

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of response hearing with CRH held on 26 June 2013

Background

1. CRH's cement plant was based 35 km to the north of Dublin. It had one of the most efficient kilns in Western Europe, which was due to significant investments CRH had made in the facility in 2008 and 2009. Unfortunately, these investments had coincided with the financial crisis, as a consequence of which the Republic of Ireland's cement market had collapsed by around 80 per cent in volume, [REDACTED].
2. Since the plant began operating in 2009, CRH had acquired a number of cement import businesses in GB. These were Morrissey (now trading as Premier) Cement in Swansea, Southern Cement, and the Dudman Group, which CRH had just recently acquired. Through these businesses, CRH exported cement to GB. CRH's plan was to use the assets it had acquired in GB to build a profitable business there based on a quality product and service. It also supplied other markets in Europe, notably Belgium.
3. The Dudman Group assets which CRH had acquired consisted of cement import facilities in Garston (Merseyside), Shoreham (West Sussex), Lowestoft (Suffolk), Howden (East Yorkshire) and Montrose (Angus, Scotland). Before its sale to CRH, Dudman's Shoreham facility had been supplied from a business in Spain, Lemona, which is now owned by CRH, so these acquisitions had complemented each other.
4. CRH purchased the Lemona business from CPV in March of this year. As well as a number of Spanish-based assets, CRH had also acquired CPV's Southern Cement business, based in Ipswich, as part of the deal. [REDACTED]
5. [REDACTED]
6. Some of the GB businesses CRH had acquired had been in difficulties when it bought them, so they had not been importing as much cement as they might have done previously. CRH would need to spend some time rebuilding these businesses and improving their efficiency. It estimated that at their peak under their previous ownerships the three businesses would have been importing, in total, around [REDACTED] tonnes of cement per year. CRH would be disappointed if its GB business did not ultimately reach at least this level.

Provisional findings response

7. As an importer into the UK, CRH noted that the overall conclusions in the CC's provisional findings might assist importers into the UK. It noted that cement producers built plants to match the capacity of their home markets and would normally only look to export cement if their local markets could not consume their production. Exporting cement involved significant extra costs (eg shipping) and, therefore, margins were tighter and returns could be marginal. CRH noted that attempting to export all or a majority of its Irish production to GB would not be economically viable in the long term and would not provide an adequate return on capital. Also import terminals were limited in the area they could supply. It would always be difficult effectively to supply central England with cement from coastal terminals.

8. As well as GB and Belgium, [REDACTED].
9. Whether or not the new partial-cessation rules in Phase III of the EU Emissions Trading Scheme would encourage cement producers to maintain or increase production and potentially increase the level of imports would depend on the price of CO₂. Currently, the price of CO₂ was low, so it would not make sense just to produce cement to meet the thresholds required to obtain these allowances. CRH's business was not currently driven by the carbon market, but if the price of carbon were to rise then, depending on the potential sales volumes, it might become profitable to produce some more cement and export it over longer distances.

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

10. CRH noted that as Hope Cement had only been active for a few months, it was not yet possible to assess its impact on the GB market. Thus far Hope appeared to be competing actively for business so up to this point its divestiture appeared to have had an effect on competition. CRH's view was that cement prices in GB were competitive [REDACTED] viable.
11. If there were to be further divestitures of GB cement plants as a result of the CC's investigation, then CRH would be interested in looking at them, but it would need to evaluate whether or not the plant(s) would be able to provide the returns that CRH's board and shareholders would expect. In considering whether or not to bid for a plant, CRH would look at a number of factors including the plant's age, its efficiency (particularly in respect of energy costs), its location, proximity of mineral resources, transport links and compliance with environmental standards. The more modern and better located a given plant was, [REDACTED], the more likely CRH would be interested in it.
12. As for divesting a grinding mill, the considerations for any purchasers would be similar to those which applied to cement plants (age, efficiency, location). CRH noted that the cost of electricity was higher in GB than in Spain and this, combined with the fact that GB was mainly a CEM I market, meant that for CRH it would be likely to be more cost-effective to grind clinker where electricity was cheaper and export the cement to GB.
13. Were a cement plant to be divested, CRH considered that it would wish the package of assets to include some RMX plants, so that the plant's cement production would have an outlet. It was also important that the divested plant owners should have access to a ready supply of aggregates. Wherever possible, shared sites (ie an RMX plant owned by one company but located in another's aggregates quarry) should not be included for divestiture as such sites were more problematic for purchasers.

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

14. RMX was a market with low barriers to entry. In CRH's experience, whenever an RMX market became very profitable, there would be a flood of entrants and the price of RMX and the returns on it would decrease. For this reason, as well as the significant amount of effort required to manage a network of sites, CRH was [REDACTED]. Currently, CRH did not own any RMX operations in GB, though it did have a small precast concrete business.
15. If the CC could increase the number of independent RMX producers by requiring the Top 3 vertically-integrated cement producers to sell some of their RMX plants to independents, then in principle this could benefit companies like CRH as they would

have more customers to compete for. However, CRH was unsure as to who would be able to buy enough RMX plants to make this remedy viable.

Creation of a cement buying group or groups

16. CRH considered that the independent-minded nature of many independent RMX producers would make it difficult for them to work together. While it was possible to form buying groups for builders' merchants, because they were buying many different kinds of products, RMX producers were only buying cement and aggregates, so the dynamic was very different.
17. Cement was traded in a different way from most other commodity products, so it would be difficult to devise a means of generating a spot price. Having a spot price might also enable price manipulation and lead to a distortion of competition. Therefore this remedy might create as many problems as it solved.

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

18. Premier Cement did not currently send out price increase letters to its customers, so any proposed remedy in this respect would not affect it. It maintained regular contact with its customers by meeting them and keeping them informed about its proposed price increases and negotiating with them. It had never had any of its customers ask it to provide price increase letters.

Market data remedies

19. CRH did not think that it was necessary to prohibit the publication of market data. The publication of data on a quarterly or six-monthly basis should enable interested parties to observe trends in the industry without raising any competition concerns.
20. CRH did not believe that the publication of ETS data by the European Commission had affected competition or pricing in the cement market. It would be very difficult to work out information about specific companies from this data, and CRH noted that there had been no significant change in the market since this data had been routinely published.

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

21. CRH's businesses were not affected by the current arrangements in GB for the production of GBS and GGBS. CRH was not involved with GBS or GGBS production elsewhere, and it was [✂].

Other possible remedies and relevant customer benefits

22. From its perspective as an importer, CRH would welcome a requirement for cement producers to tender when they needed to buy cement from other producers. However, from its perspective as a cement producer, this would cause it some concern as price would become the only consideration for customers and would displace quality of service and security of supply, which were very important issues for cement producers when sourcing cement from outside their own businesses.

23. CRH did not agree that RMX suppliers which were vertically integrated with cement producers should be prevented from receiving information, especially relating to cement prices, from elsewhere in their own company. In CRH's case, it required its RMX businesses to make a profit, and they would not be able to do this effectively if they did not have all the information about their costs.