

BREEDON AGGREGATES/AGGREGATE INDUSTRIES UK MERGER INQUIRY

Summary of a hearing with Balfour Beatty Utilities Solutions held on 5 November 2013

Background

1. Balfour Beatty Utilities Solutions (BBUS) told us that it was part of the Balfour Beatty group focused on providing infrastructure and materials for the utilities sector.
2. Balfour Beatty as a whole was involved in all aspects of civil engineering and construction across Scotland and the UK. Until early 2013 this included the management and maintenance of the trunk road network in north-west Scotland through a joint venture with Scotland TranServ.

Relationship with parties

3. BBUS said that materials had been purchased from Breedon Aggregates (Breedon) for the Beauly-Denny contract, which was a scheme to replace electricity pylons from the north of Scotland down to the Central Belt. There was demand for concrete and stone for the creation of temporary roads and for the foundations for the bases of the pylons themselves.
4. BBBUS said that although it had other contracts with Breedon, the main area of spend over the past 12 months had been on the pylons project. It had bought material from Breedon as Breedon had tended to have more concrete plants in the project area. Although initially it had bought the concrete from a joint venture of Breedon and Aggregate Industries.
5. Before the merger BBUS had also bought material from Aggregate Industries, as well as Leiths, Tarmac, Hope Construction and Cemex. It said that in the Central Belt there were more suppliers and greater competition.

Purchases of construction materials

6. BBUS bought ready-mix concrete and stone for temporary roadways and compounds, but as it worked off the highway it did not purchase asphalt.
7. BBUS said that for the Beauly-Denny project the requirements for materials were estimated at the start of the project and then suppliers were asked to submit prices against these requirements. For this particular contract Breedon had competed with Aggregate Industries, Cemex and several other supplies before it won the contract.
8. Some of Breedon's sites were situated in very remote areas, so it was often the only supplier within a 50-mile radius. In these instances BBUS struggled to find another supplier.
9. When deciding on which supplier to use, BBUS said that the location of the plants and quarries was key. It would also work with the smaller suppliers, but found that they did not have such extensive coverage as Breedon.

10. As suppliers had to meet the same European Standards, there was little to differentiate them regarding materials. Sometimes BBUS found that smaller suppliers were able to offer better prices and were more customer focused.
11. In general BBUS sought quotes from a minimum of three suppliers, but sometimes it was limited by the number of suppliers in an area. On the larger contracts Balfour Beatty might try to get quotes from as many as ten suppliers if that number were available.

Market definition, alternative suppliers and competition

12. Balfour Beatty was committed to using recycled aggregates when available if the quality of the material was of a sufficiently high standard, but for this particular project the location was too remote. BBUS said that recycled aggregates were easier to source from more heavily populated areas and the same was true for secondary aggregates.
13. Sand and gravel aggregates were not always substitutable for crushed rock aggregates and in England where crushed rock was less prevalent, recycled aggregates could be used.
14. BBUS used volumetric trucks, though considerations such as site access, the availability of the trucks, local road restrictions, and the available space on site meant that their use was sometimes limited.
15. Concrete had to be sourced from within a 50-mile radius of a site as it had a limited shelf life and the specifications generally limited the use of fresh concrete to a maximum of 2 hours from the addition of cement.
16. Much of the price for the materials was the haulage cost, so quarries further away from site would be much less cost-effective to use. Sometimes a project might be limited to one quarry, as no others were within a suitable distance.