

ANGLO AMERICAN/LAFARGE MERGER INQUIRY

Summary of hearing with Eggborough Power Limited held on 19 October 2011

Background

1. Eggborough Power Limited (EPL) told us that it was an independently owned coal-fired plant producing electricity of about 2000MW a year.
2. EPL required high purity limestone (HPL) for use in a process to reduce sulphur in its waste gases. This process, called flue gas desulphurization (FGD), was critical to ensure compliance with the regulations on noxious emissions established by the Department for Environment and Climate Change (DECC) as part of the European Industrial Emissions Directive. There had been no major change to the regulations since the process was introduced in early 2003.
3. HPL with a calcium carbonate content of 95 per cent or above was essential for use in FGD. EPL said that no alternative aggregates were suitable for use in the process and it had invested capital in equipment accordingly. The limestone was first crushed at the quarry site, and then further ground in EPL's onsite limestone mills to the required size.

Relationship with parties

4. EPL told us that it had a five-year contract, placed in April 2010, with Tarmac for the supply of HPL. Lafarge had been the previous supplier since 2002, which was when EPL first required HPL for the FGD process.
5. Other than HPL, it did not purchase any other aggregates or construction materials from Tarmac or any other companies.
6. EPL said it was restricted in its choice of supplier as the FGD process relied on a very specific grade of limestone. As far as it was aware, this was only available from three suppliers—Tarmac, Lafarge and Cemex, which all quarried the product from the same seam in Derbyshire. EPL said that alternative sources were researched in 2003, but that HPL was very sensitive to the distance it had to be moved. Although small quantities might have been available elsewhere, EPL had not considered these on the grounds of excessive haulage costs.
7. EPL added that its plant was rail-linked and whether or not suppliers were able to transport by rail was a major factor, as the price of road deliveries could be around 20 per cent more than that of deliveries by rail.
8. EPL told us that it switched supplier from Lafarge to Tarmac last year following a competitive tendering exercise in which both parties and Cemex showed an interest in winning the business. EPL evaluated its options based on the technical specification of the limestone, whether or not the supply was by rail and on price. EPL added that it thought that Lafarge and Tarmac were particularly close competitors for its business.
9. EPL told us that it would undertake another tendering process once the current contract ended and either extend the current contract or switch supplier if required.

10. EPL told us that it sold all of its furnace bottom ash (FBA) and a small amount of its pulverized fly ash (PFA) (along with gypsum, by-products of the FGD process) on the open market. It currently sold these materials to a single customer. EPL was unable to sell much of its PFA because the carbon in ash value for its plant was quite high and therefore did not meet the standard required. EPL did not sell anything to any of the major suppliers of HPL or to any other supplier.

Purchasing process

11. EPL told us that the price it paid for its HPL was for the material as delivered.
12. EPL said that it generally had no problems getting the amount of HPL it required with the exception of when bad weather caused the product to freeze and made it difficult to get out of the rail wagons (EPL told us that this issue also affected its delivery of coal). EPL was not aware of any difficulties at supplier level, however.
13. EPL told us it had not approached companies outside the UK to supply its limestone requirements because it felt that it had adequate companies available in the UK.

Barriers to entry

14. EPL told us that any new supplier to enter the market would be considered a potential supplier as long as the HPL was to the right quality, quantity and price. However, it noted that there were obvious barriers in trying to set up in that business such as the very high cost of actually setting up the quarry and very high capital cost of equipment.

Counterfactual

15. EPL did not feel it had sufficient experience as an aggregates buyer to be able to comment on what might have happened in this industry and to Tarmac and Lafarge if they did not propose to enter into this joint venture.

Views on the joint venture

16. EPL told us that although HPL was a tiny fragment of the whole aggregates market, it was an important niche market particularly for power generators. With such few customers and few suppliers, EPL was concerned that any reduction in the current competition would not be beneficial for the industry.
17. The main concern, EPL told us, was that the joint venture would reduce its choice of limestone supplier from three to two. EPL felt that having two suppliers would not be enough in a competitive bidding process. It said that if a supplier was trying to second-guess what its competitors had done it would be much more difficult if there were two other competitors instead of only one.