merit, to the right it's "Military Value", it's "FOM" and then it's "Cost of Offer". I see the chairperson is nodding and it seems that Commissioner Musi also sees it. Now let me understand, are you saying this process which is two-pronged of going through critical performance filter to the relative performance filter, performance evaluation helps us to go to the figure of merit which is the military value?

15  
20  
25 MR SMITH: In terms of what was done here yes, and I have to emphasise once again that we are still talking about RFI information, and the nature of RFI information which is budgetary, it is non-binding and so this was seemingly done by the Navy but it's based on information that is received from an

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RFI and I just want to maybe underline, so the term used  
“offer” in this diagram is not correct in shall we say acquisition  
terminology, that would only be really post-response to an  
RFO, Request for Offer, so although it’s used here I think we  
5 must just be circumspect with the use of the word “offer” at this  
stage of the process.

ADV LEBALA: Now what has become clear, and thanks  
for clarifying that, that the term “offer” confuses us because we  
are at a stage where we want to eliminate those offers that are  
10 not military unacceptable, but the other element that comes in  
here is because we want to achieve a relative figure of merit  
for the military value for each of the offers, we go through what  
you see on the graphic representation on paragraph 8, am I  
right?

15 MR SMITH: Right Chair, according to the graphic.

ADV LEBALA: Now paragraph 8 tells us that that process  
starts with the following; we look at the price to the left and  
remember we are still at the RFI, we are not at the RFO, we  
look at the price to the left and we also look at the technical  
20 parameters, the price we know it would be the cost, what that  
country, that shipyard is putting as a price, but give examples  
of technical parameters.

MR SMITH: Chair, examples of technical parameters  
would be the characteristics of the, that’s contained in the ship  
25 specification typically, it would be for instance speed, the

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turning circle of the ship, the standards which it must comply with. Appendix "A" contain all the so-called performance characteristics listed there plus the value system which was applicable. Maybe I should just add it if does clarify it seemed  
5 like the earlier, if you look under paragraph 1.a and "Offer (indistinct)", in terms of this document which, this process which was controlled by, and this document which was compiled by, and certainly the fund part by the DoD, they wanted a, they had a two part A. The one part was to eliminate, and once  
10 again they used the word "offers" which I think should, would confuse, maybe "responses" would be a better word, but are military unacceptable to the SA Navy, we are talking about Requests for Information here, and then they had a second objective, this is the DoD having the second objective, they  
15 wanted also to determine a figure of merit out of these responses.

So, in terms of that two-pronged objective, if you go back to the graphic on page 16 paragraph 8, this reflects their, those two objectives, the first objective being achieved by their  
20 critical performance filter to eliminate unacceptable to the navy responses to the RFI, to eliminate them and the second objective right in the front of their document was to determine a military value and that they achieved by the very last block, so that was their objective with this process or this document  
25 and that's reflected in this diagram.

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ADV LEBALA: I would like you to appreciate the following and I don't want us to waste time, I'm going to run through this. Ordinarily and ideally this is a process that happens at the RFO stage, am I right?

5 MR SMITH: Correct Chair.

ADV LEBALA: Why are they doing it at this stage and you've explained why the term "offer" which is out of place here, has been put in place, why is this process at the RFI being used to go through the same process at the RFO stage?

10 MR SMITH: Chair, I can only assume that this is, they've used exactly the same document in RFO so that already pre-seeing that they would have to go to an RFO evaluation and they are using the same throughout, but as I, and I would once again mention that in this context the offer is incorrect, this is  
15 response, it's RFI and there is, I can't see any value, to be honest with you Chair putting on my own cap in determining a military value because it did not affect any outcome at this point.

ADV LEBALA: Now let's go down, you have simplified it  
20 by telling us that the price which is the budget of that invited or company or country that has responded to the Request for Information is taken along the technical parameters of looking at the characteristics of the frigate/Corvette that they are offering, the speed, the turning cycle that you will show us that  
25 is encapsulated in Appendix "A" and from there we go to

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critical performance filter. Simplify it, what happens? We have looked at the price that the budget of this entity which is responding to the Request for Information is within the Cabinet ceiling, then we look at the technical parameters, we start to  
5 where it is characteristics, we realise that it is in place. Now comes the critical performance field. It goes when we are satisfied with the price and the technical parameters, am I right?

MR SMITH: Chair, the technical parameters I was  
10 asked a question as to give examples. The examples appear in the evaluation, if I can draw your attention if I may to Appendix "A" Part 1 which goes ...

ADV LEBALA: Page?

MR SMITH: Sorry, page 18 Chair which runs through  
15 until page 31. You will note that this is in titles, Appendix "A" on page 18 is entitled "A Naval Patrol Corvette Military Value System Part 1: Critical Performance Filter". It's the heading on page 18 if you put it into landscape view. Page 18. You will see that is the title there and you will see on the right hand  
20 column of that table is headed "Critical Requirements", there's characteristic, your sea-keeping as an example, the first one, description of what that would be, the criteria and then against that criteria the critical requirements and technical terms. Now this is repeated for all the characteristics for all four and there  
25 are a number of characteristics and that goes through until

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page 31, these critical requirements. These pages are Part 1, that's that first, that one block which is called "Critical Performance Filter" on page 16 of your bundle. So, the block from under the "Technical Parameters" you see "Critical Performance Filter", either failing or passing. These, all these critical requirements through all those pages are the measurements for the critical performance under that block, "Critical Performance" and if they should pass those filters, it's called a filter, they should pass all those requirements, then only will they move to a stage of the relative performance evaluation and if I may refer you to page 32 then which is of the bundle, Chair, so if you now passed, the particular response has passed this Part 1 which is what we have just talked about it would move to Part 2 which is now, it commences on page 32 which is called the "Corvette Military Value System Part 2", "Relative Performance Criteria, Weighting and Scaling", those that passed will then be subjected to this value system, evaluation which goes from page 32 through until page 42, thank you, and you will say there are 12 groups under each of these.

The last page, 42, is just for example page 42 a group which deals with timescale impact, there's a group weight of 5 and then it gives you a description and it gives you then what the criteria are for measurement on the far right hand side of that table, so these last pages are Part 2 and it's

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the evaluation. In summary then the critical performance filter we talked about would be, the response would have to go through that critical performance filter and then it would be evaluated, then only under Part 2.

5 ADV LEBALA: Now I would like to summarise what you are saying and please tell me whether you agree with me, because once we agree then we'll have simplified what we see in line with how this RFI in as far as the frigates are concerned is being evaluated. We start with the price which is not  
10 binding, it's the budget, to see whether this ship builder or country is offering an acceptable price within the ceiling budget, then we look at the technical parameters, the characteristics, we gave examples. Now at that stage we are focused on the criteria of the critical requirements that are  
15 captured in pages 18 to 31, that is Part 1, am I right?

MR SMITH: That's correct Chair.

ADV LEBALA: Then at that stage it would be determined as to whether this country, entity, ship builder is meeting this criteria, these critical requirements that are set out in Part 1.

20 MR SMITH: Correct Chair.

ADV LEBALA: If it does then we go to Part 2 where we are starting to deal with the weighting and the scaling, am I right?

MR SMITH: Correct, Chair.

25 ADV LEBALA: And Part 2 is where we deal with the

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“Relative Performance Evaluation”.

MR SMITH: That’s correct Chair.

ADV LEBALA: That’s what you see on pages 32 to page 42 and it’s divided into groups isn’t it?

5 MR SMITH: That’s correct Chair.

ADV LEBALA: Now quickly take the Commission through those groups, you can give examples, you can choose, but direct the commissioners to the pages, because what we know now is price at the top as RFI is very unique, it’s not like in the  
10 submarines, it’s more involved and we agreed that it’s more involved and we agreed that it’s quite confusing because it could be also equated to what we see when we are reading the RFO.

This process we agree that you only deal with it  
15 once you’ve eliminated but here in as far as the Corvette’s and the frigates are concerned they deal with it in the elimination stage. Price, budget, non-binding technical parameters. If you look at the criteria on the critical requirements, if this ship builder company satisfied then you look at Part 1 from page 18  
20 to 31, those criteria and critical requirements, you realise that the price is okay, the technical parameters are meeting, that’s the first part of the critical performance, then you go to Part 2 where you weigh and scale given what you have established in as far as the criteria and the critical requirements are  
25 concerned, page 32 to 42 and it’s divided into groups. Now

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give examples of those groups.

MR SMITH: Chair, I will just go through them, unfortunately as is mentioned earlier the stamping has sort of covered some of the titles, but going from page 32 Group 1 is  
5 headed "Sea-Keeping and Mobility" and it gives a group weight of 18, that goes over to page 33 as well and then on page 34 we see Group 2 which is headed "Design and Quality" with a group weight of 7.5. On the bottom of that same page partially obscured is Group 3, "The Growth Potential", the group weight  
10 of 6.5, over the page on page 7, on page 35 is Group 4 which is "Operability" with a group weight of 7.5.

Over the page again on page 6 is Group 5, "Survivability" with a group weight of 8.5 and then over the page on page 37 is Group 6 "Detectability", group weight 9.5.  
15 On page 38, there are two groups, there are Group 7 which is "The Combat Suite Interface and Effectiveness" with the group weight of 7.5 and then below that you will see Group 8 which is "Helicopter Operability", group weight of 9.

I'm going over the page, page 39 we have Group 9  
20 which is "Logistics Impact", group weight 18, and that carries over to page 40, in fact to 41 where we see Group 10 which are, which is "Machinery Systems", titled "Machinery Systems" with a group weight of 6, and then on the last page Group 11 is the "Accommodation, Habitability and Outfit", Group Weight 5,  
25 and then partially obscured is Group 12, titled "Time Scale

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Impact” and Group Weight 5.

ADV LEBALA: Now am I right to say that when you look at the weighting and the scaling, the 12 groups, you are looking at the frigate product itself, you are not looking at the engineering side remember, and I’m trying to reconcile with what we went through when you were looking at the submarines. You’ve got to appreciate why we started you with trying to draw a distinction between the submarines and the frigates. With the submarines we’re told that you look at the Integrated Logistics Systems, you were there, you look at the RFO, the engineering aspect and the product requirements of the submarine itself.

Now I’m trying to simplify it for ourselves and the Commission. When you look at these 12 groups what are you looking at, are you looking at the engineering aspect, are you looking at the frigate product itself, are you looking at the technical aspects because amongst the groups you see the combat suite, the helicopter operability, there’s a logistics impact, there is the machinery systems, there is a sea-keeping mobility. Simplify it for us.

MR SMITH: Chair, in those last groups that I went through in the evaluation, those all deal with the ship platform, those are all ship platform subjects or descriptives. The headings and the, when it talks about logistics impact it is the logistic impact surrounding the ship platform, to do with the

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ship platform. Similarly the two other examples that were mentioned a moment ago, logistics, that has to do with logistics with regards to the ship platform and it's one of those groups that are mentioned there and lastly the helicopter operability, 5 that has to do with, it's not to do with the helicopter per se, it has to do with the helicopters, the platform's ability to accommodate a helicopter. I hope that clarifies it a bit.

ADV LEBALA: Now we are not dealing with the combat suite, that has become clear.

10 MR SMITH: That's correct Chair.

ADV LEBALA: We are focusing on that hardware part, the ship platform, I think it has become clear but what are we looking at as far as the ship platform is concerned? Are we looking at the technical side of it, are we looking at the surface 15 operability of it, are we looking at the product operation of it? Remember I tried to explain something to you about the submarines or let me say are we looking at the Integrated Logistics Systems part of the ship platform, what are we looking at?

20 MR SMITH: Yes Chair, we're looking at the logistics of the ship platform, it's just one of the groups that we're addressing here. We didn't, as I said this is a more involved value system than what was used for the submarines and it's focusing on the ship platforms. I once again refer you to an 25 earlier comment that I made is that although this document aim

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by the Navy was twofold, the one is to eliminate responses which were unacceptable to them at this stage of the RFI and secondly their second name was to achieve a figure of merit but there is no, it doesn't play a role in the Request for  
5 Information, they purely did it but it's in fact, it doesn't contribute to the process, it didn't eliminate anybody, it didn't contribute to the shortlist, it was just a process that they went through at this stage of the RFI.

ADV LEBALA: Mr Smith, let me tell you why we've got to  
10 go through this struggle. I would like the Commission to appreciate the following; that in as far as the frigates are concerned the RFI stage was very involved, actually over-inclusively involved, as equally involved and they are going to see as the RFO and that there has to be an explanation, I leave  
15 it to you and it's going to be my next question, but let's pause here. We know the following; we are not dealing with the RFO but we are engaged in very weighty processes starting with the price, the technical parameters where we look at the criteria, the critical requirements, where we go to the weighting and the  
20 scaling and the commissioners, I'm certain that they are starting to appreciate that in as far as the submarines are concerned that was at the RFO stage and you did quality that you expect this to go at the RFO stage and then we go into groupings and you have told us that we are focused on the ship  
25 platform, going back to where we started demonstrating to the

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Commission that we've got to be careful how we handle the frigate, they are in two parts.

Now at this stage when we are gravitating towards the Military Value where you play a role you are looking at the ship platform in the context of its Integrated Logistics Systems as qualified by what we look at in Part 2, am I right?

MR SMITH: Correct Chair.

ADV LEBALA: Now we are arriving at the Figure of Merit, the Commission is starting to appreciate that the RFI is so involved and we are going to take them on this course of the RFI's, they appreciate, before you even go to the RFO. Now the FOM, the Figure of Merit which is a military value where you played a role, where you are not looking at the finances, where you are not looking at the industrial participation, in simple words what does it entail, the figure of merit, the military value? We know that it's a technical side, it has got nothing to do with the finance, it has got nothing to do with the industrial participation, but something significant is at the top of the graph, we see price. Look at page 16 paragraph 8.

We know that to arrive at the figure of merit that we have been struggling to gravitate to we are looking at the military value which is the technical side. Now why is the price important at this stage? We know that you said that it relates to the budget and it's non-binding, please explain.

MR SMITH: At this stage Chair the Request for

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Information is as the title says, it's requesting information, it's to get a better handle on what prices are we talking about, ballpark figures, budgets, what are the general characteristics of the ship *et cetera* in the RFI phase. And all of this information is actually non-binding, the, even the technical information that's provided is very indicative in this phase, it is not even binding on the resposdee, it's basically as my colleague Mr Vermeulen used the term, it's a "market survey".

Can I just to put it into a slightly different context, this is the process that was followed with the SDPP, all the projects went through an RFI. The Corvette Project at this stage had already achieved quite a lot of maturity on the technical side, it had already had four, five years of activity taking place beforehand and that's probably why this value system that was used in the RFI was so involved because it's reflecting a momentum of a lot of information that is already a knowledge that's already been accumulated over the years up to this point and that's why it's here and in fact later you will see that they make mention in the RFO value system that there is in fact not much difference between this value system and the one in the RFO.

ADV LEBALA: I see that probably the commissioners have got some concern, let's hear what they say.

CHAIRPERSON: No, no, I was just talking about the timing, trying to determine whether should we adjourn now or whether

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should we go on until 15h45, but then I think ultimately we came to a decision that we will go on until 15h45 depending on how long do you still want to be with this witness.

ADV LEBALA: Thanks for the direction Chair. Let's take  
5 the opportunity to complete this difficult process, tedious as it is. The RFI ordinarily is a weighting process but we have discovered that in as far as the frigates are concerned it included something else to achieve a relative Figure of Merit that what we see on page 16 paragraph 8 seeks to be telling  
10 us. Now something tells us more on page 16 and I want to read it to you before we go to the next line of leading your evidence which we'll start with tomorrow. Please look at page 16 paragraph 5, I would like you to read the paragraph headed "Weights and Scales of Part 2".

15 MR SMITH: Chair, paragraph 5 "Weights and Scales of Part 2":

*"Each of the 44 characteristics has been given a weight reflecting its importance relative to the other characteristics. The group weight shown is merely  
20 the sum of all the characteristic weights in that group. Each characteristic is scored out of 10 scaled linearly or exponentially to an S-curve depending on the criteria".*

ADV LEBALA: Please read paragraph 6.

25 MR SMITH: Paragraph 6, "Scoring":

5           *“The score out of 10 obtained for each characteristic will be multiplied by the weight of that characteristic to obtain the characteristic score. All characteristic scores will then be added together to obtain an overall total score out of 1 040. This total score will then be normalised to a score out of 10”.*

ADV LEBALA:           Read paragraph 7.

MR SMITH:           Paragraph 7, “Figure of Merit”:

10           *“The cost of the offer will be reduced to a common Rand baseline, the total score achieved in Part 2 will then be multiplied by the inverse of this cost to achieve an offer cost per performance Military Figure of Merit (“FOM”), again normalised to a figure out of 10. This Military FOM will then be factored into the top level value system along with the industrial participation and financing FOM’s for an overall Figure of Merit to higher authority”.*

15

ADV LEBALA:           Now at this stage we just want the  
20 Commission to appreciate the intricacies that were involved. I know that it is tedious, it’s tedious for myself, I can imagine to you, you are struggling to explain this DoD document. It was not free from difficulties the way we have seen in as far as the submarines are concerned, there were weights, scoring, but of  
25 significance you wanted to arrive at the common Rand baseline,

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am I right?

MR SMITH: Correct, Chair.

ADV LEBALA: And that common Rand baseline is a figure of merit where you look at the offer cost performance Military Figure of Merit isn't it?  
5

MR SMITH: This is what DoD wanted to achieve, that's correct Chair.

ADV LEBALA: And we know that as at that stage you also factored in the question of industrial participation and financing, is that correct?  
10

MR SMITH: Chair, you can see where this becomes a bit, it doesn't tie up quite correctly here because at this stage obviously the factoring of the industrial participation and financing figure of merits is something that occurs in the RFO period, so this is pre-empting if you will something that's going to happen later in the process and it's not used at all, it wasn't used at all as far as I'm aware, so I'm not quite sure why they put into this document other than for interest's sake what will happen subsequently during the RFO phase.  
15

ADV LEBALA: I want us to start tomorrow and what we will do tomorrow, we will be taking the chairperson and Commissioner Musi to and fro with what the report is telling us. Now we are going into a stage where we start to determine which entity, which country, which shipyard is being eliminated and what was considered. Now with this difficulty that we have  
20  
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I think they will appreciate when we take them through the report which is seen on pages 1 of the Declassified bundle to page 10, am I right? Look at page 1 to page 10 of the Declassified bundle.

5 MR SMITH: Correct Chair.

ADV LEBALA: Let's identify this document in the next coming five minutes and we will be adjourning. Please look at page 1, read the title of the document.

10 MR SMITH: The title Chair is "International Equipment Offer Evaluation: Corvette Military Evaluation Report".

ADV LEBALA: Now we know that we had the RFI, its value system, the process what was considered to weight it, the formulas put in place, now we are going to deal with which country, which shipyard got what and we'll start tomorrow.

15 MR SMITH: Thank you Chair.

CHAIRPERSON: We'll adjourn.

**(COMMISSION ADJOURNS)**