

CASE STUDY XSTRATA COPPER



"We were specifically looking for an easy-to-use, reliable, integrated system across all our copper, raw materials and refined goods operations, including Concentrates, Blister, Anode, Cathode, Molybdenum, Dore, Slags, Slimes and Residues. Brady offers a specialisation and focus across all aspects of metals trading and its architecture is easy to integrate."

Greg Bews, Project Manager -
Global Commercial Project of Xstrata Commodities



STAYING AHEAD OF THE GAME

Brady is the solution of choice for Xstrata Copper - implementing an enterprise-wide trading & risk strategy for a global mining company

Xstrata Copper, a leading global mining company, began collaborating with Brady, the leading European-based provider of CTRM solutions, in 2004 and has extended this over the intervening years throughout the group.

Xstrata was set up in 1926 as Südelektra AG. Now, 85 years later, the Swiss company, headquartered in Zug, is a major diversified metals and mining corporation with a world-wide business portfolio of investments and resources. With operations across the world, the group's growth has been through a combination of organic expansion and acquisitions, enabling Xstrata's businesses to maintain a meaningful position in seven major international commodity markets: copper, coking coal, thermal coal, ferrochrome, nickel, vanadium and zinc, with a growing platinum group metals business, additional exposures to gold, cobalt, lead and silver, recycling facilities and a suite of industry leading technology products. Since its initial public offering in March 2002, Xstrata has expanded its operations and projects to 21 countries and for the past four consecutive years Xstrata plc has led all mining companies in the Dow Jones Sustainability Indexes.

The Challenge


The Copper business unit's requirement is for a global system which can address the diverse trading, hedging and risk management needs of different geographical locations as well as the operational differences between the plants, refineries and mines. The aim is to improve efficiency and accuracy across these assets, and achieve complete transparency. Xstrata Copper administers a significant part of its risk management activities through its central marketing function, which acts both as broker to the group and the internal counterparty.

To achieve this, Xstrata Copper needed a single provider which could handle all its requirements, rather than a series of disparate bolt-on applications which would only address some aspects of its operational needs. The system had to be able to combine physicals and non-physicals to achieve overall hedging and risk management requirements.

The Solution

Brady was initially evaluated by Xstrata Copper for derivatives hedging and risk management in Canada in 2004 and deployed in Chile in 2006, with Xstrata Copper Middle East (XCME) later extending its use of Brady to physicals and concentrates trading. Consolidated risk reporting, greater efficiency, technological consolidation and cost reduction were the key drivers for implementing the new system. Since 2008 Xstrata Copper has implemented the Brady solution in Dubai, Argentina, Peru and Chile; it is currently being implemented in Australia as part of a roll-out of a global trading and risk management solution. Brady has now grown to become the core global system for Xstrata Copper's trading and risk management activities.

The process involved in evaluating and finally choosing Brady was lengthy, starting with Requests for Proposals, through workshops and then detailed global scoping – the whole evaluation and selection process taking approximately two years. With such a large and significant project Xstrata Copper wanted to ensure Brady had the track record and size to be able to provide the stability of a long-term relationship, the technical capability to address the business unit's requirements over the coming years and that the project would match its implementation and budgetary guidelines.



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Xstrata Copper has gone live with much of the Brady functionality; the Risk Management solution is in the process of being implemented. This gives the business unit unrivalled functionality to manage their trading of commodities across the complete lifecycle from order to final settlement and which also provides unequalled depth of hedging and risk management, for consolidated risk management. The solution being developed by Xstrata Copper and Brady enables the full details of the raw materials contracts to be fully integrated with hedging and existing risk management, giving an accurate, real-time view of price risk and providing unique risk analytics and metrics. The ongoing implementation will enable Xstrata Copper to immediately see its global physicals position at any time, from any of its bases of operation, whilst being able to monitor its risk and hedging position around the world from XCME in Dubai.

Brady's solution allows Xstrata Copper to produce invoices more quickly and accurately, provides greater visibility and improved contract management, the ability to negotiate contracts and manage terms; it also enables real-time reporting and invoicing and enhanced interfaces with ERP systems (Enterprise Resource Planning).

Brady's solution will allow trade messages to be fed in real-time and both priced and un-priced positions can be identified on a daily basis, P&L attribution can be monitored and the linking of physicals and hedge contracts will be recorded to enable hedge accounting.

For the hedging and risk management project there were many terms to be addressed in the pre-negotiation contracts, including:

- QP mismatch between purchases & sales
- Buy/sell imbalance between purchases & sales
- QP optionality – in either Xstrata Copper's or the customers' favour
- LME (LBMA) / COMEX imbalance
- Price participation/price sharing
- Contractual Metal gains (i.e. difference between payable metal on purchase and sale)
- Cathode customer spot pricing
- Cathode customer fixed price forwards
- Early feed pricing – shippers can lock in price for material not yet shipped
- Uncertainties
 - Volumes
 - Assays
 - Ship dates
 - Arrival dates
 - Contract differences – MOSS vs. MOA
 - Production schedule/shutdowns
 - Position changes (e.g. how do you manage future uncommitted sales)

The implementation

Xstrata Copper Australia is the most recent to implement Brady's trading solution with the aim of going live in 2012, while the Risk Management functionality is in the trialling stage. Each division underwent a full scoping of the business requirements in its own region. This was converted into a specific build specification and the solutions were customised to meet these specifications. The system then underwent local testing and evaluation and, once signed off, the new technology was put into production.

With Brady's solution implemented across its operations, Xstrata Copper is now extending its relationship with Brady to manage its risk globally.

Greg Bews says: “While our users have taken a little while to adjust to the new systems, we are finding the systems live up to our specifications and will provide the information we need in the format we want.”

The Benefits

“Through the combined efforts of the Xstrata Copper team together with Brady, we have developed a fully integrated commercial and risk ‘mine-to-market’ system which covers our global position. Previously, we had been using spreadsheets and other legacy systems, which were time-consuming, and allowed for errors.” He adds: “This will not only result in an extremely efficient, streamlined operation across the trading lifecycle but the full access to the hedging and risk management functions of Brady will allow us to see our global risk position at any time.”

“Brady is our solution of choice for risk management and is used by multiple Xstrata Copper offices around the world. Brady's staff impressed us with their strong domain knowledge and flexibility of approach, which, coupled with the backing of a well-capitalized public company, reassured us this project would be based on a reliable partnership and a sound investment for the future.”

XCME is implementing an SOA (service-orientated architecture) and Brady's risk management fits well with this. Once live, any transaction between two Xstrata Copper entities will be automatically shown on both sides. It will be much quicker to recognise what is required for risk management and hedging; therefore necessary action can be taken very quickly. Brady provides greater power, functionality, speed and accuracy; it also means users across the world have an identical view of Xstrata Copper's positions, a valuable facility for a centralised, global concern, allowing Xstrata Copper to rotate personnel. The go-live is planned for the third quarter of 2011.

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