

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of response hearing with Mittal Investments/HCM held on 24 June 2013

Background

1. Mittal Investments (MI) mentioned at the previous hearing that it had been looking at entering the Great Britain construction sector for some time and had previously considered buying the Hope cement plant when an earlier opportunity to do so had arisen, but it had decided not to as it then had been the only asset for sale. When the opportunity again arose to buy Hope, this time alongside other complementary assets, MI had decided to enter the bidding process and had been successful. MI was not currently considering buying other cement assets in Great Britain or in the sector elsewhere in Europe, but it might do if the opportunity arose.
2. MI commented that whilst it was competing vigorously, it was not easy being a new entrant. It noted that a number of challenges had arisen from the fact that it had not acquired an existing business entity with a track record. These challenges had related to credit insurance, dealings with banks and large suppliers, issues with integrating management and costs, [REDACTED].
3. MI's customers had welcomed it as a new entrant and it had found that the combination of its product and service offerings and its location made it attractive to customers.
4. MI provided the Competition Commission (CC) with information about its trading experience since the last hearing in January 2013. MI had based its budget for 2013 on 2011 information and this formed the basis of HCM's current short-term plan. [REDACTED]
5. HCM had set financial targets for its cement and RMX production based on data provided by the seller and with a view to satisfying MI's expectations. In the case of aggregates, it had budgeted [REDACTED]. HCM had only limited asphalt production (it owned two facilities, one of which was mothballed) so this did not significantly affect its financial performance.
6. HCM managed all of its activities as one business instead of having separate divisions for aggregates, cement, RMX and asphalt. It considered that this would enable it to differentiate itself from its competitors by providing a better service to its customers.
7. As of the end of May, [REDACTED].
8. HCM's RMX business [REDACTED].
9. HCM's aggregates business [REDACTED]. Other issues had involved finding buyers for the fines produced by HCM's main single size aggregates production.
10. [REDACTED]
11. [REDACTED]
12. [REDACTED]

13. HCM had a three-stage strategy for developing its business: mobilize, stabilize and optimize. The initial stage, 'mobilize', involved getting the business up and running, which included repairing physical assets and novating contracts. Some of this work was still ongoing, but HCM was now well into the second stage, 'stabilize', and it was also doing third stage, 'optimize', [REDACTED], using more internally produced aggregates in its RMX and looking at using more alternative fuels at the Hope cement plant.
14. HCM was also working to improve its sites' transport links [REDACTED].
15. MI would be very disappointed if HCM was excluded from any opportunities presented by a divestiture remedy.

Provisional findings response

16. MI noted that the majority of the provisional findings related to the period before HCM entered the market which meant it was unable to comment on them.

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

17. MI said that the CC should consider the relationship between geography and geology when it considered the divestiture of assets. It was concerned about the local/national picture.
18. MI said that in relation to the acquisition of a divested cement plant, it would be important for any purchaser to have some form of downward vertical integration. In relation to the supply of aggregates, it would be possible to obtain aggregate supply although it would not be optimal as there could be issues of quality. Another factor that had to be considered was the need for concrete plants to be reasonably close to cement works so as to limit haulage costs.
19. The divestiture of centrally located plants would be more beneficial. It would result in a central market with multiple competitors and would not result in the creation of local markets.
20. It would be easier for a European player with existing supply chain capability—rather than a new entrant—to enter the UK market. [REDACTED]
21. A purchaser of a central cement plant such [REDACTED] would be interested in rail links, longevity of asset in terms of limestone reserves plus any planning restrictions or opportunities.
22. [REDACTED]
23. In respect of latent capacity (mothballed plants), MI expected cement volumes in the market to grow from approximately [REDACTED] million tonnes per year in the UK. Latent capacity within an existing site would be less expensive to reinstate than an entire plant situated away from the centre of Great Britain. MI did not believe that latent capacity should form part of the remedy package. However, it said that it would be material if a major ordered to divest a central cement plant had other latent capacity proximate to it which could be brought back into operation.
24. It would not be a good idea to divest part of a cement plant although MI considered that it would be possible to divest a grinding station to a player who could then import clinker and grind it.

25. The profile of an acquiring company was very important, particularly if it could internalize 50 per cent of production internally. In addition, MI considered it necessary that at least 80 per cent of the aggregates required formed part of the package.
26. MI did not have a strategy to acquire any divested assets but it did not feel it was reasonable for it to be excluded. Ultimately, the CC would take a view on which parties could acquire assets to be divested and from MI's perspective, it would depend on the overall package.

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

27. MI considered that a new buyer in RMX would likely buy close to where its plants were located. Access to the market was key and areas with a higher-density population would be most attractive.
28. MI considered that a significant number of RMX plants would have to be divested in order to generate cement buying power.
29. The RMX market was a relatively easy market to enter, with low barriers to entry and where a significant number of small independents operated.
30. MI expressed the view that divestiture of stand-alone RMX plants might not be an effective remedy in itself and that in any event, it might not be attractive to potential purchasers.

Creation of a cement buying group or groups

31. MI considered that there was no merit in this remedy; that competition in markets downstream from cement production was based on one competitor getting a better price than another, and if a buyer group was required, it would stifle downstream competition and would potentially increase the prices for the consumer.
32. MI's view was that bigger players such as pre-casters would more likely than not purchase cement more cheaply than through a cement buying group.
33. Regarding smaller purchasers, a cement buying group would be problematic with issues such as credit ratings, different products, different contractual terms etc.

Prohibition on Great Britain cement producers sending generalized cement price announcement letters to their customers

34. MI had not sent price announcement letters to its customers. It preferred to deal with customers face to face and approached customers individually to discuss terms of business. MI did not consider it was necessary to have to send price announcement letters to begin the price negotiation process.
35. In the event that, for example, the aggregates levy increased (a cost which MI would pass through to its customers) MI considered it appropriate to send a blanket communication to its customers.
36. MI did not agree that a spot price for cement on its website was a good idea. Its customers were happy dealing with it face to face.

37. MI understood the issue around signalling. Whilst MI could see the customer benefit argument of receiving price increase letters, it considered the argument rather light. MI also said that professional buyers could track government indices for price information. MI's overall view was that it would not present any problem if generic price announcements were prohibited in relation to cement and GGBS and PFA.
38. MI had received one price announcement letter [REDACTED] since January 2013.
39. MI had a feel for the market price of cement through customer feedback although MI had not been shown anything on paper.

Market data remedies

40. HCM would join the Mineral Products Association (MPA) for a trial period of six months from 1 July 2013. MI understood its relative size in the market and felt it wanted a body to fight European legislation on its behalf and that the MPA would better represent its interests in respect of politicians and health and safety.
41. MPA data was not a particular factor behind HCM's decision to join the MPA given that MI could readily obtain market data from the Department for Business, Innovation and Skills.
42. HCM planned to join the Construction Products Association at the end of 2013.
43. MI accepted that a time lag of three months in respect of MPA data was okay. Even data that was a year old would be useful to some degree.
44. MI had not made any use of carbon emissions data, which it did not consider of interest.

Structural measures to address the AEC in relation to GGBS/GBS production in Great Britain

45. MI did not find it difficult to source GGBS outside of Great Britain although it was no different in economic terms from purchasing GGBS within Great Britain. Ultimately, MI considered that it was preferable to use PFA which was more economical.
46. MI could be interested in purchasing divested GGBS assets subject to cost which would have to equate to the same as PFA. MI would prefer to be in control of its cost base meaning that acquiring both GBS and GGBS activities would be more attractive.
47. MI considered [REDACTED].
48. Economics of transport was a consideration.

Other possible remedies and relevant customer benefits

49. The cross-sales tendering remedy might result in another way of signalling.
50. In respect of the information barriers remedy, MI did not understand how it would work in practice or how effective it would be.
51. MI did not have anything to add on the grinding plant divestiture remedy.

Concluding remarks

52. MI considered that any divestitures should be conducted in a timely fashion; [✂].
53. Consideration should be given to the use of a monitoring trustee with a remit to conduct follow-up work about how well the divestiture was implemented.