

BREEDON AGGREGATES/AGGREGATES INDUSTRIES UK MERGER INQUIRY

Summary of a hearing with RJ McLeod held on 12 November 2013

Background

1. RJ McLeod said that it was a civil engineering contractor based in Glasgow, but it also had an office in the Highland area of Dingwall. From the latter office it serviced contracts north of the Central Belt, including Aberdeen and the Highlands. Its turnover for 2012/13 was £80 million and it was involved in marine works, renewable energy, road building, bridges and infrastructure projects.
2. RJ McLeod had a broad mix of clients including utility companies, local authorities, developers and BEAR Scotland, which RJ McLeod said it did usually not compete with.
3. The renewable energy market was a significant area of workload for the company in the north of Scotland. In addition, RJ McLeod had also had consistent work on marine projects, along with infrastructure and transport works for local councils, Transport Scotland and Scottish Water.

Relationship with parties

4. RJ McLeod used Breedon Aggregates (Breedon) and Aggregate Industries as suppliers of ready-mix concrete (RMX) and aggregates and it also used them as subcontractors for their asphalt surfacing services. In 2012 Aggregate Industries had supplied the largest amount of materials and surfacing services to RJ McLeod, although the main supplier changed from year to year depending on the area in which RJ McLeod worked and which supplier had a strong share of supply there.
5. Prior to the merger Aggregate Industries and Breedon had often been in direct competition and, along with Leiths and other smaller suppliers, would bid for its contracts.

Purchases of construction materials

6. The central office procured the tenders, but individual sites were responsible for identifying suitable suppliers and they would then negotiate on price. Therefore products were purchased at a site level and on a project-by-project basis. The criteria used to choose a supplier were price, quality, safety, environmental aspects and ability to supply the amount of materials needed within the time frame of the project.
7. RJ McLeod said that any negotiating power it had with suppliers was limited. In areas where there were more suppliers, and hence more competition, prices tended to be lower, but where there was only one supplier, the price would generally be higher.

Contract surfacing services

8. Contractors almost exclusively provided their own materials, and were contracted by RJ McLeod for supply and lay services.

9. RJ McLeod said that surfacing services were mainly subcontracted to local companies in Scotland, except in the case of very large contracts. If it had a contract with a total value in excess of £15–£20 million, it would approach national suppliers and of this it would expect about £5 million to be for the supply of surfacing services. The tendering process for contract surfacing services was the same as for the purchase of construction materials.

Market definition, alternative suppliers, and competition

10. RJ McLeod used aggregates for road construction, generally as fill materials and road base materials and also in the production of RMX.
11. RJ McLeod said that the recycled aggregates were often difficult to source, though it would use them if a suitable supply was available, not least because they should be available at a lower price. It emphasized, however, that the quality would have to be taken into consideration if they were going to be used in asphalt or RMX.
12. The use of crushed rock (as opposed to sand and gravel) aggregates was driven by what types of quarries there were in the project area. RJ McLeod would tend to use whichever the local aggregate was, but if it was sand and gravel RJ McLeod would have to ensure that the contract specifications permitted its use.
13. Aggregates were generally sourced within a range of about 50 miles. However, if there were a specialist stone requirement, for example high PSV or armour stone, it would travel further. Previously RJ McLeod had had a requirement for armour stone and it had had to be transported 120 miles from Inverness up to the north of Scotland.
14. RJ McLeod said that the travel distance for the asphalt on its projects would be on average around 50 miles, but it could be up to 150 miles if it was working in extremely remote areas.
15. Usually RMX could not travel for long distances as it would start to lose its integrity, but for extremely remote jobs it was possible to put in retarders and design the mix so that it could travel further. However, this was for small volumes. If RJ McLeod needed significant volumes it tended to put a plant on site and then import the materials to make the RMX. RJ McLeod said that the average distance for its RMX to travel was less than for asphalt and was probably in the region of 25 miles. It had used volumetric trucks in the past for smaller quantities, but these had tended to be for the islands where distances were longer.
16. The use of volumetric trucks would always be second choice to an RMX plant due to the fact that it was difficult to control quality. With batching plants there was also more control over quality but these two options were not as precise as an actual RMX plant.
17. RJ McLeod would only use mobile asphalt plants for larger projects of a value of over £20 million.
18. RJ McLeod had never been involved in a contract where it had needed a 24/7 asphalt plant.
19. When RJ McLeod went out to tender in the north of Scotland it would look for quotes from the three largest suppliers (Breedon, Aggregate Industries and Leiths), but it would also consider the smaller suppliers in the local areas if they were conveniently located.

20. RJ McLeod often purchased materials from smaller quarries, particularly in the Caithness area, including Gunn's, Caithness Industries, GMR Henderson and Sinclair. The size of the company was not important to RJ McLeod, unless the contract was for a particularly large job if it did not believe the smaller quarries would have the resource to supply its full needs. RJ McLeod felt that in the urban areas there was a fairly large range of suppliers. Its concern was in the more rural areas where there tended to be only one dominant supplier.

Barriers to entry/expansion

21. The ownership of a quarry was a key issue, as opening up a new one would be difficult with all the environmental and planning constraints. It was possible to supply RMX without owning a quarry, but it would be necessary to buy in the aggregates from an existing supplier, so without the quarry to produce the raw materials RJ McLeod thought that it would be difficult to be competitive.
22. RJ McLeod tended to contract with providers who were vertically integrated.

Other

23. RJ McLeod did not have any concerns with the merger, although it thought that the acquisition of the quarries was likely to have lessened competition.
24. The cost of producing the stone was similar across all quarries, so the main cost was in connection with the haulage.