



WEATHERING THE STORM

With sharp falls in commodity prices, reduced investment and a contracting labour market, many in Australia's mining industry are facing conditions they have never experienced before.

As a result, productivity is high on mining leaders' agendas – with potential opportunities for local manufacturers currently suffering from the decline in the number of resources projects.

By Barbara Schulz.

Quarry Mining has dedication and passion in its DNA. Founded in 1983 in Beresfield, NSW, with a focus on underground mines, the team of drilling experts and engineers works together to design and develop drilling equipment to get the best results for the specific ground conditions and drilling challenges it faces.

"Growth is difficult at the moment, but staying strong and not losing focus on trying to spot opportunities is so important," says Quarry's Managing Director Kari Armitage. "I am optimistic that we will weather the storm."

Being an Australian manufacturer in the mining industry is not easy at present. The industry is facing many challenges, as the euphoria that has dominated global mining in recent years is largely spent and miners across the board adopt aggressive cutbacks amid escalating cost pressures and softening commodity prices. Large miners are reconsidering ambitious capital expenditure projects, while a growing number of smaller miners are struggling to stay afloat as funding from traditional capital markets evaporates.

The rise of low-cost production centres combined with lower tariffs has pushed some Australian firms offshore or out of business. BHP recently closed two central Queensland mines and more are likely to go. Mining jobs are being cut across Australia; thousands have been lost in NSW and Queensland alone. Just as in the boom years a multiplier effect cascaded through the economy, we are now seeing the end of the boom follow that same path, affecting support industries, government revenues, terms of trade, and jobs.

Many companies complain that there are also too little opportunities in current projects for local manufacturers, such as in the Queensland Curtis LNG project on Curtis Island, Gladstone. According to Andrew King, owner of Crown Tooling, local Gladstone businesses have been left out due to imports from low-cost countries.

So what does it mean to be an Australian manufacturer in the mining industry at the moment? Is it really all doom and gloom, or are silver linings on the horizon?



MINING

From investment to production

Manufacturing companies involved in the construction of the mines and the required infrastructure will most likely continue to struggle as Australia is now seeing a transition from the investment phase of the resources boom to the production phase. Following an unparalleled expansion in resources and energy investment where the annual capital expenditure of the sector increased from 20% to 60% of Australia's total private sector capital, investment in the sector is entering a downturn.

Crown Tooling's situation is certainly reflecting this trend. King's company manufactures precision metal parts mainly for engines and drivetrains in underground mining machines. While his customers in far north Queensland, the Hunter Valley and Newcastle had all been very busy up to October last year, things came to an abrupt halt from then on.

At the same time, newly developed projects commenced commercial production. Between October 2013 and April 2014, 21 projects worth a combined \$25.6bn were completed as the shift into the production phase of Australia's commodity investment cycle continued, according to the *Resources and Energy Major Projects—April 2014* report from the Bureau of Resources and Energy Economics (BREE).

As at April this year, there were 48 projects at the Committed Stage with a combined value of \$229bn, compared with 63 projects with a combined value of \$240bn six months earlier. The completed projects contributed to this decline, but was partially offset by the approval of Hancock Prospecting's \$10.7bn Roy Hill iron ore project.

"While the investment cycle has peaked, Australia is now moving into a period of significant increases in the production of resources and energy commodities," says Wayne Calder, Deputy Executive Director of BREE. "In the past year alone there have been large increases in production capacity including 215m tons of iron ore, 43m tons of coal and more than 1100 petajoules of gas."

Maintenance and repair

For Armitage and her business focussing on underground mining drilling technology, increasing production of resources is good news. It is also good news for manufacturers focusing on maintenance and repair work, such as Nordon Cylinders, which opened a new manufacturing plant in Brisbane in June.

The new plant, operating under Friction Welding Australia, is the first company to make available locally a friction welding service for products including hydraulic cylinder shafts and drill rods, which are heavily utilised in machinery used in the resources sectors. The new friction welding machinery, worth about \$2.5m, can weld components together in under five minutes, a process that can take up to four hours using traditional welding methods to complete the same job with the same quality.

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Far left: Andrew Clingeffer, Manufacturing Director, Rockdrill Services Australia (RDSA)



Left: Quarry Mining's Managing Director, Kari Armitage.

Opposite page: The outlook for resources and energy investment remains subdued in the near term with the investment cycle having peaked.

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New projects on the horizon

There are also opportunities for those manufacturers and suppliers to the mining industry with a focus on infrastructure and the construction of new mining sites. In the six-month period from November 2013 to April 2014 (inclusive), BREE identified eight projects as receiving a positive Final Investment Decision worth a combined \$12.8bn, which were progressed to the Committed Stage on the Major Projects List. By comparison, in the previous six-month period, five projects worth \$1.7bn were added to the Committed Stage.

The rebound in new committed project value is dominated by the approval of the Roy Hill iron ore project, which is valued at around \$10.7bn. Despite the downturn in iron ore prices, five of the eight new project commitments relate to iron ore, BREE reports.

Then there is also coal, of course.

Armitage is confident of underground coal mining projects and opportunities in Queensland, where the company has recently opened a new office in Mackay.

"Mackay is an obvious choice for us to have great people and to grow," she says. "There is still 80-plus years commitment to coal out there in central and far north Queensland and this is where our expertise lies. Moreover, we've never lost the passion and excitement to provide a genuine and unique service, innovative product range and world-class professional staff. Now we're committed to doing this in Mackay."

Despite recent discussions, coal will remain the dominant form of fuel for electricity generation in the near future, given its price and ready availability. According to the *Australia Mining Report, Q3 2013* published by Business Monitor International (BMI), Australia is the fourth-largest coal producer in the world, accounting for 6% of global mined output. BMI expects long-term demand for Australian coal to remain robust, with Asia's top coal importers, Japan, China, South Korea and India, expected to remain dependent on coal-based power generation over the next decade. India's coal consumption is expected to grow the fastest due to the country's inability to maximise the potential of its domestic coal resources.

Partnering for efficient operations

Armitage also identifies huge potential in the coal mining industry, and despite the decrease in investments for new project developments, there are opportunities.

"For us there are still opportunities out there, such as Eagle Downs Coal, the current Anglo American Grosvenor Project, and Bandanna Energy's Springsure Creek Mine on the horizon," says Armitage. "These mines will demand the high standard of products unique to Australian underground coal-mining methodologies and therefore provide the chance for experienced manufacturers who understand these requirements to assist.

"I think the big opportunities at present are in working in partnership with these big companies to increase productivity and make sure both their operations and SMEs like us all survive."

The *Mining Business Outlook Report 2013-14* (Newport Consulting, Sydney) comes to a similar conclusion: mining leaders must improve operational efficiencies and focus on input and labour costs.

"Now is the time for mining companies to operate their assets at an optimum level," says David Hand, Managing Director at Newport Consulting. "Delivering a return to investors will improve the lending environment and we should see investment flowing into the sector and other areas of the economy again."

Suppliers like Quarry or Melbourne-based Rockdrill Services Australia (RDSA) are working closely together with their customers to help them run their mines as efficiently as possible – with undeniable success.

"We are very optimistic about future growth of our business into the future," says RDSA Manufacturing Director Andrew Clingeffer. "We have excellent customers that we partner with to improve their drill maintenance and drilling operations. Working together, we have achieved and continue to achieve great results. We are looking towards sustainable growth that in no way compromises our quality and service capability."

RDSA started as a services and repairs business in Kalgoorlie in 2001 to address a gap in the mining industry not serviced by the OEMs. Today it is one of Australia's leading manufacturers of mining rock drills (drifters) and drill parts. RDSA also provides a full range of training and maintenance services for their customers' drilling equipment. RDSA partners with its customers to optimise their drilling performance and therefore reduce their costs.

"You can have the best product in the market, but unless it is operated and maintained as it should it won't reach its full potential," Clingeffer continues. "We don't just manufacture and sell products, we provide solutions to make our customers' operations more efficient. The whole ethos of our business is to provide a complete service to the customers, partnering with them, understanding what their needs are.

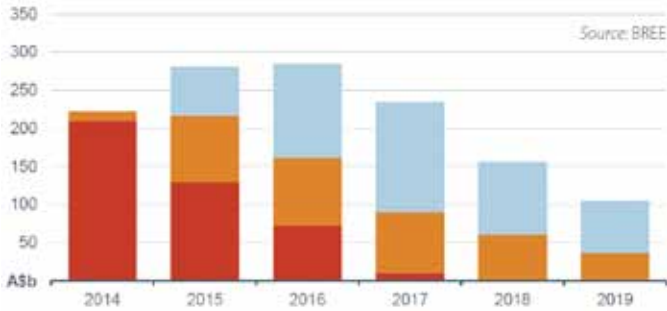
RDSA help its customers to optimise the hours they can get out of their OEM drills through better maintenance and drill practice.

"We have been very innovative in finding solutions to issues with the OEM drills and have retrofitted our own parts to drills which has increased service life and performance," says Clingeffer. "From that experience, we have developed our own proprietary drills, which have been well accepted on the market."

Embracing innovation

Advancements in the mining industry through innovation and new technologies have also opened up opportunities for new suppliers, stimulating employment and growth in other industries. Mining production uses an increased level of automation and robotics now.

Outlook for committed project investment.



Many suppliers, such as Hoffman Engineering, are tapping the export market, making and exporting products and services around the world. For Armitage, export opportunities are also on the agenda when it comes to remaining competitive – especially at a time when the decline of the automotive industry has opened the door for increased competition for existing suppliers.

“We are always looking for export opportunities that suit our core business and ensuring we keep our focus on the hard rock side of the business and give our best to service our large tunnelling infrastructure projects, currently on the east coast,” she explains. “There is always someone wanting to take market share. We need to maintain excellent relationships with our customers so they value our service and technical input highly as well as our product, and are less likely to consider other alternatives. Safety is always the priority in Australian coal mines though, and the high standards of manufacture we maintain are critical to ensuring the safety of miners using our products.”

RDSA is also experiencing some pressure from competitors.

“Although our business operates within a small niche of the mining industry there is still significant competition in certain aspects of this,”

Mr Clingeffer says. “Although we are aware of this, we don’t let it distract us from our mission which is to provide a complete customer service and support package. Our edge is delivering tailored solutions for our customers.”

Automation, passion and dedication

In order to remain competitive, RDSA runs its manufacturing on Lean principals.

“As we are not mass producing components, we need to remain flexible. Therefore we develop specific processes that work for us allowing for us to respond quickly to our customers’ needs,” says Clingeffer. “This involves a no-compromise approach to quality. We achieve this by investing in the best people that can perform at the highest level across the full range of our equipment. We partner with the best machine tool, tooling, material and heat-treatment suppliers.”

Facing the constant battle of maintaining the high standards of Australian manufacturing while competing with cheaper imported products, Quarry has a high focus on streamlining its manufacturing processes using automated and unmanned technology.

“Overall I believe the key to running a competitive and successful business is dedication and passion from the owners and senior management,” Armitage concludes. “Extremely long hours and hard work are required to fight the constant battle that this industry brings. Continued success wouldn’t be possible without this kind of commitment to Quarry Mining and its customers. It’s not for the faint-hearted but is so rewarding when achieved, and the fact we can manufacture in Australia, continue to be innovative and keep people employed is something I am enormously proud of.” **AMT**

- www.bree.gov.au
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