

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Working paper summarizing CC review of internal documents (cement)

Background

1. Internal documents are one strand of evidence we will evaluate in reaching a decision on whether feature(s) exist in the UK cement market which give rise to a prevention, restriction or distortion of competition.

2. The internal documents we have reviewed include:
 - [REDACTED] Documents from 2008 and prior to 2008. These documents were the subject of an earlier [working paper on internal documents \(cement\)](#) [REDACTED].
 - Internal documents relating to business strategy and other matters provided by the Majors as part of the initial information requests sent to parties at the start of this market investigation [REDACTED].
 - More recent internal documents requested from the Majors [REDACTED] relating to the period August 2010 to September 2012.

3. This working paper relates to our review of category (c) documents for the Majors.
[REDACTED]

4. This working paper does not try to capture the ‘totality’ of the documents we have reviewed. Many of the documents provide evidence of price competition between the GB cement Majors or between the GB cement Majors and importers including AI (Paragon) (eg incumbent suppliers being undercut on price and/or internal discussion of the need to reduce prices to retain a customer). Although some examples of these

are included below, we have not sought to summarize that body of documents.¹

Rather, in this working paper we focus on extracts of those internal documents which may suggest the continuance of some of the behaviours identified in our points of interest/themes outlined in our earlier working paper on internal documents (cement) (see above). We have also noted certain instances where documents provided useful insights into a company's view of the market in which it operates or particular market conditions.

5. Most of the documents are email communications, sometimes with attachments. By their nature they do not necessarily give a complete picture of any particular scenario. Further, some language used is ambiguous and emails may be supplemented with other forms of communication that we have not seen (eg telephone conversations or meetings, unless these were summarized in an email). In a number of instances we have included questions for the relevant party to clarify.

Summary of our analysis

6. We observe many examples of internal reporting of/commentary on price competition both between the GB cement Majors and between the GB cement Majors and importers including AI (Paragon).
7. We observe a number of behaviours/market features consistent with the themes identified in our earlier working paper on internal documents (cement). These include:
 - Management focus on market share and wins and losses.
 - Little evidence of any GB cement producer seeking to pursue a strategy of organically growing market share significantly above existing levels.

¹ That body of documents will be taken into account in our decision-making alongside the documents referred to in this working paper.

- A degree of transparency in relation to cement prices. Information on prices is gathered through discussions with customers and through the fact that cement producers are either customers or suppliers of each other. Moreover, there is considerable transparency in the price increase announcement letters of the cement producers.
- The selling of cement and cementitious products between the Majors provide opportunities for contact and discussions of cement pricing between competitors.
- The existence of informal contact between senior personnel at Majors (eg corporate hospitality and through trade associations).
- Importers of cement are closely monitored. There are examples of steps being taken to react against this threat which appear to go beyond simply competing on price/better service etc, including: [✂].
- Some individual documents include language which appears to refer to forms of retaliation in response to price competition. Some of the examples are ambiguous and we have included in this working paper questions to parties, where appropriate.

8. Also of note:

- There are comments in some documents to the effect that the Lafarge Tarmac JV will have a stabilizing effect on the market.
- GGBS is viewed as equivalent to cement in negotiations and in internal strategy discussions.

9. The summary above takes into account the documents as a whole. In the case of each Major, we have included a summary section to identify relevant themes for that Major.

Structure of this working paper

10. This working paper is structured as follows:
 - We describe the document request process itself (paragraphs 11 to 16).
 - We then provide extracts from some of the internal documents we have reviewed [excised].

Document request

11. In November 2012, we sent the Majors a request for internal documents in relation to cement. This request was split into two parts: 'Request 1' asked for all emails sent between the Majors by certain 'named postholders' (see paragraph 15) and 'Request 2' asked for all internal emails which contained certain key search terms. The document request built on our previous analysis of internal documents.
12. 'Request 1' was designed to provide us with documentary evidence on commercial negotiations between the Majors for cement sales. In our previous analysis of internal documents, for most of the Majors whose documents we reviewed, we observed that trading between the Majors showed that 'cross-sales' of cement were very common and provided a high degree of transparency of rivals' production capacity including future intentions, as well as rivals' cement pricing. Some links were made in the documents we reviewed between the price paid for cement from another Major and the price at which cement was sold to that Major (ie an element of reciprocal pricing). It was also clear from the documents that cross-sales allowed a degree of leverage in commercial negotiations between the Majors, in respect of cement and RMX.
13. 'Request 2' was designed to provide us with internal documentary evidence which could indicate whether any of the behaviours we had identified in our earlier working paper on internal documents (cement) had continued. The behaviours we identified in these earlier documents were that, in summary:

- *Pricing strategy.* The documents showed monitoring of cement producers'/ importers' pricing very closely including announcements of price increases by cement producers.
- *Verticalization.* The documents indicated that vertical effects were considered as part of cement (where relevant) and RMX pricing and strategy.
- *Imports.* The documents indicated a close monitoring of importers of cement and the costs of importing and concerns about the potential constraint from increased imports. In some instances, unilateral steps appeared to have been taken to restrict the constraint from individual importers.
- *Market share.* For [REDACTED], [REDACTED] and [REDACTED], the documents indicated a close monitoring of own market share (on a month-by-month basis and sometimes at a regional basis) and that the preservation of market share appeared to be a metric of business performance.
- *Cross-sales.* For [REDACTED], [REDACTED] and [REDACTED], the documents showed that cross-sales of cement were very common and provided a high degree of transparency of rivals' production capacity including future intentions, as well as rivals' cement pricing.
- The existence of *senior level business contacts between the Majors* and, in some documents, [REDACTED].

14. The scope of the document request was quite wide. We asked for documents for the period 1 August 2010 to 30 September 2012 inclusive. [REDACTED]
15. To make the request as targeted and proportionate as possible, we asked for documents for certain 'named postholders'—essentially, the CEO/MD of the UK business, the senior cement sales directors/managers (and in some cases the cement strategy managers), and the head of the business's RMX division (and in some cases the key cement procurement managers).

16. [REDACTED], [REDACTED] and [REDACTED] all raised a number of questions concerning the document request and, following discussions with these parties, we agreed to some amendments to the document request in order to narrow the request. [REDACTED] was unable to provide us with documents covering the full date range, citing its corporate document retention policy. Further details are provided below for each party.

[REDACTED]

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