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ESCO eyes Australia

Company will shed licensing pact to launch its own operation

Portland Business Journal - by [Erik Siemers](#) Business Journal staff writer

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ESCO Corp. has supplied tools to Australia's massive mining industry for half a century without having its own operation Down Under.

That's about to change.

The Portland-based manufacturer of engineered metal components last month formed ESCO Holdings PTY Ltd., its first legal Australian operation.

The move comes before the company's 50-year-old licensing agreement with Sydney-based Bradken Ltd. expires in June 2011. Now ESCO is building its own sales and customer service staff in Australia, and is building a supply chain and distribution operation.

It's a massive undertaking, one that could eventually involve adding another manufacturing plant to the company's 25 worldwide, said Jon Owens, vice president of ESCO's engineered products group.

ESCO generates more than \$350 million in annual revenue, but company officials declined to provide any data on the expected size of the Australian investment or on how much ESCO product is sold in the country.

Australia's mines last year resulted in \$134 billion in exports, 48 percent of the nation's total, according to data from the Minerals Council of Australia.

A report from the U.S. Commerce Department estimates Australia's market for mining equipment to be \$5 billion. The country imports 70 percent of its supply, making it the second largest export market for U.S.-made mining equipment, after Canada.

The transition highlights how vastly global growth strategies have changed over the past 50 years.

Licensing deals like the one with Bradken were once a company's entree into a far-away market like Australia. ESCO has similar deals with licensees in South Africa, Chile and Japan.

But in today's global marketplace, an ESCO customer in the United States might also be a customer in Australia, eliminating the need to have a third party handle sales.

ESCO's current licensing deal allows Bradken to manufacture and sell ESCO-branded mining products, including dragline buckets — massive buckets held by a crane and used in excavation — and ground engaging tools such as the metal teeth attached to digging equipment.

The contract prohibits Bradken from selling those products anywhere but in Australia, New Zealand and Papua New Guinea.

Bradken's 2009 sales jumped 59 percent to \$1.7 billion, according to an annual report released in October. Its mining products category — which includes the ESCO products — was among its fastest-growing segments, jumping 14 percent to \$584 million.

Hodges and other Bradken officials in Australia could not be reached for comment.

With Bradken looking to expand its reach, ESCO didn't want to lose its business in Australia, a key market in the global mining industry.

"It's a significant market," Owens said.



Cathy Cheney | Portland Business Journal
Jon Owens.

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While the licensing deal in Australia is coming to an end, Owens said the company has no plans to make similar moves with its other licensees.

About two years ago, the company formed a joint venture with its licensee in Chile to build a manufacturing facility capable of serving all of South America.

"We still have relationships and we will continue them as long as they're good for us and good for the licensee," he said.

ESCO still has a year-and-a-half left on its Bradken contract. It has yet to determine whether it will launch a new manufacturing operation or import products.

"As we get deeper into the details, we'll have a clearer idea of what we're going to have in terms of a physical presence in Australia," he said.

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