

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of response hearing with Brett Group held on 1 July 2013

Provisional findings response

1. Brett Group's view was that the Competition Commission's (CC's) provisional findings had correctly identified where the issues about competition were, specifically in relation to cement.
2. Brett Group had not noticed any change in the operation of the market or the operation of any of the companies it dealt with (to include negotiations) further to the Lafarge Tarmac (LT) joint venture and the entry of Hope Cement Materials/Mittal Investments (HCM). However, these were recent developments which might not have affected the market yet.
3. Brett continued to source its cement from LT, with which it had a long-term relationship, however, following the divestment of LT's Hope cement plant to HCM, LT now supplied Brett Group with cement from its Tunstead plant. This transition had been relatively smooth although some quality issues had arisen. Brett Group placed a lot of store in long-term relationships and would not suddenly switch to a new entrant until it had assessed its credibility, people, long-term position and its interest in Brett Group as a long-term customer. [REDACTED]
4. CRH's stronger presence in the Great Britain market had not affected Brett Group as of yet. [REDACTED] Brett Group considered CRH a very credible organization [REDACTED].
5. Brett Group's key market for aggregates and ready-mix concrete (RMX) was the South-East of England. It had had a slow start to the year and believed the construction sector to be bumping along the bottom. However, it had seen increased stability in terms of demand and volumes this year.

Divestiture of cement production capacity by one or more of the Top 3 cement producers

6. Brett Group supported a decoupling of cement from both RMX and other integrated manufacturing operations. There was little value in the creation of another cementer with some integrated RMX. It would be preferable to divest a stand-alone cement plant or a cement plant with a low level of integrated capacity as this would create a cement producer with an interest in selling beyond its own operations.
7. Up to now, out of the four incumbent cement producers only Lafarge had really shown a consistent interest over a sustained period in supplying Brett. This was because Lafarge produced more cement than it could sell through its own RMX operations.
8. By itself Brett Group did not have the financial resources to acquire a divested cement plant. It might consider doing so as part of a joint venture, but it would need to ensure it had the right expertise to manage a cement-producing operation and the plant's location would need to align with Brett's other construction materials interests.

9. As Brett Group was not familiar with the location, dynamics, reserves or cost bases of the various Great Britain cement plants, it was unable to assess which was the most attractive divestment. It noted that planning consent had been granted for a cement plant in the Medway in Kent. [REDACTED]
10. Brett Group hoped that any divested cement plants would be acquired by companies it considered 'credible' as cement plants were large operations and customers needed them to be operated reliably, so any company running one would need a good track record. [REDACTED]
11. The two most interesting dynamics were (a) the number of players; and (b) their willingness and interest in supplying Brett Group. The current number of cement producers could address the AEC. The fact that they were so vertically integrated meant that they were generally less interested in supplying Brett. [REDACTED]
12. Brett Group was concerned to read in the provisional findings that Lafarge Tarmac was the prime divestiture candidate [REDACTED] current supply arrangements with LT. Requiring LT to divest cement production capacity could mean that it would be more interested in supplying its own RMX business and less interested in supplying companies like Brett. The concept of three or four barely interested cementers worried Brett Group. [REDACTED]

Divestiture of RMX plants by one or more of the Top 3 cement producers

13. The more cement a cementer had to sell on the open market, the better [REDACTED]. As cementers became more vertically integrated, they were less interested in supplying independents. [REDACTED]. An RMX divestiture would have the effect of incentivizing Cemex and Hanson to be more interested in supplying independents.
14. Brett Group would be interested in acquiring a number of divested RMX plants subject to having the necessary management capacity and the location of the plants being divested in relation to its aggregates facilities and the addressable market. [REDACTED]. In this way, if Brett could purchase cement competitively, it could add value to [REDACTED] its [REDACTED] aggregates.

Creation of a cement buying group or groups

15. Brett Group's understanding was that this remedy was intended to result in increased buyer power in the cement market. However, it took a long-term perspective about building knowledge, relationships, contacts and long-term strategy in order to leverage the best cement prices for itself. [REDACTED]
16. Brett Group [REDACTED]. It wanted control over the type of cement it purchased which was driven by a range of criteria including customer specifications. It needed discretion over who it dealt with. Overall, Brett Group was not in favour of this remedy.

Prohibition on Great Britain cement producers sending generalized cement price announcement letters to their customers

17. Brett Group explained that generalized cement price increase announcement letters assisted it when negotiating contract prices with its customers, where some supply agreements lasted in excess of 12 months. These letters enabled Brett Group to revert to its customers and negotiate price increases.

18. As a purchaser of cement, Brett Group did not put much credence behind the proposed price increases in cementers price announcement letters, and it negotiated directly (face to face) with cementers.
19. Brett Group did not recognize the problems identified by the CC in connection with sending generalized cement price announcement letters. It found them helpful for the professional procurement manager and it expected to be written to by suppliers with regard to prices going forward. It would not present any problems if suppliers wrote to Brett Group in more personal terms.

Market data remedies

20. Brett Group made use of cement data and considered it an important part of its knowledge from a procurement perspective [X]. Whether cement volumes were up or down were important signals and it could get this from Mineral Products Association (MPA)/Department for Business, Innovation and Skills data. However, it was unable to assess which firms had lost volume from the data. Nevertheless, it could determine this anecdotally.
21. Brett Group gained competitive leverage from the data when added to other market intelligence including various market studies which it used to review the market and kept its ear to the ground regarding market developments.
22. If MPA data was available after a lag of three months, that would not fundamentally affect the value derived from the data although there was a point where it became historic. The sooner it could obtain the data, the greater the advantage.
23. Brett Group did not make use of EU Emissions Trading System data and was not familiar with it.

Structural measures to address the AEC in relation to GGBS/GBS production in Great Britain

24. Brett Group imported ground granulated blast furnace slag (GGBS) for its own consumption. The fact that there was a monopoly in the domestic supply of GGBS in Great Britain was a reason for importing GGBS although another was [X]. Having the terminal allowed Brett to import GGBS. [X]
25. GGBS was very well known as a cement replacement in Great Britain. Brett Group had been buying GGBS since the 1980s. It preferred GGBS over pulverized fly/fuel ash (PFA) as: (a) PFA supply into the South-East could be limited, and (b) it worked better in its RMX plants as PFA had different handling characteristics. In addition, GGBS concrete was well known and accepted by customers in the South-East, outside of London.
26. Brett Group would prefer to deal with a number of competing suppliers of GGBS within Great Britain. It considered that the domestic monopoly in GGBS allowed its supplier to sell GGBS at a price which, while below that of CEM I, tracked the CEM I price in order to ensure that GGBS sales volumes were maintained.

Other possible remedies and relevant customer benefits

27. Brett Group did not see any merit in the third party competitive tender process remedy.

28. Brett Group did not see how the information barriers remedy could be implemented practically. It would be preferable to reduce the number of RMX plants owned by cement producers.

29. [✂]

Other issues

30. Brett Group considered latent cement production capacity to be only one step away from being current capacity and so it was necessary to consider latent capacity when assessing the supply/demand balance in the market.