

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

**Summary of response hearing with Aggregate Industries held on 18 June 2013**

**Background**

1. Aggregate Industries (AI) was part of the Holcim Group, which was one of the largest international groups in the constructions materials sector with operations on five continents. In the UK, AI produced and supplied construction and building materials, including aggregates, asphalt, ready-mixed concrete (RMX) and other concrete products. AI did not produce cement in the UK, but it did import it and purchase it from UK-based manufacturers.
2. The 2008 downturn was still impacting AI which could not see any signs of recovery.

**Provisional findings response**

3. AI broadly welcomed the findings of the Competition Commission (CC). AI was not surprised that the CC found no evidence of an adverse effect on competition (AEC) in the aggregates market given that competition was fierce. Equally, AI was not surprised that the CC found no evidence of an AEC in the RMX market given that it lacked any of the structural features necessary to effect coordination among suppliers and barriers to entry were low. AI did not feel well placed to comment on the cement market or proposed remedies given that it did not produce cement, although it did import it from Holcim Group primarily for its own use.
4. AI imported cement from [redacted] (Holcim Germany) [redacted].
5. [redacted]
6. Different sources of cement needed to be stored in different silos in order to avoid the mixing of cements of different specifications and therefore it was desirable to limit the different number of sources of cement. If a particular cement supply was contaminated with other specifications of cement, it would affect the quality and consistency of the end product.

**Divestiture of cement production capacity by one or more of the Top 3 cement producers**

7. [redacted]
8. [redacted]
9. [redacted]
10. Unbundled divestments would be more attractive because of ease of integration and greater flexibility, although consideration would have to be given to how assets were bundled. In addition, bundled divestments could equate to a fairly large part of the GB cement production market which would be quite challenging for an incumbent purchaser and were more risky. A cement plant bundled with RMX plants was less attractive for those potential purchasers who already operated RMX plants—[redacted].

11. AI considered that importers may be less able to operate an acquired cement plant given the level of technical competence required. However, such expertise could be present within the parent companies of some importers.
12. Significant investment would be required for a potential purchaser to acquire divested cement production capacity within GB. This would have to be benchmarked against alternative investment opportunities elsewhere in the world and the GB market on the whole was currently less attractive than others.
13. [REDACTED] A centrally located plant could give access to a large geographic part of the market although good logistical support could improve the desirability of plants less centrally located. [REDACTED]
14. There were some advantages and disadvantages in owning a single cement plant rather than two or more, and the importance of this largely depended on the strategic aspirations of the purchaser. [REDACTED]
15. [REDACTED]
16. The CC would have to be satisfied that a purchaser of a divested cement plant(s) had the operational expertise to run the plant(s) effectively. AI cited HCM as an organization that could have valuable learning from its acquisitions.
17. [REDACTED]

### **Divestiture of RMX plants by one or more of the Top 3 cement producers**

18. AI noted that the CC did not find an AEC in the RMX market and that, given that this market was already very competitive, it was unsure of the reasoning for RMX divestments. It also noted that divestment of a large chunk of RMX capacity would make a fundamental change to the marketplace. AI observed that the RMX market was very competitive and there was a possibility that bankruptcies could result from an additional competitive dynamic. AI also noted that barriers to entry were low with 40 per cent of cement going to independent players. Whilst it seemed apparent that the Top 3 had sufficient cement capacity to run their RMX businesses, the RMX businesses themselves were struggling with profitability.
19. AI [REDACTED] suggested that ideal candidates would be those seeking to operate RMX as a stand-alone business who would not wish to acquire cement plant(s) alongside RMX plants. AI said that the CC should not mandate the combined divestiture of cement plant(s) and RMX plants. If the CC were to divest RMX plants, then it would seemingly need to put restrictions on the Top 3 cement producers acquiring RMX, given that it would potentially contradict the CC's rationale for the divestment of RMX plants.

### **Creation of a cement buying group or groups**

20. [REDACTED] AI was a large consumer of domestically-produced cement, meaning that AI's import capacity, coupled with the volume AI purchased, gave AI leverage.
21. AI could not see the benefits of a cement buying group [REDACTED]. It was of the view that the existing tender procedure allowed more bespoke outcomes than an auction system would. Cement was not a commodity in that different types had different applications. Accordingly, a tender process was more efficient because customers could specify precisely what they wanted and what they intended to use it for. There

were also other criteria around consistency, availability and security of supply which were important factors for customers. Additionally, AI stated that if cement buying groups were beneficial for cement customers, then they would have already emerged, but they had not done so.

### **Prohibition on GB cement producers sending generalized cement price announcement letters to their customers**

22. AI was a recipient of cement price increase letters. They were an indicator and a starting point for the negotiation process. Typically, price announcement letters arrived at the time of year when AI undertook its future business and budget modelling. Not only did they enable AI to budget but they enabled it to think about negotiations with its third party customers and its own internal negotiations.
23. Price announcement letters were a more efficient and practical way of communicating with customers than meeting face to face or contacting them via phone (AI understood from CC analyses that the CC identified approximately 900 regular customers for cement in the GB market).
24. Paragon, AI's cementitious materials division, had in the past provided price increase letters to its few external customers, but this practice stopped in 2012. Letters had tended to be tailored to individual customers.
25. It did not matter to AI if a price announcement letter was bespoke or generic, as it considered that all types of letter provided only a starting point for negotiations.
26. AI considered that this remedy would probably work most effectively if it operated on a prohibition basis. This would reduce transparency and, in turn, opportunities for coordination. However, AI also said that the acquisition of cement was often a sub-contract where an indication as to price was important to enable contractors to bid on projects for which the cement was the subcontracted input. Therefore, it was important that the practice was allowed to continue in some way.

### **Market data remedies**

27. AI did not use MPA data for forecasting purposes as there were more relevant sources of information. The integrity of the data was such that it made it unreliable. However, the headline indicators were sometimes useful. [X] It would not have a significant impact on AI if MPA data was unavailable.
28. Equally, AI did not make use of Emissions Trading Scheme verified CO2 data.

### **Structural measures to address the AEC in relation to GGBS/GBS production in GB**

29. AI imported GGBS from Holcim Germany. [X]
30. AI commented after the hearing that it had never encountered any particular difficulties in obtaining GGBS from non-GB sources. The volume of GGBS ultimately depended upon the demand for steel where there was currently overcapacity.
31. AI had also purchased GGBS from Hanson Heidelberg [X]. AI had its own ash business which sourced PFA [X]. Substitution had involved PFA rather than GGBS.

32. [REDACTED] There would appear to be a captive supply chain between GBS and GGBS where one could not be remedied without the other.
33. AI explained that PFA had colour propensities [REDACTED]. That said, there were certain applications where AI customers specifically demanded GGBS and AI would seek to satisfy customer demand, hence why AI still sourced some GGBS.
34. [REDACTED]

### **Other possible remedies and relevant customer benefits**

35. AI expressed no views on the other possible remedies. Overall it said that structural remedies were likely to be more effective than behavioural remedies.
36. AI considered a possible additional remedy which would put in place 'information barriers' between RMX and cement divisions to address concerns over the competitive effects of vertical integration on the cement market. Its initial impression was that this remedy would not be effective in practice. It would be expensive to administer, given the need for separate systems, individuals and parts of buildings, and it had concerns that ultimately these costs would be passed through to the customer.
37. AI also considered a further possible additional remedy relating to the mandatory competitive tendering process for the external supply of cement for RMX requirements to address concerns arising from vertical integration, but thought that it could result in more price transparency in the market.