

# Mining contracting in Australia – where to now?

Mining contractors are an integral part of the mining environment in Australia, growing from a fledgling industry in the 1970s to a \$5 billion a year industry today. But what is the current state of the mining contracting industry? By **David Noort**



David Noort, Momentum Partners: Studies also suggest that any international expansion beyond an optimal level is detrimental to performance in the long run.

The growth in the mining contracting industry in the 1980s was driven by a multitude of small mining companies – mainly the gold miners – with limited access to capital funding, and major mining houses that needed relief from the industrial relations climate that prevailed at the time.

Today the mine owner profile and climate has changed, and the business case for using contractors has to be justified on different fundamentals.

The resource industry in general is now much less fragmented. 75% of Australian gold production is controlled by overseas companies, and major international players such as Rio Tinto, BHP Billiton, Newmont, Barrick, Harmony and Goldfields of South Africa dominate the Australian mining scene.

These major international mining houses have balance sheets that enable them to attract ample capital funding at rates cheaper than even the largest Australian mining contractors.

They also have greater leverage with major suppliers due to their pooled international buying power, and their exploration expenditure is targeted towards the discovery of large, long life deposits.

Corresponding to the trend towards reduced fragmentation has been a significant drop in trade union membership. In 1976, 71.5% of the Australian mining population were members of a trade union. Today that number is less than 30%.

Titans like BHP and Rio Tinto have been operating in Australia for a long time.

The lessons learnt subsequent to the Robe River dispute of the 1980s have not been forgotten, and the industrial relations cauldron in the coal industry still simmers and boils over at times. But in time, given

the long-term trend towards reduced disputation industrywide, industrial relations implications will become less relevant.

Without question, there will always be a demand for contractors in small openpit operations, for abnormal requirements (such as pre-stripping) and specialist contract fields, like underground mining and tunnelling.

But for the large long-term mining operations operated by major mining houses, how does mining contracting justify its existence?

Recent papers on the subject of contract versus owner mining have not been able to attribute any significant systemic cost advantages to contract mining over owner mining in a stable, long-term application. This can in part be attributed to the mismanagement of relationship contracting.

Relationship contracting is a term used to describe new flexible approaches to the relationship between a mining company and its contractors, and includes partnering arrangements and alliances as distinct from traditional hard-dollar contracts.

In my opinion, mining contractors did offer a low cost solution to the needs of the mining and exploration industry in the 1980s and 1990s, but since the late 1990s, to avoid the structural misalignment of interests and disputation that traditional contracts tended towards, relationship contracting has increasingly been adopted by the industry.

Whilst undoubtedly relationship contracts help solve disputation issues, arguably contractors have in this process become more client-like, forsaking focus on preventing cost “creep” – their key source of competitive advantage.

This is not so much the fault of relationship contracting, but the mismanagement of

relationship contracting.

Unfortunately many relationship contracts have not been structured to enforce contractor efficiency and continuous cost improvement.

So the fundamentals have changed. The contractors have tried to modify their business model to cope with these changes, but what have they gained and what have they lost?

Fortunately for the contracting industry, further to the break-up of the multinational conglomerates in the 1970s, there has been a resulting global trend for companies to adopt strategies that enable them to focus on their core business.

Industries are disposing of products and services that are not considered core to their business.

Many mining products rely very heavily on product marketability, such as the industrial minerals, diamonds, even coal and iron ore. In a globalised marketplace, could the future development of the mining industry see the emergence of the virtual mining company – one that owns the licences and customers, but outsources all other services?

As with the commodity boom, there are still another few more years of contracting industry growth on the horizon and growth opportunities will exist after that.

But the industry needs to capitalise on the trend for the outsourcing of services traditionally performed by the mining companies. Either that or they will need to recapture one of their key sources of competitive advantage in the 1980s and 1990s – the low cost solution.

Momentum Partners is a Perth-based management consulting firm focused on servicing the mining sector. **RS**