

HANSON**RESPONSE TO INVITATION TO COMMENT ON ANGLO AMERICAN/
LAFARGE MERGER INQUIRY****1. INTRODUCTION**

- 1.1 This initial Submission is made on behalf of Hanson UK (Hanson) in relation to the proposed joint venture between Anglo American (Tarmac)/Lafarge (the JV).
- 1.2 As the Competition Commission (the CC) may be aware, Hanson responded to two questionnaires from the Office of Fair Trading (OFT), one addressed to customers and the other to competitors¹. Hanson is aware that the CC will be following up with a questionnaire, and that a hearing is to be held shortly. Therefore, in the light of information already provided and in anticipation of engaging further with the CC in the near future, Hanson keeps its comments to a general introduction only at this stage.
- 1.3 Hanson is therefore limiting this response to the issues outlined in the CC's letter dated 14 September addressed to Hanson², in particular providing some background on Hanson and the relationship it has with the JV parties, as well as providing some initial comments around market definition.
- 1.4 At the time of preparation, Hanson has not had sight of the OFT decision regarding the proposed JV. Therefore, this Submission does not respond to any of the points raised in this decision. However, the Press Release issued by the OFT in respect of the reference³ did identify a number of markets where the OFT identified potential concerns (aggregates, asphalt, ready-mix concrete and cement). Therefore, Hanson has, at this stage, focused its comments on those markets.
- 1.5 Please note the contents of this Submission are confidential. Hanson would request that it not be published on the CC's website (in particular, given the extent of sensitive trading information it contains). If the CC intends to refer to any aspect of this Submission publicly, we would request that Hanson be given the opportunity to make representations in advance.

2. OVERVIEW OF HANSON'S ACTIVITIES

- 2.1 Hanson is active in the production, processing and supply of heavy building materials in the UK. Hanson forms part of the HeidelbergCement Group, a producer and supplier of heavy building materials (including cement, aggregates and concrete products), which employs around 57,000 people across five continents.
- 2.2 Hanson's current UK aggregates, asphalt and ready-mix businesses (as well as other businesses) historically fell within the Hanson PLC group of companies. Hanson PLC was the holding company of a group of companies which supplied heavy building materials to the construction industry, headquartered in London, but with activities in the UK, Europe, the United States, Mexico, Canada, Israel, Australia and parts of Asia. Its activities in the UK were largely focussed on aggregates, asphalt, concrete, road contracting and building products.

¹ Please see Hanson's responses to the OFT's Questionnaire for Competitors dated 6 June 2011 (on 1 July 2011) and the OFT Questionnaire for Customers dated 7 June 2011 (on 8 July 2011). Hanson assumes that the CC will have been provided with copies and is not therefore repeating that information here.

² Letter addressed to Patrick O'Shea of Hanson of 14 September. Various divisions within Hanson have received copies of this letter (a summary of how the business is organised is set out at paragraph 2.4). This response is a consolidated version prepared on behalf of Hanson.

³ OFT Press Release of 2 September 2011 "OFT refers Anglo American/Lafarge Construction Materials Joint Venture to the Competition Commission"

- 2.3 In 2000, Hanson PLC acquired the major aggregates (and other building materials producer) Pioneer Group⁴. In the same year, it also acquired certain assets from the Anglo American/Tarmac group following divestment commitments which Anglo American was required to give to the Secretary of State in respect of its 2000 acquisition of Tarmac.
- 2.4 Since 2000, other fairly small bolt-on aggregates businesses have been acquired and [X] [X] non-core businesses have been sold. Hanson PLC also made a number of other acquisitions in other sectors, including acquisitions of brick and aircrete block producers and the acquisition of Civil & Marine in 2006 (involved in the processing and supply of ground granulated blast furnace slag (GGBS), a cement substitute generally used in ready-mixed and precast concrete).
- 2.5 In 2007, Hanson became part of the HeidelbergCement Group. The acquisition by HeidelbergCement of Hanson in 2007 was notified to, and cleared by, the European Commission⁵. Prior to this merger, HeidelbergCement Group's activities in the UK were largely limited to the supply of cement (its subsidiary, Castle Cement, was a significant supplier of cement in the UK).
- 2.6 Hanson's current UK business is split into three divisions:
- 2.6.1 **Hanson Quarry Products** – This division produces sand and gravel from the land and sea, crushed rock, asphalt for road surfacing and ready-mixed concrete from a network of over 300 fixed and site-based plants. The division also operates a national contracting business specialising in road surfacing and infrastructure work;
- 2.6.2 **Hanson Building Products** – This division produces clay bricks, concrete blocks (aircrete and aggregate), and concrete and clay pavers. Its product range also includes wall cladding systems, decorative rocks and stones, bagged products, concrete flooring and precast concrete products. The division includes the specialist brick and block laying contractor, Irvine-Whitlock; and
- 2.6.3 **Hanson Cement** – This division is a producer of Portland cement (bulk and bagged products) and GGBS. The division also includes bagged aggregates⁶.

3. RELEVANT MARKETS

- 3.1 Hanson considers that it would be useful to set out some initial thoughts on market definition in order to help the CC frame its assessment.

Aggregates, Asphalt and Ready Mix – Geographic Scope

- 3.2 In previous merger decisions, the OFT has developed a rough "rule of thumb" in respect of primary land-won aggregates⁷ and asphalt⁸ which suggests that a 30 mile radius around a quarry/plant may provide an indication of the relevant geographic market. Hanson considers that this can serve as a useful starting point for an indication of the economic supply radius for primary land-won aggregates and asphalt from a production plant/quarry (in particular, given the transport costs associated with

⁴ This acquisition was cleared by the Secretary of State subject to divestment undertakings being given in lieu of a reference to the Monopolies and Mergers Commission, following a reference back from the European Commission under the EU Merger Regulation.

⁵ Case No COMP/M.4719 – *HeidelbergCement/Hanson*, European Commission decision dated 7 August 2007.

⁶ Please note the division also previously had its own organic chemical waste business, SRM, which produced alternative fuels for the cement kilns. This was sold on 2 September 2011 to Tradebe Environmental Services.

⁷ Case ME/1274/04 *Midland Quarry / Griff Quarry* decision dated 27 September 2004 and Case ME/1264/04 *Anglo American / Johnston* decision dated 8 November 2004

⁸ Case ME/1404/04 *Ennstone / Johnston* decision dated 8 March 2005; Case ME/1274/04 *Midland Quarry / Griff Quarry* decision dated 27 September 2004 and Case ME/1264/04 *Anglo American / Johnston* decision dated 8 November 2004

aggregate and asphalt deliveries and the fact that asphalt needs to be delivered hot). The markets for both aggregates and asphalt are generally local and at most would be regional.

- 3.3 Similarly, given the fact that ready-mix is a perishable product which needs to be continually mixed and delivered "wet" to site, transport considerations constrain the distances over which the product can practicably be supplied. Therefore, ready-mix markets are local. Hanson considers that 10 miles (again the radius which has generally adopted in previous European Commission merger decisions⁹) represents a useful starting point for an indication of the likely economic radius of supply for ready-mix around a plant.
- 3.4 However, these supply radii should be treated as a starting point only for each of these three products. Each market would need to be assessed specifically on a case by case basis. Some of the factors which would need to be considered in determining the effective range over which each of these materials can compete include: the quality of the road network, density of traffic, the proximity of alternative sources of supply, and the location of major centres of demand. As regards aggregates, the grade of product is also a factor with premium quality material generally being transported further than lower grades. The possibility of delivering aggregates by rail also serves potentially to extend the geographic market in the case of demand locations with strong rail links for aggregates supply.
- 3.5 Therefore, depending on the dynamics affecting supplies from a particular location, the economic radius of supply can vary very significantly.
- 3.6 An additional dynamic is introduced into aggregates by the availability of secondary and recycled aggregates which can be economic over greater distances due to their lower price. The role of secondary and recycled aggregates is considered further below.

Secondary and Recycled Aggregates

- 3.7 In any assessment of the effects of the JV in relation to aggregates, it is important to take account of the significant competitive constraint imposed by secondary or recycled aggregates to the supply of primary (land-won or marine) aggregates.
- 3.8 In particular, secondary and/or recycled aggregates can be substituted for primary aggregates in a significant proportion of end uses. For example, recycled rail ballast or recycled asphalt planings (RAP) (both recycled aggregates) can be used in the production of asphalt. Old crushed concrete may be used as a coarse aggregate instead of rock or gravel. Crushed glass can be used as a substitute for sand for certain building applications and crushed concrete/ballast may be blended with primary aggregates to produce road fill. A large sector producing recycled aggregates is also the demolition industry which effectively is paid to produce crushed brick and concrete, and can then compete very strongly against primary aggregates.
- 3.9 There are certain uses for which secondary or recycled aggregates are not perfect substitutes for primary aggregates due to their technical characteristics. For example, recycled material cannot be used in premium graded applications where it is critical that particles are of a similar size, such as single-sized concrete aggregate. Recycled aggregates may similarly not be suitable in specialised asphalt applications, for example, surface courses on roads due to the risk of contamination from historic traffic usage.
- 3.10 However, even for end uses where secondary/recycled aggregates alone would not meet the relevant specifications, increasingly a blend of primary and secondary/recycled aggregates are used. In addition, technological advances mean

⁹ Case No. COMP/M.3572 – *Cemex/RMC decision* dated 8 December 2004

that the recycled aggregates have the potential to rise up the quality spectrum in terms of end use (i.e. there is a growing category of end uses for which customers are prepared to use recycled material).

- 3.11 Secondary and recycled aggregates have certain inherent advantages over primary aggregates from the producer viewpoint:
- Government minerals planning policy provides strong support for the development of secondary and recycled aggregates operations. For example, MPS 1, which sets out the Government's national planning policies for minerals planning in England, refers, as one of the national objectives for minerals planning, to ensuring "*as far as practicable, the prudent, efficient and sustainable use of minerals, and recycling of suitable minerals, thereby minimising the requirement for new primary extraction*".
 - Secondary and recycled aggregates are exempt from the Aggregates Levy (which gives them an automatic £2 cost advantage over primary aggregates). This cost advantage is notable when compared against prices for primary materials (for example, a £2 per tonne advantage for secondary/recycled material is significant when compared against an average £9 per tonne ex-gate price for crushed rock).
 - Secondary aggregates (which are often by-products of other production processes) and recycled aggregates (which do not involve capital intensive quarrying operations) also have certain production cost advantages over primary aggregates¹⁰.
- 3.12 The Mineral Products Association (MPA) estimates that, despite the very significant drop in demand for aggregates, recycled aggregate volumes have declined at a lower rate, suggesting that, as a proportion of aggregates supply, recycled aggregates have at least been on the rise. This trend can be expected to continue, in particular in the light of the various Government initiatives towards sustainable housing.
- 3.13 The MPA estimates that secondary/recycled aggregates represent around 28% of aggregates supply in the UK. Although some of the major primary aggregates players are active in secondary and/or recycled aggregates, there are numerous other suppliers of secondary and recycled aggregates.

Grey Cement – Geographic Scope

- 3.14 Hanson considers that it would be appropriate to consider at least a national market when considering the cement production and supply aspects of the JV.
- 3.15 In particular:
- 3.15.1 Cement is often transported over significant distances, often in excess of 150 miles.

¹⁰ The OFT has recognised the potential costs advantage of secondary aggregates (as well as recognising the contribution of the Aggregates Levy) in its decision in the case of Aggregate Industries completed acquisition of Atlantic Aggregates and Stone Haul (*Completed acquisition by Aggregate Industries UK Limited of Atlantic Aggregates Limited and of Stone Haul Limited* - OFT Decision of 2 March 2009): "*One reason why secondary aggregates are cheaper than primary aggregates is because they are cheaper to produce since they derive from waste materials and therefore do not need to be directly quarried*" (paragraph 18). In that case, the OFT adopted (what it termed a "cautious") market definition by referring to secondary aggregates only (due to the cheaper prices of secondary aggregates and specific demand for secondary aggregates). However, it is likely that competitive constraints are asymmetric: whilst there may be limits to the constraints imposed by primary aggregates on secondary aggregates, secondary (and recycled) aggregates do constrain primary aggregates. Indeed, in previous merger cases involving primary aggregates suppliers, such as the Aggregate Industries/Foster Yeoman decision (*Completed acquisition by Aggregate Industries Limited of Foster Yeoman Limited* – OFT Decision of 20 November 2006), the OFT has considered that recycled/secondary aggregates form part of a wider aggregates market.

- 3.15.2 Cement plants are predominantly in the Midlands and North & North West of the country, along with one plant in South Wales and another one in Scotland (sited on limestone deposits which sit north of a line drawn from The Wash to the Avon estuary), but cement is supplied throughout GB (with the majority of sales being to London and the South East).
- 3.15.3 Some cement producers generally also have access to networks of depots, which potentially extends their ability to provide GB-wide coverage even if their plants are geographically concentrated. In the case of Hanson (and certain others), many of these are linked by rail which allows economic distribution over greater distances.
- 3.16 It is possible that a wider than national dimension to the market should also be considered. Imports of cement have a significant role to play in the UK. Imports have grown from 8.6% to 12.8% in the last 5 years. Historically, there have been quality issues associated with imported cement, but the quality of the cement coming from abroad has increased substantially over the past 10 years therefore providing a genuine alternative source of supply for customers.
- 3.17 Imported cement is supplied to customers in all the main areas of cement consumption in the UK and is not just restricted to those located near the coast. Independent importers have access to import terminals spread throughout the country (in particular, on the East Coast of England, the North West and the South West). These allow easy access to the majority of UK regions.
- 3.18 The presence of importers has grown significantly in recent years. There are now a number of major, independent importers, such as Dudman, Dragon Alfa Cement/Southern Cement (both part of the Cementos Portland Valderrivos group of companies), Titan Cement, Premier Cement (this was formerly Morrissey, and is now owned by the CRH Group of Ireland) and Quinn Cement, as well as a number of smaller (but still significant) importers (such as Dennis May, Sherburn Cement and Thos Armstrong).
- 3.19 As a result, domestic producers such as Hanson face a strong and increasing threat from imports.

4. **RELATIONSHIPS WITH ANGLO AMERICAN (TARMAC)/LAFARGE**

- 4.1 Hanson operates in the aggregates, asphalt, ready-mix concrete and cement markets which appear likely to be the focus of the CC's inquiry. Hanson is a competitor of both parties to the joint venture, as well as a supplier and customer.
- 4.2 Hanson currently purchases aggregates, asphalt and small quantities of mortar and ready mix concrete from Tarmac (as well as Granulated Slag, a raw material for the production of Ground Granulate Blast Furnace Slag, GGBS). From Lafarge, Hanson purchases cement, aggregates, asphalt and small quantities of ready mix concrete. A summary of the principal supply relationships Hanson has with each of the JV parties is set out below (many of these relationships are not characterised by formal written agreements). This is not intended to be a comprehensive list, but an indication of the main supply relationships. The volumes are also meant to be indicative estimates only.

Aggregates

- 4.3 As explained above, Hanson has grown through a series of acquisitions. Given the local nature of aggregates markets and the manner in which Hanson has grown, it has a network of quarries and downstream (ready-mix and other) operations which are far from optimised in terms of self-supply. Hanson is therefore required to purchase significant quantities from third parties. For similar reasons, certain other vertically integrated players will purchase significant volumes from it.

- 4.4 Therefore, the aggregates supply/purchase arrangements which Hanson has with the JV parties are generally dictated by logistics considerations (i.e. one party's quarry is better located to supply the other party's downstream (e.g. ready-mix) operation than that latter party's own quarries), although grade/quality issues may also play a part (for example, one party may have access to a particular grade/quality of material in a region which is required for another party's downstream operation (e.g. lignite free aggregates required for a concrete block plant) which that other party does not have access to).
- 4.5 By way of rough estimates, in 2009 Hanson's sales to and purchases of aggregates from Tarmac and Lafarge were roughly:

Sales	'000 tonnes	% of Total Hanson Sales	% of Hanson External Sales
Sales to Tarmac	[X]	[X]	[X]
Sales to Lafarge	[X]	[X]	[X]

Purchases	'000 tonnes	% of Total Hanson External Purchases
Purchases from Tarmac	[X]	[X]
Purchases from Lafarge	[X]	[X]

Asphalt

- 4.6 Hanson currently sells asphalt to both Lafarge and Tarmac (specifically to their contracting arms). The sales vary by region. The following are rough estimates by region:

Asphalt sales last 12 months (kt)	Tarmac	Lafarge
North	[X]	[X]
Central	[X]	[X]
South	[X]	[X]
National total	[X]	[X]

- 4.7 Asphalt is typically supplied when either Tarmac or Lafarge have difficulties supplying asphalt themselves. Such difficulties may arise when, for example, Tarmac or Lafarge (as appropriate) do not have local asphalt resource or need back-up supplies in order to satisfy a large contract (for example, in order to ensure uninterrupted supplies for a major surfacing contract). There are generally no formal trading agreements in place with either party and instead the supply is provided on a more ad hoc basis.
- 4.8 Hanson also purchases asphalt from both Tarmac and Lafarge for similar reasons. A summary of the purchases made by region is set out below:

Asphalt sales last 12 months (kt)	Tarmac	Lafarge
North	[REDACTED]	[REDACTED]
Central	[REDACTED] ¹¹	[REDACTED]
South	[REDACTED]	[REDACTED]
National total	[REDACTED]	[REDACTED]

Cement

- 4.9 Hanson purchases cement from Lafarge predominantly to supply its ready-mix concrete plants in the South and South West. In 2010, this supply involved relatively low volumes (approximately [REDACTED] per annum). This supply arrangement results from the optimal location of Lafarge's cement plants (and its rail link into the South West) for supplies into the South West, compared with Hanson's cement plants which are not rail-linked into the South West. Hanson does not buy cement from Tarmac.
- 4.10 Hanson currently sells cement to Tarmac predominantly for use in its ready-mix plants in Scotland and the North West (estimated 2011 volumes are [REDACTED]). Again, such a supply arrangement arises largely due to logistics considerations. In particular, Hanson operates a rail depot in Scotland whereas Tarmac does not.
- 4.11 Hanson also supplies around just under [REDACTED] (2011 estimated volumes) to Tarmac Building Products (including mortar and screed). This arrangement arises from technical considerations (as Tarmac can not produce the ready set cements required for this business)¹².

GGBS

- 4.12 Hanson purchases Granulated Slag, a raw material required for the production of GGBS (Ground Granulated Blast Furnace Slag), from Tarmac (due to the fact that Tarmac own granulating equipment and hold supply contracts with Tata Steel). It then processes this and grinds it into GGBS. Hanson then sells processed GGBS to Tarmac and Lafarge (as well as others).
- 4.13 By way of estimates, in 2010, Hanson supplied around [REDACTED] of GGBS to Tarmac, whereas any supplies to Lafarge in Great Britain were intermittent and at a much lower volume (Lafarge tends to import GGBS into Great Britain).
- 4.14 In addition, Hanson has a facilities/supply/distribution arrangement with Lafarge in relation to the operation of a terminal in Belfast and the supply of GGBS through that terminal.

Joint ventures

- 4.15 Hanson has the following joint ventures with Tarmac:
- 4.15.1 Midland Quarry Products – this was established in December 1996 with the rationale of [REDACTED]; and
- 4.15.2 North Tyne Roadstone – this was established in March 1967 but is currently not operational. The purpose of this joint venture was to bring together and make viable investment in a new limestone quarry.

¹¹ Please note Hanson purchased just over [REDACTED] of asphalt in the Central region from Midland Quarry Products (which is a JV between Hanson and Tarmac. Further details of this JV are provided at paragraph 3.10.1).

¹² In 2011, Hanson estimates that it will also have supplied Tarmac around [REDACTED] of cement to a number of Tarmac's plants in the South of England.

5. VIEWS ON THE PROPOSED JOINT VENTURE

- 5.1 Hanson does not consider that the transaction would raise concerns at the national level for any of the products covered by this Questionnaire.
- 5.2 As regards aggregates, asphalt and ready-mix, these are essentially regional or local markets. There are numerous suppliers of these products active in the UK. For example, according to the MPA, there are around 441 producers of primary aggregates alone. There are a number of alternative, multi-regional players active in primary aggregates, including the parties, Hanson, Holcim/Aggregate Industries, Cemex, Breedon Aggregates and, to a certain extent, Brett, as well as numerous predominantly regional or local players. The constraint from secondary and recycled aggregates (representing around 28% of the market) further enhances the competitive dynamic in the UK.
- 5.3 Similarly, in asphalt and ready-mix, there are multiple players active on multi-regional, regional or local basis respectively.
- 5.4 Given the local or regional nature of aggregates, asphalt or ready-mix markets, it is possible that the JV would lead to high market shares at the local or regional level in respect of one or more of these products (as well potentially as high market shares in aggregates supplied for particular end uses, such as rail ballast). Hanson has not, however, undertaken a detailed analysis as to whether (and where) such high shares might arise.
- 5.5 As regards cement, the JV will clearly lead to an increment to Lafarge's existing share. However, this is a competitive market and the JV will continue to face strong competition from other UK cement players such as Hanson and Cemex, as well as importers who have a significant role to play in the UK market.
- 5.6 As noted above, Hanson considers that the grey cement market is at least national. As a result, regional or local concerns are unlikely to arise.