ANGLO AMERICAN/LAFARGE MERGER INQUIRY

Summary of hearing with Newark Concrete held on 5 October 2011

Background

1. Newark Concrete (Newark) told us that it was a small independent company that operated as a division of M.C.G. Enterprises. It was a ready-mix concrete supplier with two ready-mix concrete depots; one in Newark, Nottinghamshire, the other in Grantham, Lincolnshire.

2. Although its profitability had been consistent for the last two years, Newark told us that its turnover had been decreasing and noted a significant drop three years ago, which it considered typical for the industry. Over the next five years it expected the industry to be at the same level or slightly down. The main issues affecting the market were the economic downturn and reduction in public spending.

Newark Concrete as a competitor

3. Newark's customers included locally-based house builders (who used its concrete for foundations and oversites), agricultural producers (for the construction of farm storage buildings) and highways contractors (for the construction of roads and sewers). Newark considered that these customers could use concrete supplied from volumetric trucks as an alternative source of supply, but it did not think the quality of concrete produced from volumetric trucks was of the same high standard as that from ready-mix concrete producers and was probably only really suitable for auxiliary works. In terms of pricing, Newark said volumetric concrete was thought to be cheaper than ready-mix for smaller volumes.

4. Newark told us that its main competitors were Breedon (formerly C&G Concrete), Lafarge, Cemex and, to a lesser extent, Bardon, Tarmac and the independent volumetric producers.

5. Newark said that its activities were confined to its local area so it was not able to comment on how Tarmac and Lafarge competed at the national level.

Newark Concrete as a customer

6. Newark told us that it purchased cement and aggregates from Tarmac. It had purchased cement from Tarmac for two years and aggregates for a considerably longer period of time, possibly 15 years. Newark noted no issues with being both a customer and competitor of Tarmac, as Tarmac was at the edge of Newark's delivery territory, an area anywhere within a 10 radial mile radius of its concrete plants, and was therefore a fringe competitor.

7. In terms of the aggregates it purchased from Tarmac, Newark said it purchased Trent Valley aggregate (a gravel aggregate) and natural sand.

8. When asked whether it could switch from naturally occurring aggregates to secondary aggregates such as recycled aggregates, Newark said that it had reservations about the quality of concrete made using recycled or secondary materials. Newark added that it had never been approached by suppliers trying to sell it recycled materials.

9. Newark told us it purchased CEM I cement from Tarmac. It also purchased ash from Paragon Materials to produce its own CEM II material. Newark explained that CEM I, was pure cement while CEM II and CEM III contained increasing proportions of ash or ground granulated blast furnace slag (GGBS). Newark had not tried to source CEM II from Tarmac directly and was dependent on Paragon for the supply of ash. Newark did not believe there were any economically viable alternatives to ash. Newark noted that supplies of GGBS and ash were limited in the UK.

10. Newark used CEM I and CEM II due to economics and customer demand—95 per cent of customers purchased CEM II and did so because of the cost saving. Newark said it was the customer's decision as to what type of cement to use in its concrete (it might sometimes suggest to a customer a blended material as an alternative to CEM I. CEM I material tended to be chosen by those who wanted early setting concrete for power floating, such as specialist concrete floor layers.

11. Newark said that it purchased its aggregates and cement from Tarmac on a 12-month contract basis. At the end of that period, it would perhaps seek quotes from two other suppliers depending on whether its current supplier sought to increase its prices unreasonably. Newark considered that its dealings with Tarmac over the years had been amicable and that Tarmac's pricing had been reasonable.

12. Newark told us that it had options in terms of choice of supplier for both cement and aggregates. At the moment, it had a satisfactory deal with Tarmac, but alternative suppliers for cement were Hanson and Lafarge. For aggregates, alternative suppliers included Lafarge, Breedon, Bardon and Aggregate Industries. Newark said that it had not been approached by suppliers of secondary and recycled aggregates, but noted that it had reservations about the quality of such materials.

13. Newark told us it did not supply any products to Tarmac, although on the very rare occasions when a plant broke down, either helped the other with supply. Before Newark purchased cement and aggregates from Tarmac, it purchased cement from Hanson and aggregates from Butterly Aggregates (now Cemex). Newark said it switched supply of cement from Hanson to Tarmac solely due to price and any future switching would also be driven by price, as the level of service from suppliers was much the same.

Supply of ready-mix

14. Newark told us that it sold ready-mix mainly on a spot basis, but also by contract. Contract customers were local authorities and county councils, which were supplied on a tender basis. For spot customers, the degree of negotiation for price depended on the amount of alternative supply options available to the customer, loyalty and the current workload of Newark. There was no negotiation on price with respect to council tenders, where Newark submitted bids alongside other competitors and the council decided between competing bids.

15. Newark said that it had found it difficult to increase prices over the last few years. While the majors had introduced price increases for cement and aggregates, it was difficult for Newark to pass those increases on to all its customers. The majors attributed much of their price rises to increased energy costs, and while Newark was unable specifically to verify this, it said that it was generally recognized that energy prices had increased and had no reason to dispute the claims.

Barriers to entry/expansion

16. Newark did not consider that it would ever produce its own aggregates or cement in future, as it did not have a quarry and did not have a cement works, neither of which were easy for small independents to set up. The main difficulty was cost and many independents would not have the financial resources to move into cements or aggregates. Obtaining planning permission to open a quarry or a new cement works was also a barrier, as this could take a number of years.

17. Newark told us that it once purchased imported cement through Dragon Alfa Cement for a short period of time when it had differences with its then supplier, Hanson. Imported cement was competitive at that time and although importers were dependent on regular ship deliveries to maintain continuity of supply (imported cement came in large shiploads and was stored in holding silos, located at the docks), Newark had not experienced any supply problems.

The counterfactual

18. Newark said that even if Tarmac and Lafarge did not enter into the joint venture, it was possible that some concrete plants would still close in those areas where business demand did not support the number of plants in operation.

Concerns

19. Newark was a little concerned about the proposed joint venture between Tarmac and Lafarge as a reduction in the number of major producers of cement and aggregates would have an impact on the marketplace. However, Newark did not have any concerns at the local level as Tarmac was not a major ready-mix producer in Newark's area of operations.