

## **BREEDON AGGREGATES/AGGREGATE INDUSTRIES UK MERGER INQUIRY**

### **Summary of a hearing with Aberdeen City Council held on 29 October 2013**

#### **Background**

1. Aberdeen City Council (ACC) said that as a local authority it was responsible for all resurfacing works that took place within the Aberdeen City area and that this work was carried out in-house. However, it did not have any quarries and so had to purchase all the bitumen-based materials for its surfacing works from local suppliers.
2. Over the past four to five years Breedon Aggregates (Breedon) and Aggregate Industries had won many of ACC's resurfacing contracts and they had also supplied the materials that ACC's surfacing teams used.
3. Leiths owned two quarries that were within the bounds of the city and so were the most conveniently located geographically. Hence ACC's spend with Leiths over the last five years was significantly higher than its spend with Breedon and Aggregate Industries.
4. Of the main parties' sites, ACC tended to get its asphalt materials from Craigenlow and Tom's Forest. As it did not do a lot of structural concrete works, it did not purchase much ready-mix concrete.

#### **Competition**

5. Nearly all of the contracts that ACC put out were won by one of the three quarry suppliers. Therefore ACC was concerned that if it lost one of them, competition would be even more limited than it already was in the area. It did not believe that there was much to choose from between the three quarry companies in terms of price or quality, so the key factor for it was geography.
6. Whilst it would normally take the lowest-priced materials, the geographic layout of the quarries was crucial as depending on where it was working in the city, the lowest-priced material might be the most expensive once transport costs were included. The difference in the price per tonne was so small between the three suppliers that in practice it did not factor highly in ACC's consideration.
7. ACC said that in the previous year Aggregate Industries had become very competitive and had won quite a few of its surfacing contracts and ACC believed that for contracting services Breedon and Aggregate Industries were competing fiercely in order to win its business. The same could not be said for the supply of material, especially bitumen materials, from the quarries.
8. Aberdeenshire Council had quarries that were mainly used to service its own needs as an authority and Aberdeenshire Council did not aggressively pursue other customers.

#### **Prices**

9. ACC said that asphalt used for its resurfacing work was the most expensive material that it purchased from a quarry and this was why it was particularly concerned that prices in north-east Scotland seemed to be artificially high.

10. In the north-east of Scotland quarry materials cost about £25 to £30 a tonne more than in Dundee and due to this ACC was considering getting Tayside Contracts to supply the materials it would need; it looked like it might be cheaper to buy the materials outside of the area and then haul them 70 miles. However, there might be logistical problems with this approach as the surfacing materials had to be kept at a constant high temperature.
11. ACC had queried why the cost for materials was around £25 a tonne more expensive in north-east Scotland and all the suppliers had responded that it was due to the volume of material going through the quarries.

## **Asphalt surfacing services**

12. ACC said that surfacing work was its biggest spend area as a roads authority and it had not put any contracts out to tender this year, as it was trying to keep all resurfacing work in-house. The cost of the materials accounted for around 40 per cent of its resurfacing costs. It also bought materials for general maintenance patching work. Overall ACC spent around £1.3 million a year on quarry materials.
13. Previously ACC had put out contracts of around £100,000 and only local companies would bid for these as the amount was not enough to entice larger companies from outside the area. To do this, ACC thought a contract would have to value over £250,000. It thought that if the budget remained at a similar level for the next few years, it would probably have too much work for its in-house team and that it would therefore need to put out some contracts.
14. When it put surfacing contracts out to tender ACC tended to go to six contractors, the three with quarries because they were the most competitive and then an additional three. In the Aberdeenshire area there were seven or eight contractors who were capable of doing carriageway resurfacing as they had the equipment and the squads to undertake the work. Very occasionally one of the non-quarry owners would win the contract, but it was extremely rare. ACC believed that owning a quarry was a huge advantage to a company wanting to undertake surfacing contracts and ACC presumed that the companies that were vertically integrated would provide better rates to their own surfacing division than to external rivals.
15. ACC put out a schedule of rates to quarry suppliers for materials on an annual basis so that it would have a fixed price for asphalt for the year. However, the price for bitumen had increased dramatically over the last few years and so the fixed price had had to be amended.

## **Product definition**

16. Location and price were important in choosing the supplier but ACC was also doing trials with different types of material to try to save money. Different quarries made different proprietary mixes, so ACC sometimes chose a specific quarry due to the specific material that it wanted.
17. Breedon made a high bitumen content small chip-sized surfacing material that was very hard-wearing. ACC used this for very thin overlays on housing estates and whilst Leiths did a similar mix, it was not so tightly bound and ACC felt that it would not fare so well in the harsher weather.

18. There were not really any 24/7 asphalt plants in north-east Scotland. ACC was having to work more at night and it was having to pay a premium to make the quarries open out of hours.

### **Barriers to entry**

19. The main barrier to entry in the supply of asphalt surfacing services was having a quarry. ACC did not foresee any local contractors opening up a quarry as there had not been any quarries opened up in the last 20 years and the start-up costs of a quarry would be prohibitive. However, due to the Aberdeen bypass it speculated that a major outside party might look at the possibility of opening up quarries around the route and if this were the case, someone might be able to take them over afterwards once the set-up costs had been borne.
20. Regarding mobile asphalt plants, ACC said that getting the quarry materials would still be the issue as the materials would need to be purchased from a rival contractor and a premium would be paid for this. Therefore, ACC believed that being vertically integrated was a significant advantage for an asphalt producer.

### **The merger**

21. ACC's concerns were around the cost of materials and also competition for contracting surfacing services. ACC believed that it was one of the largest customers for quarry materials in the area and before the merger it had not felt that it was in a strong negotiating position. With the number of suppliers going down from three to two it believed that it would naturally follow that prices would go up.