

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of response hearing with Cementos Portland Valderrivas held on 9 July 2013

Provisional findings response

1. Cementos Portland Valderrivas (CPV) had reviewed the Competition Commission's (CC's) provisional findings. It did not wish to make any comments on them.

Recent trading

2. Until recently, CPV had owned two cement import companies in Great Britain: Dragon Alfa Cement and Southern Cement. It had recently sold Southern Cement along with its Ipswich import terminal to CRH as part of a wider transaction which involved an asset swap. [REDACTED]
3. [REDACTED]
4. DA had been pricing competitively in order to increase volumes sold from Sharpness and said it had been reasonably successful in doing so. [REDACTED]
5. Sharpness's location meant that DA's core market was the M5 corridor. It had made some progress towards London along the M4 corridor but had found it difficult to obtain customers in its own right beyond Reading. What cement it sold in London it did so mainly through merchants. DA sold a lot of cement and pre-cast concrete to producers in the South-West, particularly in Somerset and Devon. DA had made some inroads into other regional markets, like the North-West of England, but it had not been able to retain these.
6. It was fellow importers who typically enticed DA's customers away rather than the Great Britain producers. There were more and more importers entering the Great Britain market, which drove prices down.
7. Transportation costs made it difficult for DA to compete outside of its core area. In addition to DA, Sherborn Stone (SS) was also importing CPV cement into Great Britain. SS was based in Blythe and was supplied by CPV's Santander plant. Although SS was an independent importer and could theoretically compete with DA, DA did not consider SS to be a competitor because the distance between their terminals meant there was little or no overlap between the areas they served.
8. With regard to the EU Emissions Trading System (ETS) partial cessation rules, CPV said that the new regulation had affected its business in so far as it had to produce enough cement to keep its CO₂ certificates for next year. It had to consider the export price against its variable costs and the CO₂ certificate price. [REDACTED]
9. [REDACTED]

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

10. CPV's view was that if there were more cement producers in the Great Britain market then there would be more competition.
11. The creation of Hope Cement (HCM) as a result of the CC's remedies in the Anglo-Lafarge JV had led to lower prices in the northern part of DA's market, particularly in the area surrounding HCM's rail terminal in Reading.
12. [REDACTED]
13. CPV did not have a view on whether or not it would be necessary to include some ready-mix concrete (RMX) plants as part of the divestment of a cement plant or plants.

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

14. Asked what the effect might be on competition, or on CPV as an importer, if Hanson or Cemex or Lafarge Tarmac were required to divest a number of their concrete plants, DA did not think having more RMX plants outside of the ownership of the main cement producers would particularly benefit DA, as it tended not to supply the large type of RMX plants operated by the cement producers, although it might benefit other participants in the market.
15. DA considered it unlikely that it would gain business if a mid-tier producer (Brett Group or Breedon Aggregates) owned more RMX plants but lacked cement production capacity. [REDACTED]
16. [REDACTED] operating RMX plants would not fit within [REDACTED] simple business model of buying and distributing bulk cement.

Creation of a cement buying group or groups

17. DA's customers were small, independent operators which larger producers found unattractive to serve. The service that DA offered to its customers was as important as its prices. This included offering timed deliveries which were attractive to small operators. Large buying groups were all about low prices and this would not be attractive to DA.
18. As a remedy, the creation of a cement buying group or groups could have the unintended consequence of being anticompetitive. In the past it had been asked to pay to join buying groups before it could gain access to the members of the group. DA was not interested in participating in buying groups of this type. Its experience of buying groups was that they had precluded potential customers from considering DA as a supplier and that this was a common situation.

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

19. The sending of generalized price announcement letters (PALs) had been a long-standing practice in the cement industry and the letters seemed to be sent on a very regular basis.

20. PALs provided an indication of what the cement producers wanted to achieve, although the increases proposed did not realistically reflect what actually happened in the market. PALs provided DA with an idea of what it should be doing with its own prices. DA had used generalized PALs it had received in negotiations with its own customers.
21. DA had tended to personalize its PALs rather than send generalized ones. It had actually abandoned any form of price increase letter for nearly three years. It now looked at each of its customers separately and made individual proposals to them. This had helped DA secure long-term relationships with its customers and reflected the current challenging state of the market rather than the situation before the downturn.

Market data remedies

22. DA did not use Mineral Products Association (MPA) data in the running of its business. It did find the data interesting and did use the MPA's statistics in order to compare its business performance with the market. DA did not know how accurate the MPA data was but it seemed to suggest DA was in a reasonably good position in the market.
23. DA used the regional breakdown of cement sales volumes data. This was because it was based in the South-West which was a small market and so it was easy to see how well DA was performing against that data.
24. DA tended to look at the data on a quarterly basis. Therefore, a three-month publication time lag would have no impact on it. Rather than rely on MPA data to plan its business, DA tended to have an ear to the ground.
25. DA did not use EU ETS data. It did not believe that the ETS currently had any material effect on its business but considered that it might do in future through requirements for construction projects to meet carbon targets.

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

26. DA's view was that the fact that supplies of granulated blast furnace slag (GBS) and ground granulated blast furnace slag (GGBS) were controlled by a limited number of parties was unlikely to be beneficial to the overall market and that there were likely to be competition issues arising from this. DA did not supply pulverized fly/fuel ash (PFA) or GGBS to customers. Its RMX customers and concrete producers supplied and blended their own PFA or GGBS.
27. CPV noted that its cement blended particularly well with PFA. Whilst the price of GGBS could affect the number of users of PFA, there were also technical reasons why customers might choose to use PFA instead of GGBS.
28. DA could not comment on whether the CC should intervene at both the upstream (GBS) and downstream (GGBS) level.
29. [✂]

Other possible remedies

30. Regarding the proposed remedy of requiring major cement producers to enter into a tendering process when they wanted to purchase cement from other parties (cross-sales), DA said it had had very little involvement with cement producers and had only done a small amount of business with Aggregate Industries. DA did not consider that this remedy would significantly affect its business.
31. As for the proposal of divesting a grinding station, DA did not know the difference between the cost of importing clinker and the cost of importing cement and could offer no comment. [✂]