AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKETINVESTIGATION

Summary of response hearing with Breedon Aggregates held on 8 July 2013

Background

1. Breedon Aggregates (BA) had made two acquisitions in the UK in April 2013. Its first purchase was all the assets of Aggregate Industries (AI) in the north of Scotland for approximately £34 million. This acquisition included quarries, concrete and asphalt plants, and provided access for BA to new areas such as Inverness and the Hebrides. BA had also purchased four quarries, in England, from Marshalls for £19 million. These quarries were also located in areas where BA had not previously been present: Manchester, Gloucestershire, Cheshire and South Yorkshire. The Office of Fair Trading (OFT) was reviewing the Scottish acquisition because of overlap in the Aberdeen area between BA's existing concrete operations and those it had acquired from AI. BA was assisting the OFT with its review.

2. BA had sought to acquire some of the assets divested as part of the Lafarge Tarmac (LT) joint venture remedies process, but it had withdrawn from the process at an early stage. [✂]

Trading update

3. BA thought that Hope Construction Materials (HCM) had some initial issues but appeared to be competing independently in the market and winning work. BA had a strong presence in the Midlands, and it had encountered competition in the concrete market from HCM in that region and had lost business to it. However, BA had not seen that HCM's entry into the cement market had had any impact on the behaviour of the other cement providers yet.

4. [✂]

5. BA had not yet noticed much activity by CRH's import businesses in the areas where it operated. BA would feel more confident purchasing cement from CRH, which was a large company with its own cement production, than from smaller import businesses as there would be less risk around security of supply. BA expected that CRH would start moving into the Great Britain market quite aggressively over the course of the next six months.

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

6. A divestiture of a cement plant by one of the Top 3 would have to increase competition to some degree. However, as there were already four cement producers and a number of importers active in the Great Britain market, BA was unsure whether the introduction of a fifth producer would make a significant difference to the degree of competition. It might be that the problems with competition were caused by reasons other than the number of participants in the market.

7. In respect of the differences between HCM and Tarmac, BA said that Tarmac had been virtually 100 per cent vertically integrated, so it had only a small requirement to

sell cement externally. HCM was less vertically integrated, so it would need to sell more cement into the market and would therefore be a more active competitor than Tarmac.

8. BA considered that the following matters were important when considering whether to buy a cement plant:

   (a) The plant would need to be connected to the rail network so it could reach as many customers as possible.

   (b) Access to in-house concrete production so that there was a guaranteed purchaser for some (say around 10 to 15 per cent) of the plant's output.

   (c) The plant should be reasonably sized so that economies of scale could be obtained, and it should have access to sufficient mineral reserves to ensure its long-term operation.

9. BA was not a cement producer and was unfamiliar with the respective merits of the various cement plants in Great Britain. [✂]

10. As noted above, a purchaser without any ready-mix concrete (RMX) capability would perhaps need to acquire some RMX plants. Building an RMX business from scratch could take some time. A purchaser which already had an RMX business of its own would find that this would be much less of an issue. It should be relatively straight-forward, especially for an existing RMX producer, to acquire more plants and increase the scale of its business to accommodate production from an acquired cement plant. The biggest risk would be the losses which the RMX business would likely sustain for the first couple of years. If a purchaser acquired a stand-alone cement plant, it would be easy for it to acquire RMX plants independently as the barriers to entry in the RMX market were low. An RMX plant could be acquired for £200,000. BA noted that the margins on concrete were low and therefore it would be risky for a purchaser to take a significant number of RMX plants together with a cement plant.

11. BA would be interested in acquiring a cement plant, particularly if the plant did not have future risks attached to it such as access to mineral reserves and emissions issues. BA already had its own aggregates and RMX businesses so would not need a divestment to include RMX plants. BA would be unlikely to consider building a new plant or acquiring a site with planning permission for a plant as it would be difficult for it to justify the costs involved.

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

12. BA considered that limiting the amount of cement that producers could sell to their own RMX business, or the RMX operations of the other top 3 producers, to say 10 per cent would likely have the consequence of making cement producers compete harder for external customers. Cement producers would also likely scale back their RMX capability. It could also lead to a more profitable RMX sector as it might be that the price of RMX was currently suppressed because the major cement players took profit upstream in their cement businesses which made it difficult for independent RMX firms to be profitable. It could also lead to the creation of more, and larger, independent RMX producers, however, the consequences were difficult to predict.

13. Large contractors who needed security of supply would need to be confident of the technical back-up behind their RMX supplier, and they would probably be inclined to go to an RMX supplier with multiple plants in order to lessen risk.

14. Careful consideration would need to be given to what would be the correct VI ratio for cement to RMX plants for a cement producer. For example, LT was already relatively less vertically integrated than other major producers. It might be necessary for different ratios to apply to different producers, and in particular BA noted that it would be unfair for HCM suddenly to have to comply with a VI ratio of 10 per cent as it had just acquired its RMX business.

15. RMX production required a lot of overhead and was a 'high volume, low margin business'. RMX divestitures would not be attractive to BA unless they were situated near to its aggregates facilities. Even in a key market within the M25, BA would not consider buying RMX plants unless it could supply them. [✂]

16. Requiring the divestiture of RMX plants could lead to a reduction in capacity if the purchasers which acquired them discovered that it was a challenging business and did not work hard at keeping their RMX businesses going.

Creation of a cement buying group or groups

17. The cement buying group (CBG) remedy was unattractive to BA. It was happy with how it currently purchased cement and felt it did not need the leverage that might follow from joining a CBG. Such groups might be beneficial for smaller cement purchasers not only in terms of lowering prices but also getting over credit risk issues. Having said that, BA also stated that small independent purchases might not be paying significantly more for cement than bigger ones. BA considered that a CBG could provide different specifications of cement as required.

18. There was currently no cement spot price, partly because the price of cement varied regionally. If a spot price was published, it would likely result in those paying more than the spot price to renegotiate. BA considered that a spot price would ultimately simply be a 'common average price' and would be of little value as BA's experience of the construction materials business had been that prices were usually individually negotiated on a deal-by-deal basis.

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

19. A move away from cement producers sending generalized price announcement letters (PALs) (ie showing increases in terms of £ per tonne) in place of personalized ones (showing specific price figures) would be logical. Generalized PALs signalled intent and could be seen as a way of producers signalling to each other. If personalized letters contained prices specific to a particular customer, both buyer and seller would want that letter to remain confidential, and this would, in turn, reduce price transparency. BA also considered that cement suppliers would be more likely to insert a lower number in a personalized letter and that there would be less scope for negotiation over prices.

20. BA said that it could not see the customer benefit in receiving generalized PALs. BA purchased all its cement from Lafarge, Cemex and Hanson but all prices were ultimately negotiated one to one. BA would prefer to receive a personalized letter from a particular cement supplier when it was a natural point of the relationship to discuss price rather than receive a generalized PAL along with every other purchaser of cement.

21. BA said that in this respect ground granulated blast furnace slag (GGBS) should be treated the same way as cement.

Market data remedies

22. BA used Mineral Products Association (MPA) data as an indication of what the market was doing both regionally and nationally. BA did not receive any detailed cement data as it was not a cement producer. However, it did receive national cement headline data.

23. A lag in the publication of cement data would not present BA with any problems. Cement suppliers would always try to find out, by whatever means, what their market share was as it was important to them but a three-month delay in the publication of MPA data would make this more difficult.

24. BA did not look at EU Emissions Trading System data and had no concerns about its publication.

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

25. In respect of granulated blast furnace slag (GBS) divestitures, BA considered that it would be better to divest all three GBS production facilities to one firm in order to limit the risk of a company acquiring one GBS plant and the local steel works then closing down, which would result in the GBS plant having no supply of slag. For this reason, divestment of a single GBS plant might be unattractive to purchasers.

26. The GGBS facilities could be divested to any of the existing cement producers (other than Hanson) but divestment to HCM as a new entrant might encourage more competition. If GGBS production was divested to a party independent of cement producers, then this independent would be likely to compete vigorously against cement producers.

27. BA currently purchased GGBS from Hanson. BA would be interested in acquiring GGBS capacity subject to price and the long-term security of supplies from the steel industry.

Other possible remedies and relevant customer benefits

28. BA did not consider that cross-selling of cement between the producers was contributing to any lessening of competition, so it did not regard a remedy requiring the majors to tender for these supplies to be necessary. BA also did not consider it likely that any such remedy would be effective.

29. BA did not consider that any remedy restricting the flow of information about cement prices within the cement producers' internal organizations would be effective.

30. BA would not be interested in acquiring a stand-alone grinding station as it would have to import clinker. However, BA could see this remedy being attractive to an independent with access to clinker.