THE QUIET AUSTRALIAN

Without much ado, Anglo American's Australian coal business has made giant strides, from a disparate business in 2007 to one joined-up organisation built on innovation, optimisation and an eye for opportunities. **Matthew Stevens** speaks to the head of Metallurgical Coal, Seamus French, who, with his team, is transforming the business.

ALL PHOTOS ANGLO AMERICAN

Anglo American is the quiet Australian. The company is Australia's fourth biggest coal miner and its second biggest producer of metallurgical coal, one of two mineral commodities in which the great southern land boasts truly world-class resources, infrastructure and geographic advantage. But few Australians, outside of those who work for the local arm of the global miner, would likely recognise the name.

Not that this troubles in the least the boss of Anglo American's Metallurgical Coal business, Seamus French, and his team. They are too busy linking up its Australian hard coal foundations. Under their Brisbane-based direction, a once-disparate collection of Australian metallurgical coal assets is meeting the aggressive performance preconditions expected of this key pillar of Anglo American's mining world.

The team's challenge, and its success rate, was acknowledged last September by Anglo American chief executive Cynthia Carroll. In a speech to the Brisbane Mining Club, Carroll noted how the company's Australian profile had been created by the acquisitions of geographically very distant Shell Australia coal projects, albeit in the abutting states of Queensland and New South Wales.

After observing that the operations "frankly never became joined up", Carroll went on to say: "We had performance targets that we never delivered, with mines operating pretty much independently. This business made only a marginal profit in 2007, partly because of logistical issues, but also because of operating inefficiencies and being ineffective. We have now turned this situation around substantially under Seamus French's leadership and his team."

UNLOCKING ASSET VALUE

Their success has made the metallurgical coal commodity business unit a key contributor to Anglo American's asset optimisation programme. According to Carroll, the theory is all about "unlocking value of our existing assets through cost and productivity improvements by identifying and disseminating best-of-class business solutions". Carroll's target for asset optimisation, combined with efficiencies and synergies arising from a rationalised global supply chain, is the delivery of $2 billion[1] of 'profit enhancement' by 2011. Certainly, Metallurgical Coal has done its bit to ensure this target is achievable, having developed a five-year asset optimisation plan that has paid quick dividends, generating about $500 million of 'benefit' to the business's cash flow in the first two years.

PREVIOUS PAGE Dragline removing overburden in the open pit at Capcoal's Lake Lindsay operation

01 Production supervisor Ken Geall oversees all production activity at Callide mine

02 Left to right: Seamus French, Queensland minister for natural resources, mines and energy and minister for trade Stephen Robertson, Cynthia Carroll and the inventor of the fatigue-monitoring SmartCap Dr Daniel Bongers in Moranbah, September 2009

03 Callide mine environmental officer Grant Staff examines a monitor that records dust levels created as part of normal mining activities

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Asset optimisation covers the full spectrum of the business's activities, from resource definition to sales, but the one common ingredient in this programme's success, in French's view, is "people, people and people".

Australians are some of the most competitive people on earth, says French. "They want to be winners and hold their heads up high. The asset optimisation programme has been both a great motivator and a great means of recognition for our people. In a sense, it is acting as the glue that binds the organisation together."

That is why, over the next two years, the business unit expects to generate further very significant savings through a range of initiatives covering everything from blasting to product blending.

'Baby-deck blasting' instituted by management at the Dawson thermal and metallurgical coal project at the southern tip of Queensland's legendary coal belt in the Bowen Basin is instructive of the root-and-branch nature of asset optimisation. In 2008, Dawson's drill and blast

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engineers identified that existing blasting methods were responsible for the majority of coal loss at the mine.

So, a smarter baby-deck blasting system was developed to eliminate damage to the coal seam. It requires two shots in quick succession in every blast hole to divert pressure upwards and eliminate damage (and value destruction) previously caused to the top of the coal seam.

And Dawson's 'silver rules' set visual standards that specify what machine operators should be able to physically see when they are removing overburden and how they should operate machinery when close to the top of the coal seam to avoid damaging the coal.

A STRATEGY OF TRANSFORMATION

Not only do these innovations make a difference to the value extracted at Dawson, but they are being shared. "We produce a single commodity and all our mines are relatively close to each other. This means best practice can be spread across our seven-strong collection of coal operations through Queensland's Bowen Basin and the Hunter Valley in New South Wales," French says.

"In asset optimisation, we are delivering one of the many programmes created over the past three years as part of our strategy to transform the business.

"Phase one of the strategy started in 2008. It was about creating a performance culture, about providing clarity of direction, enforcing accountability and installing performance management. This set the foundation for everything we have subsequently achieved.

"In phase two, we established improvement processes bit by bit and got the business focused on safety management, on improving business and production processes and removing bottlenecks.

"Then the global financial crisis came along and, well, it was interesting," French says with understatement. "As a management team, we asked, 'does this change our plans?'

"The answer was, it didn't. Rather, we had to speed up what we were already doing. We ended up improving productivity by 24 per cent. From 2003, the Queensland coal industry in particular had seen continuous dramatic growth. And growth means that sometimes you lose something in efficiency... you become a little fat, a bit bloated,

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you take on people too quickly; and costs increase unchecked because you are chasing production the whole time. So, oddly, the downturn was a welcome half-time, if you like. It gave us a chance to draw breath, refocus and trim the sails. We ended up maintaining production levels with a 20 per cent reduction in the workforce – and took out low-margin operations at the same time."

DOUBLING IN A DECADE

Australia's coal industry is a diverse and idiosyncratic beast and, to some degree, Metallurgical Coal's task is defined by that character. So, while its growth focus is set firm on expanding the business's premium metallurgical coal footprint, its legacy – and ongoing business – responsibilities include thermal and PCI (pulverised coal injection) operations.

In 2009, attributable production from the suite of Anglo American's Australian coal operations totalled 26.7 million tonnes (Mt), of which metallurgical coal contributed 12.6 Mt and thermal coal 14.1 Mt. Anglo American has realistic ambitions to double that output over the medium term.

"We are not a strictly metallurgical coal business," French says. "We produce a range of coals, because that is how we have grown. We have thermal going into the Queensland power business. But we have a strategy that expresses our growth ambitions in terms of value – and the high-value assets here are metallurgical coal. We want to double business value over the next 10 years, and we have worked out the arithmetic of what that will look like in terms of cost, revenues and annual production.

"We have a resource base of about four billion tonnes, and about one billion of that is metallurgical coal. We have mapped out a project pipeline for the next decade. We can

01 Metallurgical Coal head Seamus French presents the quarterly performance review at Dawson mine, July 2010

02 Geology co-ordinator Colin Ritchie, coal and partings co-ordinator Bridget Perkins and mining engineer Shane Bellamy study a pre-strip plan

03 Clay Stitt, mining co-ordinator for surface operations, at the open cut operations at Lake Lindsay

achieve that doubling of value, which also translates into nearly doubling production."

Growth, though, will depend on more than locking in the investment required for the four projects Metallurgical Coal is currently investigating, which include two high-quality metallurgical coal opportunities in Queensland called Grosvenor and Moranbah South (both of which are close to the existing Moranbah North operation) and the Dartbrook and Drayton South thermal, semi-soft and PCI prospects. The real key to growth is going to be securing the logistical capacity needed to shift coal to an increasingly diversified customer base.

The second part of that strategy is about customers, Seamus continues. "We have a marketing strategy based on established economies and higher-growth economies like China and India. Currently, Japan and South Korea make up between 60 and 70 per cent of our demand profile, but we expect China and India to be the destinations for about 90 per cent of our growth volume in the future.

"Naturally, like everyone else, we keep an eye on possible overseas opportunities for expansion. We are certainly looking beyond Australia, looking at where else in the world we can secure growth platforms that will make a meaningful difference to our business.

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SEAMUS FRENCH
HEAD OF METALLURGICAL COAL

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So what are the major challenges to the business unit's plans in Australia? French considers.

They include infrastructure, attracting the best people and government taxation and climate change policies.

"When we talk about doubling production," French continues, "it means doubling our logistics capacity, both rail and port. The challenge in Queensland is that it is a very crowded infrastructure space."

POLITICAL DEVELOPMENTS

Recently, two touchstone issues have thrust Australian mining into the political spotlight: the attempts to introduce a Carbon Pollution Reduction Scheme (CPRS) and, more recently, a Resources Super Profits Tax (RSPT).

Introduction of the CPRS was subsequently delayed by former prime minister Kevin Rudd to 2013. The RSPT was renegotiated by his successor, Julia Gillard, who replaced it with the more agreeable Minerals Resources Rent Tax (MRRT)[2]. Metallurgical Coal intends to play an active role in working through the detail of the MRRT with government as well as in the formulation of policy to address climate change.

"The CPRS was intended to incentivise industry to produce less carbon," explains French. "We have no issue with that intent. We acknowledge that pricing carbon and giving people an incentive to reduce its generation was logical. But there is no point in forcing an incentive on anyone if the industry doesn't yet have the technology to reduce emissions – and the reality is that such technology does not exist for the majority of coalmining emissions, which are fugitive in nature.

"Everyone who looks at the coal industry has to understand that pricing is global. Everyone gets the same price. For an Australian project, we get the same price as our competitors around the world. We can't reflect our unique cost increases through pricing. The CPRS, as set out initially, and the RSPT would have left us at a global competitive disadvantage.

"We will continue to deal with these external challenges as they arise," concludes French, "but the real challenge will always be within our business, in continually motivating ourselves to outperform the competition and seek new horizons. For us, being part of Anglo American means continuously improving our performance and contributing to the objective of it becoming the leading global mining company. And this challenge, I have every confidence we can meet." O

[1] *All dollar figures in this feature denote US dollars.*

[2] Optima *went to press before the 2010 federal election.*

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01 Automotive electrician apprentice Jessica Wust with colleague Frank Montanari in the Callide mine workshop. In the background, trucks are prepared for maintenance work

02 Moranbah North technician Andrew McLennan on site at the mine's seamgas operation

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COUNTRY PROFILE

ANGLO AMERICAN'S COAL BUSINESS IN AUSTRALIA

ORIGINS:

Anglo American acquired Shell Petroleum Company's Australian coal assets in 2000. The Dawson project was completed in 2008, while a 70 per cent stake in Foxleigh coal mine was acquired in the same year. The Lake Lindsay project, part of the Capcoal complex, has reached the implementation phase ahead of achieving full production in 2012.

WORKFORCE:

Anglo American's Metallurgical Coal business in Australia employs more than 3,000 people.

CORE ACTIVITIES/PRODUCTS:

The vast majority of metallurgical (i.e. hard coking coal) and pulverised coal injection (PCI) coal is exported to steelworks in China, Japan and South Korea, while thermal coal is destined for power generation in both the domestic and export markets.

PRODUCTION DIVISIONS:

1 The Callide mine provides 9 million tonnes per annum (Mtpa) of low sulphur, sub-bituminous thermal coal from its open-cut mine.

2 Capcoal operates two underground mines and two open-cut mines. Together, they mine around 12 Mtpa of coal to produce in excess of 9 Mtpa of prime-quality hard coking coal, PCI and thermal coal.

3 An open-cut mining operation, Dawson spans almost 60 kilometres and produces approximately 7.5 Mtpa of coal.

4 Drayton is an open-cut coal mine. It produces around 5 Mtpa of thermal coal for export and domestic markets.

5 Foxleigh is an open-cut mine that currently produces 2.5 Mtpa of premium quality PCI coal for the steelmaking industry.

6 Jellinbah East is an open-cut mine producing low-volatile bituminous, mainly PCI coal for the steelmaking industry.

7 Moranbah North is an underground coal mine with an output of about 4.5 Mtpa of high-quality coking coal used in steelmaking.

OTHER INTERESTS:

Samancor Manganese is a joint venture between BHP Billiton (60%) and Anglo American (40%). It owns two operations:

8 Located on Australia's northern coastline, the Groote Eylandt Mining Company Pty Ltd (GEMCO) mines and processes manganese ore.

9 The Tasmanian Electro Metallurgical Company Pty Ltd (TEMCO), the only manganese ferro-alloy plant in Australia, is located on the north coast of Tasmania.