

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

Summary of hearing held with Hanson on 16 May 2012

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Background

1. In 2007, Hanson was acquired by HeidelbergCement (Heidelberg) in a transaction that was approved by the European Commission and other regulators. This acquisition had combined Heidelberg's existing business in the UK with Hanson's building materials and products business. It gave Heidelberg more exposure to the UK market and created a broad-based heavy building materials business. The breadth of the business allowed it to benefit from the prospect of stable earnings and cash flow, which allowed Heidelberg to finance growth elsewhere. The combined business had an approximate turnover in 2008 of [REDACTED].
2. Hanson thus only became vertically integrated in its true sense with cement, aggregates and concrete following the acquisition of Hanson by Heidelberg in 2007, as it could then supply aggregates, cement and ready-mix concrete (RMX) as part of its overall portfolio, cement production then coming into the Hanson business for the first time. Hanson's objective was to [REDACTED].
3. Hanson's aggregates, cement and ready-mix concrete (RMX) businesses were today each managed separately and had their own managing directors [REDACTED]. Each of the divisions [REDACTED]. They did [REDACTED].
4. External factors which had affected Hanson's businesses included energy and fuel cost increases, changes to the EU's Emissions Trading Scheme (ETS), and increased demand for sustainable construction materials and practices, an example of which was the requirements for supplying construction materials for the Olympics. Other external factors were changes to the planning regime and the economic recession. Hanson had reacted to these factors in a number of ways. It had reduced its UK workforce from [REDACTED] to [REDACTED] and sought to reduce other costs, both fixed and variable, in order to maintain its profitability.
5. Hanson's objective was to [REDACTED]. Hanson would work with [REDACTED].
6. There were many other businesses participating in the reference markets, ranging from large vertically integrated companies, sizeable independent operators, and smaller companies which might operate in one of the reference markets and have a number of other businesses, such as plant hire, and these pursued varying strategies depending on their size and business portfolio. During the economic downturn of the past few years, some of these businesses had prospered and some had struggled. Hanson noted that more businesses had so far survived the economic downturn than it might have anticipated and that the independent sector had grown. It considered that this was an indication that the market was fairly open and competitive and that there were no margin squeezes.
7. Hanson stated that the Tarmac/Lafarge joint venture (JV) and the remedies the Competition Commission had imposed would effectively result in two new players: first, it would create a new vertically integrated cement and RMX major, ie the

acquirer of the divested assets; and secondly, the Tarmac/Lafarge JV itself, which would merge two existing businesses, in which there were different cultures. Together, this would further contribute to a competitive atmosphere in the market for years to come.

8. Hanson worked to ensure that its product range and level of customer service met the needs of its customers, who were [REDACTED] sophisticated.
9. The recession occurred just after Heidelberg's acquisition of Hanson. As had been [REDACTED]. The scale of the recession [REDACTED] meant that Hanson had needed to focus on generating cash [REDACTED] Hanson had instead decided to cut costs. One way Hanson [REDACTED].
10. Hanson noted that the businesses most affected by the recession were [REDACTED] Hanson had done in [REDACTED]. Hanson did note that cement manufacturers were incentivized to maintain a certain level of production in order to obtain allowances from the EU's emissions trading scheme.
11. Being vertically integrated [REDACTED]. Hanson had adopted this strategy as a result of its acquisition by Heidelberg and the fact that it now had both cement and RMX production. Heidelberg's motivation in acquiring Hanson had been to acquire Hanson's aggregates business. [REDACTED]
12. Hanson supplied [REDACTED]. Where this was not the case, Hanson [REDACTED]. RMX plants [REDACTED].
13. Hanson regularly [REDACTED]. If Hanson [REDACTED]. Practically all of Hanson's [REDACTED]. Hanson had not [REDACTED].

Aggregates

14. Hanson had quarries in most parts of Great Britain, though it did not, for example, have any in Scotland (having sold its Scottish quarries in 2010) [REDACTED] high cost of haulage of aggregates from a quarry [REDACTED].
15. How Hanson priced [REDACTED]. It was important to note that Hanson Aggregates objectives were to meet internal aggregate demand and provide aggregates [REDACTED] to the external market [REDACTED].
16. Primary aggregates faced increased competition from recycled and secondary aggregates. The new national planning guidance required local planning authorities to take account of the availability of recycled and secondary aggregates when considering planning applications for the extraction of primary aggregates. Recycled and secondary aggregates also benefited from their exemption from the aggregates levy which was imposed on primary materials. Secondary aggregates also had the advantage of being by-products of other processes which meant that their producers were often willing to sell them relatively cheaply. All of the above factors meant that recycled and secondary aggregates were often cheaper than primary aggregates.
17. Recycled and secondary aggregates also competed with primary aggregates on aspects other than price. Increasingly, large construction projects were requiring the use of recycled aggregates. For example, the Olympics had a requirement that 25 per cent of aggregates used in the construction of venues were recycled. New technologies also allowed for recycled and secondary aggregates to be used in products such as pre-cast concrete, which would previously have required primary aggregates.

18. The quality of recycled aggregates had improved over the past few years, and this meant that they could now be used in higher quality finished products. Recycled and secondary aggregates' share of the total market had stabilized, possibly as a result of the recession. Recycled aggregates would always be used, [X], as their availability, and a consequent increased share of the market, was partly dependent on the number of buildings being demolished [X].
19. Any decisions to [X]. Hanson's aggregates [X].

Cement

20. Bagged and bulk cement were essentially the same product (although bagged cement was blended with fly ash) being sold to different market segments. Currently Hanson's bulk cement business was larger than its bagged business, though this had not always been the case. [X] Hanson faced slightly different competitors in the bagged and bulk markets. All of the domestic producers as well as Quinn Cement from Ireland competed in the bagged market. The domestic producers and a wider range of importers were involved in the bulk market.
21. Hanson normally [X] prices [X] Hanson sent price increase letters to its customers at the end of the year. These letters provided a starting point for negotiations, and separate negotiations with each customer then began. [X] Hanson [X] pricing [X].
22. Some customers ran closed-tender processes and would invite cement suppliers to bid to win a supply contract. [X]
23. It was [X] energy and fuel costs, increases in which [X].
24. Hanson was generally unaware of its competitors' suggested price increases [X].
25. Hanson [X] preferred to compete by keeping its costs low. [X]
26. The [X] costs [X]. Stopping and restarting cement production was expensive (heating a kiln could cost up to £[X]).
27. [X] fuel costs, [X] spikes [X].
28. Hanson had [X] agreements with Tarmac for the supply of granulated blast furnace slag (GBS) derived from blast furnace waste material, which Tarmac obtained from Tata Steel. These agreements meant that Hanson was the exclusive supplier of UK-produced ground granulated blast furnace slag (GGBS) for cementitious purposes. All other GGBS sold in the UK was imported. [X] Hanson had also imported GBS into its Purfleet mill from Northern Europe.
29. Cement imports had grown in the past few years despite the recession from 5 to 6 per cent of the market to 12 to 13 per cent. This growth had been facilitated by the fact that it was reasonably easy to set up an import terminal. There had been significant increases in imports from Greece, Spain and Ireland as these countries' economies had struggled. Hanson confirmed that it faced significant competition from importers, and had lost business to importers [X] imports constrained cement prices in Great Britain.
30. The introduction of Phase 3 of the ETS [X]. Due to the reduction in the size of allowances from Phase 2, carbon dioxide (CO₂) had become a significant variable cost. Also, the requirement that individual plants must operate at least 50 per cent of capacity in order to retain their CO₂ allowance [X].

31. Hanson suggested that the need for plants to maintain 50 per cent production under Phase 3 would lead to excess production and an increase in cement imports from elsewhere in Europe to Great Britain. The 50 per cent requirement also meant that cement producers would be incentivized to keep more plants running at sub-optimal levels rather than running fewer plants more efficiently. The cost of CO₂ fluctuated [REDACTED].
32. Hanson did not know its competitors' strategies, but from what it could observe it appeared that such competitors differed from Hanson's own strategy of reducing costs [REDACTED]. Tarmac had built a new cement plant, increased output and appeared to be prioritizing maintaining a high level of production. [REDACTED]
33. Hanson stated that the Tarmac/Lafarge JV would not lead to a closer alignment of interests among cement producers. Instead, the remedies would effectively result in two new players in the market: first, it would create a new entrant through the new vertically integrated acquirer of the divested assets, which would be a very significant operator; and the Tarmac/Lafarge JV itself, which merged two existing businesses, both with very different cultures.

Ready-mix concrete

34. Hanson [REDACTED] produced RMX [REDACTED] Hanson's Building Products division did produce pre-cast concrete products). [REDACTED] It was [REDACTED].
35. Hanson's RMX business was very local in nature. This was because of the limited radius from an RMX plant that mixed concrete could be delivered before it began to set. The need to deliver quickly meant that markets in urban areas, with more congested traffic, tended to be geographically smaller than markets in rural areas, which had more open roads. However, urban areas, with their higher populations, generated more demand for RMX than rural areas, so [REDACTED] Hanson usually found itself in competition against [REDACTED] other RMX producers, including volumetric truck operators. It regarded RMX markets as being highly competitive.
36. The number of independent RMX producers had not grown in recent years, but their share of the overall market had. Independent producers had won their increased share by focusing on smaller, or domestic, orders, as most of them did not have the capacity to handle large orders. Because of the economic downturn, there were fewer large projects available for larger RMX producers to supply, and smaller operators had won a greater share of the remaining market Small- and medium-sized independents could also be more flexible than larger operators, and larger operators sometimes lost business to independents that chose to be more aggressive and chase volumes.
37. Volumetric truck operators were aggressive competitors to Hanson's local RMX business. At the national level, Hanson viewed volumetric operators [REDACTED].
38. Most of Hanson's RMX sales [REDACTED].
39. [REDACTED]
40. Hanson's RMX business [REDACTED].
41. It was difficult to speculate as to how the new vertically integrated major created by the new Tarmac/Lafarge JV remedies might affect the markets, but it would seem most likely that they would become more competitive. The new major created by the required divestment remedies would certainly be large enough to exert a major

influence on competition, as the divested unit of assets would constitute a bundle of cement plants and more than 170 RMX plants combined in one remedy package. The more than 170 concrete plants covered by the remedies would lead to major changes in the market in the form of new supply lines for aggregates and cement to these sites. This would include opportunities for independent aggregates and cement producers to supply those sites.