

## ANGLO AMERICAN/LAFARGE INQUIRY

### Summary of hearing with The Highways Agency held on Monday 3<sup>rd</sup> October 2011

#### Background

1. The Highways Agency (HA), created on 30 March 1994, is an executive agency of the Department for Transport. It is responsible for managing the strategic road network in England which consists of most motorways and significant A roads (approximately 6,500 miles (10,461 km) of road, accounting for 34 per cent of all road travel and 67 per cent of lorry freight travel).
2. HA sets standards and guidelines for road building which are mandatory for those roads the HA look after and are commended for use by local authorities for the rest of the roads in England.
3. HA said that the fiscal stimulus that took place prior to the 2010 spending review resulted in the acceleration of a number of maintenance and short term improvement projects. However, spending had declined in the last 12 months since the 2010 Spending Review, and budget reductions would continue until around 2013/2014, when spending would increase slightly.

#### RELATIONSHIP WITH PARTIES

4. HA said that it carried out major projects involving infrastructure improvements along with regular maintenance, however did not purchase materials directly itself. Rather, it used contractors and managing agents to carry out projects (lead contractors were appointed for individual major projects, while managing agents were appointed for four or five years with responsibility for maintenance in particular regions), and these parties would be responsible for purchasing the necessary aggregates, asphalt and RMX.
5. Tarmac and Lafarge operate predominately in the supply chain of lead contractors and managing agents both individually and occasionally in joint venture e.g. M25 DBFO. Companies appointed as lead contractors include the likes of Balfour Beatty, Costain, Carillion, Amey, Enterprise Mouchel, BAM Nutall and many others. Tarmac and Lafarge also contract directly with HA on lower value works framework contracts. HA said that companies appointed on major contracts had to first demonstrate suitable standing in terms of market / notation value. Suppliers not meeting the required values or full service capability for a particular contract in their own right have the option of applying with other suppliers as part of a joint venture in order to demonstrate they meet the full requirements.
6. HA is aware that both Tarmac and Lafarge are used as sub-contractors to both supply and place materials where sub contract arrangements dictate. HA understands that Tarmac and Lafarge, along with Cemex, Hanson and Aggregate Industries, accounted for around 90 per cent of the market in terms of supply of materials. There are however instances where local suppliers had won contracts and HA noted that there was nothing in any of its contracts with lead contractors which would prevent smaller suppliers from bidding for work in support of those contracts. Generally, location was considered to be a main factor in determining whether smaller sub-contractors could win supply contracts with the lead contractor or

managing agent on a particular project, as the markets can be very local in nature and transport is a key element of the process.

## **PURCHASING PROCESS**

7. HA understands that transportation, energy and bitumen prices are the major influences on variation of costs of highway surfacing material. Within any given maximum a transport radius, cement and energy costs are understood to be the main influences on the cost for concrete.
8. While HA does not currently purchase these materials directly itself and did not specify how its contractors and managing agents should approach the purchase of materials. It understands that its projects accounted for about 45 per cent of the UK road surfacing materials market, which meant its contractors and managing agents had a degree of buyer power as a whole. It is currently looking at introducing a category management approach that will look at ways of extracting maximum value from this sector.

## **MARKET DEFINITION**

9. HA said that road building required a variety of aggregates throughout the entire highway pavement construction. It understood that there a number of potential variations in pavement design that would still result in the properties needed. In addition, the increasing importance of reducing carbon footprint meant that recycled aggregates is a major growth area and is an increasingly competitive area of the sector.
10. Location of quarries and plant is understood to be a key competitive element for concrete and asphalt materials which can be highly regional and location specific markets. The HA said that there would ideally be at least two or three competing plants able to provide materials for any project; however, this was not always the case as markets can be more localised.
11. HA said that innovation such as proposing the establishment of a mobile asphalt plant for a particular project could make a supplier more competitive on a particular bid. HA said that its contractors also made use of suppliers with 24/7 asphalt plants, particularly as many of its projects utilise overnight working (in many cases it was not practical to carry out work during the day due to the prohibitive costs of traffic management and overall disruption) and, particularly in the case of emergency repair, which require access to materials 24 hours a day. It noted that plant accessibility is now far more open than previously.

## **BARRIERS TO ENTRY/EXPANSION**

12. HA considered that having access to a quarry and asphalt plant in the right location for a project would be a key factor for any supplier looking to be competitive when entering this sector.
13. HA understands that importing aggregates from overseas can be feasible and potentially competitive, depending on location, for example in the south-west of England.

## **OTHER**

14. In addition to looking at impact of the proposed merger at a national level HA suggested that Competition Commission may also want to consider the impact on supply at a regional level e.g. Yorkshire and North East Region etc... HA did not offer a view on how this would impact on competition.