ANGLO AMERICAN/LAFARGE MERGER INQUIRY

Summary of hearing with a Cement Importer held on 11 October 2011

Background

1. The Cement Importer told us that it had been established in the UK for over a number of years and had been set up at a time when the shortage of cement supplies and the price being charged for cement allowed importers to be able to import materials from European sources and still sell it competitively in the UK market.

2. The Cement Importer said it was still making a profit despite a drop in turnover over the last couple of years. Given the current economic situation and the increased competition in the industry, it expected business to be severely restricted in the next couple of years. The Cement Importer believed that the current downturn in demand for cement in the UK had been to the advantage of domestic UK cement producers, enabling them to take back a market which they were not able to supply in the early 2000s.

Market definition and competitive constraints

3. The Cement Importer confirmed that CEM II and CEM III were cheaper than CEM I, but that the properties of the resulting concrete changed depending on which type was used. For example, CEM II, made with pulverized fly ash (PFA), would slow down the setting time of concrete. CEM II and CEM III also resulted in weaker concrete and British Standards laid down guidelines as to how much PFA or ground granulated blast furnace slag (GGBS) could be used (because GGBS had slight cementitious properties, a higher proportion could be used in comparison with PFA: 40 to 50 per cent as opposed to 25 per cent). The Cement Importer said that companies like Cemex and Hanson would sell CEM II to smaller ready-mix suppliers, but due to the issues surrounding setting it would not be used much in pre-cast concrete manufacture.

4. The Cement Importer did not believe that being only a CEM I supplier limited its ability to win customers, as CEM I was essential to provide the cementitious properties in CEM II and CEM III. Larger customers tended to have separate silos for GGBS, PFA and CEM I and did their own blending on site to make CEM II and CEM III. The Cement Importer said it supplied about seven or eight ready-mix operations, which all had separate silos and did their own blending.

5. The Cement Importer noted that Hanson controlled the supply of UK-produced GGBS following its purchase of Civil & Marine. PFA was more readily available, particularly in winter.

Purchasing process

6. The Cement Importer was known in the industry as providing a good-quality product. It had not come across any perceptions that purchasing cement from importers required any extra testing to ensure the quality of the product, nor that customers expected imports to be significantly cheaper than domestic supply if they were to switch to imported cement.

7. The Cement Importer's customers tended to be smaller and purchased cement on an ad hoc basis and some customers had a relationship with the Cement Importer going back for a number of years. It was more flexible over payment with its customers than the major domestic UK companies, and this meant that it was able to provide better continuity of supply to such smaller-sized customers. It added that its customers were not confined to the area around its import terminal.

8. Prices were set by negotiation, within a target range that the Cement Importer wanted to achieve, and it usually learned of its competitors' prices by customers citing these prices, although was not aware of its competitors' costs. It never refused to quote, even when it was unlikely that the customer would actually switch to it. It was aware that companies sometimes used these quotes to renegotiate prices with their current supplier, particularly after the major domestic UK companies sent out price increases. It had heard that the major companies would refuse to quote to competitors' customers, but was not sure how often that this happened.

9. As an importer of cement, the Cement Importer had less flexibility to negotiate on price to its customers as compared with the domestic cement producers because it had to factor in additional cost of transport as well as storage and haulage. For example, importers of cement from the Republic of Ireland to the west coast of the UK were in a better position as they had shorter transport distances, and the Cement Importer had lost business where Lafarge and Tarmac were able to undercut it significantly in direct negotiations with its customers. The Cement Importer noted that its competitors had in the last year been particularly aggressive in approaching its customers and giving more attractive prices.

10. The Cement Importer had in the past sold to concrete plants that had now been taken over by Cemex and Hanson and supplied by their own upstream cement businesses.

11. The Cement Importer noted that even though Tarmac had only one cement production facility in the UK and many ready-mix plants, some of which were a long way from its production facility, it was not able to benefit from any business opportunity. This was partially because some of Tarmac's ready-mix plants were too far away from the Cement Importer's facility, but also because Tarmac sold aggregates in some areas in return for supplies of cement to its plants in those areas. The Cement Importer did not have the ability to enter into such reciprocal arrangements as it did not supply any product other than CEM I.

Barriers to entry/expansion

12. Market conditions were very different now to what they were years ago when the Cement Importer set up in the UK, and that was in response to a shortage at that time and a large demand at that time. It believed there were quite a lot of barriers to entry now, and any company that did manage to set up in business would probably struggle.

13. The entry-level cost to opening up a cement production plant from scratch in the UK was very expensive and could be in the region of £500 million. Furthermore, as many businesses were already vertically integrated there was not really any opportunity available for any new entrants to the market.

14. The Cement Importer said it was not a member of any associations, but those such as the Mineral Products Association (MPA) did a good job in ensuring that some of the barriers on the technical side of the business were overcome quite well.

The counterfactual

15. There would probably not be any increase in opportunities for companies such as the Cement Importer in the absence of the joint venture between Tarmac and Lafarge.

Concerns regarding the joint venture

16. The Cement Importer thought it was possible that competition in the industry might be reduced with fewer parties in the industry. There was also the possibility of companies like Lafarge and Tarmac being able to move into areas by participating in reciprocal deals with various manufacturers.