

## ANGLO AMERICAN/LAFARGE MERGER INQUIRY

### Summary of hearing with Hanson UK held on Wednesday 12 October 2011

#### Background

1. Hanson said that it was a UK subsidiary of Heidelberg Cement Group, a German company. Hanson manufactured and supplied cementitious products, ready-mix (RMX) concrete, aggregates (sand and gravel, dry stone and marine) and asphalt. It also had a building products division making bricks and blocks. Hanson operated across the UK, with the exception of aggregates and asphalt in Scotland.
2. Hanson said that turnover and profitability declined across its business between 2007 and 2010, in line with what the rest of the industry experienced during the period. Hanson did not believe that the market would improve over the next couple of years, particularly with regard to infrastructure building and the effect of high energy costs.
3. Hanson said that there had been no major regulatory changes affecting the industry over the last five years, but going forward it noted that changes to the carbon trading scheme would likely have an impact on its cement business.
4. Hanson was a member of the Minerals Products Association (MPA). It said that membership brought a number of benefits, including the ability to deal with a myriad of different regulations at both European and national Government level; the ability to deal with products, standards, specifications and product requirements that came from the EU; and the ability to increase the scope of the size of the mineral products market in comparison with competing products such as timber and steel.

#### Market definition

5. Hanson supplied a full range of aggregates, although it imported the majority of its high polished stone value (PSV) products.
6. Hanson said that the use of secondary and recycled aggregates was increasing due to technical advances in being able to use them. However, it did not believe that the volume used would increase significantly, and that much of the percentage increase was due to a drop in the use of primary aggregates. It agreed that the technical specifications of a particular job affected whether secondary and recycled aggregates could be used, and that they tended to be more suited to lower-specification jobs, with higher-specification aggregates (such as high PSV stone) less substitutable. Further, smaller companies were less willing to use secondary aggregates as they did not have the resources to test for suitability and went for the tried and tested primary aggregates. It added that there was some limitation to supply, given that an element came from demolition sites.
7. Hanson explained that PFA and GGBS could be mixed with pure cement (CEM I) to make CEM II and CEM III respectively. These were cheaper products, but had different properties from CEM I (slower to dry and less strong). However, they were cheaper, and had a lower CO<sub>2</sub> content, which meant that CEM II and CEM III were increasingly the norm. GGBS had more cementitious properties, and was thus more of an effective replacement for the drying and curing properties of limestone than PFA, which was used more to bulk up the cement.

8. Hanson was the only GGBS producer in the UK, having purchased Civil and Marine in 2006. It purchased granulated slag from Tarmac, which it processed and ground to produce ground granulated blast furnace slag (GGBS), a cementitious product. Tarmac itself purchased the slag from Tata Steel, to which it provided the expertise and manpower for cooling the slag; this was quite a technical process, and could use either air or water, the latter of which was used to create the slag for GGBS usage. Hanson also imported slag for grinding, and noted that it was possible to import GGBS (for example, via Paragon (owned by Aggregate Industries) or an Irish company called Ecocem, currently setting up in Liverpool).
9. Hanson used GGBS itself, and sold it to a variety of RMX suppliers, including Tarmac and Lafarge.
10. Hanson also used and sold pulverized fly ash (PFA), which it obtained from two or three power stations. There were numerous suppliers of PFA in the UK, in comparison with GGBS. Hanson used PFA for some of its operations and some RMX concrete applications such as piling.
11. Hanson said that there were a number of longstanding contractual arrangements between CEMEX, Lafarge and Aggregate Industries and various power companies, and those companies were able to supply greater volumes and proportions of PFA than Hanson.
12. Volumetric trucks could accurately discharge a particular volume of concrete without discharging the whole load in the truck, whereas a normal RMX mixer would need to return to the depot for each batch size. Volumetric trucks were used for low-volume contracts, such as small farm jobs. Prices were not necessarily higher, but were likely higher as they would be for any small, cash-driven sale compared with large-volume contracts. The use of volumetric trucks was increasing but Hanson thought that the different weight restrictions on volumetric trucks had helped to drive this.
13. Hanson did not have any volumetric trucks. However, it had used 'mini-mixers' in the past, which were small versions of an ordinary concrete mixer but slightly cheaper to run, carrying small amounts of concrete and which could access sites better.
14. RMX site plants were only used for very large contracts, and where a contractor felt it would provide more logistical control of getting concrete to the parts of the project where concrete was needed (for example, fixed plants in a rural or urban area would have transport issues in getting concrete to the contract site). Hanson itself would usually only use a site plant if the contract was of a volume of at least 40,000 cubic metres depending on the contract's location relative to its static plants and on the availability of a site plant for the contract. While quick to set up, RMX site plants were quite costly to own compared with RMX fixed plants, particularly as there were only a small number of contracts for which they could be used.
15. Some of Hanson's asphalt plants ran 24 hours a day, seven days a week, and the asphalt from the plants would likely be more expensive due to the extra costs of labour at night. Hanson had not operated mobile asphalt plants (which were costlier and more complex to set up than concrete plants), but had used 'hot boxes'-mobile silos that could store asphalt delivered from a static plant.
16. Hanson's main competitors in the UK for GGBS and PFA were Aggregate Industries (which imported through its subsidiary, Paragon), Lafarge and Ecocem.
17. For aggregates, asphalt and RMX, Hanson's main competitors were Tarmac, Lafarge, CEMEX and Aggregate Industries. There were also reasonably strong

regional players (such as Breedon Aggregates, which had grown in strength since acquiring C&G Concrete) and strong local independents (such as Brett, Morris and Perry, J Clubb and Glendinning).

18. The precise nature of competition varied as the markets for these products were generally local in nature. For asphalts and aggregates, the markets were likely 30 miles in diameter around the quarry or plant (asphalt, for example, needed to be delivered before it became too cold to lay efficiently, and the precise distance may vary depending on traffic congestion), while for RMX the market was likely 10 miles from the production plant (the distance for RMX is limited by the perishability of the product, which required it to be delivered within a certain time, which again made the precise distance dependent on congestion). This area for aggregates could be larger if the supplier had access to distribution sites, such as rail and transport links. For example, Hanson's major rail connected quarry, Whatley, was based in the Mendips and mainly served the South-East around London. Hanson also owned a marine business with a number of wharves around the south coast, east coast and South Wales. Hanson noted that there were not many rail-linked quarries in the UK.
19. With regard to cement, Hanson competed directly with Lafarge across the UK in both bagged and bulk cement. While Tarmac sold a lot of its cement internally for use in producing RMX, it was aiming to increase external sales and was therefore increasingly in competition with Hanson. Imported cement also provided a competitive constraint (although importers lacked the range and capacity of domestic producers) and Hanson confirmed that imports had increased market share over the last few years. Part of this was due to the fact that the quality of imported cement was now comparable to cement produced in the UK, and also due to the increased number of cement import terminals, which were cheap to set up.
20. Hanson's parent company, Heidelberg Cement, imported a small amount of grey cement to the UK as part of a long-term supply contract with Dudmans, although Hanson itself only imported from Denmark, Belgium and China specialist white, sulphur resistant and high alumina cements that it could not manufacture in the UK.
21. The market for cement was national, as the limestone quarries where cement plants were sited tended to be located in the middle and north of the country, and depots could extend the range that cement could profitably travel from plants. Hanson itself had two rail depots (Bellshill in Glasgow and Kings Cross in London) and two import terminals, which were not rail linked (Avonmouth and Goole).
22. Hanson was not a large player in the provision of road surfacing, where the major competitors were Tarmac and Cemex, and Lafarge to a lesser degree. There were also big independents such as Ringway, Premier Asphalt and Glendinning.

### **Hanson as a customer**

23. When Hanson required supply from a third party, it would go and test the market, looking at location, quality of service and price. It rarely entered into long-term contracts as its requirements could change quite quickly.
24. Hanson bought aggregates, asphalt, cement and RMX from Tarmac and Lafarge. The relationship between Hanson and Tarmac and Lafarge was the same as with any other supplier, with normal purchasing agreements.
25. Asphalt (and occasionally RMX) were purchased where Hanson could not for some reason fulfil a customer requirement (for example, either through plant breakdown or the size or location of the quantity required).

26. Hanson purchased cement only from Lafarge, and did so as Lafarge had a more convenient, and thus economical, location from which to supply Hanson's RMX plants in the South and the South-West. Hanson had also sold cement to Lafarge, but had not done so since 2009 Quarter 1.
27. In the case of aggregates, Hanson sold on a reciprocal basis to Lafarge in areas where Lafarge did not have a quarry (in the Mendips), while Hanson purchased aggregates from Lafarge where Hanson was similarly restricted (around Manchester). The price paid in each case was linked.

### **Purchasing process**

28. Hanson did not generally have written agreements with its suppliers, although some large specific repeat supplies were subject to written agreements. If it had a requirement for a third party supply, it would invite a number of potential suppliers to quote it a price, review the quality of the product and pick a supplier.
29. Hanson very rarely enter into a long-term agreement (a) because its requirements could change, and (b) some requirements were based on contracts for Hanson products to a customer, which might be short term.

### **Sales process**

30. Hanson supplied fixed outlets (such as RMX plants or a concrete block producer) which tended to require a consistent year-on-year amount of materials. These customers tended to be supplied on a contract basis. By contrast, Hanson also supplied products on a spot basis to, for example, contractors requiring a specific supply for a specific project. There was competition for both sorts of customers. The bigger the customer, the more likely it was to have a form of written contract, but even those were normally subject to at least annual negotiation of prices. Quotations for spot customers were accepted verbally rather than having a written contract.
31. Hanson always aimed to provide competitive quotes in response to any enquiry, except where a new customer did not satisfy credit checks and the necessary health and safety requirements at its facilities. Customers would always be told why a quote had been refused. It confirmed that there was overcapacity in the asphalt and RMX market (which had driven down prices) and did not believe that there were instances of under-capacity except where asphalt and RMX plants had committed to a large contract. It was slightly different in the case of aggregates, where, for example, a quarry might run out of its stock of a particular sized aggregate.
32. Hanson did not bundle or link products as its products were sold by separate sales teams.
33. It was very difficult to know what Hanson's competitors charged unless told by their customers. Hanson would, however, expect costs to be similar, particularly if its competitors' supply sources were at a similar distance, and it could therefore make broad assumptions.

### **Barriers to entry/expansion**

34. Hanson said that a new entrant aiming to open a new quarry needed to obtain planning consent from the Minerals Planning Authority, which could take up to ten years. However, secondary or recycled aggregates could find their way to the market much more quickly.

35. The main barrier to entry for asphalt and RMX was obtaining a reliable supply of raw material. The number of quarry aggregate producers in the UK was over 400 and, given the recession, Hanson would expect all the quarries to have surplus capacity, and not turn away any chance to supply aggregates to anybody.

### **Counterfactual**

36. It was hard to speculate what could happen given the poor state of the market at the moment. However, Hanson was aware that Anglo American had been trying to find a buyer for Tarmac for the last two or three years.

### **Concerns about the joint venture**

37. Hanson had concerns that the joint venture might create high shares in rail ballast given that there were not many quarries capable of producing rail ballast in the sort of quantities that Network Rail required. Currently there were two quarries that produced high quantities of rail ballast: Mount Sorrel Quarry owned by Lafarge, and Cliffe Hill Quarry owned by Midland Quarry Products, a joint venture partially owned by Tarmac.
38. Hanson noted that the joint venture might also raise competition concerns in specific, individual local or regional markets, depending on the number of competitors in each of those markets. For example, in Derbyshire, Tarmac and Lafarge both had high shares in the crushed rock market, while in Essex both companies had high shares in the supply of sand and gravel. In the North-East, both parties also owned limestone quarries.
39. Hanson had no concerns relating to road surfacing.