

## AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

### Note summarizing case study telephone interviews

#### Summary

1. On 29 May 2012, we published a note indicating that, as part of our aggregates, cement and ready-mix concrete market investigation, we intended to carry out a number of case studies which would focus on specific local areas in which construction aggregates are produced.<sup>1</sup> We identified a number of case study areas including South Wales and west of East Anglia (Cambridgeshire, Hertfordshire and Bedfordshire) and explained that we would gather evidence via a number of means.
2. This note summarizes some of the evidence received from ten case study telephone interviews we have conducted with customers and non-Major aggregates suppliers in respect of the South Wales and west of East Anglia case study areas.<sup>2,3</sup>
3. In summary, we received evidence that:
  - (a) consolidation of aggregates producers may have diminished local competition;
  - (b) some aggregates producers appear to operate in more specialized aggregates products and so may not constrain directly the Majors across all product types;
  - (c) most customers of aggregates producers appeared to be happy with the sufficiency of competition for primary aggregates and value the constraint provided by independent producers;

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<sup>1</sup> [www.competition-commission.org.uk/assets/competitioncommission/docs/2012/aggregates-cement-and-ready-mix-concrete/120529\\_notice\\_of\\_intention\\_to\\_carry\\_out\\_case\\_studies.pdf](http://www.competition-commission.org.uk/assets/competitioncommission/docs/2012/aggregates-cement-and-ready-mix-concrete/120529_notice_of_intention_to_carry_out_case_studies.pdf).

<sup>2</sup> We have also reviewed a number of internal documents provided by Aggregate Industries, Cemex, Hanson, Lafarge and Tarmac which relate to these case study areas. The analysis of these internal documents is the subject of a separate working paper.

<sup>3</sup> In our Notice of intention to carry out case studies, we also identified a number of other case study areas. These were: Scotland's Central Belt, Leicestershire (Midlands) and Derbyshire (Midlands).

- (d) independent ready-mix concrete (RMX) producers appear to be able to compete against the Majors albeit that they may offer slightly different services (eg smaller concrete pours) at (potentially) higher prices;
- (e) the fact that independent RMX producers may not be vertically integrated into aggregates production does not appear to prevent RMX producers from competing against the Majors;
- (f) save for evidence from one interviewee, taken as a whole, the evidence obtained from the case study interviews does not suggest that there are coordinated anti-competitive outcomes in either of the case study areas;
- (g) save for evidence from two interviewees, the evidence obtained from the case study interviews does not suggest that independent RMX producers are being vertically foreclosed in either of the case study areas;
- (h) some market participants view the Aggregates Levy as disadvantaging smaller aggregates producers whilst others do not consider that the Aggregates Levy distorts competition; and
- (i) there were some concerns about the planning regime (eg that it took a long time to obtain planning permission for a new quarry/site extension).

### **Structure of this note**

4. We begin by briefly describing our methodology for selecting the interviewees. We then summarize some of the evidence from the interviews by reference to the theories of harm described in the issues statement.<sup>4</sup> Finally, we consider further analysis.

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<sup>4</sup> [www.competition-commission.org.uk/assets/competitioncommission/docs/2012/aggregates-cement-and-ready-mix-concrete/issues\\_statement.pdf](http://www.competition-commission.org.uk/assets/competitioncommission/docs/2012/aggregates-cement-and-ready-mix-concrete/issues_statement.pdf).

## **Our methodology**

5. We interviewed a selection of independent aggregates producers and aggregates customers in both case study areas. We used data from BDS on aggregates producers in order to identify a list of independent aggregates producers in each case study area. We then pre-selected interviewees so as to cover a range of different types of independent producers (ie secondary, recycled and primary aggregates producers).
  
6. To select customers for interviews, we used transaction data which was provided by each of the Majors to identify a list of customers for aggregates in each case study area. We then pre-selected for interview the larger customers, and within this a selection of customers who appeared to source from several different quarries (to capture multi-sourcing or switching), as well as some customers who purchased aggregates in several different local areas.

## **Evidence from case study interviewees**

7. In this section, we present some of the evidence we received in relation to aggregates, cement and RMX. Most of the evidence we received was in relation to aggregates reflecting the focus of the interviews (see paragraph 1).

### ***Theory of harm 1: High levels of concentration and barriers to entry mean that the suppliers can exercise unilateral market power***

#### *Aggregates*

##### *Customers*

8. BAM Nuttall Ltd, a construction and civil engineering company, told us that aggregates producers did not compete in particular local areas, if they did not have sites/quarries located there. The customer explained it understood that haulage costs meant that it was too expensive for more distant aggregates producers to compete

against the local producers. It told us that it valued the presence of independent producers in local areas as this helped drive competition.

9. One customer, [redacted], told us that it ran competitive tenders for its aggregates requirements, and whilst it had stronger relationships with some Majors than with others, it also purchased some aggregates from independents. It said that all suppliers operated in similar ways, and that the independents placed a constraint on the Majors. It was felt that all suppliers fought very hard to win tenders.
10. One customer of aggregates, [redacted] with depots in South Wales, told us that where independent producers were present in a local market, prices were driven down (by 10 to 20 per cent). It told us that aggregates products from different suppliers were very similar. It said that, for aggregates for its larger projects, it would contact suppliers local to the project (within 10 to 20 miles, or 30 to 40 miles in areas with fewer quarries). Closer suppliers were usually a cheaper option.
11. The same customer told us that the service offered by independent suppliers tended to be better than that offered by the larger companies. It also commented that, where there were quarries owned by larger national suppliers which were located close to each other, its perception was that there was a 'borderline' between the quarries, which tended not to be crossed (ie each supplier had a 'patch' which it supplied and it would either refuse to quote or quote at possibly 'artificially high' levels). It told us that company takeovers in the aggregates sector had reduced its ability to negotiate more favourable terms with suppliers (presumably, as switching options have reduced).
12. Cuddy, a demolition and civil engineering company, gave a similar assessment. It told us that consolidation in the industry over the past ten years had reduced the number of potential suppliers regionally from over a dozen to only four. Conse-

quently, it said that prices had gone up. It said that it believed that negotiations with aggregates suppliers were open and honourable, but it was more difficult to deal with suppliers with strong positions in local markets. Competition was greater in urban areas because there were more suppliers.

*Aggregates producers*

13. One secondary aggregates producer, [REDACTED], told us that the majors 'seem quite fixated on their market share'. Tony Gilman, former Chairman and Chief Executive and a shareholder of F H Gilman and C&G Concrete based in Pembrokeshire, gave a similar assessment.<sup>5</sup> He told us that:

The Majors were thought to operate in a way similar to each other, in that they would target sales of a certain quantity of aggregates, RMX or asphalt (quarries products) for a specified period of time and, if it appeared that those targets would not be met, the companies would lower their prices to achieve the target volumes, before putting the prices back up to previous levels.

14. BPM Mitchell, a recycled aggregates and RMX producer, told us that it did not have any concerns about the state of competition in the west of East Anglia area. Competition was healthy as there were quite a few suppliers to go to. It told us that the gap between primary aggregates prices and recycled aggregates prices had reduced a lot in this area in recent years.
15. Mr Gilman told us that Cemex, Tarmac and Hanson competed strongly with each other in South Wales and elsewhere and this had the effect of lowering prices generally in the area.

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<sup>5</sup> The views in this note are Mr Gilman's personal views.

16. One secondary aggregates producer, [REDACTED], acknowledged that it was opportunistic in terms of saving costs as opposed to actively acquiring market share. As the aggregates were a by-product of its primary and main business, the producer had different drivers to other aggregates businesses so could offer low-priced secondary aggregates to avoid having to pay to dispose of the material. It noted that it could not guarantee availability of material, and as the commercial drivers for its primary business were very different, it had limited transparency and knowledge as to who its competitors were and what their prices might be.
  
17. Another secondary aggregates producer, [REDACTED], told us that, as a result of its production of [REDACTED], it also produced other grades of aggregates. If these other grades could not be sold elsewhere, they were sold for construction purposes, which was a very low-value application. It told us that it could be very tough on pricing these aggregates, as this was not its core business and it was trying to avoid sending these materials to landfill. It also sold these materials to merchant hauliers—it was happy to be one step removed from the customers as it acknowledged that it had no expertise in selling into this market. According to the producer, its market share would be highly opaque to other players in the market, and this would create uncertainty in the market. It told us that it had some knowledge of competitors' prices, but that this tended to come from customers during price negotiations and it was difficult to know if this information was reliable.
  
18. Cardigan Sand and Gravel (Cardigan), a primary aggregates producer, told us that the prime focus of its business was sand and that it was able to offer around 30 different sand products. It felt that it had a fairly good understanding of the prices that its competitors were charging. Its customers would sometimes say what prices were on offer elsewhere. The company felt that its circumstances (plant, available deposits) meant that it would not be able to compete solely on price and so made the

decision a long time ago to concentrate instead on range and quality of products.

This evidence indicates that the producer is quite specialized and therefore perhaps not competing as directly with other more general aggregates producers.

19. Middleton Aggregates, a primary and recycled aggregates producer, said that recycled aggregates were quite strong in East Anglia because there was no local hard rock. It said that its main competitors were other independents in the area, and that it competed with the Majors on some jobs, but found that the Majors were less interested in supplying to 'retail' customers. It said that the independents always had a higher cost base per tonne than the Majors, due to the Majors having economies of scale.

#### *Barriers to entry*

20. Cardigan told us that barriers to entry were high and that margins were low. It said that unless a company was sufficiently big, it would struggle to compete.

#### *Cement*

##### *RMX producers*

21. [REDACTED]
22. BPM thought it got a 'decent price for cement'. It currently used imported cement. The ex-works prices on offer from the large cement producers were comparable or, in one case, better. It did have some concerns about ground granulated blast furnace slag supplies.<sup>6</sup>

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<sup>6</sup> [REDACTED]

*Other customers*

23. One customer, [X], noted that the cost of haulage of cement sometimes dictated 'territories' for the RMX producers around their concrete plants, but it was not felt that the cement producers were coordinating with each other.

*RMX*

*RMX producers*

24. [X]
25. Two aggregates producers had considered entering the RMX market. Middleton Aggregates told us that it had concerns about the extent to which it would be exposed to risk on the price of cement. It believed that the extent to which the Majors controlled the market for cement was significant. Cardigan told us that it had considered setting up a concrete or RMX operation for security of supply reasons but did not believe that it had the 'critical mass' required to do so.

*RMX customers*

26. [One customer] considered that there was little RMX competition in South Wales compared with Trowbridge/Weston-super-Mare where there were more independent RMX companies. [X] told us that it purchased RMX from whichever supplier was closest to a job site and could get it to the site fastest.
27. Sibelco told us that, because it had no downstream interests (eg in RMX or concrete blocks), this helped it maintain a good relationship with the Majors, who were all its customers.

28. One customer, [REDACTED], told us that, whilst suppliers sometimes offered better prices on aggregates if RMX (or road surfacing work) was also purchased, it did not necessarily purchase aggregates this way.

***Theory of harm 2: Coordination between producers reduces or prevents competition***

29. We note that some of the evidence discussed in paragraphs 11, 21 and 30 could be consistent with this theory of harm. However, we note that we did not receive any other evidence which directly concerns this theory of harm. We also note that other evidence (see, for example, paragraph 14) is consistent with a non-coordinated competitive process. Furthermore, we note the evidence in paragraphs 16 and 17 which shows that there are players in the market with substantially different costs and incentives from the primary aggregates producers, which could tend to undermine any coordination in the local (case study) aggregates markets.

***Theory of harm 3: Vertical integration and exclusionary behaviour***

30. We received evidence from one interviewee [REDACTED], which suggested that [REDACTED].
31. We consider that this evidence could indicate the possibility of attempt at vertical foreclosure of non-vertically-integrated RMX rivals by (in this case, [REDACTED]) Majors, which is a possible manifestation of our vertical effects theory of harm. However, in the absence of further evidence, it is not possible to conclude on this point. We noted that, although this [REDACTED], it also told us that [REDACTED].
32. Another interviewee, Tony Gilman, told us that ‘the existing situation whereby companies can produce both cement and concrete was anti-competitive and that, in these situations, the companies should be required to divest their cement businesses’. Mr Gilman told us that the cement market had moved from officially sup-

ported national fixed pricing; to the better free market competition among companies which produced only cement; to damaging vertical integration. [✂]

33. BPM told us that it thought the RMX and aggregates businesses in the large companies were run on separate lines; so whilst the RMX businesses would consider the independent RMX producer to be a direct competitor, BPM thought this should not affect the terms on which the aggregates businesses supplied it.
34. More generally, we received evidence from one independent producer (Middleton Aggregates) which speculated that vertical integration gave vertically-integrated producers the ability to 'cross-subsidize' between cement, aggregates and RMX but it did not consider that it was significantly disadvantaged by the fact that it did not supply ready-mix and asphalt to customers. For large jobs, customers did not generally seem to expect that one company would be able to supply all the materials required.

#### ***Theory of harm 4: Policy and regulation***

##### *Aggregates Levy*

35. We asked interviewees about the Aggregates Levy. Mr Gilman suggested that some producers might be dishonest about the make-up of the goods they sold in order to evade proper payments due under the Aggregates Levy. The same interviewee said that the Aggregates Levy was too high. We noted that these comments did not relate to the impact of the Aggregates Levy on competition per se.
36. Middleton Aggregates told us that it:
  - believed that the aggregates levy affected it (and independent companies generally) disproportionately, as the majors would tend be more involved in selling high-value-added products than the independents.
  - The levy would therefore represent a smaller proportion of the price of

these products than the lower-grade aggregates, which were a large part of [its] business.

37. On the other hand, another producer of primary aggregates, Cardigan, told us that, although it thought the Aggregates Levy was 'very high', it:

did not believe that the aggregates levy disproportionately affected the independent companies. Though it could cause cashflow issues, the levy was no different from VAT or corporation tax, in that the majors had access to more funds than independents and so were less likely to encounter problems with cashflow.

### *Planning*

38. Middleton Aggregates told us that it had been through the planning regime processes several times and had found that it was often very time consuming and costly. A significant proportion of the costs were upfront, which made the process very risky for smaller companies. Similar concerns about the time and cost of planning applications were expressed by another aggregates producer (Sibelco); a different aggregates producer, Cardigan, said that the major aggregates companies employed professional planners, which independent companies could not afford to do.

### **Further analysis**

39. This evidence will be integrated into our analysis of the theories of harm. However, we do not propose any further work specifically in relation to either the South Wales or west of East Anglia case study areas. We also do not propose any further case studies in any of the other possible case study areas identified earlier on in the investigation (see paragraph 2, footnote 3).

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