AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of hearing with Titan held on 6 September 2012

Background

1. Titan was a Greek cement producer which entered the UK market in the early 1980s. Titan's entry had been controversial and there had been significant opposition to it because of fear of unfair competition from Greek producers. In 1987, Titan set up a distribution terminal in Hull for its Greek-produced cement and this had been the centre of its UK operations ever since. Titan had established a successful presence in the Hull area but its success in the UK as a whole had not matched its success in other markets. Its experience of entry to the UK differed greatly from its experiences in other countries, such as the USA and Egypt, where it also began operating in the late 1980s. Titan's businesses in those countries had grown considerably, and it now operated two cement plants in both the USA and Egypt. Titan considered itself to be a multi-regional company which had grown significantly in the last 15 years. During that time, it had invested in a number of new countries such as Italy, Turkey, Albania, Macedonia, Serbia, and Bulgaria.

2. Titan was a comparatively small participant in the UK cement market. Its UK turnover represented [✂] per cent of its group turnover, and its cement imports into the UK made up [✂] per cent of the UK market by volume. [✂] When it had entered the UK market, there had been a clear separation between the activities of cement producers, ready-mix concrete (RMX) operators, and aggregate operators. The structure of the UK market had changed significantly in recent years, with producers integrating vertically into the RMX and aggregates markets. As a result, a vertically integrated cement business with complementary RMX and aggregates businesses would likely be required for a cement producer to establish a strong presence in the UK. Establishing such an operation would require heavy capital investment [✂].

3. The economic downturn had resulted in a 30 per cent decline in the UK market and a 75 to 80 per cent decline in the Greek market in recent years. [✂]

Cement

4. Titan considered it likely that some companies in Europe had adjusted their cement sales strategies with a view to maintaining their plants' CO_2 allocations under the EU's Emissions Trading Scheme. For instance, if there was insufficient domestic demand for a producer's cement as a result of a declining local market, this could lead to increased cement exports to other countries and a resulting shift in cement trade patterns. However, Titan did not believe that the UK market had been affected in this way as it had only declined by around 30 per cent as opposed to the much greater declines in countries like Greece. Titan's Greek cement production remained at a high level despite the decline in the Greek domestic market as Titan was, by design, focused on exports to other markets. All the cement that Titan sold to the UK was produced in Greece and, given the decline in the Greek market, the amount of cement available for export to the UK would remain stable for at least the next five to ten years.

5. Titan did not know the exact cost of producing cement in the UK, but estimated that cement production costs were likely to be lower in Greece than in the UK. However, as an importer, Titan also faced transport costs which, although they had dropped from a

high point of $[✂] a tonne in 2008/09 to $[✂] per tonne, were nevertheless significant. Cement prices in the UK were currently relatively higher than in most European countries, but this had not always been the case, and it was not what had attracted Titan to enter the UK market 25 years ago. Titan did not consider that the increase in cement imports into the UK had brought prices down, as importers were forced to become price followers due to the UK cement producers' (the Majors) ability to increase their production at a low marginal cost which allowed the Majors to respond to importers' lower prices with their own price reductions. Further, the decline in the market coupled with the Majors' drive towards more vertically integrated business models had resulted in a smaller available customer base for importers like Titan to target. However, in spite of the Majors' increased vertical integration, the independent RMX producers' share of the RMX market had increased because many RMX customers preferred the personal relationships they were able to maintain with independent producers.

6. In broad terms, Titan operated within [✂]-mile radius of Hull, but [✂] per cent of its sales were within [✂]-mile radius. [✂]

7. Other UK importers had not approached Titan about importing its cement as they tended to be part of an integrated cement producer in another country, for example Dragon Alfa in Wales was part of a larger Spanish operation. The only UK importer that bought cement on the open market that Titan was aware of was Dudman. Titan had considered importing bagged cement in the past, but had decided against doing so because it lacked the national coverage required to serve the customers in that market.

8. [✂] Titan focused on the benefits it believed it could offer its customers, such as an excellent logistical operation, good customer service, and in particular the quality of cement it sold. [✂]

9. The use of price-announcement letters by cement suppliers (including Titan) to inform their customers of changes, usually increases, in their prices was common in the British and American markets but less common in other countries. Titan believed that, since construction jobs were usually awarded three to six months in advance, cement customers wanted to know what prices they would pay for cement well in advance. [✂]

10. Cement was a homogenous product, but Titan believed it could offer a high-quality product and service. In the past, Titan had won customers from the Majors, which had tended to react to the loss of their customers by reducing prices. In the long-term, these customers were usually lost by Titan, but Titan did not know whether the customers always returned to the Major which had originally supplied them because of its reduced prices, since the customer would not tell Titan who its new supplier was, or the terms on which it was supplying them. However, in the interim period, Titan would sometimes be able to get its foot in the door and supply these customers for between six to 12 months. Titan was unaware of the types of discounts or rebates that the Majors might offer their customers. Titan thought it possible that some independent RMX businesses might have avoided buying cement from the Majors as they were concerned that the Majors would find out their cement throughput and use this information when competing against them in the RMX market.

Barriers to entry

11. Titan considered that any potential new cement importer needed to assess whether it would be able to sell sufficient volumes before it made an investment in the UK market. A new entrant would need to consider whether there was a sizeable enough market segment that it could target and whether that segment could then sustain the

importer's business in the future. In order for new importers to be attracted to enter the UK market, the market's current level of vertical integration would need to be reduced so that importers would be able to identify market segments offering the desired volume of business. A new importer would also need to find the right type of port with the right capacity and space for its specific import operations. [✂] Some operators might require a port with the capacity to accommodate large vessels and such ports were often lacking in space. Importers based closer to the UK, on the other hand, would have lower shipping costs and so could use smaller ships and ports with shallower waters, which would significantly increase the number of port options available to them.

Coordinated effects

12. During the economic downturn, and particularly during the last year, cement prices had come down as the Majors and importers had offered cheaper prices. Titan thought it likely that the Majors, like everyone else, had competed on prices so as to win new business, and may have offered longer-term deals to their customers, which they had not done in the past. [✂] Despite the stability of the Majors' market shares during a period of great changes in production and demand, Titan had not observed any evidence of pre-existing tacit coordination between the Majors. Titan did, however, conclude that, if the UK market had possessed different characteristics, it believed it would have been able to sell a much larger volume of cement than it had.

Ready-mix concrete

13. From Titan's experience of the area it operated in, competition between RMX producers had intensified considerably since the economic downturn. The reduction in demand had resulted in a price 'merry-go-round' with producers undercutting each other in order to secure business. Independent RMX producers were able to play a major role in this market because they were more flexible than the Majors and, as a result, better able to meet their customers' needs. It was arguable that in this regard the Majors' vertical integration could be viewed as a disadvantage. Volumetric trucks were a significant and growing part of the RMX market, but they were not a major force because they tended to be owner-driver operations or small companies with only a few employees, which limited their ability to grow. Volumetric truck operators had lower fixed-price costs than fixed-plant operators and could work extremely flexibly, which allowed them to specialize in activities like motorway work.

14. With regards to innovation in RMX, Titan said that Lafarge had been the main innovators in the development of self-compacting concrete and noted its ownership of the French construction chemical company, Chryso. Independent RMX producers had approached chemical specialists such as Chryso, Grace Brothers, and Sika and had also been able to produce self-compacting concrete, but Titan considered that the Majors produced it with a higher level of consistency and understood the products' strengths and weaknesses better than the independents.

The joint venture remedies

15. According to Titan, the new entrant that would emerge from the joint venture remedies needed to be vertically integrated in aggregates, cement and RMX, in order to survive in the current market. If the new entrant was vertically integrated, it should be able to create intensified competition in the market. Due to the different geographic areas in which the businesses to be divested operated, Titan did not consider that its own position as a supplier to the RMX market would be affected by the remedies.