

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

Summary of hearing with Balfour Beatty held on 12 September 2012

Background

1. Balfour Beatty (Balfour) was a major UK construction company. It was organized into four divisions: a capital investment business; a professional services business; a construction services business; and a support services business. Its construction services business was the biggest part of the company. It was involved in a range of construction activity and was particularly known for major infrastructure projects. [REDACTED]
2. Balfour explained that it employed the large UK aggregates, cement and ready-mix concrete (RMX) companies (ie Aggregate Industries, Cemex, Hanson, Lafarge, Tarmac—together ‘the Majors’) and sometimes smaller companies on a subcontracted basis to carry out Balfour’s asphalt-related work (eg road surfacing). The subcontracted company would carry out all of the works—ie would provide the materials and lay the asphalt.
3. In contrast, Balfour tended to buy aggregates and concrete itself and used its own labour to lay the materials. In most cases, Balfour competitively tendered for these materials and would identify who, in the local area, had the assets able to fulfil Balfour’s requirements; generally, that meant not all of the five Majors would be available. For very large projects [REDACTED] where construction materials comprised a significant part of the overall cost, Balfour would work with one of the Majors whilst it prepared its own tender so that Balfour knew exactly how it would build the project.
4. Balfour explained that, whilst clients might encourage particular procurement decisions (eg to use recycled aggregates or a particular material), it was never directed towards a particular supplier and was usually free to procure alternative materials to those proposed by the client.
5. Balfour explained that, whilst all the Majors were able to do the full range of work, some were better than others at doing particular things. The quality of a particular service might fluctuate over time as companies ‘rested on their laurels’ and competitors came along and offered a better service.
6. Balfour considered that the Majors’ prices were competitive. Whilst other service characteristics were also important (eg quality of product), in the current market price tended to be the prevailing driver of procurement decisions. For both concrete and aggregates, Balfour would generally expect three to four of the five Majors to be present in the local area, but in areas away from cities only three Majors might be present. It would also look to independent producers if they were capable of fulfilling the requirements. Balfour did not have a policy of requiring a minimum number of bidders. Balfour thought that variance in the competitiveness of different quotes was likely to be a function of the distance different suppliers had to travel. Suppliers might not quote at all if they were far away or too busy.
7. For major projects, Balfour would usually prefer [REDACTED] the Majors due to the volumes of construction materials required. [REDACTED] It considered that it was the size of the Majors and their local capabilities which were important in their ability to supply these volumes rather than the fact that they were vertically integrated per se.

8. For smaller projects, Balfour would be very comfortable using smaller, independent suppliers which might offer other advantageous services (eg recycling). In more remote areas, Balfour might dual-source for smaller projects to ensure security of supply in case a supplier's plant broke down.
9. [X]

Aggregates

10. [X] It purchased aggregates of all types. It promoted the use of recycled aggregates for environmental and commercial reasons. It had to test the quality of recycled aggregates very carefully, which was a material cost; it could be very expensive if the quality was not correct (eg if a load was adulterated with asbestos or non-aggregates).
11. Balfour always looked to see if there was an option to use recycled aggregates but it was not always possible to do so (eg because the client did not want to use recycled aggregates). It encouraged RMX producers to use recycled aggregates. However, RMX producers were not as keen due to perceived quality issues and because having additional sources of aggregates on-site created storage and operational issues (ie it was simpler to be making RMX from one type of aggregate rather than changing production between different sorts of aggregates, primary and recycled).
12. There were recycled aggregates operators across Great Britain. Generally, confidence in recycled aggregates was growing and Balfour was using more of these materials nowadays; however, quality was still patchy.
13. Balfour explained that, for larger projects, it would often try to open its own aggregates pit [X]. However, lead-in times often meant this was not possible—[X]. Once a contract was awarded, Balfour often needed to mobilize very quickly, and it would not be possible to wait for the outcome of a planning application. [X]
14. Suppliers who were closest to the job site would factor in their rivals' additional transport costs when pricing the work. Recycled aggregates suppliers would tend to price just below a primary aggregates supplier. Balfour had not noticed any particular difference in prices between parts of the country where only the Majors were present and parts of the country where Majors and independents were present. Balfour observed that crushed rock tended to cost less in the Midlands or North-West than the South-East due to the absence of local deposits of rock in the South-East. Where there were sand and gravel deposits there tended to be a few more independents.
15. In the present market, Balfour felt that suppliers were more likely to discount their prices to win work. Balfour would seek to fix prices for the duration of the contract or include mechanisms to deal with price increases. Most pricing was done by the local Balfour operation. Where prices were not fixed and Balfour was exposed to a price increase it would usually meet with the supplier at the national level to negotiate an outcome.
16. Balfour regularly received letters (two or three per year) from suppliers announcing price increases; it had never received a letter announcing a price decrease. It said it pushed back on these increases. The reasons given were normally to do with wage increases and the cost of hydrocarbons. [X]
17. Balfour regularly received contacts from suppliers saying that they had materials at a discounted price.

Cement

18. Balfour tended to buy concrete ready-mixed. From time to time, Balfour would set up its own on-site batching operation for which it would buy cement. Cement plants were very expensive to build and there were few in the UK. When it bought cement Balfour would invite bids from more than one plant, ie not just the closest. [X]
19. Letters announcing cement price increases were often provided to Balfour as a justification for increases in RMX prices. [X]
20. When it had used imported cement before, at times, Balfour had had quality concerns. As with recycled aggregates, it would check quality very carefully. [X]

Ready-mix concrete

21. Balfour said that prices for RMX varied across the country: for instance, London and the South-East had high demand and high transport costs meaning that concrete was significantly more expensive than in other parts of the country where demand was down leading to lower prices. Balfour considered that, in major cities, there was enough competition. Generally, Balfour thought it was able to create competitive markets for its RMX, aggregates and asphalt purchases. In this respect, it was probably similar to other large construction companies.
22. Balfour considered that there had been some growth in the independent RMX sector through use of volumetric trucks. At the moment, volumetric trucks were a specialist part of the concrete market which were useful for smaller jobs (eg for night-works) but not for larger jobs where a plant and trucks were still needed.
23. A major innovation in recent years had been self-compacting concrete which reduced labour costs and had health and safety benefits, but was expensive (although the price was coming down). Balfour thought that Hanson had initially pushed this a bit more than the other Majors (but this could have been because, at the relevant time, Balfour was working with Hanson in the Manchester area where Hanson was particularly strong). Balfour said that it would be surprised if self-compacting concrete and other innovative concrete products were a significant part of the Majors' concrete businesses. It did not consider that self-compacting concrete was having a significant impact on competition.
24. Balfour bought RMX made from all types of cement, including CEM II and CEM III cement. Concrete made from CEM II/III had certain technical characteristics which were beneficial for particular applications. On large projects Balfour would evaluate whether it was more cost effective to buy-in cement and aggregates to produce concrete on-site; usually it would buy-in RMX.
25. Balfour said that the Majors all had large technical concrete departments and could probably add a little less cement—which was probably the main cost—to their RMX than the independents which did not want to risk the quality of the concrete.

Anglo American/Lafarge joint venture remedies

26. Balfour welcomed the remedies. The remedies would create a new player in the market, and if the joint venture had gone ahead and one player had disappeared from what was already a quite tight market it would have had some concerns that that might impact on the competitive position. Balfour thought it unlikely that the

remedies would change behaviour in the market unless there was a change of management.