

**AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION**

**Analysis of the internalization of cement purchases [X] in 2009**

**Non-confidential summary**

1. To understand further the role of cross-sales in the cement market, we examined in detail the events surrounding the internalization of a large volume of cement by one Major (A) from another Major (B) in late 2008/early 2009, as a result of a significant change in A's circumstances. We found that, despite this large switch in the pattern of cross-sales over a short period of time, the cement market shares held by A and B returned quickly to their pre-existing levels. This was achieved in the months immediately following the large internalization through a combination of B internalizing its purchases of cement from A, the other Great Britain producers switching cement purchases from A to B and B winning non-Major cement customers from A.
  
2. We found that, whilst B internalized cement purchases from several cement producers, it preferentially internalized its cement purchases from A (ie it internalized all its cement purchases from A, whereas it only partly internalized its other cement purchases). Further, we found that B appeared to have targeted A's customers (out of proportion to A's share of the market) rather than trying to recover these volumes equally from all its rivals. Specifically targeting A's customers in this way may have been suboptimal for B, as B could instead have sought to gain customers—regardless of their existing supplier—which were most profitable for B to serve (eg customers closest to B's cement plants). At this stage, it appears that these events could indicate B retaliating against A (and/or B targeting only A's customers to avoid the risk of retaliation from the other cement producers) with stability of market shares as the goal.

3. According to our analysis of the internalization event in 2009, the average prices for cement charged by both A and B increased very substantially in early 2009 (and in fact announced price increases across the industry for 2009 were generally very high), although there was some erosion of A and B's average prices from around April 2009. This means that there is little direct evidence of a general 'price war' between A and B in early 2009, although it may also indicate that any such price-cutting behaviour can be targeted fairly precisely in the cement industry (ie only those customers targeted by B benefited from B's reaction to A's internalization).

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