

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

### **Summary of hearing with Transport Scotland held on 4 November 2013**

#### **Background**

1. Transport Scotland said that it had responsibility for the strategic maintenance of the trunk road network in Scotland. This accounted for 6 per cent or 3,400 km of the roads in Scotland, the rest were predominantly local roads for which local authorities had responsibility. Whilst Transport Scotland set some standards for road building and maintenance, it was up to local authorities to decide whether to adhere to those standards as most of the standards were relevant to the trunk road network only.
2. Maintenance of the trunk roads was carried out through operating companies that provided repairs generally up to a threshold of £350,000. Contracts above this level were subject to a tender exercise.
3. Transport Scotland also looked after the provision of larger trunk road infrastructure projects, for example, new-build projects where roads were widened or upgraded, or built from scratch. For these projects Transport Scotland tendered the contracts to construction companies who would then run their own procurement in order to determine who the suppliers would be. Hence Transport Scotland did not deal directly with aggregates suppliers. It would, however, deal directly with the likes of Aggregate Industries and Breedon Aggregates (Breedon) when they tendered for resurfacing contracts.
4. The overall maintenance budget for maintaining the trunk road network in Scotland stood at around £200 million, which was spread across a number of budget streams, including repairing sections of the network; routine and winter maintenance; and structural or capital projects. Spending on road maintenance had been static recently and would probably either stay the same or reduce over the next few years if the effect of inflation related indices in these contracts was taken into account.

#### **Road building and contracts tendering**

5. BEAR Scotland, of which Breedon was a 37.5 per cent shareholder, was responsible for maintaining three of Transport Scotland's four trunk road areas (north-east, north-west, south-east) and it generally did all the work in these areas on contracts below £350,000. Scotland TranServ (a joint venture between Balfour Beatty and Mouchel) was responsible for the remaining south-west Unit contract. In addition 3 Design Build Finance and Operate (DBFO) were currently in operation on the Scottish trunk road network
6. Transport Scotland said that all major schemes were procured in accordance with European procurement regulations and advertised in the European Journal. Transport Scotland presented the specifications for the project, but the contractor determined the details of the specification and their final design. So it was effectively a fixed-price contract to the company which then sourced the materials and resources. While Transport Scotland had to be satisfied about the quality of materials being used, it had little direct contact with suppliers on contracts below the £350,000 threshold.

7. Large contracts were currently being tendered for the M8/M73/M74 motorway improvement project near Glasgow and for the Aberdeen Western Peripheral Route. The two projects would cost approximately £415 million and £472 million and be completed by spring 2017 and 2018 respectively. In order to keep costs down, Transport Scotland believed that materials would be procured from as close to the sites as possible and this would also maximize the amount of time that contractors had to lay the surfacing materials. Both projects would mean that suppliers would probably need to look at the capacity of their existing quarries in the relevant areas, and potentially open borrow pits along the routes.
8. Transport Scotland said that the sourcing of asphalt surfacing services above the £350,000 threshold was generally led through direct procurement by itself with assistance from the operating companies in the drafting of the tender documents.

## **Competition**

9. Transport Scotland said that there was less competition in the north of Scotland in comparison with the Central Belt and it believed the reasons were the remoteness of some of the locations and the number of quarries in operation. In the Central Belt it mentioned Lafarge-Tarmac, Hanson, Aggregate Industries, Leiths and Breedon. Whereas in the north of Scotland there were only mainly Breedon and Leiths now.

## **Market definition**

10. Transport Scotland's contractors used recycled aggregates on roads or for filling in embankments, as long as the contract specified that it was acceptable.
11. The use of a blaes material from the West Lothian area was common on roads in central Scotland in particular. This was a by-product of the former shale mining industry, and was a cost-effective way of maximizing the benefits of readily available suitable materials.
12. Transport Scotland said that generally volumetric trucks were used for most of its ready-mix contracts in Scotland, but batching plants were also often created on the larger contracts to allow for the mixing of the concrete on site.
13. For small asphalt repairs, mobile facilities in the form of 'hot boxes' were used. The majority of blacktop material used on major resurfacing projects was transported from the quarry to the site.

## **Barriers to entry/expansion**

14. The distances in northern Scotland and the limited number of quarries often meant that competition was limited. The fragility of the markets in this respect was important in that if a quarry was the only one in the area, then that was where materials would be brought from.

## **Other**

15. Transport Scotland said that although it did not have any particular concerns about the merger, it was important that companies continued to invest in quarries to ensure that the end product remained of a high quality. A sustainable network of quarries across the whole of Scotland was a necessity to retain high-quality products, and to

keep transport distances and costs down. It also wanted to see improvements in terms of recycling materials in order to help to meet the targets for carbon reduction.

16. Transport Scotland emphasized the importance of geography when looking at the market as the rural nature of certain parts of northern Scotland meant that the locations of the quarries would be key. When resurfacing a road materials had to remain at a high temperature in order to avoid deteriorating, so it believed anything beyond 2 to 4 hours was an unacceptable transportation time. Hence a sustainable network of quarries to provide blacktop materials was vital.