

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

Summary of hearing held with CEMEX on 21 June 2012

Background

1. The UK construction industry was currently in recession. The Government had identified construction as a means of stimulating growth. CEMEX UK's (CEMEX's) operations needed to ensure that its business model was competitive and sustainable so that it could attract investment from within the wider CEMEX Group and compete against other building products manufacturers both in the UK and elsewhere in Europe.
2. CEMEX acquired its UK operations in 2005 and had since invested £[redacted] in improving them and reducing its CO₂ emissions. It had reduced its workforce [redacted] since 2007. CEMEX's UK operations represented [redacted] of the worldwide Group's turnover [redacted] of its operating income. CEMEX considered the UK market to be highly competitive, regulated and expensive to operate in, [redacted].
3. Cement manufacturing was a capital-intensive business. Importing clinker or cement into Great Britain was a viable alternative as shipping was inexpensive and all that was needed to store the imported material was a silo at a dock. Although the overall cement market had declined by 30 per cent since 2007, imports had increased by 30 per cent. Cement manufacturers also faced increasing energy costs (a 50 per cent rise in the past two years) as well as increased regulatory burdens. Cement prices had not kept up with cost increases [redacted]. CEMEX faced competition for further investment from [redacted] operations within the wider CEMEX Group.
4. CEMEX sought to differentiate itself from its competitors in a number of ways including quality of customer service, branding, and its coverage of the whole of Great Britain. It also competed hard on pricing. CEMEX also sought to compete through innovation, particularly in regard to improving its products' environmental specifications.
5. CEMEX regarded the competition it faced from other majors on aggregates, cement and ready-mix concrete (RMX), and independent aggregates producers, cement importers and RMX producers, as roughly equally challenging, though it noted that importing cement was much less capital-intensive than producing it, so CEMEX considered that cement importers had a particular advantage in this respect.
6. Being vertically integrated gave CEMEX a competitive advantage as it allowed it to have contact with the end-user (ie RMX customers) of its products which meant that CEMEX better understood its customers' needs. Each of CEMEX's business divisions (aggregates, cement and RMX) were separately managed, so, for example, its RMX business could operate independently. This helped to offset any flexibility advantages that independent RMX producers might have. CEMEX's RMX business could develop new products and services itself and could share these innovations with the rest of the company.
7. Having its own RMX business also gave CEMEX an outlet for its cement production, but the primary reason for its involvement in RMX was to have contact with its customers. CEMEX's RMX business was not currently profitable in its own right, but

it could be in the future, [REDACTED]. It was noted that in recent years, independent RMX producers had increased their share of the market.

8. CEMEX did participate in some joint ventures, but these had all been set up prior to CEMEX's entry to the UK market via its acquisition of RMC in 2005. [REDACTED]
9. CEMEX [REDACTED] assets [REDACTED].
10. [REDACTED]
11. CEMEX was trying to reduce its costs and improve its efficiency [REDACTED]. CEMEX had been reducing its UK capacity, eg by closing two cement plants, [REDACTED].

Aggregates

12. CEMEX regarded recycled and secondary aggregates as substitutes for, and competing products to, primary aggregates. There were a few cases where concrete had to be very strong and only primary aggregates could be used (eg the construction of high-rise blocks of flats), but recycled and secondary aggregates could be used for most construction projects. Conversely, for environmental reasons, some building projects now required that a certain amount of recycled aggregates be used in their construction, which again increased the demand for recycled aggregates and made it harder for producers of primary aggregates to compete. The fact that recycled and secondary aggregates were not subject to the aggregates levy also enhanced their competitiveness.
13. Although CEMEX had a Vice-President for Aggregates who oversaw the whole of its aggregates business in the UK, [REDACTED]. CEMEX considered all the local markets it operated in to be competitive, even those where there were only a few primary aggregates suppliers because of the competition from recycled and secondary aggregates and merchant hauliers also involved in supplying aggregates. Production costs might be higher in areas where there were predominately sand and gravel quarries, but CEMEX did not consider that this significantly affected competition in those areas.
14. The MASS planning system (Managed Aggregates Supply System) was necessary to maintain a balance between supply and demand for aggregates. Currently, there were more aggregates available than were necessary to meet current levels of demand, but this was due to the economic situation and not the planning regime. The planning system was bureaucratic and costly, but it was the same for every aggregates producer, so its operation did not affect competition.
15. Sales in aggregates could arise in a number of different ways: Potential customers might simply ring up and ask for a quote for a single quantity of aggregates, or they might want a supply for a particular contract or time period. Sales could also arise through a tendering process where CEMEX and other suppliers would bid to supply a project. CEMEX's sales representatives also routinely contacted customers to see if there were forthcoming projects that CEMEX could supply.
16. CEMEX categorized its customers in a number of different ways. There were small construction companies and larger companies working on major projects. There were also external RMX, asphalt and building product suppliers and producers. On major projects, CEMEX normally did not deal directly with the ultimate customer, but with an intermediate party responsible for procuring aggregates. CEMEX would check the creditworthiness of companies asking it to bid. External suppliers of RMX and other products would seek quotes from competing aggregates suppliers. CEMEX did have

some customers with whom it had a long-term relationship. It maintained these relationships through customer service, and where possible, through innovation, though this was more difficult in aggregates than in cement or RMX. However, price was ultimately the deciding factor in retaining a customer.

17. As the volume of aggregates sold had declined in recent years the amount of customer turnover, or 'churn', had increased as aggregates suppliers had become more active in seeking customers. Customers often would switch their aggregates supplier at short notice, even midway through a project, if a competing supplier quoted them a better price.
18. CEMEX's pricing procedure was as follows: [REDACTED].
19. Situations could arise where CEMEX was forced to lower its prices because of competition from other suppliers, and CEMEX had to 'take' or 'follow' the other companies' prices or the overall market price. Customers were aware of market prices and would look to obtain discounts. Aggregates markets were highly competitive, in part because of the range of types of business which could supply them (eg merchant hauliers with low cost bases), so while there might be 'price followers', there were not 'price leaders' who set the price. Prices in local markets were instead determined by competition. [REDACTED]
20. [REDACTED]

Cement

21. CEMEX considered that there were four distinct types of customers in the cement market: RMX suppliers; concrete product producers; bagged cement merchants (builders' merchants and DIY outlets); and individual contracts and other customers, who made up a small proportion of CEMEX's business.
22. The markets for bagged and bulk cement had different dynamics but were equally competitive. In recent years bagged cement customers had formed themselves into buying groups, which enabled them to negotiate harder with cement suppliers. Cement was an essential raw material for RMX and concrete products producers, who were consequently keen to obtain the best prices they could. CEMEX faced competition from the other major cement producers for all four of the types of customers noted above. All active importers were involved in the bulk market and some of them also sold bagged cement.
23. Importers' share of the market had increased in recent years, and CEMEX considered that they had a bigger impact on the market than their market share reflected. Customers routinely obtained quotes from importers when buying cement. The presence of imports lowered cement prices. Imports, which had previously come from countries like Germany, increasingly came from Ireland and Spain, where demand had reduced sharply since the economic downturn. It was also important to note the effect of the EU Emissions Trading Scheme (ETS) under which cement manufacturers were incentivized to maintain production levels at individual plants in order to keep the CO₂ credits they received under the scheme. In some markets, this encouraged producers to make more cement than they could sell domestically and led to them to export the excess amount. Phase 3 of the ETS, which would begin in early 2013, would require CEMEX [REDACTED].
24. CEMEX typically renegotiated its cement prices with its customers on an annual basis, usually between January and March, [REDACTED]. CEMEX announced its annual price changes by sending letters to its customers. [REDACTED] CEMEX usually announced

changes to its prices three months ahead of time (eg it would make an announcement in October for a change taking effect in January). Sometimes CEMEX would be the first to announce its price changes, sometimes other majors would do so first.

25. CEMEX and the other major cement producers in Great Britain had different product strategies and different competitive offerings. CEMEX estimated that there were significant differences in the major producers' marginal costs, which could be attributable to the varying levels of technology in the producers' plants. If CEMEX were to drop its cement price to undercut the other major producers in the market on an overall basis, it did not think that the other producers would become aware as [REDACTED].
26. If one of CEMEX's rivals undercut it to obtain business from a major customer or building project, CEMEX would [REDACTED]. It was then up to the customer to decide whether or not to stay with CEMEX. CEMEX routinely had to deal with rivals' offers to its customers. In the past year CEMEX [REDACTED].
27. When CEMEX lost business, it usually knew to whom. Either customers would tell it, or it would see a rival's vehicles servicing the customer's site. CEMEX was naturally not as aware of how competition played out between its rivals. Normally, customers considering switching their cement supplier would ask CEMEX to match a rival's price. Whether it won, lost or retained business, CEMEX [REDACTED].
28. Hanson was the only supplier of Great-Britain-produced ground granulated blast furnace slag (GGBS), but GGBS was also imported into the country. CEMEX did not currently supply GGBS. [REDACTED]
29. [REDACTED]

Ready-mix concrete

30. CEMEX operated its RMX business as a separate unit. It was managed separately [REDACTED]. Currently, its RMX business was loss-making, [REDACTED].
31. CEMEX's aim was to ensure that [REDACTED].
32. The RMX business was a very competitive one, and there was no area of the country where CEMEX or other RMX producers had market power. Both the number of independent RMX producers and their collective share of the market had grown in recent years. This was attributable to there being low barriers to entry to the RMX market, and small operators were able to find gaps in the market and establish profitable businesses to service them. Independent operators could also shop around for the best prices for their supplies and could also use older plant and equipment more profitably in some cases than major producers like CEMEX. The growth in volumetric truck operators, which could produce RMX of equivalent quality to fixed-plant operators, was also an important factor. CEMEX [REDACTED] volumetric trucks [REDACTED].
33. Sales in RMX came from a number of sources including tenders, contracts, informal agreements and historical relationships. To create business, CEMEX had a team of RMX sales representatives who regularly visited customers. It also advertised and contacted customers via the Yellow Pages and the Internet.
34. To price RMX orders, [REDACTED].
35. [REDACTED] The level of competition it faced in the market had so far prevented its RMX business becoming profitable. [REDACTED] The best way of comparing producers' RMX

prices was to look at the base cost of the RMX before any additional sundry charges were added.

36. CEMEX had developed a number of specialist branded concrete products in recent years (eg Hidratirum, a waterproof concrete and Promptis, a fast-setting concrete which allowed form-work to be stripped more quickly). [✂]
37. It was possible that the new entrant to the markets created by the joint venture remedies would be aggressive in seeking new business, especially given the current market conditions. The new entity would have a lot of cement production which it would be keen to push through its network of RMX plants. It would also be a national player so would affect competition across Great Britain.