ANGLO AMERICAN/LAFARGE MERGER INQUIRY

Summary of hearing with Allen Newport Ltd held on 7 October 2011

Background

1. Allen Newport told us that it was a family-owned business, supplying sand, gravel and ready-mix concrete. Its general trading area included Norfolk, Suffolk and Cambridgeshire, although it sometimes traded beyond this geographic area. Its customer base ranged from private individuals, home builders, large civil engineering contractors and farmers to a number of the major asphalt producers. It also supplied sand and gravel to one of its own concrete plants.

2. Allen Newport said that that it was a member of the Mineral Products Association. Being a member provided access to information and resources that smaller firms such as Allen Newport did not have in-house, such as specialists in environment, planning and waste.

3. Allen Newport told us that its turnover and profitability had decreased as a result of the recession, in line with the rest of the industry. It did not anticipate any significant growth in the market for the foreseeable future, although local or regional variations were possible.

4. In terms of regulatory issues, Allen Newport noted increasing pressure from environmental regulation, particularly from EU directives. The most recent directive to impact on its business was the Mining Waste Directive, which required it to obtain a permit from the Environment Agency to manage the silt from its quarrying activities. While the annual cost of compliance was relatively small, it had cost £5,000 to employ outside consultants to complete the necessary applications, which was a large cost for small independents like Allen Newport. By contrast, it was not affected by any changes in the planning regime and had been able to secure an extension to 2021 on the planning consent for its quarry without any difficulty.

Allen Newport as a competitor (aggregates, ready-mix concrete)

5. Allen Newport told us that it had a sand and gravel quarry at Cavenham, between Newmarket and Bury St Edmunds. It also owned another quarry at Flixton on the Norfolk-Suffolk border, which it leased to Tarmac in 1998, although Tarmac had since signed its interest in this quarry to Cemex. The reserves at Flixton would be exhausted within the next two years. While it was not common practice between operators to lease out quarries to other operators, this was part of a series of contracts, leases and supply agreements Allen Newport entered into with Tarmac in 1998. Allen Newport also had two ready-mix plants, one near Bury St Edmunds and one near Cambridge. Other than aggregates and ready-mix concrete, it did not supply any other types of construction material.

6. Allen Newport said there was presently limited scope to increase the market for secondary or recycled aggregates. While there was broad usage of recycled aggregates (crushed concrete, asphalt planings, processed brick rubble, recycled railway ballast), it was not possible to replace primary aggregates with secondary aggregates for certain uses. For example, there was no direct replacement or substitute for the soft or building sand used in the manufacture of asphalt. While large companies were certainly looking at the use of recycled aggre-gates as a replacement for primary

aggregate (eg coarse aggregate such as stone), the use of recycled aggregate had levelled off over the last few years after a big increase. Allen Newport did not know whether this was down to limits in usage or unavailability.

7. Allen Newport told us that it exclusively used primary aggregate in its concrete. This was not only because it was a primary aggregate producer, but also because it had an agreement with Tarmac to purchase a certain tonnage of primary aggregate per year to go into its concrete. Furthermore, Allen Newport did not have the technical resources to ensure that any recycled material it added would meet customer requirements. Another consideration was that unlike primary aggregates, supply of secondary aggregates was limited, especially in rural areas where there was not a lot of demolition work compared with urban areas such as London. Hauling recycled aggregate out of London on a large scale into East Anglia to replace primary aggregate would probably be uneconomical due to the haulage costs.

8. Allen Newport did not see ground granulated blastfurnace slag (GGBS) as an alternative to cement, but as a product that could be blended with existing cement to make a blended product that had environmental benefits in terms of its carbon footprint. Allen Newport had used cement blended with GGBS in the past when it was specifically requested by the customer. At present, Allen Newport used CEM I and CEM II. CEM II was a pre-blended product using pulverized fuel ash (PFA) that was cheaper than CEM I. CEM II was also beneficial in situations where sulphate was present in the ground. Allen Newport said that it used CEM II either because a customer specified its use or because it gave a cost advantage.

9. Allen Newport advised that it used to purchase GGBS from Civil & Marine (now part of Hanson). At the time, there were occasions when Allen Newport experienced a shortage of supply of GGBS, which it put down to a shortage of production. As far as it was aware, Hanson was the sole supplier of GGBS in the UK.

10. Allen Newport considered volumetric trucks to be in the same market as ready-mix. While it did not operate any volumetric trucks itself, it noticed them in its day-to-day activities. Volumetric trucks had picked up a significant volume of business not only locally, but nationally. Allen Newport estimated there might be up to 200 companies running volumetric trucks. In its own trading area, one competitor was operating up to a dozen trucks. Volumetric trucks were initially introduced to cater for the small DIY market, and, although they could not service big-volume orders (ie pours of perhaps 100 to 150 metres a day took business away from Allen Newport on a range of jobs that would otherwise have been served by fixed-site ready-mix concrete plants), Allen Newport was not aware of any issues with the quality of concrete that came out of volumetric trucks. Although it had considered operating volumetric trucks itself, the capital costs were prohibitive as they would be in addition to its existing fixed-plant operation. It would be a duplication of capital resource.

11. Allen Newport said that there was an issue about such trucks apparently being allowed to operate under different rules to ready-mix trucks. Volumetric trucks were treated as plant rather than HGVs so instead of a limit of 32 tonnes, they could be loaded up to their plated weight possibly in excess of 40 tonnes, which gave them a distinct advantage in terms of cost per cubic metre or cost per tonne. It is also understood that they were allowed to run on red diesel rather than white diesel, which gave a significant cost saving, and they also avoided the need to pay road duty.

12. Allen Newport did not operate ready-mix concrete site plants (which made ready-mix concrete on the building site) but was aware of them, noting that they would be used for large road or construction projects (such as the Olympic Park) where a high

volume was required. Allen Newport did not know the precise volumes where it would be economical, but suggested they would be in the hundreds of thousands of cubic metres. It would only be economical to provide such plants if you could be sure that it could be used immediately for further projects.

13. Allen Newport saw its main competitors for aggregates as Tarmac (which had a quarry just outside Bury St Edmunds), Frimstone (an independent operator with a quarry about 4 or 5 miles from Allen Newport) and Lafarge (with a quarry in the Stowmarket area). There were also quarries in Norfolk operated by Tarmac and Cemex, as well as merchants such as Bardo Midlands which did not have quarries of their own locally, but bought material from quarries and supplied directly to the customer. Allen Newport noted that the location of Lafarge's quarry meant that it did not compete on aggregates as much with Lafarge due to the distances involved.

14. Allen Newport said that the ready-mix market was highly competitive. Its Bury St Edmunds site competed with Tarmac, Hanson, Cemex, Brett Concrete and the Concrete Company. Its Cambridge site competed with Tarmac, Lafarge, Cemex, Hanson and Aggregate Industries, along with one or two independents that catered for the smaller DIY market.

15. Allen Newport noted that Tarmac and Lafarge were both its suppliers and its competitors, but did not believe that it caused any issues. It noted that it also used to supply Lafarge with sand for its asphalt plants until Lafarge decided, possibly for economic reasons, to supply from its own quarries, even though this meant greater haulage distances.

16. Allen Newport told us that the distance around a quarry from which it was economically viable to deliver aggregates was approximately 25 miles. While it did supply some materials further than that (to Norwich and Ipswich), this was because the customer wanted a specific type of product which Allen Newport was able to supply. With ready-mix, the practical supply distance around a plant was 20 miles. Beyond 20 miles, haulage costs became an issue, especially considering the number of competing suppliers. Also, ready-mix could not be kept in a truck for more than 2 hours.

Allen Newport as a customer

17. Allen Newport told us that it had a reciprocal supply agreement with Tarmac in which it supplied Tarmac with sand for asphalt and Tarmac supplied Allen Newport with sand and gravel for ready-mix. Tarmac also had an asphalt plant on land that it rented from Allen Newport. The commercial logic behind this reciprocal supply agreement was that it brought the source of supply a lot closer to the place of use, although there were also technical reasons.

18. Allen Newport also purchased fairly small tonnages of limestone from Bullimores and Frimstone and specific types of sands and gravels from Cemex that it could not produce, but for which there was customer demand.

19. Allen Newport did not consider the importing of aggregates from abroad to be a realistic proposition and had never considered importing aggregates. Although there were ports nearby in Felixstowe and Harwich, Allen Newport did not consider this to be a realistic option. Allen Newport did not consider that it would be short of potential alternatives should supply from Tarmac not be available, as it had been approached by a number of potential suppliers wanting to supply sand and gravel to its ready-mix concrete plant.

20. Allen Newport purchased its cement from a single supplier, Lafarge, in order to achieve consistency in the colour of its ready-mix. It noted that it had previously purchased cement from Blue Circle (now Lafarge) and Rugby, at one time from both together, but switched to a single supplier to ensure the aforementioned consistency. Alternative suppliers of cement included Cemex and Hanson. Allen Newport had at times approached both of these companies seeking a quote, but Cemex had never offered a price (even though it was capable of supplying the required volumes), while Hanson quoted prices that were uncompetitive with the price it was paying Lafarge and recently had not provided a quote (again, Allen Newport did not believe that there was an issue with availability of supply).

21. Allen Newport said that about eight to ten years ago it had spoken to Southern Cement who had offered a fairly attractive price, which Lafarge then matched. This was Allen Newport's only experience with importing cement. One potential issue now was that Southern Cement appeared only to import CEM I, whereas Allen Newport used CEM I and CEM II and it believed that moving its CEM II purchase away from Lafarge could affect the price Lafarge charged for CEM II.

22. Any severe hike in the price of cement would also cause Allen Newport issues with respect to the competitiveness of its ready-mix concrete.

Purchasing process

23. Allen Newport told us that it tended to sell its aggregates and ready-mix concrete on a spot basis and rarely signed supply contracts. The exception was with Tarmac, who had to take a certain tonnage of aggregate every year.

24. Allen Newport said that in general, the prices of its aggregates and ready-mix were market driven and price increases were based on the additional costs to its business. Customers either accepted its prices or negotiated them downwards, although Allen Newport would not sell below cost. Allen Newport said that, historically, one company would increase prices for ready-mix concrete, and others would follow. Allen Newport would usually look at the price rises offered by the larger companies and then consider price rises for its inputs (such as cement) to see how high it then needed to raise prices.

25. Allen Newport said that it was sometimes concerned that its major competitors were market-share driven and not necessarily cost driven with their pricing.

Barriers to entry/expansion

26. Allen Newport did not consider producing its own cement as the capital cost to set up a cement plant faced by any new entrant was in the order of £200–£300 million, which was beyond Allen Newport's resources.

27. Allen Newport considered that a prospective entrant for the supply of aggregates faced two major barriers: securing aggregate supplies and getting planning consent for the site. In Suffolk, the site had to be identified and included in the local minerals development framework to have any realistic chance of getting consent within the plan period (which lasts until 2021). So there was a potential ten-year barrier to entry as a result of the planning regime. The cost of starting a new site could also run into the millions, with freehold or leasehold access to the land required, capital costs of investing in the plant and the equipment needed to process the material. Then there was the ongoing cost of operating the site.

28. Allen Newport also noted that planning consent for aggregates sites were time limited and often needed to be extended if volumes came out of a site slower than expected. However, there was often a presumption to extend.

29. Allen Newport said that the cost barriers to entering the market as a ready-mix supplier were significantly less than those for prospective aggregate suppliers. It noted a number of instances of ready-mix plants being set up at relatively low cost. Nevertheless, planning could still be an issue, particularly in rural areas; Allen Newport noted that although it had found potential sites for a concrete plant in the local area, it could not get planning permission from local planning authorities to develop those sites.

The counterfactual

30. Allen Newport considered that over the next few years, in the current economic climate, there would be more closures of operating sites across the country: asphalt plants, concrete plants or quarries. This would impact on Tarmac and Lafarge.

Concerns with the joint venture

31. Allen Newport told us it had no specific competition concerns concerning the joint venture. It operated in a very local market and had good relationships with both companies. Allen Newport was reasonably comfortable with the way the market operated at the moment.