Aggregates market study launch – Q&As August 2010

1. What is the purpose of this market study?

The aim of this study is to understand how the aggregates market works and to look at the relationship between how the planning system operates, especially the system of nationally managed aggregates supply, and competition, investment and prices. We will consider whether there are any distortions of competition, especially at the local level and barriers to entry within the sector both for primary and secondary aggregates.

The study will examine:

- the extent of competition between different aggregates producers and whether increasing concentration and integration of operations may affect competition at the local level

- how the planning system, in determining the supply of aggregates at a local and national level, and competitive forces interact and affect services and value for money provided to customers

- barriers to entry and how these differ depending on whether competition is for land based aggregates, marine based aggregates or secondary aggregates.

2. What has prompted this study?

During the course of our mergers work, we have received a number of representations from different parties raising possible issues in the aggregates sector. Although in launching this study we are not responding to any specific complaint, the issues raised have prompted this look at the state of competition in the aggregates sector and the way that planning of the supply of natural resources may impact on competition.

Aggregates is an important sector in its own right but it is also part of the larger construction industry which plays a key role in the UK's economy. As such, the cost of aggregates is reflected in the price consumers, and tax payers, pay for essential infrastructure, from housing through to roads and major capital building projects.

3. What are aggregates?

The term 'aggregates' can refer to any granular material formed from a natural rock substance. It is usually further defined either:

- by its source: primary, secondary, recycled
- by its geology: limestone, granite, sand and gravel, etc
- by its grading: coarse, fine
- by its end use: concrete aggregates, etc.

The source of aggregates can be categorised as follows:

- primary aggregates which account for 75 per cent of the total market and include crushed rock, sand and gravel

- secondary aggregates – account for 25 per cent of the total market and include:

  - by-products of other mining activities such as china clay waste and slate waste

  - by-products of industrial processes such as ash

  - recycled aggregates including construction and demolition waste.

Aggregates are used for many things including the construction of homes and roads. Around 90 per cent of aggregates are used for construction, much of it for making products such as ready-mixed concrete, concrete products, mortar and asphalt. Aggregates are also used as base material under foundations, roads, and railways and so on.

4. How is this different to cement and concrete?

Aggregates are used as an input in the manufacture of cement and concrete. Around six per cent of aggregates production, mainly limestone, is used in the manufacture of cement. Concrete is a composite material consisting of aggregates (gravel and sand), cement, and water.

The largest aggregates suppliers in the UK also supply cement and concrete products. The supply of cement and concrete are not the direct focus of the market study.

5. How much is the aggregates market worth annually?

Aggregates is a large market with turnover in 2008 of £4.8bn. Given the extensive use in construction, sales of aggregates have been badly hit by the recession with the latest results from trade body the Mineral Products Association indicating that the two year (2008, 2009) decline in aggregates sales volumes will be around 40 per cent. Nevertheless, aggregates remain a sizeable market. The industry supports many downstream industries. In particular, it feeds essential materials to the construction sector, which makes a £100 billion contribution to the economy.

6. What is the planning system which controls annual aggregate extraction?

Mineral extraction is determined at a local or regional level by Mineral Planning Authorities (MPAs). MPAs comprise county councils, National Park authorities and some unitary authorities. In Greater London and the Metropolitan Areas, MPAs are respectively, the London Borough councils and the Metropolitan district councils.

In addition, the Regional Aggregates Working Parties (RAWPs) were set up in the mid 1970s in England and Wales with the role of getting agreement between industry and the MPAs about supply, reserves and landbanks to benefit planning.

The RAWPs carry out an annual monitoring of aggregates production, and every fourth year they carry out an expanded survey to assess aggregates demand and levels of consumption. They issue annual monitoring reports showing the balance of supply and demand in each region.

Each RAWP is made up of members from the mineral planning authorities, Regional Assemblies as well as members of the aggregates industry. There are nine RAWPs in England and two RAWPs in Wales.

7. Have we looked at this market before?

The OFT has reviewed a number of mergers in this sector since 2004

There have been five mergers reviewed by the OFT since 2004 as outlined below. Four of these were cleared (one after undertakings in lieu of reference were accepted) with another one being cleared only for the aggregates part of the two companies) and a fifth one was referred to the Competition Commission but was subsequently abandoned.

Year	Acquirer	Target	Outcome
2009	Aggregate Industries Limited	Atlantic Aggregates Ltd	Divestment remedy
2006	Aggregate Industries Limited	Foster Yeoman Ltd	Clearance for aggregates
2005	Ennstone plc	Johnston Group plc	Clearance
2004	Midland Quarry Products Limited	Hanson Quarry Products Europe Ltd	Clearance
2004	Anglo American plc	Johnston Group plc	Abandoned after reference to CC

8. What is our timetable for this market study?

The initial phase of this project is expected to last four months, during which time we will gather and assess evidence from interested parties. The final duration and scope of the project will depend on the outcome of the initial phase. The market study is expected to be completed by July 2011.

9. What is the geographical focus of this market study?

The study concerns the aggregates sector across the UK and will take into account the different planning regimes applying to England, Wales, Scotland and Northern Ireland.

10. Who will we be speaking to during the market study?

We have spoken with relevant government departments prior to launching the project, and will continue to engage with them during the course of our work.

We are keen to speak with private market participants and trade bodies to clarify our understanding of the issues in the aggregates sector. We will be approaching some firms and industry representatives directly. We would encourage any interested parties who want to contribute to the market study to contact us - see details below:

aggregates@oft.gsi.gov.uk

or by post to;

Aggregates Market Study,

Office of Fair Trading,

Level 2C,

Fleetbank House, 2-6 Salisbury Square,

London EC4Y 8JX.

11. What are the possible outcomes?

Possible outcomes of the market study include:

- enforcement action
- a reference of the market to the Competition Commission
- recommendations for changes in laws and regulations
- recommendations to regulators
- recommendations to self-regulatory bodies and others to consider changes to their rules
- a clean bill of health.

12. What statutory powers do we have to undertake this study?

OFT market studies are carried out under section 5 of the Enterprise Act 2002 which allows a market-wide consideration of both competition and consumer issues.