

THE ARMS PROCUREMENT COMMISSION

INDEX TO
STATEMENT OF ANDREW JOHN CUTHBERT REED

Item	Document	Page
	Statement of Andrew John Cuthbert Reed	1 - 12
AR-1	Curriculum Vitae of Captain Andrew Reed	1 - 4
AR-2	Combined Staff Target, Staff Requirement and Interim Project Study Report relating to Project Wills, 16 August 1996	5 - 14
AR-3	Management Directive: Evaluation of International Offers	15 - 21
AR-4	Procedures for the Solicitation, Submission and Evaluation of Offers for the Acquisition of Cardinal Equipment for the SA Navy	22 - 25
AR-5	Extract from evidence of Mr JG Grobler of Armscor	26 - 27
AR-6	Project Wills RFI Evaluation Report 18 November 1997	28 - 89
AR-7	Project Wills : Request for Offer ('RFO') - 2 March 1998	90 - 125
AR-8	Project Wills: Value System for the Evaluation of the RFO - 26 March 1998	126 - 144
AR-9	Project Wills RFO Evaluation Report 25 June 1998	145 - 187
AR-10	Memorandum from Project Officer Project Wills to Chief of Naval Staff Plans -- Demise of the Submarine Capability, 29 January 1998	188 - 189
AR-11	Minutes of the Council on Defence on 21 August 1998	190 - 195
AR -12	Project Wills: Negotiation phase process: A report summarising the approach followed by the client project team for the execution of the submarine acquisition phase, 13 July 1999	196 - 206

THE ARMS PROCUREMENT COMMISSION

STATEMENT OF ANDREW JOHN CUTHBERT REED

I,

ANDREW JOHN CUTHBERT REED

state that:

1. I am an adult male presently employed by SAAB AB in Sweden, which I joined at the end of 2007. I am currently the Director: Naval Strategy and Business Development, SAAB Market Area Europe and Greater Middle East. I was employed in the South African Navy ("SAN") from 1975 to 2005.
2. A copy of my CV is attached marked AR-1.¹ As appears from this CV from 1997 to 2005 I was a Captain in the South African Navy ("SAN") and I was the Project Officer for the Submarine Acquisition Programme within the Ministry of Defence, Acquisition Division. This programme was known as Project Wills.
3. I have read the Commission's Terms of Reference. My involvement in Project Wills began in or about March 1997 and therefore I confine my evidence to the development of the value systems for the RFI and RFO and the evaluation of offers received for both. I was formally appointed Project Officer on 13 May 1997 and continued in this role through the contracting phase and eventually deployed to Germany to execute the project. As Project Officer my role was to ensure that the submarines on offer were acceptable to the SAN and suitable for our operational use and to evaluate the offers and present the best value for money to higher authorities. I do not, in the circumstances, make any comment on the other terms of reference such as the utilisation of the submarines.
4. I have read the statements submitted by Captain Jordaan and Mr Robert Vermeulen from Armscor. I have also read the transcripts of some of the evidence before the

¹ p 1 of the Bundle attached to my statement

Commission. I served with Mr Vermeulen on the Integrated Project Team for Project Wills. I do not intend to repeat in this statement what either of them said in regard to the background to Project Wills and the Strategic Defence Procurement Package ("SDPP"). If this is considered necessary to explain my personal involvement in matters and why certain events took place I will cover this when I testify.

5. The documents which I attach to the statement are listed in the index at the front of the statement.

The background

6. The Daphne Class submarines that were acquired in the 1970s were facing block obsolescence and were no longer cost-effectively and economically supportable. Without a plan to replace the Daphne submarines the South African Navy was facing the real possibility of the demise of its submarine capability. Prior projects to acquire other submarines for the Navy were unsuccessful and it became clear that to attain the SAN's approved force level in terms of the Force Design and to meet operational requirements four submarines were required. I note from the transcripts that I have read that this has also been mentioned many times by previous persons who have appeared before the Commission
7. A team began investigating the suitability of the British Upholder class submarines as a replacement for the Daphne submarines. These were used, though relatively new, submarines on offer by the Royal Navy. The project became known as Project Wills. This culminated in the submission of the Combined Staff Target, Staff Requirement and Project Study Report: Project Willis: Submarine Replacement by the Upholder Option dated 16 August 1996. I refer to annexure AR-2.² This was prior to my appointment to Project Wills.

The Request for Information Phase

8. Project Wills became part of the Strategic Defence Procurement Packages (SDPP) and on 23 September 1997 the Minister of Defence issued a letter to a number of countries calling for proposals for capital defence equipment for South Africa. The deadline for submissions was 31 October 1997.

² p 5 of the Bundle

9. As explained in detail in Mr Vermeulen's testimony, the aim of the Request for Information ("RFI") phase was to solicit information from potential suppliers in order to see what systems they could offer. It was for information gathering purposes only and no contractual rights or obligations could arise from a supplier participating in the RFI phase.
10. RFI Proposals were received from Germany, Italy, the United Kingdom, France, Sweden and Russia. However the Russian proposal was not evaluated further as very little information was provided on the platform and no costing or integrated support information was received.
11. The evaluations were carried out in accordance with the policies and procedures that were put into effect at the time. In this regard I refer to the Management Directive: Evaluation of International Offers referred to as reference C in the evaluation report. This is annexure AR-3.³ I was not involved in formulating this policy but I understood from reading the Management Directive that the Directive sought to put in place a policy to deal with the evaluation of international offers in the absence of interdepartmental policy or instructions regarding international proposals. In terms of the Directive I was appointed as the leader of the evaluation team for Project Wills. I refer to paragraph 18 of AR-3.⁴ In terms of this Directive, Adm Howell was appointed to act as the Moderator for the evaluation of the proposals for both Projects Wills and Sitron. The latter dealt with the acquisition of patrol corvettes. In addition, this Directive also provided that as the leader of the evaluation team for Project Wills I was responsible for receiving the information to be evaluated and providing the results.
12. At the time of the SDPP there was a lot of interest in the acquisition projects undertaken by the SAN. A number of companies contacted officers at different level and divisions in order to make presentations regarding what equipment they could offer. In response to this the SAN put in place a policy to provide for the fair and equitable treatment of potential suppliers and to ensure transparency in procedures relating to the acquisition and evaluation process. This was entitled "Procedures for the Solicitation, Submission and Evaluation of Offers for the Acquisition of Cardinal Equipment for the SA Navy" and is reference B in the Evaluation Report. I refer to

³ p 15 of the Bundle

⁴ p 20 of the Bundle

4

AR-4.⁵ The procedure provided for the evaluation and comparison of offers in accordance with the naval value system, and for confidentiality of value systems and proposals received. The procedure authorised me, in my capacity as Project Officer for Project Wills, to act as the Naval nodal point for communication for the submarine programme. In reality I exercised this with the Armscor programme manager, Mr Rob Vermeulen. Where clarification was required from any of the offerors these issues were formally submitted to them via the Armscor procurement secretariat. In this regard I refer to an extract from the evidence of Mr Gerhard Grobler attached as AR-5 (at page 27 of the bundle).

13. I compiled the evaluation report entitled: Project Wills: Submarine Evaluation Report and dated 18 November 1997. I did so as the submarine evaluation team leader. The report detailed the evaluation process followed and the results for performance, costing and military value. This is annexure AR-6 to my statement.⁶

14. As stated in the RFI Evaluation Report, the following proposals were received and evaluated by the evaluation team:
 - 14.1 Germany: 209 T 1400 Mod (operational submarine);
 - 14.2 Italy: S1600 SAURO (a "paper" submarine);
 - 14.3 United Kingdom: Upholder (2nd hand submarine in preservation);
 - 14.4 France: Scorpene (another "paper" submarine);
 - 14.5 Sweden: T192 Gotland (operational Air Independent Propulsion submarine).

15. By "paper" submarine I mean a submarine that, in effect, existed only on paper and had not been built.

16. The proposals were evaluated against the approved RFI value system. The evaluation team evaluated all the proposals against the approved value system simultaneously. A detailed technical evaluation was carried out and it was

⁵ p 22 of the Bundle

⁶ p 28 of the Bundle

determined that all four of the proposals were technically acceptable to the SA Navy. On this overall technical evaluation, the German submarine came first.

The Request for Offer phase

17. Following the RFI evaluations a Request for Offer ('RFO') dated 2 March 1998 was issued by ARMSCOR to all five of the countries that passed the RFI evaluation. The RFO is attached as AR-7.⁷
18. The value system for the evaluation of the responses to the RFO for Project Wills was issued on 26 March 1998 and it was approved by R Adm (JG) Howell (Chief of Naval Staff Plans) and V Adm Simpson-Anderson (Chief of the Navy) on 11 May 1998 and by Mr Shamin (Chippy) Shaikh (Chief of Acquisition) on 12 May 1998. This value system was duly registered and sealed by the Armscor Secretariat on 12 May 1998 before receipt of the offers. The value system is attached as AR-8.⁸

The RFO evaluation

19. The five submarines that were shortlisted for the RFO phase were all submarines that had passed the RFI phase and were all technically acceptable to the Navy. The RFO proposals were adjudicated in three main categories, the weightings allocated as follows:
 - 19.1 Response to the RFO (6.54%);
 - 19.2 Technical Evaluation (25.95%);
 - 19.3 Logistical Evaluation (67.51%).
20. These percentages were agreed based on operational, logistic and engineering inputs. The rationale for this weighting was that it had already been determined in the RFI phase that all potential submarines on offer would meet the operational requirements of the SA Navy. The key to long-term sustainability was therefore the supportability of the submarines.

⁷ p 90 of the bundle

⁸ p 126 of the bundle

- 21. The responses to the RFO were received by the Armscor Procurement Secretariat by 12 May 1998. No offer was received from the United Kingdom because the Upholder submarines had been sold to Canada.
- 22. I compiled the evaluation report entitled: Project Wills: Submarine Evaluation and dated 25 June 1998 (attached as AR-9).⁹ I did so in my capacity as Submarine Evaluation Team Leader. This was moderated by R Adm Howell who signed the document, together with me, on 30 June 1998. Attached to this is Appendix A, the summary sheet for the Submarine Value System, Appendix B, the RFO Evaluation Report, and Appendix C, the Submarine Element, total cost summary.
- 23. The results of the evaluation of the individual components, excluding the costing, are recorded on page 6 of the RFO Evaluation Report, annexure AR-9, but are replicated below for ease of reference:

Performance Results

<i>Serial</i>	<i>Description</i>	<i>Technical Evaluation</i>	<i>Logistic Evaluation</i>	<i>Engineering Management</i>	<i>Total (normalised)</i>
1	French Scorpene	84.8%	57.7%	45.9%	85.67
2	German 209 (1400)	87.1%	48.95%	71.25%	80.6
3	Italian S1600	89.4%	71.14%	54.43%	100
4	Swedish T192	88.6%	50.6%	49.84%	80.86

- 24. According to the results shown above, technically and logistically, the Italian submarine was the winner of the evaluation, followed by the French, the Swedes and then the Germans.
- 25. Price-wise, the Germans came in the cheapest followed by the Italians, the French and then the Swedes, as can be seen from the costing table below:

Costing

⁹ p 145 of the Bundle

Description	FRANCE	GERMANY	ITALY	SWEDEN
4 Submarines	917.7	816	898	1 047.6
Ashore ILS + in Country Support	113.4	36	111	47
Total (Million USD)	1 030.44	852	1 009	1 094.6
Exchange Rate (Rand to \$)	5.0865			
Total (Million Rand)	5 241.33	4 333.70	5 132.28	5 567.68

26. The performance results as a relative measure between the four offers had to be adjusted to give proper weight to the critical factor of cost and thus arrive at the Military Value Index. I reported to Adm Howell that there were two ways to factor in cost to determine the military value index, and he decided upon the formula as set out in paragraph 15 of the evaluation report. It resulted in the Type 209 German submarine being recommended, which was R800 million cheaper than the next contender..

27. The aforesaid formula based on the ratio of the performance, logistic and engineering management values and their associated costs was used to arrive at the military value index. The results of this calculation (which are set out in the table below) placed the Germans first, followed by the Swedes, the Italians and then the French:

Military Value Index

Total	Country	Design	Performance Ratio	Logistic Ratio	Eng Management Ratio	Military Performance
A	B	C	D	E	F	G
1	Germany	209(1400)	100	100	100	100
2	Sweden	T 192	79.23	92.37	65.25	90.93
3	Italy	S1600	93.26	82.48	86.67	83.13
4	France	Scorpene	86.66	65.29	68.82	66.43

28. A number of risks and assumptions were also taken into consideration. This included that only the German and Swedish submarine designs were operational and tested at

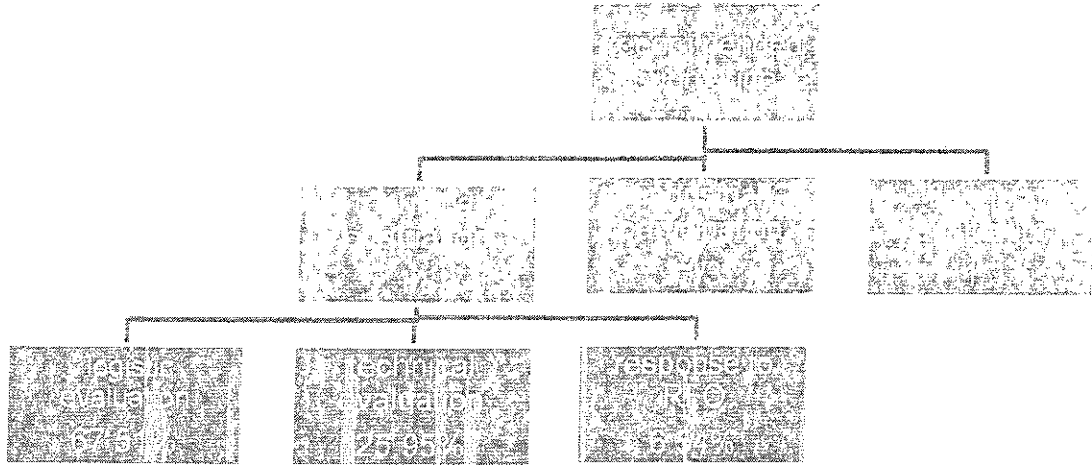
sea whilst the other designs that were offered were new ("paper") designs. Although not exactly the same as the Type T192, the Swedish Type A19 was very similar to their offered design.

29. It was also noted that while the logistic support package offered with the German 209 submarines was comprehensive, many of the deliverables were offered as options and not costed into the proposal. However, this was not considered to be unacceptable because the logistical risk was low. In any event it was dealt with in a conservative way by allocating additional funds to this potential cost to ensure that no prejudice would be suffered as a result of the fact that many of the options were not costed. Following a discussion on these non-costed items between the programme engineer, Adm Howell and I, Adm Howell directed that an amount of 75% of the quoted logistic cost be added to the logistic cost. Following the same discussion a further 50% was added to the quoted logistic cost for the Swedish submarine to offset the shortfall in the response to the ILS. This was done because once the project and budget was approved, no additional funding would be allocated for such items, and so this shortfall had to be factored in. In effect, the addition of these amounts meant that, price-wise, we were endeavouring to compare apples with apples, in the sense that we could compare different products with each other by eliminating the differential created by costed and non-costed options, thus making the offers comparable. (I refer to paragraphs 5b; 5d; 20 & 22 of the RFO evaluation report, annexure AR-9).

30. While it was recognised that the Italian proposal was very thorough, the submarine was a new design and one which the Italian navy did not intend to acquire for its own use. An additional consideration was that the Italian submarine was the largest of the submarines and it would have a significant impact on the local facilities, as opposed to the German submarine which would have a low impact on local facilities because it was the smallest of the submarines.

31. The evaluation team concluded that all the submarines evaluated were good products and therefore acceptable to the SAN. The German submarine was preferred as it represented the best value for money. The Swedish proposal was rated second in value for money. While the Italian and French proposals were also good, both were considered to be expensive and were not preferred for that reason.

Structure of the evaluating teams



32. As can be seen above, the technical evaluation, which I led as Project Officer for Project Wills, comprised 1/3 of the overall score that would determine the recommended submarine. I was not involved the evaluation process for the industrial participation and the financing elements.

Post evaluation phase

33. On 1 and 2 July 1998 I presented the scores from the Military Evaluation to the Strategic Offers Committee (SOFCOM). In my presentation, I expressly set out the manner in which the scores had been arrived at and referred to the formula employed to derive the final Military Value Index (as described in paragraph 26 above). The presentation was given to the whole of SOFCOM, which included senior Armscor officials, and was adopted without criticism or questions.

34. However, this did not necessarily mean that Project Wills would meet with success. The project team was aware that with the limited resources available, South Africa would not be able to afford all six of the proposed packages, and that either the submarines or the main battle tank ("MBT") would have to be sacrificed. As project officer for Project Wills I had written a memorandum, dated 29 January 1998, to the Chief of Naval Staff Plans, Adm Howell, voicing my concern regarding the possible demise of the submarine capability. In the memorandum, attached as AR-10,¹⁰ I noted that the MBT had been prioritised higher than the submarines and that if the SAN did not acquire submarines in terms of this package, South Africa was, in my opinion, in danger of losing its submarine capability. In the memorandum I

¹⁰ p 190 of the Bundle

emphasised that what made the SANDF superior to forces in Africa was the SANDF's special forces capability and the submarine capability.

35. Later in July 1998 I was instructed to make an estimation of the prices for a reduction from 4 submarines to 3 submarines for all the submarines on offer. This I duly did and the results are contained in the table below.

	FRANCE	GERMANY	ITALY	SWEDEN	COMMENTS
3 Submarines	707.69	630.00	693.04	808.75	77% of 4 Boats
ILS + in Country Support	91.00	50.40	88.94	56.40	80% of log
Sub-Total (Quoted Price)	798.69	680.40	781.98	865.15	
Freight/Insurance / Clearance	7.45	3.24	FIS	4.94	15% of Ashore ILS
Excise / Duties	1.00	0.43	0.92	0.66	2% of Ashore ILS
Sub-Total (Cost Price)	8.45	3.67	0.92	5.60	
Total Cost (VAT Excluded)	807.14	684.07	782.90	870.75	
VAT	113.00	95.77	109.61	121.91	VAT calculated @ 14% of Total Cost
Total Cost (VAT Included)	920.14	779.84	892.51	992.66	
Risk abatement	16.00	54.40	16.00	45.20	Adjustment of Log to common base
Project Management	45.00	45.00	45.00	45.00	5% of Project Cost
TOTAL COST (MUSD)	981.14	879.24	953.51	1082.86	
TOTAL COST (RAND) 5.085	4990.567	4472.2532	4850.0083	5507.942	5.0865
TOTAL COST (RAND) 6.5	6377.407	5715.059	6197.789	7038.558	

36. As can be seen in the first two lines of the table above an assessment was made that the cost of three submarines and their logistic support would not equate to 75% of the cost of 4 submarines.
37. The minutes of the Council on Defence on 21 August 1998, marked AR-11,¹¹ show that the decision to reduce the number of submarines to be acquired from 4 to 3 was taken because the cost of the packages exceeded the budget at the time. I was, however, not involved in any discussions at the level of the Council on Defence.
38. The preferred suppliers were announced on 18 November 1998, and that included 3 Type 209 submarines from Germany. There was no preferred supplier for the MBT (which by then had been excluded from the SDPPs).

Negotiation phase

39. The negotiation phase was covered in detail in paragraph 4 on page 9 of Mr Vermeulen's statement and as I concur with his view, I will only deal with it briefly. Once the preferred suppliers were announced on 18 November 1998, we entered into the negotiation phase. The negotiations were done in two tiers. The first tier was led by Mr Jayendra Naidoo who was the Government's Chief Negotiator. He negotiated with the preferred suppliers to establish the umbrella agreements. The second tier was done between personnel from the project teams, the appointed legal advisers and the German Submarine Consortium.
40. The main objective of the submarine project team in the negotiation phase was to come to an agreement with respect to the technical, logistic and project management activities, deliverables, costs and times-scales for the selected offer to a stage enabling a contract to be signed. A report, dated 13 July 1999, summarising the project team's approach during the submarine negotiation phase is attached as AR-12.¹²
41. Once the negotiation phase was concluded, the contract pertaining to the acquisition of the 3 submarines was initialled on 12 June 1999. The contract was initialled by the members of the International Offers Negotiating Team ("IONT") and the preferred supplier. The contract was formally signed on 3 December 1999.

¹¹ p 192 of the Bundle

¹² p 198 of the Bundle

12

Supplementary Information

42. At this point I would like to indicate to the Commission the state of maturity of all the designs that were investigated at the time of the RFO:
- 42.1 The Italian S1600 SAURO class was never built. In fact Italy procured the Type 212 class from Germany;
- 42.2 At the time of the RFO the keel of the first of class French Scorpene submarine had been laid and construction had commenced. 4 have been built since then;
- 42.3 Sweden's Type T192 was never built. Three Swedish type A19 submarines, an earlier version of the T192 are in service with the Swedish Navy.
- 42.4 The Germany Type 209 submarine has five variants of the class (209/1100, 209/1200, 209/1300, 209/1400 and 209/1500). Prior to the RFO it has been successfully exported to 12 countries, with 48 submarines being built and commissioned between 1971 and 1999. To date 61 Type 209 submarines have been built and exported to 13 countries.
43. It is clear from the information above that the German submarine was not only the best value for money for the SAN, but it was (and still is) the most successful export submarine model in the world. The SAN was assured that it would receive a tried and tested submarine that was in operational use in other countries.

Signed at Pretoria on 6 May 2014



AJC REED