

Sent: 20 September 2011
To: John Doyle
Subject: RE: Tarmac/Lafarge Merger

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- Around 80% of the aggregate market in the UK is controlled by 5 major companies and they are; Hanson, Tarmac, Aggregate Industries, Cemex and Lafarge. The other 20% is in the hands of the smaller independent producers.
- The five majors are all cement producers (although it is fair to say that Aggregate Industries, part of the giant Swiss Holcim Cement Group, do not produce cement in the UK) This dominant position by the majors has an effect on both the aggregate and the concrete market in the UK.
- The cement industry in Europe is currently under investigation by the Competitions Directorate of the EC. It could be construed that the cement producers in Europe operate illegally by controlling the price of cement and concrete unfairly. The independent producers in the industry would not like to see a strengthening of this cartel by the merger of Lafarge and Tarmac.
- The aggregate industry is currently under investigation by the Infrastructure and Knowledge Economy Dept of the OFT and they paid visits to a number of operators early this year in a fact finding mission.
- The market areas are different throughout the UK so you cannot generalise. For example the majors are dominant in the South East but the smaller operators are much stronger in Scotland and parts of Wales.
- Many smaller operators have been “squeezed” by the majors, particularly during this time of depression in the construction market.
- In Scotland Lafarge is the only cement producer (at their works at Dunbar). They have no aggregate quarries and only one concrete outlet. Tarmac, on the other hand, have numerous aggregate quarries and numerous concrete outlets; but they have to bring their cement up from Buxton in Derbyshire.
- If the merger goes ahead it means that both Tarmac and Lafarge will have a dominant effect on the concrete market in Scotland and many operators would not like to see that happen.
- It could lead to, for instance, heavy discounting of cement to Tarmac by Lafarge at the expense of the smaller players. This kind of thing is happening with bitumen supplies when it comes to asphalt production).
- It could be that the price of cement is too high in the UK (when compared say to Germany where the industry was subject to a legal action for uncompetitive behaviour). If Tarmac does not have to bring the cement up from Buxton, they will have bigger margins to manipulate the market at the SMEs expense.
- In the past when the majors have been forced to divest of a number of their operations when takeovers or mergers have taken place, two things have happened. Firstly any divestment has gone to one of the majors and not a company outside the big cement player ring. Secondly the divestment has generally been in the form of an operation that is on hold or mothballed or almost worked out.

- This means that there has been no affect on the market at all. In fact it has strengthened the hand of the majors against competition. Any divestments need to be scrupulously vetted before they go ahead.

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