ANGLO LAFARGE INQUIRY

Summary of hearing with Besblock Ltd held on 5 October 2011

Background

1. Besblock Ltd (Besblock) is a concrete block manufacturer based in Telford. It sells the majority of its products to house builders (such as Taylor Wimpey, Barrett and Persimmon), then builders' merchants and individual construction companies and small builders. Besblock is a member of the Concrete Block Association.

2. Besblock said that the recession was the only issue over the last five years that had had a significant impact on business. Turnover had decreased for both Besblock and its competitors, and was expected to stay at a similar level for the next five years.

Relationship with the parties

3. It purchased the majority of its aggregates from Tarmac, and a smaller quantity from Lafarge. Its next biggest aggregates supplier was Hanson, followed by smaller companies such as Bulk Minerals Ltd and Power Minerals for ash products.

4. Besblock had purchased aggregates from Tarmac since 2000 and had benefited from a personal relationship with Tarmac's chief executive at the time, with an RPIX linked contract, ensuring sustainable volumes at sustainable prices. [✂]

5. Prior to purchasing aggregates from Tarmac, Besblock had purchased aggregates from Redland Aggregates (now owned by Lafarge) for about a decade. The impact on costs in 2000 of an increase in the cost of diesel led Besblock to try to drive prices down by purchasing from a single supplier.

6. It had purchased all of its cement from Lafarge since 2000, with the exception of white cement, now purchased direct from Aalborg, a Norwegian company which manufactured all the white cement used in the UK (having previously purchased it from the Aalborg through Lafarge). As with aggregates, its contract with Lafarge benefitted from personal relationships, and contract terms had again deteriorated since the retirement of the relevant person.

7. Prior to purchasing cement from Lafarge, Besblock purchased cement from Blue Circle (since taken over by Lafarge), Rugby and Castle Cement, all of which were equidistant from Besblock. Spreading its purchases across all three was the best way to help keep prices down, but a dramatic increase in the price of cement in 2000 led it to purchase all of its requirements from a single supplier as a way to get a better price. Besblock had also purchased cement from Tarmac, however Tarmac stopped supplying Besblock when it concentrated on self-supplying its own concrete products division.

8. Besblock currently had two viable alternatives for cement—Castle Cement (owned by Hanson) and Rugby Cement (owned by Cemex), the two nearest suppliers. Imported cement was not competitive, as Besblock's Midlands location resulted in high haulage costs from having to transfer the cement from ports.

9. There were a large number of concrete block suppliers and the major construction materials suppliers all had concrete block divisions. Tarmac Topblock was a major

competitor, while Lafarge's division was somewhat smaller. Besblock was worried that Lafarge and Tarmac would price cement to favour their own concrete block divisions. While Besblock was still able to able to purchase its requirements from Tarmac, this might be a consequence of the separation between Tarmac's cement and cement blocks businesses; Tarmac might query why it was supplying a competitor at such good prices, and change its pricing policy. Tarmac had built a factory near to Besblock after its offer to purchase Besblock was refused.

Purchasing process

10. The price changes signalled by the yearly price increase letters were always subject to negotiation, and it believed that most customers similarly negotiated and that the suppliers rarely got the headline price increase. Besblock constantly monitored prices and sought out quotes to ensure it was paying the right price although, while it had no problems obtaining quotes, most were either more expensive or at a similar level. The various suppliers tended to track each other's price rises, and different suppliers did not want to take business off of each other.

11. Certain elements of cement and aggregate pricing were transparent, such as haulage costs (influenced by the price of fuel) but other costs related to the actual production of the materials required more specific knowledge about the processes involved.

12. Besblock always purchased aggregates on a contract basis, based on the amount of material available at the quarry and the volumes it required over a given period, and did not make spot purchases.

13. The need to be competitive would influence whether it switched suppliers in future. However, there were few aggregate alternatives due to the volume required and location/distance from alternative sources.

Market definition

14. Competition for aggregates and cement was mainly on price. However, its tolerance for different aggregate particle sizes in aggregates meant it could focus on price to a greater degree than customers with less of a tolerance. Such customers might not be able to react to aggregate price in the same way.

15. Secondary aggregates were not easily available locally and tended to be priced less competitively than primary aggregates. In any event, Besblock advised that it had little scope to use recycled aggregates as it was harder to make concrete blocks out of material that had already had cementitious products added.

16. The three nearest quarries were hardstone quarries providing aggregates used in road surfaces (road surfacing required stones with a high polished stone value, which meant that they would not become shiny as tyres drove over them and therefore still retained good adhesion). These quarries were used to supply road works across the UK.

17. Tarmac was the only local aggregates supplier able to provide the aggregates in the volume Besblock required to make its best selling product, and that most local suppliers struggled to produce the quantities it needed. The next nearest viable alternative suppliers that could do so were 65 to 80 miles away (compared with 18 miles) and the consequent haulage costs made these suppliers too expensive. Besblock did, however, use other suppliers for aggregates for other product types

(for example, Hanson provided material for paint-grade products). While it could plausibly obtain supplies from four other aggregate suppliers if Tarmac increased prices by 5% to 10%, the other suppliers would follow with similar price rises.

18. Besblock mostly used ordinary Portland cement (CEM I), with only a small quantity of white cement for decorative purposes (white cement was a better base to use for creating more natural looking colours than grey cement). The manufacturing process for white cement meant it was double the price of grey cement, so customers mostly preferred to use grey cement where possible.

19. Besblock had conducted trials for the use of CEM II and had found it could use CEM II with a blend ratio of [✂] of pulverised fly ash (PFA). However, Lafarge's PFA product did not use this ratio, and the company would not change the ratio to meet Besblock's requirements given the relatively small volume of cement for which Besblock accounted. Besblock had considered purchasing PFA direct from power plants but the logistics involved were too complicated (specifically ensuring the PFA and cement arrived at the same time and could be stored). Besblock was unaware of Ground Granulated Blastfurnace Slag, although had tried a number of other products to mix with cement.

20. Lafarge and Tarmac did not compete closely in the supply of aggregates in the Midlands, where Tarmac had a monopoly in hardstone and 60 per cent of the market for sand and gravel. However, while Lafarge did not currently have a high volume of aggregates available, it did own two land banks from which it could increase supplies. Besblock considered Tarmac and Lafarge close competitors for the supply of cement as their plants were equidistant from Besblock.

Entry and expansion

21. The planning process limited the number of aggregate suppliers as it was practically impossible to obtain planning permission for a new quarry. Besblock knew of one local supplier which had to wait ten years before its application was approved. Further, the local planning process tended to consider planning applications in terms of meeting demand, rather than competition. In this context, Lafarge had bought up local reserves and was not releasing them to the market; the restriction in supply increased the price but planners considered no need to approve further applications in the area as Lafarge could theoretically meet demand.

22. Besblock had considered creating its own recycled aggregates; however, significant investment was required and the costs involved (crushing and screening the material, along with associated issues such as dealing with dust, water requirements, planning permission for the plant etc) were prohibitive and the considerable wastage involved (given the amount of dust created) reduced profitability further.

The counterfactual

23. Besblock did not believe that market would be significantly different to know in the absence of the joint venture.

Views on the joint venture

24. Besblock was concerned that the majority of its purchases would be with just the one supplier. Cement was less of a concern as Tarmac did not account for a great deal of the cement market; however, Besblock was worried about aggregates given the joint venture would have a large market share in certain regions (although a much smaller

share in others). The joint venture would push prices up, and the other suppliers such as Hanson and Cemex would use the joint venture as leverage to increase their prices.

25. Besblock was worried that its business would become uncompetitive if prices rose too high. The aggregate tax had already pushed its costs up 20 per cent compared with competitors abroad, [✂].