

***Case No IV/M.1423 -  
CRH / IBSTOCK***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89  
MERGER PROCEDURE**

---

Article 6(1)(b) NON-OPPOSITION  
Date: 01/03/1999

*Also available in the CELEX database  
Document No 399M1423*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 01.03.1999

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

**Subject: Case No IV/M.1423 - CRH / Ibstock  
Notification of 18.12.1998 pursuant to Article 4 of Council Regulation  
No 4064/89**

1. On 26.01.1999, the Commission received a notification of a proposed concentration pursuant to Article 4 of the Council Regulation N° 4064 /89 by which the undertaking CRH acquires sole control of the company Ibstock by way of public bid announced on 21.12.1998.

**I. THE PARTIES**

2. CRH plc, based in Ireland, is an international group mainly active in the manufacture and supply of a wide range of building materials (such as cement, asphalt and ready-mixed concrete) and building products (such as pre-cast concrete building products, clay bricks and pavers, clay tiles and insulation products). It has leading positions in the Irish cement and lime markets and important positions in clay bricks in Ireland, US, Netherlands and Germany. It is the fourth world-wide producer of building materials.
3. Ibstock plc, based in UK, is engaged in the manufacturing and supply of building products, such as clay bricks and pavers, clay roof tiles, clay blocks, precast concrete products and ceramic sanitaryware.

## II. THE OPERATION

4. The concentration involves the acquisition of sole control of Ibstock by CRH by way of public bid under the London Stock Exchange rules. The operation was carried out through a “shut out” bid launched on 21.12.1998 resulted in CRH buying a 50.7 % stake of the issued share capital of Ibstock, under the condition to launch immediately a bid for the remaining capital. On 14.01.1999 CRH, after conclusion of the second bid, had acquired 80.5 % of the Ibstock capital.
5. The notified operation constitutes a concentration under Article 3(1)(b) of the Merger Regulation.

## III. COMMUNITY DIMENSION

6. The aggregate world-wide turnover of the undertakings concerned exceeds EURO 5,000 million (EURO 5.163,8 million for the CRH group and EURO 432,9 million for the Ibstock group). Each of the parties has a Community-wide turnover in excess of EURO 250 million (EURO 2.367,7 million for CRH and EURO 298,2 million for Ibstock). They do not achieve more than two thirds of their aggregate turnover within one and the same Member State. The notified operation has therefore a Community dimension in accordance with Article 1(2) of the Merger Regulation.

## IV. THE RELEVANT MARKET

### *a) The relevant product market*

7. The proposed concentration concerns the markets for the supply of bricks.
8. Bricks are used for the construction of buildings, both in housing and in the commercial and industrial sectors, in exterior and interior walls as well as in foundations and engineering works. These different applications correspond to the categories of bricks previously identified by the Commission in the context of a decision pursuant to Article 85<sup>1</sup>, namely facing bricks, common bricks and engineering bricks. The parties sustain that common bricks have been mostly replaced by concrete products, at least in the relevant geographic markets analysed below, and accordingly these three categories could be reduced to only two large segments, namely those of facing and engineering bricks.
9. *Facing bricks* are used mainly to build up the visible walls of a building. They are made either through a process of extruding and wire-cutting mechanism or by pressing process and are characterised by their aesthetic appearance, durability and consistency. *Engineering bricks* are specially used in building foundations and for engineering works. The manufacturing process is the same as for wire-cutting facing bricks and accordingly they are characterised by lower water absorption and higher strength while aesthetic requirements are not necessary.
10. The majority of bricks, both facing and engineering, are made of clay. However, concrete manufacturers produce concrete bricks with engineering qualities which can easily compete with clay products

---

<sup>1</sup> Commission's decision of 29 April 1994 relating to a proceeding under Article 85 of the EC Treaty (IV/34.456 Stichting Baksteen). OJ L 131.

11. The parties sustain that both facing and engineering bricks are substitutable from the supply side. Manufacturers are able to produce both types of bricks in the same industrial plant and can switch production according to requirements of demand. Nevertheless, the appropriate clay mixture to produce both types of bricks is different. Only 37% of British bricks are made from raw materials suitable for the production of engineering quality bricks.
12. It is also submitted by the parties that, from the demand side, both types of bricks are also substitutable. This has not been confirmed by the Commission investigation. Even if some types of engineering bricks could be used as facing ones, most end users consider that both types of bricks are not substitutable both due to price differences and to aesthetics and architectural characteristics.
13. There is no need, however, to conclude whether facing bricks and engineering bricks are substitutable from a supply as well as from a demand point of view. Under both assumptions, the concentration would not create or strengthen a dominant position.

***b) Relevant Geographic Market.***

14. According to previous analysis made by the Commission<sup>2</sup>, the relevant geographic market for facing bricks should be of a national or cross-border scope. Indeed, most brick manufacturers appear to operate on a national basis, with a regular spread of their plants, in order to be able to deliver the bricks at the lowest transportation cost.
15. According to the parties, however, in the present case the relevant market should cover at least GB and Ireland (including Northern Ireland). The parties' main argument is that there is a substantial level of imports of bricks from GB to Ireland. In 1997 they represented more than 40% of the total sales of brick in Ireland. Imports have been increasing steadily since 1991 and, even if imports have accelerated by the construction boom in Ireland, they cannot be considered as a transitory phenomenon. Imports from the continent to GB or Ireland are, on the contrary, insignificant (less than 3% of total sales in GB).
16. The investigation carried out by the Commission leads to the view that although national markets still appear to constitute relevant geographic markets for facing bricks, in certain areas, a wider dimension of the market is possible. Indeed, even if transport costs represent an important percentage of the final price, they may still allow for some cross-border trade flows to take place. This appears to be the case as exports from GB to Ireland are concerned.
17. This conclusion, however, would not be applicable as far as engineering bricks would be considered as a separate market. Indeed, most imports to Ireland correspond to facing bricks. Only one major producer of engineering bricks established in GB, Marshalls, exports engineering bricks to Ireland and these exports represent only around 3% of total Irish market. This can be explained by differences in price between the two different types of bricks.

---

<sup>2</sup> Commission's decision in case IV/M.755-Creditanstalt/Koramic/Wienerberger.

18. There is no need to define the markets more precisely in the present case, however, because, either considering GB and Ireland as a single market or as two separated ones, the concentration would not create or strengthen a dominant position.

## **V. COMPATIBILITY WITH THE COMMON MARKET**

### **Structure of the market**

#### *Facing and engineering bricks as a single market*

19. Should the geographical market for supply of bricks include GB and Ireland, it would be dominated by two large players of almost the same size, Hanson, with [...] and Ibstock, with [between 25-30%] (based on volume of bricks sold). CRH is only present in Ireland, and its share of the total GB and Ireland market would be very small, less than [...]. The market share of the new entity in the whole GB and Irish market would, therefore, be around [between 25-30%]. There are several remaining competitors with less than 10% market share, such as, Baggeridge, Cheelwood, Ambion and Marshalls. As a whole, the level of concentration would be high.
20. If the GB market were considered independently as a separate market, the picture would be very similar. Hanson, with [...] and Ibstock, with [between 25-30%] would be the two main producers, followed by the same players mentioned before. The level of concentration would be slightly higher. In this market, however, there would almost be no overlap between CRH and Ibstock. Indeed, CRH sales in GB are almost insignificant, below [...].
21. If the Irish market were considered independently as a separate market, the concentration would lead to the creation of the first supplier of bricks with a market share of [between 20-30%] ([...] for CRH and [...] for Ibstock). Several other important players established in Ireland with market shares around 15% would remain, such as Tyrone or Kingscourt. In addition, as explained, imports from GB are substantial: Hanson holds around 18% of the Irish market and there are two other importers with around 5%. The level of concentration would be substantially lower than in the previous markets analysed.
22. At the distribution level, CRH owns a brick's merchant, Keyline, which operates in GB and holds a market share in this distribution segment of around [...]. Ibstock owns no merchant activities in GB.

### Facing and engineering bricks as two separate markets

23. Should facing and engineering bricks be considered as two different relevant markets, for the facing bricks market the structure would remain approximately the same as for the brick market taken as a whole. Engineering bricks, in fact, represent a very minor share of the total brick market.
24. As to engineering bricks taken separately, market shares of CRH/Ibstock would not change much, but the position of their competitors would. Indeed, both in the aggregated market of GB and Ireland as in the GB market, Marshalls would become one of the two largest producers, together with CRH/Ibstock, with a market share of around [between 25-30%]. All the remaining players would have small market shares, below 5%.
25. The structure of the Irish market taken separately would also be completely different. The main producer would become Tyrone [...], followed by CRH [10-15%] and Kingscourt [...]. The only producer established in GB present in this market is Marshalls [...]. In this market there would no overlap at all between CRH and Ibstock.

### **Conditions of competition**

26. Bricks manufacturers distribute their products through three main channels: merchants, factors and direct sales to builders. The shares of each of these channels are estimated at around 50%, 35% and 15% respectively in GB while in Ireland the two first channels account for 60% and direct sales to builders for 40%.
27. Prices are always set on a delivered zone basis. In other words, prices include the cost of transport but do not change if the delivery is made within a certain zone. This feature increases the comparability of prices between different suppliers and, therefore, enhances market transparency.
28. The total market for bricks in GB and Ireland has seen a decline in recent years. From 4.825 million bricks sold in 1988 it went down to 3.212 in 1997. Only in Ireland there has been a slight increase, from 105 million bricks sold in 1988 to 160 millions in 1997. This has created both an important stock of unsold bricks (estimated at 31% of annual sales by the parties) and an important over-capacity in the industry (estimated at 33% of annual sales by the parties). In the last three years, however, prices have remained stable in nominal terms.

### **Obstacles to potential competition**

29. Ex novo entry in GB and Ireland is unlikely. While barriers to establish a production site are not important and technology and know-how is easy to acquire, there are no major clay reserves unexplored and no research is underway to find new raw materials. Moreover, excess capacity could also act as a strategic deterrent to new entry.
30. This is consistent by the fact that in the last five years there have been no new entrants into the brick manufacturing sector in GB and Ireland. Some foreign producers attempted to enter in the late 80's but were subsequently acquired by incumbents. Any new company appearing afterwards has been the result of restructuring of existing players.

## **Effects of the operation**

31. Under any of the possible product market definitions, both GB and Ireland as aggregate and GB independently are concentrated markets with a duopolistic structure. Indeed, two players with very similar market shares cover around 60% of the market while the remaining shares are distributed between much minor operators. This structure, together with some of the conditions of competition in the market, such as price stability, price transparency through delivered prices or excess capacity could indicate a likelihood of co-ordination between the operators.
32. However, in any case, the concentration would not increase the likelihood of such co-ordination. Indeed, both in the GB and Ireland markets as aggregate and in the GB market independently the operation leads to an almost insignificant increase in brick supply market shares for the new entity. Moreover, at a vertical level, there is no overlap at all in merchant activities and the low market share held by Keyline, the merchant owned by CRH, excludes any risk of foreclosure.
33. Should the Irish market be considered independently, either for bricks taken as a whole or for facing bricks, the entity resulting from the operation would become the leading supplier, but with a market share below 25%. It would face substantial competitive constraints from other players established in Ireland but particularly from imports from GB, which already represent a substantial share of the market. The characteristics of the GB market analysed before ensure that such competitive constraints would remain. As to the market for engineering bricks, the operation would not lead to any overlap of market shares in Ireland, where the market leader is Tyrone, with a share of almost 70%.
34. As a conclusion, under any of the possible definitions of the geographic market, the operation does not lead to the creation or strengthening of a dominant position.

## **VI. CONCLUSION**

35. In the light of the above information, the proposed concentration does not raise serious doubts as to its compatibility with the common market. The Commission therefore has decided not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA agreement. This decision is adopted in application of Article 6(1) b of the Council Regulation No 4064/89.

For the Commission,