



FEDERAL ANTIMONOPOLY SERVICE

**Antimonopoly regulation in industry of
construction materials by example of cement
and non-metallic construction materials
markets**

Moscow, 2016



Cement market

Product boundaries of market

Cement market is a single commodity market

- Repair and construction services, production of precast units and structures, ready mix, asbestos-cement units is a field of use of almost all cement types;
- Types and brands of cement are interchangeable for a single task;
- Technological procedure of production is almost the same, the same manufacturer can fairly quickly vary product composition in a wide range;
- Technological conditions of cement production are listed in the relevant GOST State Standards of the Russian Federation;
- Technological possibilities to redirect one brand to another are listed in the GOST State Standards and regulatory documents.

Geographical boundaries of market

Geographical boundaries

- The Central Federal District
- The North-Western Federal District
- The Volga Federal District
- The Southern Federal District
- The North Caucasian Federal District
- The Ural Federal District

➤ The Far Eastern Federal District

➤ The Siberian Federal District

➤ The Crimean Federal District

Regional markets (example: deliveries of goods to the Northern Territories of Russia)

Geographical boundaries of market

Definition of boundaries – comparison of final costs of cement of different manufacturers for a single consumer. The administrative center of the region shall be taken as the market of relevant subject of the Russian Federation

Expansion of geographical boundaries of market is achieved by:

- Transportation costs that lead to price fluctuations by 10-15% - **insignificant**;
- Railway cars of OJSC RZD of hopper cement cars type – **the cheapest**;
- Calculation of railway rates – one car in dispatch with route adjustment with a factor of 0,9 (**maximum discount - 10%**)

Geographical boundaries of market

Increase in the cost of railroad transportation of cement

Over the last 5 years, cement transportation volumes decreased from 67% to 45%

Reduction of geographical boundaries of market

Increase in concentration



no



Price increase

Increase in internal movement of products

Increase in import

Excess product supply, capacities surplus

Competition in the market

Development of the cement industry for the period between 2006 and 2015:

- Input of capacities **+37 million tons** (108 million tons);
- With fraction of **«dry»** process increase from **17% to 40%**;
- Investments in industry reached **\$12 billion**;
- Specific fuel consumption and specific energy consumption decreased - **savings** stood at **\$650 million** и **\$100 million**;
- Labor efficiency increased **2 times** and was **2,7** thousand tons per capita

Article 10, paragraph 1 (1) of the Law «On Protection of Competition»: Establishment of monopolistically high price

The acquisition of 6 plants in the central part of Russia (company share in the market is 55%)

Rise in cement prices 50%-70%

Rise in prices of the majority of competitors to the level of the EUROCEMENT Group

Competition authority has conducted:

Factor costs analysis

Rise in prices do not depend on cost development

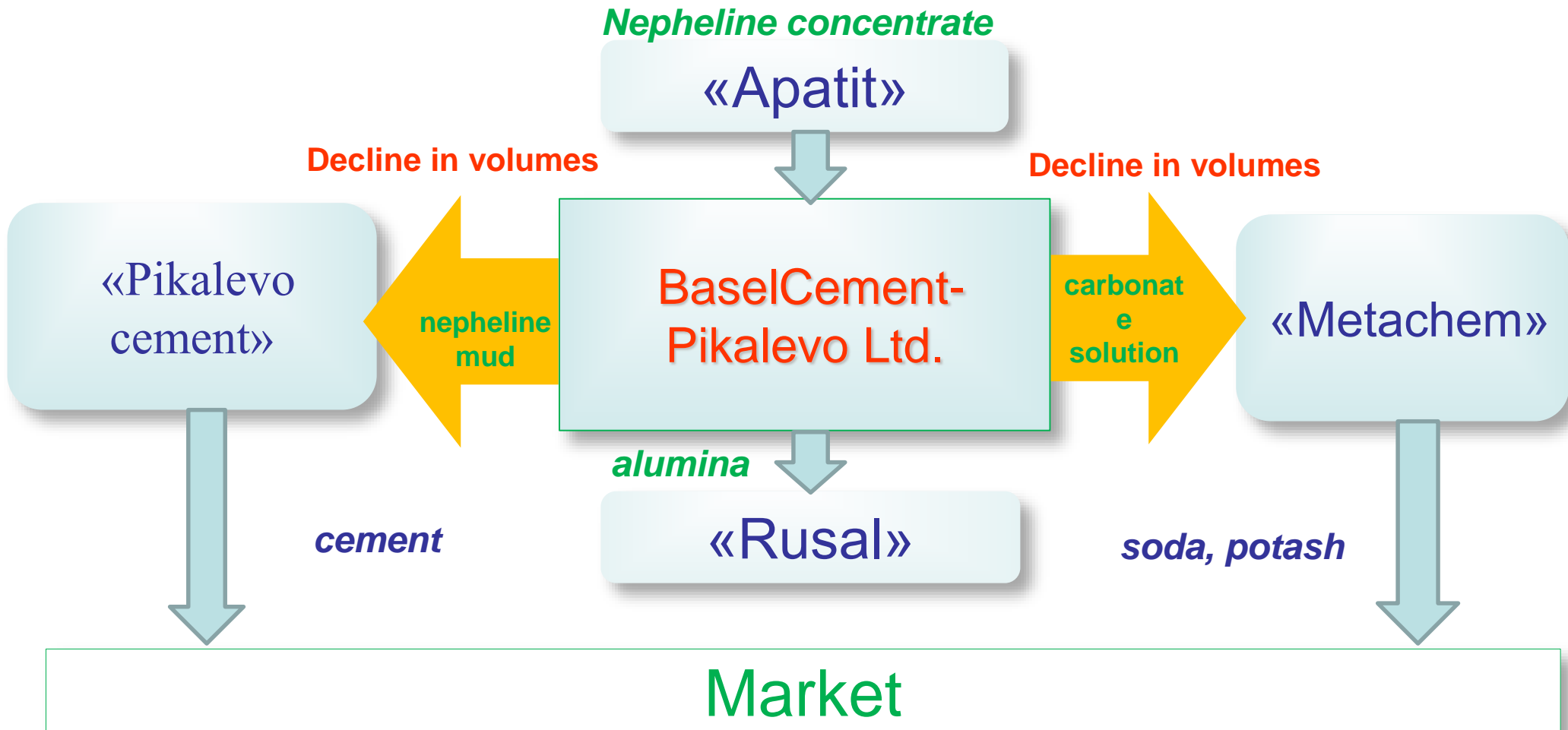
Comparative analysis of actual prices of company and those that could be present under competitive conditions

Excessively high prices

The EUROCEMENT Group has violated the antimonopoly legislation

The order to transfer illegally obtained income of **1914,7 million RUB** to the budget was issued.

Technical plan of manufacturing complex in Pikalevo



The case against The BaselCement-Pikalevo Ltd.

Article 10 paragraph 1 (9) of the Law «On Protection of Competition»: creation of barriers to entry into the goods market or leaving from the goods market for the other economic entities

Closure of the BCP plant to transform into production of cement

Reduction or failure to supply to the Pikalevo Cement and Metachem

Plant work stoppage

Competition authority set up that:

3 enterprises have the same location and are functioning as the joint technical complex

«BCP» dominates within the location (share of 100%)

«BCP» do not supply although operating long-term contract is in place

«BCP» has violated the antimonopoly legislation

The order to either resume supply or sell the property complex was issued.

Article 16 paragraph 4 (3) of the Law «On Protection of Competition»: division of the goods market according to the territorial principle, restriction of entry into a goods market

Irkutsk Region

Cement supply outside the region - 65%

Complaint concerning the Irkutsk Region Administration improper actions by limitation of cement supply outside the region

Extraordinary inspection

Initiation of proceedings

Competition authority set up:

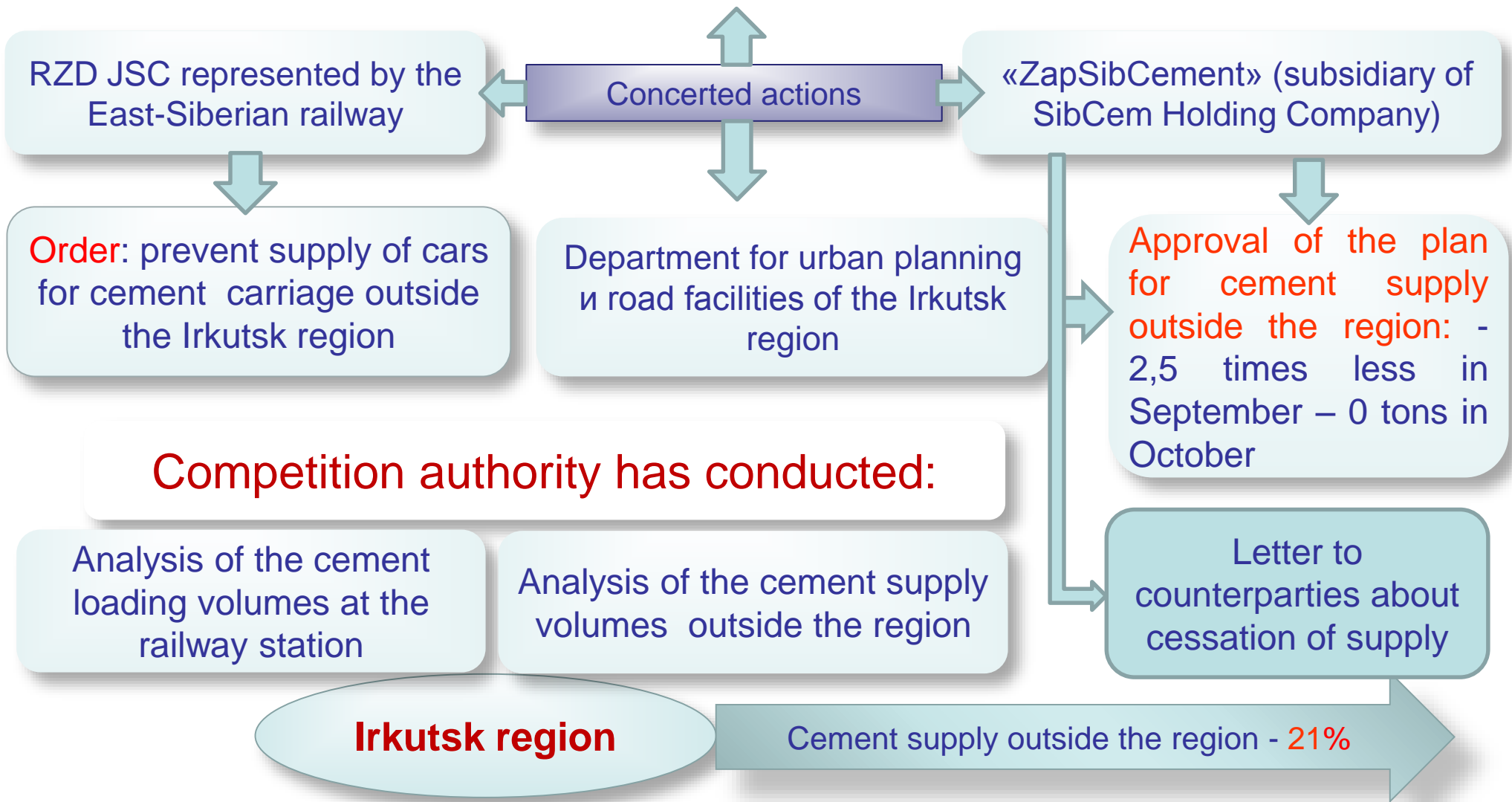
Irkutsk Region Administration

agreement on social and economic cooperation

Siberian Cement Holding Company

Goal – supply outside the region of unclaimed cement only

The case against authorities of the Irkutsk Region and some of the business entities (2)



Result – restriction to supply is lifted

The case against JSK «Bakhchisaray combine «Stroyindustriya»

Article 10 paragraph 1(1) of the Law “On Protection of Competition”: establishment of monopolistically high price

Extraordinary field
inspection



Prices between April and May 2014 for different types of
cement rose by 45%

Competition authority set up:

Geographic boundaries of market -
Crimean Federal District

«Stroyindustriya» gains a dominating position
(share > 88%)

Competition authority has conducted:

Factor costs analysis



Rise in prices do not depend on cost
development

Comparative analysis of actual prices of company and
those of other Russian manufacturers



Price excess of 68%
(depending on type)

During the case consideration «Stroyindustriya» dropped its prices for cement

«Stroyindustriya» has violated the antimonopoly legislation

The order was issued – construction engineering in order to create openness and transparency of
activity



The market of non-metallic construction materials

Product and geographical boundaries of market

Product boundaries

Sand

Gravel

Rubble

Sand-gravel
aggregate

Different types depending on
material's origin (eruptive,
metamorphic)

Geographical boundaries

Regional – constituent entities of
the Russian Federation

mainly

High transport costs up to 90%

Interregional

Depending on means for consumption
product boundaries can be limited to
certain fractures with relevant
qualitative characteristics,
geographical boundaries can expand

The case against group of persons as part of: RZD JSC and PNK JSC

Article 10 paragraph 1 (9) of the Law “On Protection of Competition”: creation of barriers to entry into the goods market or leaving from the goods market for the other economic entities

Filings of
«Pavlovskgranit» и
and Association
“Subsurface
resources”

Pre-qualification screening for the right to
provide procurement of macadam
products for RZD JSC use for 3 years

**Restriction of
competition**, intermediate
agents are accepted only,
selling with markup

Competition authority has conducted:

Analysis of the rubble
market

Geographical boundaries – federal
districts
Product boundaries - granite
macadam of 25-60 mm

Analysis of supply and
procurement

RZD - the largest buyer in
the Central and the North-
Western Federal Districts
(share > 50%)

Analysis of application
evaluation procedure

Non-transparent

Position of competition authority was upheld by the Supreme Court of Arbitration of
Russia

The case against Sharkhinsky karier JSC

Article 10 paragraph 1(6) of the Law “On Protection of Competition”:
economically, technologically or otherwise unjustified establishment of
different prices (tariffs) for the same goods

Extraordinary field
inspection

Ruble prices between April and October 2014 for buyers
of internal and external market - **25%**

Competition authority set up:

Product boundaries – high strength rubble
with fracture strength of 1200-1400
Geographical boundaries - Crimean Federal
District

Sharkhinsky karier JSC dominates the market
within the Crimean Federal District (share > 55%)

Competition authority has conducted:

Comparative analysis of prices of all
consumers

Analysis of contracts' existing conditions of
all consumers

No difference

During the case consideration Sharkhinsky karier JSC changed its pricing policy and
started distribute products to all buyers in accordance with a single price list

Markets of non-metallic construction materials are mostly regional and are characterised by high level of concentration

NNK JSC and PNK JSC are the largest manufacturers of rubble in the Russian Federation

FAS Russia prevented NNK JSC from acquisition of PNK JSC assets (subsidiary of RZD JSC, includes 18 rubble plants)

Assets of PNK JSC acquired by «Non-metallic company «Berdyash» JSC

Conditions for development of competition are created

Control over compliance with antimonopoly legislation in the market of non-metallic construction materials

- During 2011-2014 competition authority **carried out more than 100 desk and field inspections** of prices for non-metallic construction materials that are used in road construction in the Russian Federation
- Within the framework of APEC summit in Vladivostok and the emergency situation in some of the constituent entities of the Russian Federation (Amur region, Khabarovsk krai and Jewish autonomous region) **regional offices of the FAS Russia conducted quarterly monitoring of prices for non-metallic construction materials.** As the result of conducted monitoring, rise in prices for construction materials of a non-comparable with inflation nature was not detected.

- **Creation of information base for the purpose of monitoring conduction of prices in the market of cement and non-metallic construction materials**

Goal - receiving of operational and transparent information

- **Conduction of analysis of competition conditions in the market of non-metallic construction materials together with competition authorities of CIS member states**
- **Result - making of proposals on development of competition and lowering the administrative barriers in the market of non-metallic construction materials of CIS member states**
- **Intensified monitoring of bidding by the FAS Russia and its regional offices**

Goal – improvements in procurement

**Thank you for your
attention**