

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

**The Lafarge/Tarmac joint venture and the acquisition by Mittal Investments  
Sarl of Hope Construction Materials**

**Introduction**

1. On 7 January 2013, Anglo American and Lafarge concluded the divestiture of a package of cement, ready-mix concrete (RMX), aggregates and asphalt operations to Mittal Investments Sarl (MI) thereby creating Hope Construction Materials. This transaction implemented the majority of the divestitures required by the CC following its investigation of the proposed joint venture (JV) between Anglo American and Lafarge. On the same day, Anglo American and Lafarge completed their JV, creating Lafarge Tarmac.
  
2. This working paper sets out the background to these two transactions and considers their potential implications for the markets that are the subject of this investigation. It is structured in three parts:
  - (a) Part 1 sets out the factual background relating to these transactions. It summarizes the key findings of the CC's investigation of the Anglo/Lafarge JV and the selection and implementation of remedies to address the CC's SLC findings in that investigation. It provides background information about MI and sets out what we know at this stage about its plans for Hope Construction Materials.
  - (b) Part 2 summarizes information currently available about the potential implications of these transactions for competition in cement, aggregates and RMX markets. It looks at the potential market structures that might result from these transactions and reports the views of the majors about how the entry of MI as a significant player in the GB construction materials sector might affect competition.

(c) Part 3 draws some initial conclusions about possible implications for the current investigation. These relate to the interpretation of evidence relating to periods prior to these two transactions and the potential competitive strategy of Lafarge Tarmac and Hope Construction Materials. The extent to which these very recent events will impact on our analysis and/or findings is likely to vary depending on the particular issue under investigation—some parts of our analysis may be relatively unaffected, in other areas (eg coordination in cement) we will look to form a view about the weight that is to be attached to the most recent evidence about the current operation of the market as well to evidence about how markets have operated in the past. In reaching this view we may consider various scenarios about the possible future behaviour of Hope Construction Materials in particular.

## **Part 1: Background**

3. In part 1 of this working paper, we set out the background to these transactions:
  - (a) In paragraphs 4 to 13, we summarize the CC's investigation of the proposed Anglo/Lafarge JV and its decisions on the remedies necessary to allow that JV to proceed.
  - (b) In paragraphs 14 to 22, we set out the key stages in the implementation of these remedies leading up to the creation of Hope Construction Materials and Lafarge Tarmac.
  - (c) In paragraphs 23 to 41, we provide background information about MI and its plans for Hope Construction Materials.

### ***The CC's investigation of the proposed Anglo/Lafarge JV and the CC's decisions on remedies***

4. On 2 September 2011, the Office of Fair Trading (OFT) referred to the Competition Commission (CC) for investigation and report under the Enterprise Act 2002 (the Act) the anticipated construction materials JV between Anglo American PLC (Anglo

American) and Lafarge S.A. (Lafarge Group). The CC published its final report of its investigation (the Anglo/Lafarge final report) on 1 May 2012.

5. As set out in Section 2 of the Anglo/Lafarge final report, Anglo American's and Lafarge Group's UK activities in aggregates, asphalt, RMX, cement, waste management and asphalt surfacing would be contributed to the proposed JV. Excluded from the proposed JV were Anglo American's UK activities in building products (ie its Tarmac Building Products subsidiary), and Lafarge Group's UK activities in gypsum (ie plaster, plasterboard, plaster blocks and joint compounds). The pro forma FY10 revenues for the proposed JV were estimated to be around £2 billion with EBITDA of around £210 million. Anglo American and Lafarge Group would each hold a 50 per cent stake in the proposed JV's share capital with equal representation on the board.
6. Further details of the structure of the JV are set out in Appendix E of the Anglo/Lafarge report, along with an outline of its rationale and the events leading up to the proposal to create the JV.
7. In the Anglo/Lafarge final report, the CC concluded that the proposed JV may be expected to result in an SLC leading to prices that would be higher than might otherwise be the case in the following markets:
  - (a) the market for the supply of bulk cement in the UK, as a result of coordinated effects that were expected to arise from the proposed JV;
  - (b) nineteen local markets for the supply of primary aggregates for construction applications, as a result of unilateral effects;
  - (c) the market for the supply of rail ballast in the UK, as a result of unilateral effects;
  - (d) the market for the supply of high purity limestone (HPL) in the UK, in relation to HPL supplied for FGD applications, as a result of unilateral effects;
  - (e) two local markets for the supply of asphalt, as a result of unilateral effects; and

- (f) seven local markets for the supply of RMX as a result of unilateral effects.
8. Anglo American and Lafarge (collectively the JV parties) proposed a series of divestitures to address these SLC findings.
9. Following discussions with the CC about a range of possible divestitures, the final divestiture proposal put forward by the JV parties to remedy the SLC finding of coordinated effects in cement comprised:
- (a) Lafarge's Hope cement plant (with a cement capacity of around [REDACTED] million tonnes a year);
  - (b) Lafarge's Dowlow quarry, which would provide the acquirer of Hope with a potential alternative source of limestone;<sup>1</sup>
  - (c) associated rail-linked depots at Theale in West Berkshire, Walsall in the West Midlands and Dewsbury in West Yorkshire (Hope also has permission to deliver up to [REDACTED] ktpa of cement by road);<sup>2</sup> and
  - (d) a portfolio of [REDACTED] RMX plants with approximately [REDACTED] of sales volume (equivalent of around [REDACTED] of blended cement<sup>3</sup>). This would enable the purchaser to meet around [REDACTED] of Hope's cement capacity through internal sales.<sup>4</sup>
10. The CC's assessment of the effectiveness of this divestiture in remedying the SLC it had identified in cement is summarized at [Annex A](#). It is important to note that this assessment was focused on the specific and narrow question of the effectiveness of

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<sup>1</sup> Lafarge told us that the Dowlow site contained over [REDACTED] of consented limestone reserves and was rail-linked and 10 miles away from Hope. [REDACTED]

<sup>2</sup> The JV parties told us that Theale would provide the buyer of Hope with capacity of [REDACTED] and access to demand in the South of England, while Dewsbury with capacity of [REDACTED] was well located to serve the major conurbations in the North of England. Each of these depots has blending facilities on site which could be utilized by the purchaser to produce CEM II or CEM III, effectively expanding the cement production capacity of the cement plant. The Walsall depot has further capacity of [REDACTED].

<sup>3</sup> Based on a conversion rate of [REDACTED].

<sup>4</sup> Paragraph 8.75 of the Anglo/Lafarge final report indicated that, in the remedies implementation phase, the CC would be prepared to allow some flexibility about the specific RMX sites to be divested—for example, if potential purchasers did not wish to acquire specific RMX sites, or if local unilateral effects concerns might be raised in respect of a purchaser's existing RMX operations. However, the CC would need to be satisfied that this was necessary to achieve an effective disposal, did not compromise the remedy's effectiveness and did not reduce the overall volumes of RMX to be divested from the JV entity.

this remedy, rather than of the overall effect of such a divestiture on all aspects of competition.

11. To address the SLC findings of unilateral effects in markets for aggregates, asphalt and RMX, the JV parties proposed to divest one or more sites in each problematic overlap area in order to remove any potential source of the SLC. This divestiture package comprised:
  - (a) Tarmac's 50 per cent interest in Midlands Quarry Products (MQP);<sup>5</sup>
  - (b) six other primary aggregates sites (three from Lafarge,<sup>6</sup> three from Tarmac<sup>7</sup>) and one aggregates depot (Lafarge's Ashbury depot);
  - (c) two other asphalt plants;<sup>8</sup> and
  - (d) six RMX plants.<sup>9</sup>
  
12. The CC concluded that that the above combination of divestitures would be an effective remedy to address the SLCs that had been found and represented a less onerous solution than full prohibition (the only other effective remedy identified). As this combination of divestitures was more proportionate than prohibition, it was therefore the CC's preferred solution.
  
13. The CC decided to require Anglo American and Lafarge to implement these divestitures as a condition for allowing the proposed JV to proceed. The implementation of these divestitures was made subject to various safeguards including CC scrutiny of potential purchasers, the ability for the CC to appoint a divestiture trustee and a requirement on the JV parties to complete the divestiture of cement, RMX and associated operations before the CC would give its final approval to the proposed JV.

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<sup>5</sup> MQP includes aggregates quarries at Cliffe Hall and Griff, divestiture of which addressed specific problematic overlaps.

<sup>6</sup> Dowlow, Britton Ferry and Willington. A collocated RMX plant at Briton Ferry was also included in the divestiture package.

<sup>7</sup> Coxhoe, Holme Hall and Potton.

<sup>8</sup> Tarmac's asphalt plant at Cavenham and Lafarge's Wivenhoe plant.

<sup>9</sup> We found seven problem areas in relation to RMX for which the main parties proposed six divestitures. This reflects the position that the seven problem areas included both the Lafarge Greenock and Tarmac Greenock areas. The proposed divestiture for both the Lafarge Greenock and Tarmac Greenock areas is the same RMX site (Tarmac Greenock).

### ***Implementation of remedies following the Anglo/Lafarge final report***

14. Following the publication of the Anglo/Lafarge final report, the CC negotiated undertakings with the JV parties to implement the divestiture remedies as set out in that report. Final undertakings were accepted by the CC on 27 July.<sup>10</sup>
15. At around the same time, the JV parties started the process of marketing the operations to be divested to interested bidders. The JV parties had a preference for marketing the majority of these operations together as a single package. There were two main constraints on their ability to sell all of the operations to be divested to a single purchaser:
- (a) Any sale of Tarmac's 50 per cent ownership interest in MQP is subject to a right of pre-emption in favour of Hanson Quarry Products Europe. Tarmac was therefore not in a position to conclude a sale of MQP to any other party unless and until Hanson had considered whether or not to exercise this right.
  - (b) It would not be possible to sell all of the RMX sites to be divested to a single bidder. This was because both the Tarmac and Lafarge RMX sites involved in four of the six problematic overlaps had been included in the list of RMX sites which the JV parties had undertaken to divest. As such, had both Tarmac and Lafarge sites in a particular area been sold to the same bidder, this would not have resulted in an effective remedy to the specific SLC resulting from the problematic RMX overlap. In addition, when the undertakings were agreed, it was conceivable that problems might arise in relation to other specific RMX sites (eg as a result of competition conflicts with a specific purchaser, or in relation to consents required from third parties).
16. Given these preferences and constraints, the JV parties marketed the following two packages to potential bidders:

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<sup>10</sup> These are available at [www.competition-commission.org.uk/our-work/anglo-american-lafarge/undertakings-and-order](http://www.competition-commission.org.uk/our-work/anglo-american-lafarge/undertakings-and-order).

- (a) The 'Hope package'—comprising the Hope cement plant, all of the aggregates and asphalt operations to be divested (other than those that formed part of MQP) and all of the RMX operations to be divested (with the exception of the five RMX sites which needed to be sold separately); and
  - (b) Tarmac's 50 per cent share in MQP.
- 17. On 16 November 2012, after considering offers from a number of bidders, the JV parties exchanged contracts in relation to both the Hope package and (subject to Hanson's consideration of its pre-emption rights) Tarmac's 50 per cent share in MQP with MI.
- 18. Following clearance under the EU Merger Regulations on 14 December 2012 and final purchaser approval from the CC, the sale of the Hope package to MI was concluded on 7 January 2013. MI named the acquired business Hope Construction Materials. On the same day, all regulatory conditions having been met, Anglo and Lafarge concluded the JV which was named Lafarge Tarmac.
- 19. The total consideration agreed for the purchase of the Hope package and of Tarmac's stake in MQP was £272 million. [REDACTED]
- 20. Three further aspects of the Sale and Purchase Agreement are likely to affect commercial relationships between Hope Construction Materials and Lafarge Tarmac for a period following the transaction:
  - (a) [REDACTED]
  - (b) As anticipated in paragraph 8.37 of the Anglo/Lafarge final report, [REDACTED].
  - (c) [REDACTED]

21. Following the completion of the divestiture of the Hope package and the formation of Lafarge Tarmac, the remaining divestitures to be completed are:
- (a) Divestiture of Tarmac's 50 per cent stake in MQP. This will be made either to Hanson, if it takes up its right of pre-emption, or to MI if Hanson does not take up this option.
  - (b) Divestiture of five remaining RMX sites, namely the Lafarge sites at Whisby, Greenock and Newport and the Tarmac sites at Thirsk and Selby which it was not possible to include within the scope of the Hope package.<sup>11</sup>
22. We expect these remaining divestitures to be completed during the first half of 2013.

### ***MI and its plans for Hope Construction Materials***

23. In this section we discuss MI and its plans for Hope Construction Materials. In paragraphs 24 to 27, we provide background information about MI. In paragraphs 28 to 41, we summarize the information that MI provided to us during the purchaser approval process about its plans for Hope Construction Materials.

#### ***About MI***

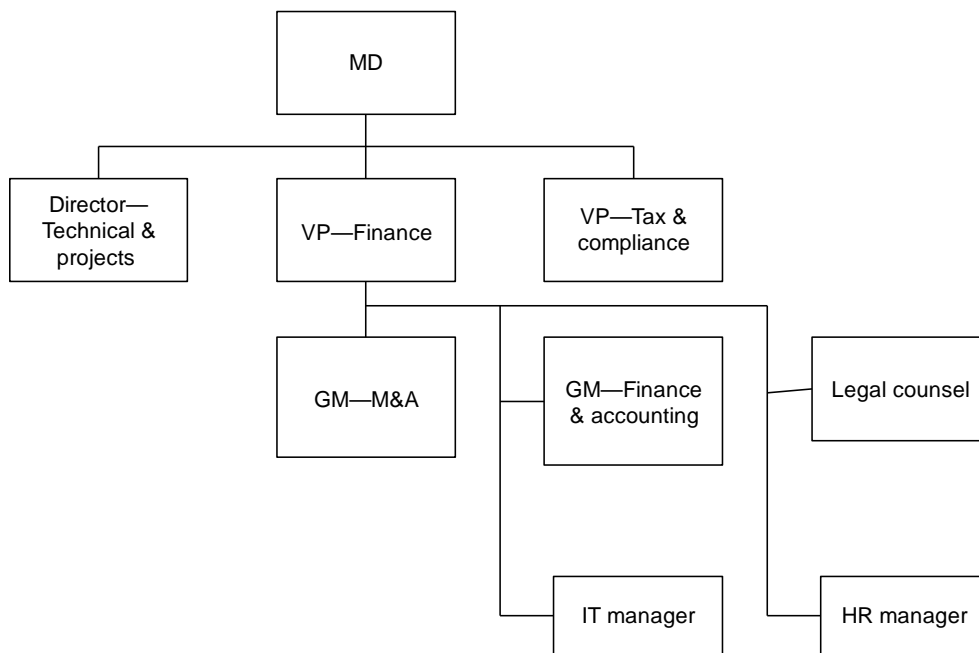
24. MI is a limited liability company incorporated in Luxembourg whose ultimate beneficial interest holders are Lakshmi Niwas Mittal and his family.
25. Key personnel within MI are shown in Figure 1.

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<sup>11</sup> The first four of these sites had needed to be divested separately because the main parties had decided to divest both Anglo and Lafarge's RMX sites in a number of the problematic RMX overlaps (see paragraph 15(b)). [§<

FIGURE 1

**MI organizational structure**



Source: MI.

26. MI was set up in 2004 to look for strategic investments outside steel and mining to diversify the Mittal family’s portfolio and associated risk. MI told us that it generally made long-term investments in markets, such as oil and gas, where the investment could evolve over time but might not be easy to exit quickly. MI’s significant industrial acquisitions in the past five years [X]:

(a) Acquisition of a [X] per cent share in a [X] oil refinery and [X] pipeline in Northern India. [X]

(b) Acquisition of a full-service Engineering, Procurement and Construction (EPC) company operating in Oil and Gas, major Road Networks and other Heavy Industrial projects located in Kazakhstan and India. [X]

(c) Acquisition of a minority stake in Ophir Energy plc. [X]

27. Until 2010, MI held a direct interest in AM. [REDACTED] The accounts show that at the 31 December 2011 MI had investments of €878 million. In addition it had €36.2 million in cash.

#### *MI's plans for Hope Construction Materials*

28. MI shared its initial thinking about its plans for Hope Construction Materials with the CC during the purchaser suitability process. We would expect these plans to evolve during the first year of operation of the new business. We set out below our current understanding of these plans as they relate to:
- (a) management (paragraphs 29 and 30);
  - (b) projected financial performance (paragraphs 31 and 32);
  - (c) cement (paragraphs 33 to 38);
  - (d) RMX (paragraphs 39 to 40); and
  - (e) aggregates (paragraph 41).

#### *Management*

29. Hope Construction Materials was divested with a senior management team comprising former employees of Tarmac/Anglo American and Lafarge.<sup>12</sup> On completion of the acquisition, Amit Bhatia (a member of the Mittal family) was appointed as Chairman.

30. [REDACTED]

#### *Projected financial performance*

31. Table 1 shows MI's projections of the overall financial performance of Hope Construction Materials.

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<sup>12</sup> Chris Plant (CEO [REDACTED]), Dallas Taylor (Finance Director [REDACTED]), Mike Cowell (Managing Director, Cement [REDACTED]), Simon Phillips (Managing Director, Concrete, Aggregates & Asphalt [REDACTED]), Jim Verity (HR [REDACTED]), James Stirk (Legal Director [REDACTED]).

TABLE 1 Projected financial performance of Hope Construction Materials as at December 2012

Financial year ending 31 December	Estimated pro-forma outcome	Business plan				
	2011	2013 e	2014 e	2015 e	2016 e	2017 e
Consolidated revenue (ex works) (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Consolidated EBITDA (£m)	[X]	[X]	[X]	[X]	[X]	[X]
Consolidated margin over revenue %	[X]	[X]	[X]	[X]	[X]	[X]

Source: MI.

32. MI expects [X].

### Cement

33. MI intends [X].

TABLE 2 Expected annual cement output of Hope Construction Materials as at December 2012

Financial year ending 31 December	Actual output 2011	kt a year			
		Projections			
		2013 e	2014 e	2015 e	2016 e
Total cement volume [X]	[X]	[X]	[X]	[X]	[X]
of which	[X]	[X]	[X]	[X]	[X]
CEM I	[X]	[X]	[X]	[X]	[X]
% of total volume	[X]	[X]	[X]	[X]	[X]
CEM II	[X]	[X]	[X]	[X]	[X]
% of total volume	[X]	[X]	[X]	[X]	[X]
CEM III	[X]	[X]	[X]	[X]	[X]
% of total volume	[X]	[X]	[X]	[X]	[X]
CEM IV	[X]	[X]	[X]	[X]	[X]
% of total volume	[X]	[X]	[X]	[X]	[X]

Source: MI.

34. [X]

35. [X]

36. [X]

37. Given its expectations regarding the output of the Hope plant, MI's GB cement market share will depend on a range of factors, including the extent to which the GB cement market expands during the next few years. [X]

38. MI's longer-term plans for its cement business [REDACTED].

*RMX*

39. MI told us [REDACTED].

40. MI estimated [REDACTED].

*Aggregates*

41. MI expects [REDACTED].

## **Part 2: Potential implications of creation of Lafarge Tarmac and the implication of the CC's remedies for this market investigation**

42. In this second part of the working paper, we consider the potential implications for this market investigation of the creation of Lafarge Tarmac and the divestiture of the Hope package and MQP for this investigation:

(a) In paragraphs 43 to 52 we consider the implications for the structure of markets for aggregates, cement and RMX.

(b) In paragraphs 53 to 59, we summarize the views that have been put to us to date by other major cement providers of the impact of the entry of MI as a new participant in GB construction markets.

### ***Implications for the structure of markets for cement, aggregates and RMX markets***

43. We consider below the potential implications of the creation of Lafarge Tarmac and the divestitures of the Hope package and MQP for the structure of the following markets that are subject to our investigation:

(a) Aggregates (paragraphs 44 to 47).

(b) Cement (paragraphs 48 to 49).

(c) RMX (paragraphs 50 to 51).

## *Aggregates*

44. The creation of Lafarge Tarmac and the implementation of the CC's remedies will have the following changes to the structure of aggregates markets in GB:
- (a) The combination under shared ownership of the majority of the aggregates operations of Lafarge and Tarmac. At its inception on 7 January 2013, Lafarge Tarmac owned 134 primary aggregates quarries, more than two marine aggregates wharves and various other operations including 38 recycling and secondary aggregates sites.
  - (b) The entry of Hope Construction Materials as a new player in GB aggregates markets with (at its inception) six primary aggregates sites and one aggregates depot.<sup>13</sup>
  - (c) The exit by Tarmac from the MQP JV, which operates two active quarries (Cliffe Hill and Griff), as well as six asphalt plants. Tarmac's 50 per cent stake in MQP will be divested to either Hanson or MI later in 2013.
45. Tables 3 and 4 show regional and GB shares of aggregates sales of the five current Majors and Hope Construction Materials before and after the JV, based on 2011 data on sales of aggregates. Given the current uncertainty about the future ownership of MQP, we have shown its share of supply separately from those of Hanson, Tarmac and Hope Construction Materials.

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<sup>13</sup> Britton Ferry, Dowlow, Coxhoe, Holme Hall, Potton and Willington and the Ashbury aggregates depot.

TABLE 3 Aggregates regional and GB shares of supply in 2011

Region	per cent						
	AI	Cemex	Hanson (excl 50% in MQP)	Lafarge	Tarmac (excl 50% in MQP)	MQP (100%)	Total Majors (incl MQP)
East Midlands	[X]	[X]	[X]	[X]	[X]	[X]	[X]
East of England	[X]	[X]	[X]	[X]	[X]	[X]	[X]
London	[X]	[X]	[X]	[X]	[X]	[X]	[X]
North-East	[X]	[X]	[X]	[X]	[X]	[X]	[X]
North-West	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Scotland	[X]	[X]	[X]	[X]	[X]	[X]	[X]
South-East	[X]	[X]	[X]	[X]	[X]	[X]	[X]
South-West	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Wales	[X]	[X]	[X]	[X]	[X]	[X]	[X]
West Midlands	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Yorkshire and the Humber	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Total GB</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC, based on data from the parties and BDS data.

TABLE 4 Aggregates regional and GB shares of supply following creation of Lafarge Tarmac and Hope Construction Materials

Region	per cent						
	AI	Cemex	Hanson (excl MQP)	Lafarge Tarmac (excl MQP)	Hope Construction Materials (excl MQP)	MQP (100%)	Total Majors (incl MQP)
East Midlands	[X]	[X]	[X]	[X]	[X]	[X]	[X]
East of England	[X]	[X]	[X]	[X]	[X]	[X]	[X]
London	[X]	[X]	[X]	[X]	[X]	[X]	[X]
North-East	[X]	[X]	[X]	[X]	[X]	[X]	[X]
North-West	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Scotland	[X]	[X]	[X]	[X]	[X]	[X]	[X]
South-East	[X]	[X]	[X]	[X]	[X]	[X]	[X]
South-West	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Wales	[X]	[X]	[X]	[X]	[X]	[X]	[X]
West Midlands	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Yorkshire and the Humber	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Total GB</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC, based on data from the parties and BDS data.

46. At a national level, Lafarge Tarmac is now, by some margin, the largest producer of aggregates with a GB share of primary aggregates of around [X] per cent.

Compared with the other majors, Hope Construction Materials would be a relatively small player in GB aggregates markets taken as a whole.

47. At a local level, the Anglo/Lafarge final report identified those local overlaps in which the combination of Tarmac and Lafarge sites would give rise to an SLC and remedies that would be effective in addressing these problematic overlaps. While there will be

some increases in local concentration as a result of the creation of Lafarge Tarmac (eg where a local overlap was considered unproblematic, or where the remedy did not require divestment to remove the entire overlap), the CC in the Anglo Lafarge final report did not expect any such increases in local concentration to give rise to competitive harm, once the divestitures have been implemented.

## Cement

48. Tables 5 and 6 below show the total clinker capacity and total clinker capacity shares for GB cement production before and after the creation of Lafarge Tarmac and Hope Construction Materials, based on 2011 figures. We see that the Lafarge Tarmac total clinker capacity share will be lower than prior to the formation of the JV, because of the divested cement plant (Lafarge's Hope plant) has higher clinker capacity than Tarmac's Tunstead plant which is being taken into Lafarge Tarmac alongside Lafarge's other cement plants.

TABLE 5 GB clinker capacity and capacity shares 2011

	<i>Lafarge</i>	<i>Hanson</i>	<i>Cemex</i>	<i>Tarmac*</i>
Total clinker capacity (tonnes)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Shares of GB clinker capacity pre-JV (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC.

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\*For Tarmac, this is cement capacity rather than clinker capacity, based on our estimates of achievable capacity rather than nameplate capacity.

TABLE 6 Clinker capacity and capacity shares after the formation of Lafarge Tarmac JV and Hope Construction Materials

	<i>Lafarge Tarmac*</i>	<i>Hanson</i>	<i>Cemex</i>	<i>Hope Construction Materials</i>
Total clinker capacity (tonnes)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Share of GB clinker capacity (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC.

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\*For Lafarge Tarmac's Tunstead plant, this is cement capacity rather than clinker capacity, based on our estimates of achievable capacity rather than nameplate capacity.

49. Assuming that the total volumes produced from each plant remain the same after the creation of Lafarge Tarmac and Hope Construction Materials, we can also estimate

possible future market shares for GB cement production. This is shown in Tables 7 and 8 below, again based on 2011 figures.

TABLE 7 Total production of cement in 2011 and shares of GB production

	Lafarge	Hanson	Cemex	Tarmac
Total cement production pre-JV	[X]	[X]	[X]	[X]
Shares of GB production (%)	[X]	[X]	[X]	[X]

Source: CC.

TABLE 8 Total production of cement and shares of production post-JV and Mittal entry, assuming constant production by plant

	Lafarge Tarmac JV	Hanson	Cemex	Hope Construction Materials
Total cement production post-JV	[X]	[X]	[X]	[X]
Shares of GB production (%)	[X]	[X]	[X]	[X]

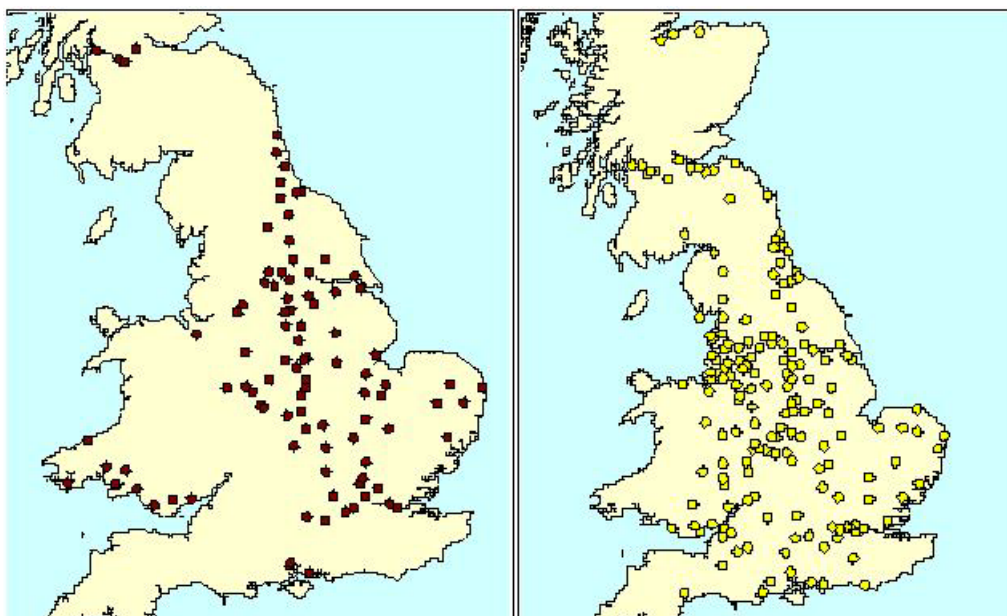
Source: CC.

## RMX

50. We set out below in Figure 2 the geographic coverage of the Lafarge and Tarmac RMX sites before the proposed JV. Figure 3 shows the RMX operations of Lafarge Tarmac and the RMX plants divested to Hope Construction Materials.

FIGURE 2

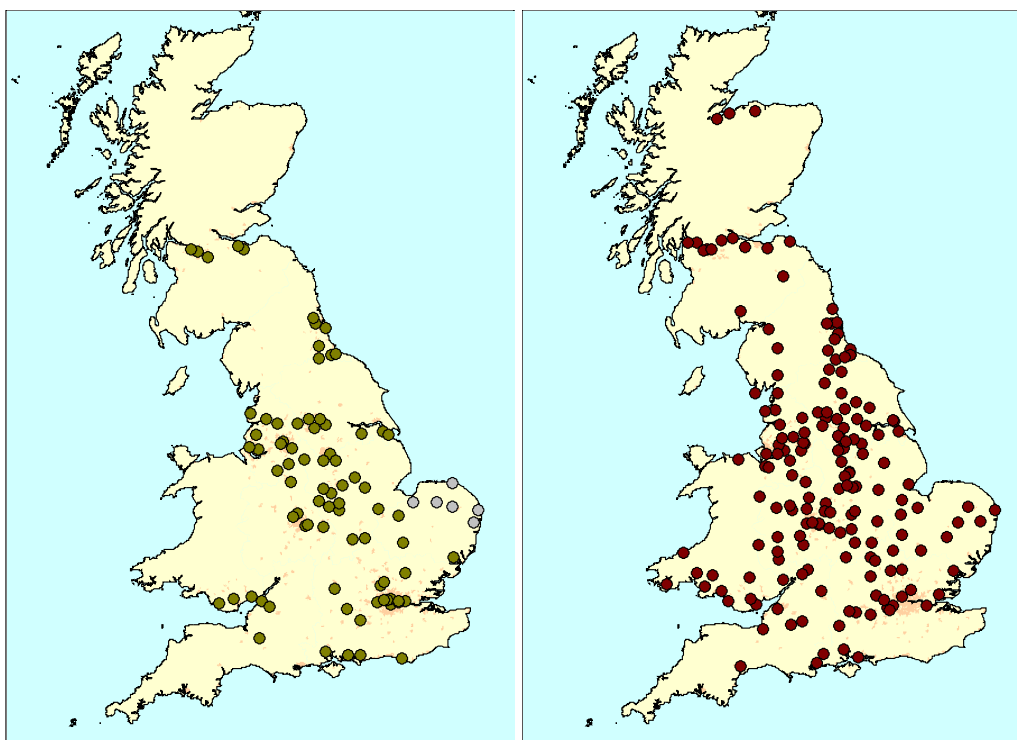
### Lafarge's (left) and Tarmac's (right) RMX plants before the proposed JV



Source: Lafarge Tarmac, published in the Anglo/Lafarge final report.

FIGURE 3

**RMX plants of Lafarge Tarmac (left) and Hope Construction Materials (right)**



Source: Lafarge Tarmac.

51. Prior to the formation of Lafarge Tarmac and the divestitures required by the CC, Lafarge had [X] RMX plants (of which [X] were mothballed) producing [X] million m<sup>3</sup> RMX (2010 figures). Tarmac had [X] plants (of which [X] were mothballed) producing [X] million m<sup>3</sup> (based on 2010 figures). Lafarge Tarmac now has [X] RMX plants (of which [X] were mothballed as at May 1 2012) producing [X] million m<sup>3</sup> (based on 2010 figures) and Hope Construction Materials has [X] plants producing just over [X] million m<sup>3</sup> (based on 2010 figures).<sup>14</sup>

*Summary of changes to market structure*

52. The creation of Lafarge Tarmac and the implementation of the divestitures required by the CC to allow that JV to proceed may be expected to have the following broad

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<sup>14</sup> A further five plants, representing around [X] million m<sup>3</sup> (2010 figures) were excluded from the Hope package (see paragraph 21(b)) and will be divested separately during 2013.

implications for the structure of aggregates, cement and RMX markets relative to the situation prevailing up to the end of 2012:

- (a) At a national level, Lafarge Tarmac is now, by some margin, the largest producer of aggregates with a GB share of primary aggregates of around [X] per cent. Compared with the other majors, Hope Construction Materials would be a relatively small player in GB aggregates markets taken as a whole. There may be some increases in concentration at a local level resulting from the combination of certain Lafarge and Tarmac sites, though the CC's remedies were selected to address any problematic local overlaps. During 2013, Tarmac's stake in MQP will be divested to either Hanson or Mittal.
- (b) There would be no overall increase in concentration of the UK bulk cement market. As now, there would be four major UK-based cement producers and some competition from imports. If Hope Construction Materials runs the Hope plant at, or near to, its capacity, then concentration may be expected to decrease on some commonly-used indicators—for example, the three-firm concentration ratio.
- (c) There is little overall change in terms of consolidation in RMX production at a GB level. The number of major RMX producers would be unchanged, as would be the combined RMX national share of supply of the four UK-based cement manufacturers and of the five majors (ie including Aggregate Industries). Lafarge Tarmac would have a similar-sized RMX portfolio to that held by Lafarge prior to divestiture, and Hope Construction Materials would have a similar sized RMX portfolio share to that held by Tarmac prior to divestiture, though Lafarge Tarmac and Hope Construction Materials now both own a combination of former Lafarge and Tarmac plants.
- (d) There will be some changes to the vertical structure of two of the four GB cement producers. Compared with Lafarge before the JV, Lafarge Tarmac will have a significantly larger aggregates business, [X] less cement capacity (because the

divested Hope plant is larger than Tarmac's Tunstead plant, albeit the Tunstead plant has greater scope for longer-term expansion than Hope) and a similar sized RMX network. Compared with Tarmac before the JV, Hope Construction Materials will have a much smaller aggregates business, [X] more cement capacity and a similar-sized RMX network. Lafarge Tarmac, like Lafarge today, would have a significantly lower ratio of cement use to production than Cemex and Hanson. Conversely, Hope Construction Materials would have a higher ratio of cement use to production than Cemex and Hanson, though the difference would not be as pronounced as for Tarmac pre-JV, in part because Hope Cement Materials operates a larger cement plant than Tarmac did.

### ***Views of the majors***

53. The majors made the following comments about the likely impact of the formation of Lafarge Tarmac and of Hope Construction Materials.
  
54. Lafarge told us that the creation of Lafarge Tarmac and the divestments resulting from the remedies package would have a substantial impact on the relevant markets, as well as the structure of Lafarge's existing business. The divested assets allowed for the creation of a new, national player with significantly greater cement capacity and external cement sales than those of Tarmac prior to the JV. The new player, Hope Construction Materials, would be a more competitive player than Tarmac in cement. Tarmac operated at full capacity and was a net purchaser of cement. Hope Construction Materials would have greater scope to compete externally than Tarmac. It would thus represent a more effective competitor in cement than Tarmac. Lafarge also told us that Tarmac's cement operations ceasing to be independent would not materially facilitate transparency, since Tarmac was not a disruptive force that caused variability regarding cement supplies to non-Major customers. The formation of Lafarge Tarmac would also result in substantial reductions in variable cost of

production. The competitive benefits flowing from the formation of Lafarge Tarmac were unlikely to fully materialize within the period of the market investigation. Any conclusions that the CC reached on the likelihood of coordination between GB cement producers and any possible remedies must be cast in light of the impact of the divestments required as a result of the Anglo/Lafarge final report.

55. Tarmac told us that given the number of divestments required before the JV could be established, the market structure in each of the reference markets was likely to change, paving the way for new entrants and additional competition. The divestments would result in more choice for customers. The shape of the cement market would change considerably and significantly due to the JV as well as Hope Construction Materials being net suppliers of cement.
56. Hanson told us that it would be very important for the CC's analysis to take into account the changing market dynamics resulting from the completion of the Lafarge Tarmac JV and the entry of Lakshmi Mittal and Hope Construction Materials into the cement, RMX and aggregates markets. It noted, for example, that Lafarge Tarmac had a different cement and RMX profile to that of either of the legacy companies. Hope Construction Materials was a new entrant into the GB cement and RMX markets with material positions in both markets, but a different profile and potentially different incentives to either of the legacy operators.
57. Hanson considered that these developments introduced great uncertainty into the markets and would most likely lead to a fundamental shift in market dynamics (in particular, as regards cement and RMX) and on a very significant scale. It could not know what strategy Hope Construction Materials and Lakshmi Mittal may bring to the UK cement market, other than to note that Hope would in all likelihood work to establish a very significant market share to match their capacity. The fact that Hope

Construction Materials was ultimately owned by an investor (Lakshmi Mittal and Mittal Investments) who had world leading experience in steel manufacture, but no experience in cement manufacture, brought considerable uncertainty as to its strategic behaviour. For example, the ultimate owner of Hope Construction Materials had a reputation for bringing world-leading process improvements and efficiency investing in logistics. This could bring a differentiated approach to GB cement production and supply. Arcelor Mittal led the world's steel industries in research and development as well as in very significant CO2 reduction techniques and Hanson believed that Mittal Investments might look to similar leadership and change going forward in cement. Additionally, Hope would have access to the international spread and financial resources of its group plus access to Arcelor Mittal's network of steel plants in Continental Europe, all of which would provide Hope with opportunities to impact the UK cement and RMX markets.

58. Cemex told us that it expected Hope Construction Materials to be an aggressive competitor. [REDACTED] Moreover, given current market conditions, an entrant would have to push very hard for profit.
59. Aggregate Industries told us that it did not expect any major change in the competitiveness of the reference markets due to the JV.

### **Part 3: Possible implications for the current investigation**

60. In this concluding section we consider possible implications of these transactions for this market investigation under the following headings:
  - (a) Possible implications for findings and/or analysis that are primarily based on evidence that relates to periods prior to these transactions.
  - (b) Possible scenarios for how Lafarge Tarmac and Hope Construction Materials might compete following their formation.

### ***Implications for analysis and/or findings***

61. All of the analysis conducted in this investigation prior to January 2013 draws on evidence of the operation of markets for aggregates, cement and RMX prior to the formation of Lafarge Tarmac and Hope Construction Materials. It is an inevitable consequence of the timing of this investigation and of the statutory deadlines under which the CC operates that, in reaching our decisions, much of the evidence on which these decisions are to be based will relate to 2012 and earlier years.
  
62. The extent to which these very recent events will impact on our analysis and/or findings is likely to depend on the degree to which they might be expected to have a material effect on the particular issue under investigation. Some aspects of our analysis and findings are unlikely to be affected by these events. For example, we would not expect there to be any material effect on the regulatory framework or the extent of barriers to entry and/or expansion.
  
63. In relation to other aspects of our investigation, the formation of Lafarge Tarmac and Hope Construction Materials might be expected to change the structure of markets, with potential implications for providers' competitive strategies and future market outcomes. In relation to these aspects of our investigation, we will look to form a view about the weight that is to be attached to the most recent evidence about the current operation of the market as well to evidence about how markets have operated in the past. It is likely that our understanding of the full implications of these very recent developments will evolve during the remainder of our investigation.

### ***Possible scenarios for how Lafarge Tarmac and Hope Construction Materials might compete following their formation***

64. As was recognized in the Anglo/Lafarge final report, it is unlikely to be possible to predict the full implications of these recent developments with certainty. The competitive conditions that result from these developments will depend on a variety

of factors that are difficult to predict, including the strategies of Lafarge Tarmac, Cemex, Hanson and Hope Construction Materials.

65. To inform our consideration of the impact of these two transactions, we have outlined below some possible scenarios as to how the two new operators in markets for construction materials (Lafarge Tarmac and Hope Construction Materials) might decide to compete following their formation. Given the relatively small scale of the aggregates operations of Hope Construction Materials and the current focus of our investigation, as set out in the Annotated Issues Statement, we have concentrated on assessing competition in the supply of cement, rather than aggregates or RMX.
66. Looking first at Lafarge Tarmac, we noted that its operations and employees are drawn from both Lafarge and Tarmac, that it will have a stronger market position in aggregates and that it may seek to exploit some synergies from the combination of these two businesses. However, we also noted that its market positions in cement and RMX are broadly similar to those of Lafarge and, consequently, we might expect, at least in the period following its formation, for Lafarge Tarmac to follow broadly similar competitive strategies to those pursued by Lafarge up to 2012.
67. In relation to Hope Construction Materials, we have no experience of its past competitive behaviour on which to form any expectation of its future strategy. We have reviewed MI's initial business plans on acquiring the business (see paragraphs 28 to 41), though we are also mindful that these plans may be subject to change in the light of experience as the new company's owners and management develop their view about the strengths and weaknesses of their operations and about their strategic options in the markets in which they participate.

68. One possible point of comparison might be with Tarmac prior to January 2013. Hope Construction Materials will be quite similar to Tarmac in terms of its market position in cement and RMX, but will have some additional cement capacity and a significantly smaller aggregates business. This could generate the following three scenarios:
- (a) Under one scenario, Hope Construction Materials might behave similarly to Tarmac prior to January 2013 but with additional cement capacity. Under this scenario it might seek to sell out its cement capacity, through both internal and external sales, but would act essentially as a taker of cement prices that were largely determined by the actions of the other three GB cement providers. Whilst Hope Construction Materials would act independently of the other three GB cement producers under this scenario, this may not be sufficient to undermine any potential attempts by other GB cement producers to coordinate, given the fact that Hope Construction Materials operates a single, fixed capacity plant.
  - (b) Under a second scenario Hope Construction Materials might pursue a more proactive competitive strategy than Tarmac did prior to 2012. This might involve, for example, vigorous price competition, widespread attempts to encourage customer switching or investment in new capacity. If this were to occur then this might undermine any potential attempts by other GB cement producers to coordinate.
  - (c) Conversely, under a third scenario, the cement market might become subject to some form of coordination involving Hope Construction Materials and other GB cement producers. This might involve Hope Construction Materials developing a shared understanding with other GB cement producers about their likely behaviour and might result in Hope Construction Materials producing at less than its available capacity. Under this scenario, any concerns about coordination that were based on evidence of the operation of the market up to January 2013 would be unlikely to be reduced and could increase.

69. At this stage, it is not possible to say which of these scenarios is likely to prevail. The strategies of the other Majors are likely to have an impact on how Hope Construction Materials itself seeks to compete in the markets under investigation. We expect that our understanding of the competitive strategy and impact of Hope Construction Materials and Lafarge Tarmac will continue to develop through the investigation.

**CC assessment of the impact of divestiture in Anglo/Lafarge investigation**

1. In the Anglo/Lafarge investigation, the CC considered whether the divestitures put forward by the JV partners would be effective in remedying the loss of competition arising from the proposed JV. In that investigation, while the CC compared the situation with remedies against the counterfactual (ie the pre-merger situation), the focus on the CC's assessment was on the effectiveness of the divestitures in addressing the SLC that it had found. As such, the CC did not conclude as to whether the new market structure following the formation of the proposed JV and implementation of the required divestitures might actually increase competition.

***Remedies to address unilateral effects in aggregates, asphalt and RMX markets***

2. The assessment of the various divestitures to address unilateral effects in aggregates, asphalt and RMX markets is in paragraphs 8.13 to 8.30 and 8.101 of the Anglo/Lafarge final report, which concluded that they would be effective in remedying all of the CC's SLC findings of unilateral effects in markets for aggregates, asphalt and RMX.

***Remedies to address coordinated effects in cement***

3. The consideration of the effectiveness of the divestiture of the Hope package (and specifically of the operations set out in paragraph 8 above) on the SLC finding of coordinated effects in cement is set out in paragraphs 8.102 to 8.145 of the Anglo/Lafarge final report and is summarized in paragraphs 4 to 10 below.
4. This CC's assessment in the Anglo/Lafarge final report considered whether the combined effect of the JV and the divestiture on the structure of cement and RMX markets would increase the susceptibility of the GB cement market to coordination. In

so doing, the Anglo/Lafarge final report considered the potential impact of these structural changes on the three conditions for coordination:

5. Looking first at the ability to reach and monitor coordination, the CC concluded that the divestiture would maintain the situation before the proposed JV in terms of the number of major UK cement producers. Similarly, as a result of the scale and geographic scope of the RMX operations to be divested, Lafarge Tarmac post-divestiture was unlikely to have materially different information from its RMX operations than Lafarge does today about the actions of other UK cement producers. The CC therefore concluded that allowing the JV to proceed subject to the divestiture was unlikely to make it materially easier to reach and/or monitor the terms of coordination in cement, whether such coordination was new or pre-existing.
6. Second, having reviewed various potential effects on the incentives of individual cement producers to deviate from coordination and/or to punish any deviation from coordination by others, the CC concluded that allowing the JV to proceed subject to the divestiture was unlikely to result in a material increase in the internal sustainability of coordination, whether such coordination was new or pre-existing.
7. Third, in relation to external sustainability, the CC noted that the divestiture would replace Tarmac with a competitor with different characteristics from Tarmac in terms of key competitive variables such as size of plant, prospects for future expansion and, to some degree, the extent of its vertical integration. Some of these factors—in particular the size of the cement plant—might increase, relative to Tarmac, the external constraint posed by the new competitor on any coordinating group. Other factors—including the absence of scope for plant expansion in the medium to long term—might reduce the strength of any such constraint.

8. The CC also noted a risk that the acquirer of the divested business might, at some stage, participate in a current or future coordinating group. The CC took the view that this risk had been substantially reduced by the design of the divestiture package, in particular, because the divestiture of a large volume of RMX capacity would ensure that a large proportion of the new company's cement output will be absorbed by its downstream RMX business. The CC took the view that, as with Tarmac prior to the JV, this should encourage the new company to operate its cement plant at a high level of capacity. The CC's oversight of the divestiture process, including scrutiny of potential purchasers, was also expected to reduce this risk.
  
9. In conclusion, based on its assessment of the impact of the divestiture on market structure and on the conditions for coordination, the CC took the view that the divestiture would address its key concerns about the impact of the JV (as originally proposed) on coordination in the UK bulk cement market. In particular, the divestiture would remove concerns that resulted from the reduction in the number of UK cement producers from four to three and from the increased similarity in terms of vertical integration, between the Lafarge Tarmac, Cemex and Hanson.
  
10. However, the CC acknowledged that the divestiture did involve some risks. Many of these would have arisen to some degree in any divestiture and the CC took the view that these were generally capable of being effectively managed through careful design and implementation. Against these risks was the fact that the divestiture package included a larger cement plant than the Tarmac plant that was being contributed to the JV. The CC concluded that this, combined with the strategic uncertainty associated with the entry of a new player into the UK cement market, had some potential to undermine coordinated behaviour.

11. The CC concluded that the divestiture was of sufficient scale and scope to effectively restore the essential characteristics of the market structure in cement and RMX before the proposed JV. The competitive conditions that would result from allowing the proposed JV to proceed subject to the divestiture would depend on a variety of factors that were difficult to predict with certainty. There are possible scenarios in which the divestiture might result in a more competitive situation than the counterfactual, and other possible scenarios in which it might result in a less competitive situation. On balance, the CC concluded that allowing the proposed JV to proceed subject to the divestiture was unlikely to result in a material change in the susceptibility of the UK bulk cement market to coordination relative to the counterfactual. Consequently, the CC concluded that the divestiture would be an effective remedy.