

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of hearing with BAM Nuttall held on 11 October 2012

Background

1. BAM Nuttall (BAM) was a civil engineering contractor. It was part of Royal BAM Group, based in Holland. BAM's sister company in the UK was BAM Construct which was a building company. The majority of BAM's projects were publicly funded. Large projects included Crossrail and the Olympic Park. BAM bought aggregates and ready-mix concrete (RMX) but little cement. In the period January to September 2012 it spent with Hanson, Tarmac and Aggregate Industries about £2.8 million on aggregates, £6 million on RMX and £0.5 million on bulk cement. BAM's spend with these three companies comprised about 75 per cent of its total aggregates, RMX and cement spend. On some projects it would make RMX on-site but this was almost always handled by its RMX contractor (eg one of the Majors).
2. In relation to its aggregates and RMX purchases, BAM explained that it sent enquiries to all suppliers with a local production facility. It sent enquiries to anybody who could supply it, including both independents and the Majors. BAM would then make an assessment (including a technical assessment) of its potential suppliers' proposals. Its purchase decisions would generally be based on price, but it would also consider the quality of performance, delivery, and systems of the supplier. The main price differentiator for both RMX and for aggregates was the distance that the material had to travel—almost invariably, the closest source that actually could provide the quantity and the quality would be the one that secured the work, or would have a distinct advantage in securing the work.
3. The economic downturn had not affected BAM—it had increased its turnover the past three years. BAM thought that suppliers had probably closed down production facilities or exited them completely, in contrast to previous downturns where facilities might have been mothballed. BAM thought that contracts might require more of suppliers nowadays and that suppliers were prepared to travel further and have fewer, larger plants.
4. For most contracts, BAM sourced aggregates/RMX directly from suppliers with the client specifying the quantity of material required. It dealt with all of the five Majors as well as regional suppliers. Of the Majors, BAM preferred to work with Aggregate Industries, Tarmac and Hanson because it had more established general business relationships with these companies and had worked alongside them to win bids and secure work. These companies also offered road surfacing services, which were a large part of BAM's work. All of the Majors tended to compete equally on price: it was the previous experience BAM had with each company which might mean it would prefer to work with one company over another.

Ready-mix concrete

5. On most jobs BAM needed some sort of technical high-specification concrete (60 to 70 per cent of its RMX purchases were higher-specification). It did not consider that any particular supplier was particularly better or worse at being able to produce higher-specification concrete, and all BAM's suppliers were capable of producing

concrete of the required specification, albeit that it had better relationships with two or three suppliers which meant it tended to use them.

6. BAM approached independents and Major RMX suppliers in the same way—its assessment looked at price, quality, commitment, and ability to supply. On some of BAM's higher-intensity jobs, smaller producers might not be able to compete due to a lack of production capability (that is, the producer might not have enough trucks and/or its plant might not be large enough to produce sufficient quantities of RMX). Another issue might be the credit risk posed by smaller producers. BAM worked to help smaller producers with financing issues. It considered this part of its business ethics and important in helping to maintain the supply chain. Competition dynamics in RMX were similar to those for aggregates (see paragraph 12—ie price competition tended to depend on the number of local suppliers).
7. The fact that some of BAM's RMX suppliers also had aggregates operations meant these suppliers had security of supply compared with non-integrated suppliers where a credit risk might arise between the aggregates supplier and the RMX producer. BAM noted that there were considerable cross-sales between suppliers and that suppliers would try to use local sources of aggregates (as this was more cost-effective).
8. Borrow pits were rare. Using borrow pits to extract aggregates to make concrete on site was, in BAM's experience (on a wind-farm project in Scotland), very time-consuming and also had complex planning and environmental (waste) implications. Borrow pits might be useful for extracting fill for roadbed construction. BAM did not sell any RMX on the open market: any RMX it produced was project-specific.
9. BAM did not think that its share of RMX spend to the independent producers was increasing or decreasing. Its work was very geographically-varied, and there might or might not be an independent close enough to supply it in a given area. Near the south coast of England independent producers might have become more 'visible'. BAM rarely purchased RMX from volumetric trucks. Volumetric trucks tended to be useful for specific, small one-off jobs (eg a rail possession on Christmas Day where 6 cubic metres of RMX was needed). BAM considered that volumetric trucks were more suitable for local government road repair or small groundworks rather than large projects.
10. BAM did not source its RMX for a given project from multiple suppliers. It would only do so if either (a) the first supplier could not deliver on time or (b) could not produce the required volume. BAM saw the moves by the Majors to vertically integrate cement and aggregates as an example of good practice in managing their supply chains—BAM did similar things in its own business.

Aggregates

11. BAM generally used primary aggregates. It occasionally used recycled aggregates (eg from road planings) but recycled aggregates were often not available and additionally, BAM had had significant problems with recycled aggregates due to inconsistent quality, so it was very cautious about using them. BAM would never consider using recycled aggregates for making high-specification concrete, but it might do so for lower-specification concrete. BAM had used secondary aggregates with some success. It gave as an example the use of waste china clay in the construction of the Olympic Park.
12. BAM used whatever aggregates were available for the job in hand provided they met the required specification. For example, for pipe bedding, gravel would be appro-

priate but, if gravel was not available, BAM would use crushed granite or limestone, which tended to be more expensive.

13. In parts of the country with lots of quarries, BAM paid less for aggregates while in parts of the country with fewer quarries, it paid more. If there were plenty of competition, the price stayed low and competitors fought for every order they could get, but where there was no competition, the price would drift upwards. BAM would resist such price increases during its negotiations with suppliers at the tendering and buying stages.
14. There were areas with no competition; this was just a fact of geography. In relation to Scotland, BAM explained that, except in the far north, in most parts of Scotland it might have a choice of one or two independents and perhaps one, two or three of the Majors. In London and the South-East (and urban areas generally) price might be higher due to haulage costs (the frequency of lorry loads being less in urban areas—in London, the congestion charge was an additional factor) and strong demand for materials.
15. In some cases it might be cost-effective to use aggregate merchants (eg where waste had to be removed from a site and the incoming aggregates lorry could be used to remove the waste material on its outgoing journey).
16. BAM did not have a lot of experience of the planning system for quarries. It speculated that applying for new quarries might put off some of the independent producers, due to the cost and time involved. Taxation issues might impact production also. But overall BAM did not think that these issues affected the marketplace unduly nor, particularly, did they add to the cost base of the industry.
17. BAM procured aggregates on a project-by-project basis: it did not have any framework purchasing arrangements. BAM would get a better unit price for increased volume of materials. It thought it probably got a good price—based on its credit rating, its record of paying suppliers on time and its good working relationships with the Majors. [✂]
18. BAM had never been concerned by similarly-priced bids. Prices could be relatively close if the quarries were all the same distance away, but generally there was a variation that caused no suspicion. Nor had BAM been concerned that local suppliers had not bid for work: if a supplier was near and the quarry was open, the supplier tended to bid. The prices quoted by independents could be better than the prices quoted by the Majors. BAM's only concerns were when there was only one locally-based supplier. BAM thought that the need to cover large fixed costs meant suppliers had an incentive to quote for work. It considered that profitability across the whole construction industry was low.
19. BAM tended to receive two price increase letters per year from all the suppliers, usually around the same time, in the same month. These letters usually said that costs had gone up and were the same across the marketplace. BAM did not expect to pay the full price increase: rather, the letters were a starting point for price negotiations. Given that projects might run across more than one price increase period, BAM would factor in likely *realized* (ie what BAM thought it would *actually* pay, not what it thought the suppliers would try to achieve) price increases when pricing its contracts.

Cement

20. BAM bought some bagged cement and a small amount of bulk cement. Its procurement of bulk cement would follow a similar process to its procurement of RMX and aggregates—ie BAM would invite suppliers to bid for the work.
21. BAM explained that, two or three years ago, there probably would have been some concern about competition in pricing for bulk cement. There seemed to be too much alignment between the main players and not enough capacity in kiln space—for example, BAM noted an occasion when a Lafarge kiln had failed and there was quite a shortage of cement which had had a significant impact on price and also in the distance of getting materials. However, BAM was not particularly concerned about this at present. There were importers of bulk cement from countries like Spain and Germany, although imported cement could be a different consistency (and possibly inferior) to Great-Britain-produced cement and also it might not be possible to switch cements mid-project. BAM would take advice from its technical team as to whether RMX made from imported cement met required specifications and would not have concerns about using imported cement as long as it did so.
22. In BAM's opinion, any concerns regarding the security of supply of imported cement were pretty limited given that the larger companies which were importing cement had purchasing power and had some alignment with importers. BAM had never been required by customers to use pulverized fly ash or ground granulated blast furnace slag in RMX: whether to use those materials would have more to do with technical performance of the concrete and cost rather than satisfying a client's particular needs.

Anglo American/Lafarge joint venture remedies

23. BAM was aware of the divestment proposals. BAM considered that, as long as the capability of the concrete plants and the cement plant remained in the marketplace, it did not have great concerns. It would prefer that these assets were managed by people it knew but it was not unduly concerned.