

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

**Summary of hearing with the Mineral Products Association held on  
13 August 2012**

**Background**

1. The Mineral Products Association (MPA) was a sectoral trade body for the UK aggregates, cement, concrete, asphalt, dimension stone, silica sand, lime and mortar industries and consisted of around 450 members. The MPA was formed in March 2009 after the Quarry Products Association, British Cement Association, and the Concrete Centre merged to form a consolidated association. The formation of the MPA was a culmination of years of the continual consolidating of trade associations which dated back to 1992. It could effectively be viewed as the consolidation of 12 or more associations, and it was also affiliated with the British Precast Federation, and the British Association for Reinforcement. The British Aggregates Association (BAA), which represented about 5 per cent of the aggregates product stream, was not affiliated to the MPA.
2. In the UK, the MPA represented 100 per cent of all cement producers, more than 90 per cent of aggregate producers, 95 per cent of asphalt producers, 70 per cent of pre-cast producers, and between 90 and 100 per cent of producers in the other connected markets. MPA members' production included primary, secondary, and recycled aggregates. Around 20 members were involved in recycling inert materials from local construction sites and recycled materials such as brick, concrete, clay, and sand. Recycled aggregates producers were very innovative in finding new ways of using materials.
3. The MPA had relationships with 12 European trade associations, which included membership of Cembureau—the trade association for Europe's cement industry; UEPG—the trade association for aggregates; and ERMCO—the trade association for ready-mix concrete (RMX). Some members of the MPA were also members of these European trade associations in their own right (specifically Cembureau).
4. MPA's membership consisted of five major global companies (the 'majors', ie Lafarge, Hanson, Cemex, Aggregate Industries), nine international companies, and the rest were small- to medium-sized enterprises (SMEs). The largest five or six companies provided around 80 per cent of the MPA's funding; however, they did not dominate its policymaking process as the MPA's board had representatives from the five majors and five independents, and its committees were attended and chaired by a balanced mix of majors and SMEs.
5. The construction materials market had not recovered from the economic downturn, and the MPA's 2011 forecasts estimated that, since 2008, aggregates production was down by 27 to 31 per cent and RMX was down by 34 per cent. The MPA estimated that for the current year the aggregates and RMX market would be down by 10 per cent. It believed that the market would stabilize by 2014 with a 3 to 4 per cent upward trend between 2015 and 2020. Accordingly, the MPA's members believed that this was the toughest period they had ever experienced but felt that the markets were competitive as their business strategies were based on ensuring their survival.

6. Because of the nature of the assets involved and its planning and regulatory regime, the aggregates industry operated within much longer planning time frames than other businesses. 'Short term' typically meant five years, 'medium term' meant 10 to 20 years, and 'long term' meant 20 years or more.
7. Companies involved in the concrete business which did not produce cement viewed the majors as those that supplied cement, no more, no less. The supply of cement, as well as raw materials, was among many risks that non-majors had to handle. As many customers preferred to work with local suppliers, non-majors used their local knowledge and networking skills to provide a high degree of customer service and give them a competitive advantage against the majors. The non-majors appeared to have had the resilience to survive in the punishing market conditions of recent years, and their survival had been aided by their prudence during better economic periods. Non-majors varied in size and could be quite significant participants in many of the aggregates and RMX markets.
8. The MPA collected and published industry data in order to assist its members with business planning. It conducted a voluntary survey of ten aggregates and 15 RMX companies on a monthly basis in order to produce consistent information about market size and movement. The data was available to all members and a summary of it was published quarterly. With regards to cement, the MPA collected and published annually data related to environmental and energy measures such as fuel use, CO<sub>2</sub> emissions, natural raw materials, packaging, waste fuels, and use of electricity. Data related to cement, clinker, pulverized fuel ash and ground granulated blast furnace slag volumes, sales and ground stabilization were collected (monthly, quarterly and annually depending on the type of data) by an independent third party named Bessler Hendrie. The MPA stated that it did not collect or publish information on prices.

## **Aggregates**

9. The MPA and BAA were both members of the CBI Minerals Group and the UK Minerals Forum, and they worked together closely to support these organizations. There were two areas where the BAA's policies conflicted with those of the MPA. First, whilst both organizations opposed the aggregates levy, the BAA had undertaken a legal challenge against the levy while the MPA sought to mitigate its effects by seeking freezes to increases to the levy and arguing for changes in its application. Second, the BAA had expressed concerns about the structure of the cement market but the MPA had no policy on this issue.
10. The MPA considered that companies in the aggregates market had proved very resilient, with only two member companies, to the MPA's knowledge, recently going into administration. There had been little significant change in the number of companies operating in the market since the start of the downturn. New sources of supply included the development of the recycled and secondary market which currently accounted for 30 per cent of the market. However, apart from gradual efforts to upgrade the quality of recycled products there were unlikely to be material changes in the supply chain as it was considered that most potential recycled and secondary materials were already in the market. There were few barriers to entry to this market, though potential entrants were likely to take a risk-averse approach to future investment given current economic conditions.
11. Across the UK, crushed rock aggregates accounted for about 65 per cent of primary aggregates production with sand and gravel accounting for the remaining 35 per cent, but these proportions varied significantly across the country depending on local geology and what could be accessed locally. Producers had to find ways of using

locally available materials to meet required standards, so viable substitutes existed for most types of aggregates, for example both sand and gravel and crushed rock could be used as concrete aggregates. There were, however, some materials that were not substitutable like those used for high-PSV (polished stone value) standard road surfacing and rail ballast. In recent years there had been a shift from more restrictive ingredient-defined specifications for the production of aggregates, concrete and other products towards standards based on the product and material performance. An example of this change was the use of 25 per cent recycled aggregates in the concrete used in the construction of the London Olympic Village.

12. The use of recycled and secondary materials rose to about 60 million tonnes by 2002, however, supply had since been constrained by the reduction in construction demolition activity which was the main source of recycled aggregates. The MPA said it believed that virtually all usable recycled material was currently being used though an additional up to 5 million tonnes of hard material could potentially still be extracted from the waste stream. The main restriction on the increased use of recycled aggregates was not just their availability but the need to educate customers about their potential use in higher-quality products. There was a demand for recycled products from developers which arose from a need to comply with sustainability incentives such as the Code for Sustainable Homes and the Building Research Establishment Environmental Assessment Method. The MPA had not collected regular data about recycled aggregates from members as MPA members probably accounted for no more than 20 per cent of total supply of these materials and therefore such internal surveys might not produce statistically reliable results for the whole market. This lack of data had presented difficulties for strategic aggregate planning.
13. The MPA agreed that the catchment area for aggregate distribution from depots was around 30 miles, however there were exceptions. Operators were more likely to travel further distances if there was potential for back-haulage as it provided additional income for them, and made selling aggregates more economically viable. Specialist materials, such as high-PSV stone, could be hauled for up to 100 miles as they were essential for certain projects.
14. Non-major aggregates producers focused on their local markets and on building up close relationships with their customer base. Non-majors had to leverage customer service, eg delivering the right product, at the right time, at the right price with no fuss, delivered in clean lorries, invoiced on time and dealing with problems as soon as they arose. These were the sorts of tools non-majors used to compete with the major companies, and as result, the MPA said that competition was fierce. Competitors had reciprocal trading arrangements in order to exchange necessary material, though this did not stop them from trying to out-compete one another.
15. Purchasing quarries was not easy as most companies did not necessarily want to sell, and sometimes growing an existing quarry was an easier, if not quicker, option. Planning permission for mineral extraction typically took between five and 15 years though shorter periods were possible, for example reservoir applications at some sites, in East Anglia, had yielded millions of tonnes of mineral. Previous policy guidance stated that preference was given to extend existing sites, and developing new quarries was often a controversial matter.
16. The MPA said that there were not many parts of the UK where there were so few quarries that the price of aggregates in those areas could be set unilaterally by the producers. Most gaps in the market had been filled. This was partly reflected in the current reduction in the number of planning applications being made although producers were less willing to explore developing new sites at a time of depressed demand due to the risks posed by a number of factors including: the willingness for

landowners to sell or lease land, the uncertainty of securing planning permission in the new localism system, the volume of minerals available, connecting utilities, and safety and environmental concerns.

17. The MPA distinguished between the Managed Aggregates Supply System (MASS) and the planning system in general. The MASS ensured that all mineral planning authorities could plan strategically to provide an adequate and steady supply of materials to the construction industry. The system produced technical advice to the national, sub-national (through the aggregate working parties) and local levels of planning. MASS related to the aggregates planning system from national level through to the regional Aggregate Working Parties (AWPs) right down to local authority level. There were currently nine AWPs in England and two in Wales; working party meetings were attended by representatives from the MPA, BAA, each planning authority and the Department for Communities and Local Government, as well as other relevant bodies. The AWPs acted as technical advisory bodies to local authorities and other planning bodies. AWP meetings were where the industry and planning authorities constructed rational views on supply and demand which would be converted into local mineral plans; they were not a forum for companies to garner commercial advantages. MASS had worked reasonably well, but the local minerals authorities (local government) were poor in delivering up-to-date plans for their respective areas. The MPA's members had raised concerns over land bank caps, and it was felt that some local authorities had abused the previous mineral planning guidance. Land banks were intended to be the means by which the minerals development plans ensured that enough aggregates were available to maintain a secure, steady and adequate supply. Previous and current mineral planning guidance had said that land banks should ensure a minimum of seven years supply for sand and gravel and a minimum of ten years for crushed rock. Planning permission for more aggregates extraction beyond these minimum thresholds should still be granted if the proposals met environment and sustainability standards. However, some local authorities regarded the seven- and ten-year minimum figures as 'caps' on the amount of aggregates extraction in their areas. In its latest land bank analysis, the MPA concluded that about 40 per cent of local authorities had land banks with less than seven years' reserves of sand and gravel.
18. Despite the difficulties noted above and based on a detailed members survey submitted as part of its evidence, the MPA's members, including large, medium, and small companies extracting either crushed rock or sand or gravel aggregates, had been successful in around 90 per cent of their planning permission applications over the past ten years. They had managed to overcome the barriers created by the planning system by having the right advisers and through their employees' knowledge and experience of the market. The MPA noted that both previous and current planning guidance included words to the effect that authorities should ensure that large land banks which were bound up in a few sites should not be allowed to stifle competition.
19. Aggregates producers either owned the land from which they extracted their minerals outright (freehold) or they leased the land from its owner. Today, it was more common for aggregates producers to enter into agreements with landowners which allowed the aggregates producers to drill on the land to check that it contained suitable aggregates and, if it did, to allow the producer to lease the land from the landowner. Under these arrangements, the producer would often pay the landowner a royalty per tonne of material extracted. This was a much less capital-intensive way of securing mineral rights than buying land outright. However, it was noted that during a downturn aggregates producers might prioritize production from their leasehold sites rather than their freehold ones because of the possible costs that

accrued from leasing a site whether it was producing aggregates or not. The MPA noted that the nature of its members' land portfolios varied greatly.

20. Aggregates producers might choose not to supply certain customers if those customers had bad debts or a poor credit position. Most producers had very tight credit control procedures as these enabled them to determine which customers were financially sound.

## **Cement**

21. Imports of cement to the UK had grown in recent years because of the impact of the EU's Emissions Trading Scheme (ETS) on cement production and because of the cumulative burden of EU and UK regulations and taxes on carbon and energy. Cement producers had argued for changes to the ETS in order to allow them to produce cement more efficiently under the scheme. Energy costs made up 40 per cent of cement production costs, so as energy costs had risen so had the price of UK cement. The MPA estimated that the cumulative burden on UK cement producers from EU and UK regulations and taxes would rise to an extra £32 per tonne by 2020. This would lead to an unlevel playing field for UK cement production versus producers based elsewhere in the EU, and for EU cement producers versus producers in the rest of the world. The MPA's cement-producing members were very concerned by this prospect since large international cement companies might decide to move production from the UK or from the EU entirely if they were able to produce cement significantly more cheaply elsewhere. The MPA predicted that the amount of cement imported to the UK would continue to increase as a result.

## **Ready-mix concrete**

22. Volumetric trucks were now part of the mainstream RMX market, whereas in the recent past they had been seen as being on its margins. Volumetric trucks were not classified as road-going vehicles but as engineering plant instead. This meant that they were not subject to the same regulations as similar trucks and, for example, did not need to be licensed in the same way as heavy goods vehicles (HGVs) and did not need to be operated by HGV license (O Licence) holders. They were also not bound by the same weight restrictions as regular RMX 'mixer trucks' This meant that it was relatively straightforward for new operators to set up volumetric truck businesses, and the MPA considered that the growth in volumetric trucks had been partly driven by the vehicles' lower regulatory costs.
23. Volumetric trucks produced RMX to a BSI quality scheme in some cases and had supplied a number of major projects. The main concern surrounding volumetric trucks was that they operated to a lower regulatory standard. If they were made to conform to the same standard as other similar vehicles, then they would find their natural level in the market whatever that may be. The MPA had members who used volumetric trucks but did not have any members who used them exclusively. The MPA noted that recently one of its members had sold its RMX business to a volumetric operator. [✂]

## **Anglo American/Lafarge joint venture remedies**

24. MPA said that the outcome of the divestiture of Lafarge's Hope cement plant, and large package of RMX assets, was very important to the MPA as a change in the number of large participants in the market could have an effect on the proportions of funds the MPA received from its larger and smaller members.