REPORT ON A CO
THE CONSTRUCTION MATERIAL

May 2012

InterTradeIreland

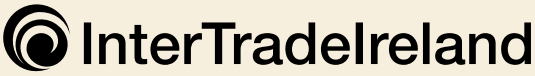
InterTradeIreland is an organisation established under the 1998 Belfast Agreement to exchange information and co-ordinate work on trade, business development and related matters. InterTradeIreland is the only organisation which has been given responsibility by both Governments to boost North/South economic co-operation to the mutual benefit of Northern Ireland and Ireland.

This report is part of InterTradeIreland's First Stop Shop new service aiming to assist and advise businesses on the island on issues of cross-border trade. First Stop Shop comprises these services:

- A Simple Guide to Cross Border Business: A practical guide that provides answers to the most common financial and legal questions of operating cross-border;

- Trade Accelerator Voucher: A financial support for companies operating in the other jurisdiction to get professional advice in areas such as taxation, employment law, currency, sales, marketing or regulation; and

- Market and Industry Information: InterTradeIreland has extensive market and industry information available through the Business Monitor and the Trade Statistics Webpage. This data will help companies to take informed decisions and develop sound strategies.



Contents

Acknowledgements

InterTradeIreland commissioned Grant Thornton to carry out the research behind this report and would like to thank both the study team and the steering group, who provided important insights and direction. We would like also to thank all companies that participated in the consultation process for their invaluable input.

Gordon Best	Quarry Products Association NI (QPANI)
Niall Coulston	Enterprise Ireland
Gerry Farrell	Irish Concrete Federation (ICF)
Jim Farrell	Roadstone Wood and ICF
Aidan Gough	InterTradeIreland, Chair
Clive Grudgings	LaFarge Cement and QPANI
Vivian Moore	Irish Asphalt Producers Association
Matthew Murphy	Balfour Quarries and QPANI
Adrienne Perry	Invest NI
Patricia Smyth	Invest NI
David Wright	Wright Quarry Products Ltd and ICF

Further work on the report delivered by Grant Thornton was undertaken by InterTradeIreland staff, Jani López and Eoin Magennis

Foreword

The construction industry remains critically important to the island economy accounting for, 6.5 per cent of GDP despite the severe downturn. The construction materials sector, which comprises mostly small, indigenous and rurally located enterprises, is a key part of the construction supply chain. The sector's competitiveness is essential to ensuring sustainable construction costs for households, businesses and governments alike.

This report shows the challenging circumstances currently facing the construction materials sector. Capacity utilisation is of the order of 27% of its peak of 2007. Across the island, a significant aspect of the decline in the sector has been the loss of 12,300 jobs over the past four years. The prospects for any substantial uplift in the medium term are weak. The high level of structural overcapacity within the sector, which the report estimates at 37% of existing plant capacity, means that an enduring process of rationalisation is inevitable. The steering group drawn from representatives of businesses in the quarry products, concrete and asphalt industries across Northern Ireland and Ireland along with representatives from government development agencies believe that it is essential to provide guidance and support to the industry so that an adaptation to the new realities of the market place can be achieved. This, in the steering group's opinion, will ensure a sustainable future for the industry in which competition is protected and value for money for the industry's customers is assured. The report makes a number of recommendations in this regard. The alternative course, the avoidance of which prompted the establishment of the group to oversee the report, is a scenario with low levels of competition, excessive production costs, and businesses with diminished incentives to innovate resulting in low quality products and high prices. Such an outcome could endanger the future competitiveness of the wider construction sector across the island.

In this report, industry representative bodies supported by government agencies set out a largely self-help strategy to ensure a more positive future for the sector. A vision is articulated of a sector whose competitiveness on and off the island is based on a combination of strong management capability, efficient use of resources/capacity, product quality and innovation. Working together the steering group will:

- Disseminate the findings of the report to the appropriate stakeholders and industry actors.
- Collaborate with the relevant actors to implement the recommendations contained in the report.
- Keep working as a group to oversee the progress towards achieving the vision and recommendations proposed by the report.

The road ahead is not straightforward, but we hope that this report is the starting point for achieving a more sustainable and competitive outcome for the sector to the mutual benefit of the economies of Ireland and Northern Ireland.

The steering group.

Executive Summary

The objective of the study is to assist recovery in the construction materials sector through a series of practical recommendations and options for tackling capacity issues and improving competitiveness within the construction materials sector.

The research involved an assessment of the capacity of the industry, as well as an estimation of how much of that capacity is currently being used and a forecast of how much is likely to be used in the medium term. The second phase of the project focused on developing potential options to address the challenges facing the sector. It was agreed in consultations with the industry bodies that the sectoral report should cover four key segments: aggregates, asphalt, readymix concrete and precast concrete.

Findings of the research

The construction sector is one of Europe's biggest industries accounting for 10% of GDP in 2010. The sector employs directly 12 million EU citizens with 26 million workers dependent on the sector. Approximately 92% of manufacturers of construction materials amounting to 65,000 enterprises are SMEs with fewer than 250 employees[1]. For the island as a whole, construction output as a percentage of GDP is of the order of 6.5%.

Output and Capacity

The capacity of the construction materials sector on the island and its current level of utilisation are shown in the table below. The levels of output in 2011 were of the order of 26% to 27% of peak output (in 2007) for aggregates and readymix concrete; and were of the order of 40% to 44% for precast concrete and asphalt. These reductions in industry output have been far greater than the overall economic decline seen on the island.

Product	Ireland Capacity	NI Capacity	Total	Current Output	Capacity Utilisation %
Readymix Concrete - 000s cu m	8,960	3,000	11,960	3,200	27%
Aggregates - millions tonnes	123	32	155	41	26%
Precast - € millions	289	145	434	175	40%
Asphalt - millions tonnes	7.0	4.0	11.0	4.8	44%

[1] Committee on the Internal Market and Consumer Protection of the European Parliament – EU Parliament document 10753/3/2010 – C7-0267/2010 – 2008/0098 (COD)

The key drivers of demand for the segments are as follows:

- Readymix concrete and aggregates: "new build" housing, infrastructure and commercial building works. Much lower activity in these areas has led to significant reductions in demand for these materials.

- Precast concrete: again housing, infrastructure and commercial property are key markets but producers have also been quite successful in sourcing off-island markets, predominantly in Great Britain. Transport costs limit the extent to which precast products can be supplied into other export markets.

- Asphalt: the key market is in road maintenance works, where demand has not fallen to the same extent as that for newly built roads. Hence its performance is also better than concrete and aggregates.

It is the assessment of the report that some 37% of existing production plant capacity may be defined as structural over-capacity. In other words, even when the economies on the island recover to more normal circumstances, this capacity will not be required. This assumes that the construction "bubble" of the mid-2000s will not occur again.

Employment

Given such a fall in output the report estimates that employment in the construction materials sector on the island has fallen from some 20,000 people in 2007 to some 7,700 people at present – a reduction of 62% from the peak. This is a greater reduction than that seen in the construction sector as a whole – where employment has fallen by just under 50%.

Prospects

It is projected that the construction sector across the island may see a further decline in activity of the order of 10% in 2012 due to a lack of demand for new housing and the reductions in projected capital programme spending by both Governments on public works and infrastructure projects. Indeed, the prospects for any substantial uplift in the medium term are weak. The fact that the construction materials sector is highly dependent on construction activity on the island makes the prospects for output and employment in the industry appear poor.

Financial challenges

The large falls in sales are revealed in an analysis of the financial performance using the 2010 accounts for a sample of twenty companies across the island. These show that 65% of the companies incurred losses in that year. As construction activity across the whole island fell by some 20% in 2011 over 2010 this would point to the sector's financial performance worsening in the last year.

The sector depends on three key sources of financial support at present:

- Continuing credit from cement suppliers;
- Continuing credit from the financial institutions; and
- Contributions from corporate or personal reserves held by owners/directors.

The likeliest scenario for the sector is that in the absence of any uplift in demand, individual businesses will continue in operation until their available reserves are depleted. It is not possible to predict when this might happen, as closures would occur on a company-by-company basis.

Related to these financial pressures is a concern raised in the industry consultations over the scope for companies to undergo processes of debt reduction such as examinership or insolvency and then to re-emerge as "phoenix" companies with what is perceived to be an unfair competitive advantage.

Options for the industry

Companies in the construction materials sector that supply readymix concrete, asphalt and aggregates are dependent on local markets. Although there are no apparent barriers to trade across the island, the economics of operations of high volume, low value products mean that all-island coverage is generally limited to higher value precast concrete products. This segment has also been successful in developing off-island markets, particularly in Great Britain. However, high transport costs relative to the value of product being shipped preclude these companies from trading in markets further afield (unless they use local partners). There is scope for improvements in the regulation of the industry, particularly in the areas of product certification and enforcement of planning. Stricter regulation would prevent non-compliant operators from undermining the industry.

With a reduced market demand on the island for construction materials, the strategic options for companies in the other market segments are very limited. On the one hand the more successful companies have some unique selling proposition. However, there also appears to be a financial, technical or management capability gap in many businesses which is acting as a barrier to developing new products or markets.

In most industries the expected reaction to a fall in demand of the level seen in this sector would normally be a substantial number of closures and/or insolvencies or "industry shake-out". While some closures have occurred, these have not been of a scale that might have been expected. Companies have certainly reduced labour costs, as shown by the reductions in employment, and transport and other costs have also been reduced as far as practicable.

The financial analysis shows that many companies are surviving by using their financial reserves to stay in business.This poses the question of reducing capacity by agreement within the industry. A review of the attempts to reduce capacity in the Irish beef industry through a system where those remaining in the industry would recompense those who left the industry indicates that it is extremely unlikely that any such structured scheme would comply with national or EU competition law. However, it is possible that some forms of cooperation such as mergers or specialisation agreements could be applied without contravening competition law. The key test is that there must not be a substantial lessening of competition in the relevant market. A general review of the sector cannot provide specific criteria for these forms of arrangement as any and each such proposal would have to be assessed on an individual basis.

Recommendations

Given that the sector is facing a restructuring of significant proportions following a collapse in demand and output, the report proposes a series of recommendations for Government departments, agencies and the construction materials industry to consider and take forward. These have been categorised into short and medium term.

Short term

- InterTradeIreland, in cooperation with the industry bodies and agencies, to disseminate the findings of this review.

- The agencies and the representative bodies need to interact to explore how existing services and supports could be used more effectively by the sector in both jurisdictions and on a cross-border basis.

- Agencies and industry bodies should prioritise the provision of management skills training for the sector, with a focus on operations management, financial aspects such as product costing and profit management.

- Agencies could promote support available for both product innovation – such as glass reinforced concrete – and process innovation – such as improved methods for repairing potholes in roads – that would have spin off benefits for the construction materials sector.

- Agencies should continue the ongoing work in the promotion of sales off the island in the pre-cast concrete product segment, particularly the higher value added end of the product category.

- Agencies should explore opportunities for exporting the intellectual property associated with high quality pre-cast concrete design; and potentially providing design bureau services from bases on the island.

- Industry actors should develop and adopt an improved all-island product certification and standards.

- Industry actors and the relevant Departments and agencies to cooperate on exploring the potential for using 'project bank accounts' and for enforcing other regulations to fully protect the construction supply chain.

- Individual companies in the sector should undertake a critical analysis of its current market, sales and financial performance, and likely future prospects in order to allow owner/directors to consider the costs of staying in business versus the long term payback that may accrue when the economy improves.

Medium term

- The two governments to address the issue of sustainable levels of capital investment in required infrastructure. Projects where the identified fiscal and economic benefits are substantial and/or substantial private sector investment is available should be prioritised.

- At the same time maintenance of infrastructure and state buildings constructed during the past ten years should be considered.

- The relevant agencies and Departments to explore options for providing assistance for those made redundant from the sector through retraining to assist them to find employment in other industries and funding mechanisms such as the European Globalisation adjustment Fund (EGF).

- The relevant agencies to work with the industry to explore how regulation of the sector through product certification and improved planning enforcement.

- Work with the construction materials industry to seek the means to bring about improvements in planning enforcement where such improvements are needed.

- Local authorities should seek to plan their demand patterns insofar as possible, so as to enable the industry to respond to demand in the most efficient manner possible.

1. Introduction

InterTradeIreland, in cooperation with Invest Northern Ireland, Enterprise Ireland and the key industry representative bodies (Quarry Products Association NI, the Irish Concrete Federation and the Irish Asphalt Pavement Producers' Association) commissioned Grant Thornton to research and produce a report analysing the capacity and capability of the construction materials sector in Ireland and Northern Ireland and to identify options and opportunities open to the sector.

The objective of the study is to assist recovery in the construction materials sector through a series of practical recommendations and options for tackling capacity issues and improving competitiveness. The report focuses on four specific segments: asphalt, concrete, precast and aggregates.

The first phase of the project was to carry out desk research to determine the capacity of the construction materials industry and the extent of the use of that capacity at present as well to present a baseline or counter-factual scenario assessing the medium term prospects of the industry. The second phase of the project focused in developing potential options to address the challenges facing the sector.

This report is based on the findings of the desk research, a series of industry consultations and consideration of the factors affecting the construction materials sector as whole on the island. It is worth noting that while there is a substantial amount of data available for the construction industry as a whole, there is a dearth of publicly available data on the construction materials segment. An additional challenge is that for Northern Ireland, as a region within the United Kingdom, some data which would be relevant to the region alone, is not available.

In Ireland, the key data sources were the Central Statistics Office, which provides a range of data including PRODCOM, a dataset of output in a detailed range of product areas and sectors as well as a range of construction related data, including indices of output; employment and prices; together with the Department of the Environment, Community and Local Government.

In Northern Ireland, statistical data is also provided by a range of Government sources, including the Department of Enterprise, Trade and Investment; the Office for National Statistics and the Department for Social Development.

The financial analysis included in the report is based on financial statements of a sample of twenty companies as lodged with the relevant companies' office.

The conclusions reached in the report were heavily based on industry consultations. The research team undertook individual consultations with nineteen companies across the island, met with the Councils of the Quarry Products Association NI and the Irish Concrete Federation and consulted frequently with the Chief Executives of the industry associations during the project. In addition, consultations were made with the development agencies (Enterprise Ireland; Invest Northern Ireland and InterTradeIreland) as well as the Competition Authority in Ireland and one of the main cross-border banking groups.

2. Overview of the construction sector

This chapter reviews the performance of the construction industry as a whole across Ireland and Northern Ireland since 2000, and puts that performance in the context of the broader macroeconomic environment.

2.1 Macroeconomic Context 2000 – to date

In discussing the macroeconomic context the report uses Gross Value Added (GVA) for Northern Ireland and Gross Domestic Product (GDP) for Ireland as a measure of growth.[2] GVA in Northern Ireland since 2000, both for the region as a whole and for the construction sector is shown in table 1.

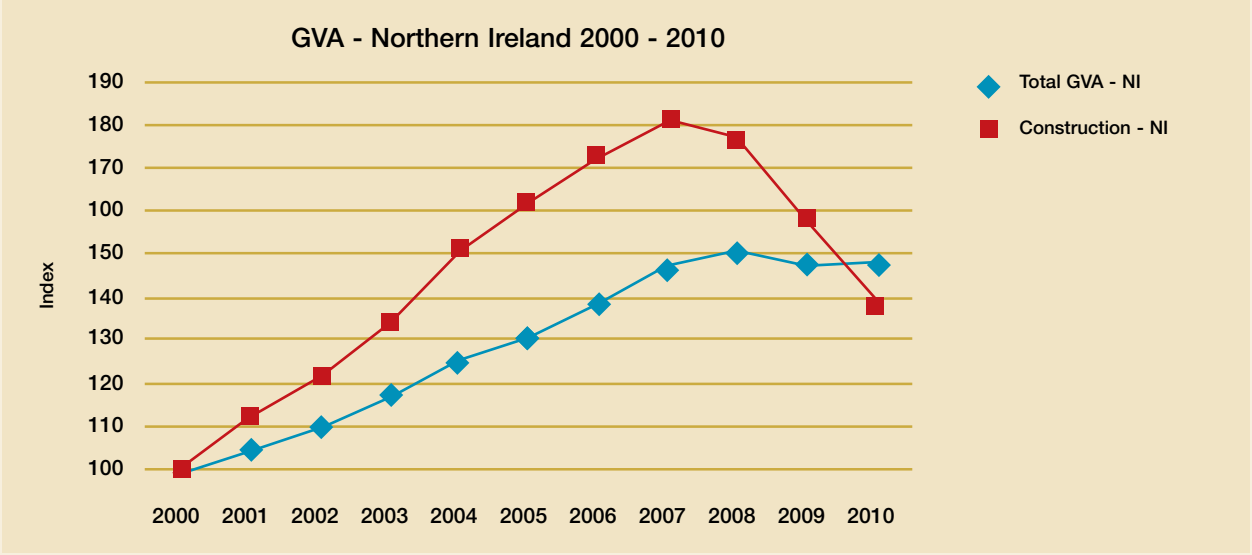
The Northern Ireland economy showed steady growth up to 2008 – though this latter year saw the growth rate fall. From 2000 to 2007, the average growth rate in GVA was 5.6% per annum.

Table 1. Northern Ireland, Overall and Construction sector Gross Value Added

£m	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total GVA	19,215	20,163	21,196	22,480	24,033	25,101	26,613	28,192	28,827	28,827	28,496
Construction	1,273	1,426	1,553	1,701	1,929	2,058	2,196	2,322	2,256	2,256	1,763

Source: Office of National Statistics (ONS)

Figure 1: Northern Ireland, Overall and Construction sector Gross Value Added



Shown graphically, the overall trend is clearly identifiable:

However, construction sector GVA grew at close to twice this rate, namely 9.0% per annum up to 2007. Since then, it is estimated that by 2010, construction GVA has fallen by some 26% from its peak in 2007. Consultation with Northern Ireland construction materials suppliers suggests that a much greater reduction in construction has occurred in 2011. This is supported by statistical data provided by the Northern Ireland Statistical and Research Agency (NISRA) which shows that construction output for the first three quarters of 2011 was 12% lower than in the first three quarters of 2010 when measured in constant 2005 prices.[3]

[2] Both GVA and GDP are measures of economic output. GVA is the measure used to measure the value of goods and services produced in a region of an economy, while GDP measures that for a state. The relationship between them is defined as: GVA + taxes on products - subsidies on products = GDP

[3] Northern Ireland Construction Bulletin – Output in the Construction Industry – Q3 2011 published by the Department of Finance and Personnel, 18th January 2012

In Ireland, Gross National Product (GNP) and Gross Domestic Product (GDP), shown at constant prices, grew substantially from 2000 to a peak in 2007. However, national and international circumstances impacted severely on the economy and rapid declines occurred in 2008 and 2009, before an apparent degree of stabilisation emerged in 2010.

Table 2: Ireland, Gross National Product (GNP) and Gross Domestic Product (GDP) 2000 - 2010

€Billion	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP	126.3	132.3	140.1	145.9	152.5	160.7	169.2	178.0	172.7	160.6	159.9
GNP	113.0	115.9	118.6	124.8	130.0	136.7	145.3	150.9	146.7	132.2	132.6

Source: Central Statistics Office (CSO)

When plotted against construction activity, as reported by the CSO in its Construction Industry Indices data series, recent trends in the Republic become evident. The chart below shows that GNP and GDP grew steadily from 2000 to 2007, the average annual increase in GDP being very marginally over 5% in real (i.e. constant prices) terms.

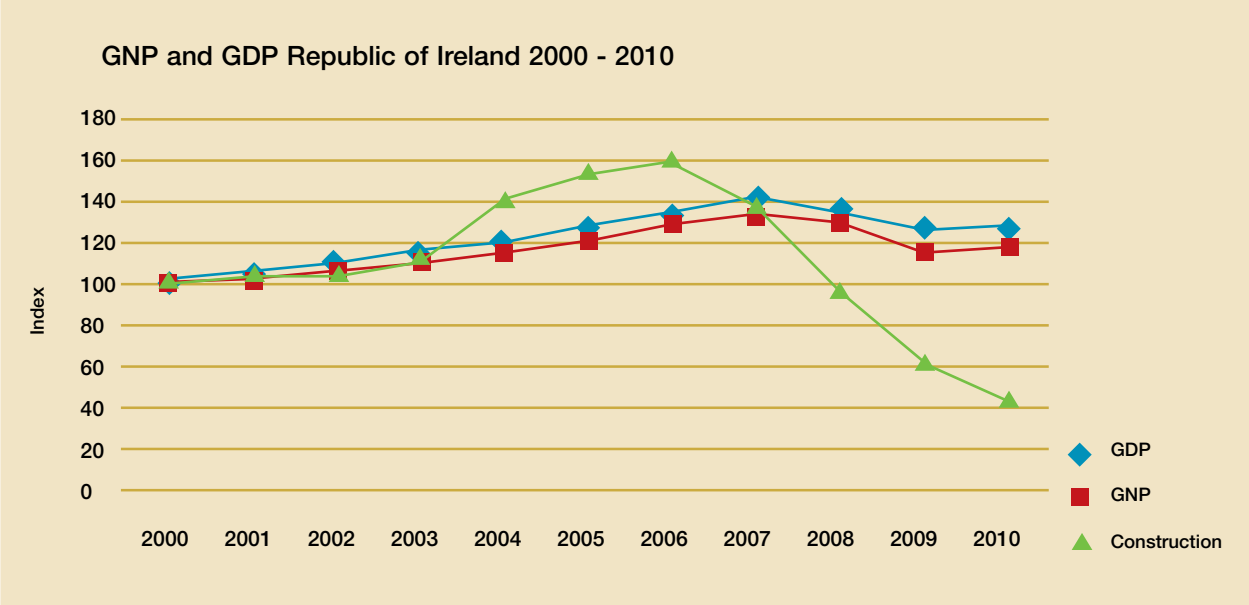
Growth in construction mirrored that of the economy as a whole up to 2003. However, at that point construction activity grew rapidly (output grew at an average rate of 13% per annum) and peaked in 2006.

In 2007, construction activity slowed substantially; and this was due entirely to falls in residential construction. However, in 2008, activity in the non-residential and civil engineering segments also began to fall and this trend has continued to date.

The volume of building output in the first three quarters of 2011 in Ireland was 20% below that of the first three quarters of 2010.[4]

In broad terms, the two economies have shown comparable trends in the 2000s. In both cases, the period from 2000 to 2006/2007 was mostly one of continuous, sometimes substantial, growth in construction output, with the construction industry out-performing the economy as a whole. However, both economies stalled in 2007/2008 and construction output has declined substantially since; and the fall in construction activity has far outstripped the overall economic decline.

Figure 2: Ireland, Gross National Product/Gross Domestic Product and Construction Output 2000 - 2010



[4] From the Indices of Total Production in Building and Construction Sector, published by Central Statistics Office.

2.2 Construction activity/output – Northern Ireland

The output of the Northern Ireland construction industry from 2000 to date is shown in Table 3 below.

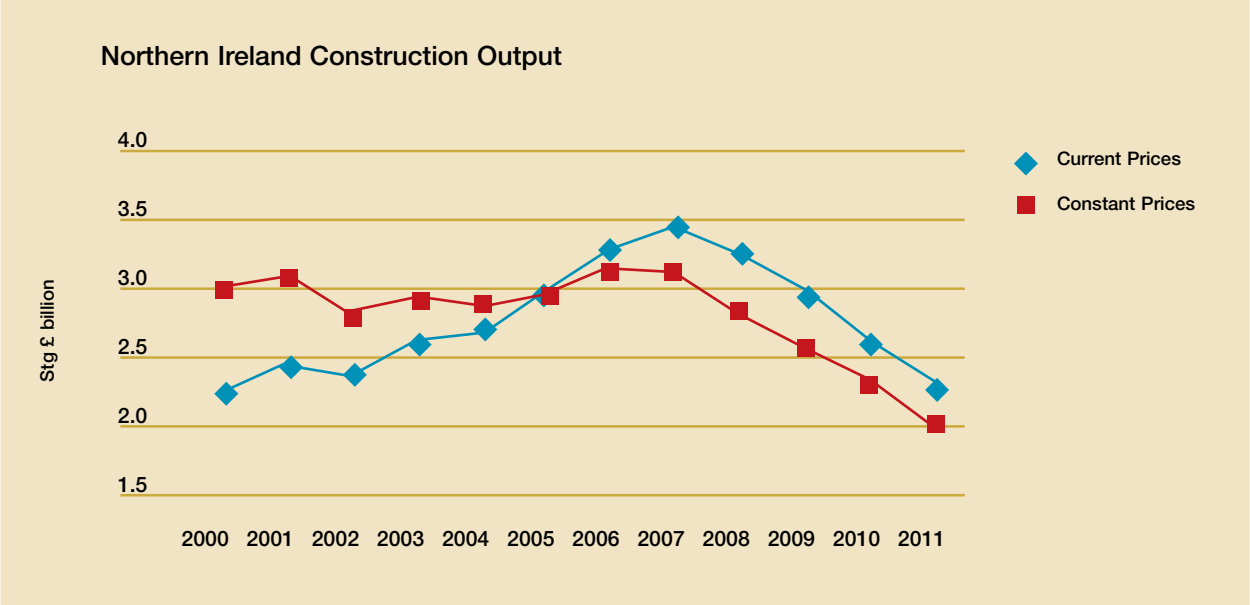
Table 3: Northern Ireland, Construction Output 2000 - 2010

£Billion	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011(e)
Current prices	2.2	2.4	2.4	2.6	2.7	2.9	3.3	3.4	3.2	3.0	2.6	2.3
Constant prices	3.0	3.0	2.8	2.9	2.9	2.9	3.1	3.1	2.8	2.6	2.3	2.0

Source: Northern Ireland Construction Bulletins

The chart shows that in volume terms (i.e. constant prices) construction activity was reasonably stable over the period from 2000 to 2007, varying between £2.8 billion and £3.1 billion. In value terms, output in 2007 was 55% higher than 2000, indicating that output growth over that period was mainly price driven, not volume driven.

Figure 3: Northern Ireland, Construction Output 2000 - 2011

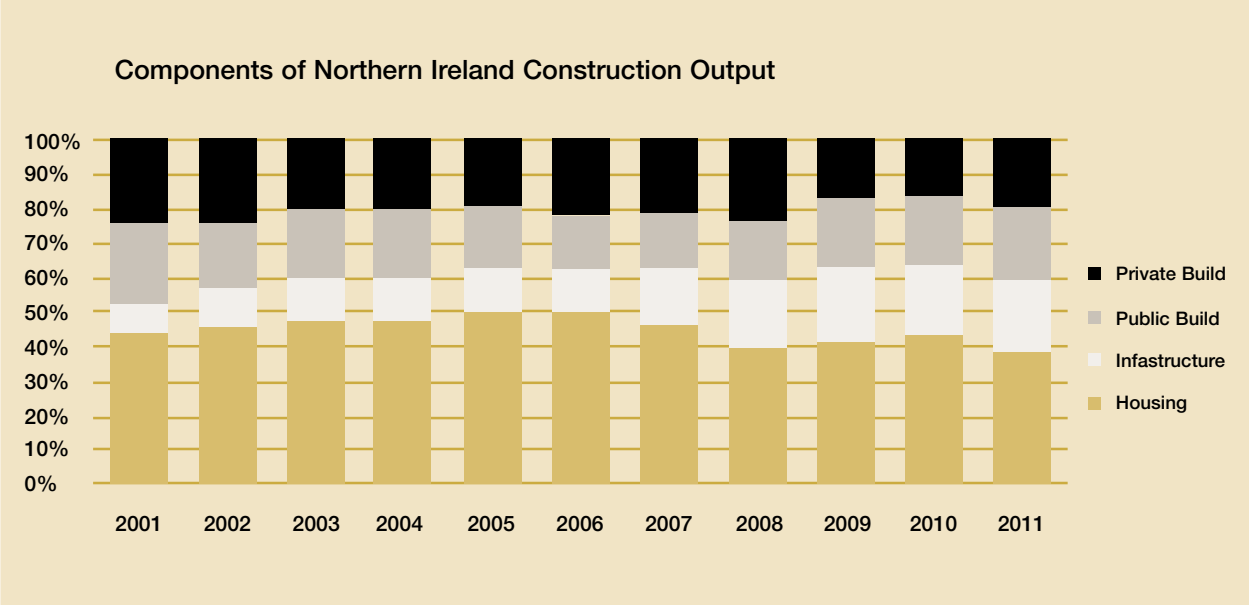


In volume terms, the industry was stable in 2006 and 2007, although price increases led to a 4.7% growth in the value of output. This level of output has led to a general perception that 2007 was the peak year for construction activity in Northern Ireland. Since 2007, output has fallen by 33% in both volume and value terms, according to the official data which have been published up to the end of Quarter 3 of 2011.[5]

Consultation with the industry suggests that the reduction in construction materials activity is more substantial than this; some consultees indicating volume reductions of up to 70% in construction materials output. This is attributed to Northern Ireland companies being impacted by both the fall in activity in Northern Ireland and the substantial falls in construction activity in Ireland. The components of Northern Ireland's construction output are shown in the chart following.

[5] Northern Ireland Construction Bulletin – Output in the Construction Industry – Q3 2011 published by the Department of Finance and Personnel, 18th January 2012

Figure 4: Northern Ireland, Construction Components 2000 - 2010



The key trends noted are:

1. The volume attributable to housing increased progressively from 42% of output in 2000 to 48% in 2005/2006. Housing is a key market for the construction materials under review and this would have driven substantial growth in demand for these materials. Since 2006, housing has fallen back to just under 40% of output.

2. Infrastructure has grown in importance in recent years. Up to 2006, infrastructure accounted for 11% to 13% of construction. Since then it has grown its share and is now at 20%. Infrastructure spend in 2009 was three times that of 2001.

3. The building segment – private and public combined – have been less volatile, though they have fallen from 43% of output in 2003 to a current 40% combined.

In summary, Northern Ireland experienced something of a housing "bubble" that peaked in 2006. Output in housing in 2010 was 30% lower than in 2006. Overall construction employment in Northern Ireland peaked at 46,820 "employee" jobs in December 2007 and at that time there were something in the order of 32,000 persons classified as "construction self employed"; giving a total of 78,820 persons employed at the peak.[6] More recent data for 2011 gives an estimate of 57,530 persons – both employees and self-employed – but as the survey used has changed, these two figures are not directly comparable. They do however suggest that overall employment may be down by some 27% from the peak at the end of 2007.

[6] Quarterly Employment Survey (QES), published by DETI.

2.3 Construction activity/output – Ireland

The output of Ireland's construction industry from 2000 to date is shown in Table 4.

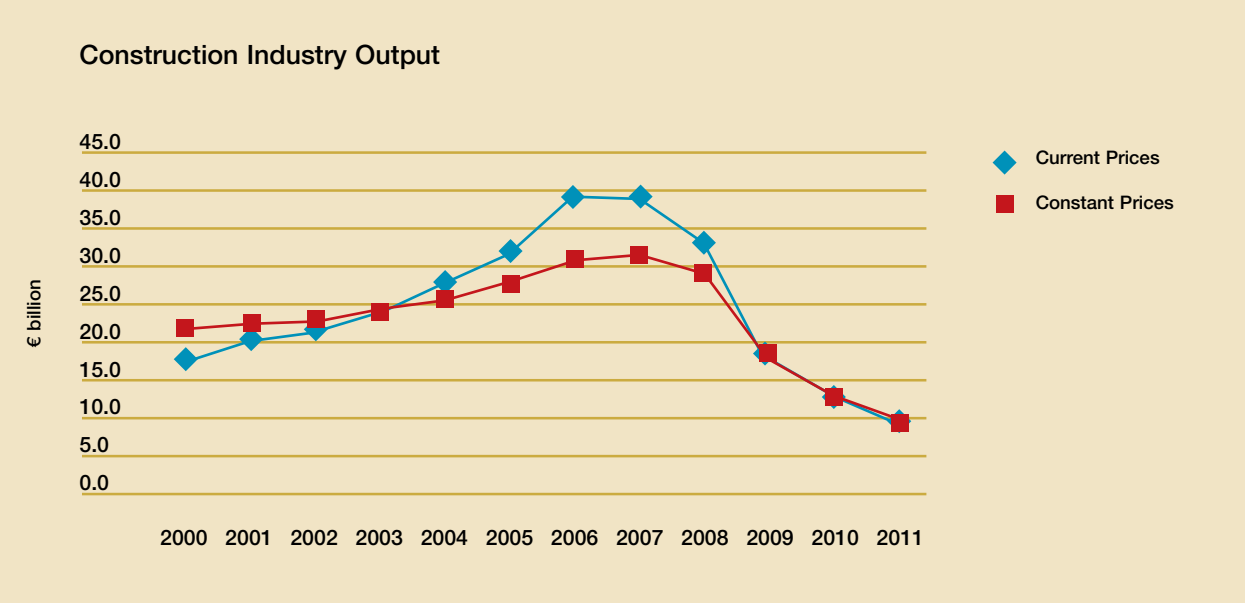
Table 4: Ireland, Construction Output 2000 - 2011

€Billion	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP	126.3	132.3	140.1	145.9	152.5	160.7	169.2	178.0	172.7	160.6	159.9
GNP	113.0	115.9	118.6	124.8	130.0	136.7	145.3	150.9	146.7	132.2	132.6

Source: See footnote 7

The data are shown in graphical form in the chart below. What is clear is that output did not peak in a single year, but rather reached a plateau for 2006 and 2007 before declining rapidly in 2008 onwards.

Figure 5: Ireland, Construction Output 2000 - 2011



[7] The data for 2000 to 2009 are taken from the Department of the Environment, Heritage and Local Government's Annual Review and Outlook for the Construction Industry series. The last annual report in this series was last published in November 2010. The data for 2010 and estimate for 2011 were prepared using CSO Production in Building and Construction Indices and the data for Gross Domestic Fixed Capital formation from the National Accounts statistics.

It can be seen that from 2004 to 2008, output measured at "current prices" was far ahead of output measured in "constant prices". The former is a measure of the value of output that includes price inflation and the latter is a measure of output volumes. This indicates that much of the industry output increases during these years were due to price inflation. From 2003 to 2007, output at current prices rose from €23.8 billion to €38.6 billion; an increase of €14.8 billion. Of this increase, €7.7 billion (more than half) was attributable to price increases alone.

In 2008 and 2009, substantial price deflation was evident and the reduction in output since 2007 has partly been due to price reductions.

In comparative terms, output in 2011 is projected to be down by some 75% in value terms and 70% in volume terms from the 2007 peak. Under either measure, the reduction in output has been very substantial.
This reduction in activity has seen employment levels fall significantly. Table 5 shows the employment in construction as shown in the CSO Quarterly National Household Surveys. The peak employment in construction was in Q3 of 2007, when a total of 304,600 persons worked in the industry. By Q3 of 2011, (the latest data available) these numbers had fallen to 133,300; a 56% reduction in employment.

Table 5:
Ireland, Construction Employment 2007 and 2011

'000s of people employed	2007 Q3	2011 Q3
Construction of buildings	129.9	45.8
Civil engineering	9.2	7.9
Specialised construction activities	129.1	54.2
Architectural; Engineering; Technical	36.4	25.4
Total	**304.6**	**133.3**

Source: CSO: Quarterly National Household Surveys

The Central Statistics Office revised certain data series in 2007/2008 including the one dealing with earnings in the construction sector. However, from the series that were provided, the following indications may be drawn:

1. Average wages in the construction sector peaked in Q4 of 2007 at €842.29 per week

2. By Q4 2008 average weekly wages had fallen by 2.4%

3. By Q2 of 2011 construction earnings had fallen by a further 11%.

Earnings reductions arose from a number of sources such as reductions in overtime, reductions in site allowances and reductions in hourly rates. In summary, combining employment numbers and wage costs, it may be deduced that overall remuneration of persons employed in construction has fallen by some 63% from the peak at end 2007.

The trends in the different elements of construction output are shown in Figure 6. Traditionally, housing was the key element of the construction output. In the second half of the 1990s and the early years of the 2000s, housing accounted for just over 50% of construction output. Housing's share of output accelerated in the 2000s, from 55% in 2001 to reach just over 65% of industry output in 2006. This was a remarkable increase given that output in the other sectors combined grew by some 50% between 2001 and 2006.

Figure 6: Ireland, Construction Components 2000 - 2011

It is evident from this chart that Ireland had a building "boom" to which the acceleration in housing output contributed by far the most significant portion. The collapse in the housing segment has been by far the most significant contributor to the overall decline in construction output.

2.4 Conclusions

The key conclusion on economic trends and construction industry output is that 2007 was the most recent peak year for construction output when measured in volume terms. In Northern Ireland, output in 2008 was greater in value terms, but the 2008 output volume was similar to that of 2007. In Ireland, 2007 was very similar to 2006 in both volume and value terms. So while both parts of the island had a two-year plateau, in Northern Ireland it occurred a year after the plateau in Ireland.

The key item of significance is the scale of the decline in industry output. In Ireland, output in 2011 is projected to be down by 75.3% in value terms and 68.8% in volume terms from the 2007 peak. The difference between these two percentages is a measure of the price deflation that has been seen over this period. In Northern Ireland, since 2007, output has fallen by 33% in both volume and value terms.

An important aspect of the decline in the construction sector output is the loss of jobs. In total it is estimated that the sector has shed close to 200,000 jobs since the peak some four years ago.

3. The construction materials sector

This chapter reviews the capacity of the construction materials and estimates current capacity utilisation and employment levels in both Ireland and Northern Ireland. The segments considered in the analysis are: asphalt, readymix concrete, aggregates and precast concrete.

Market determinants

There are key internal and external factors related to the nature of the sector that have an impact and in some cases, constrain the market and strategic options for the industry.

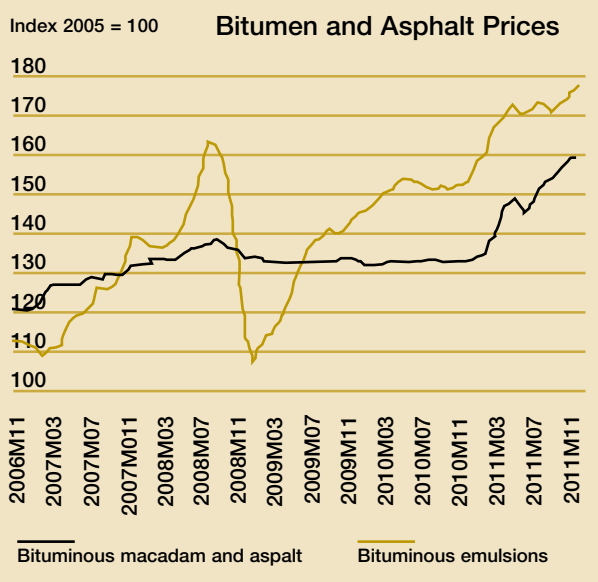
In the case of readymix concrete, the range within which a company can supply product is limited to the time for which the concrete is usable. Concrete hardens as a result of hydration: the chemical reaction between cement and water. Soon after the aggregates, water and the cement are combined, the mixture starts to harden. This limits the period within which the concrete is usable. Thus the effective market is confined to the distance from the production plant where the concrete is made to where it is to be used. In Ireland, this varies from location to location, but the effective radius of operations is typically 20 to 30 miles.

For aggregates, there is no such consideration as hardening. In this product area the effective limitation is the transport cost. A load of aggregate may have a value of the order of €160 (£130). Transport is by heavy goods vehicles with loads typically being of the order of 20 or more tonnes. Transport costs are high for such vehicles and this affects profitability as prices are usually quoted inclusive of delivery of the product. Transport costs limit the effective range of operations to 20 or so miles from the relevant quarry.

There are some examples of higher ranges of transport for aggregates, but these are on a significantly larger scale of operation. In Eastern Europe, there are examples of aggregates being transported over distances of close to 250 miles, but these are done by rail and are in loads of 2,000 tonnes, which typically limits such operations to large scale infrastructure projects. Large shipments of aggregates are imported into the South-east of England, primarily by ship and in loads of 3,000 tonnes and upwards. This type of transnational/international trade depends on quarries having immediate access to railheads and ports, which is not the case in Ireland. International trade opportunities exist in much smaller lots for specialty items such as coloured stone, which are not applicable to the vast majority of the construction materials sector.

In the case of asphalt, its relatively low value also limits the coverage of plants to local markets. An aspect of this segment is that prices of bitumen – a residual from oil refining – are closely related to the price of oil. This is illustrated in the chart below which shows the increase in bitumen and asphalt wholesale prices in Ireland since 2006. These prices typically track the prices of crude oil.

Figure 7:
Bitumen and Asphalt Wholesale Prices



Source: CSO

Although sales prices may increase, a cost associated with asphalt is energy, as the product has to be kept warm throughout the various stages of the supply chain.

For precast concrete products, the definition of the market depends to a substantial extent on the relationship between transport costs and the product being shipped. Therefore, higher value precast products such as high end bridge beams; unique designs for commercial buildings and suchlike can be traded internationally. There is a limit to this and in practical terms, that limit is Great Britain and in specific cases, the near fringes of continental Europe. Lower value precast items; such as lintels; window sills and pipes can compete across Ireland; and potentially in nearby markets in Great Britain where order/contract sizes allow it.

These comments on market definition are based on the assumption of fixed plan locations but this is not always the case. In respect of major infrastructure or building projects, the option of using mobile plant for readymix concrete and asphalt production is also available. Given the absence of such large scale projects in Ireland at present and the low likelihood of such projects in the medium term, it is possible that such plants will not impact significantly on the nature of competition in the sector.

Current issues

Costing information

Key to any decision concerning the future of a company is the quality of information that directors have when making such a decision. One of the findings from the consultations is that there is a weakness in the costing information prepared by many companies. This concerns the value of the aggregates which are either used for making readymix concrete or sold as aggregate. Aggregates are a natural resource obtained from quarries and these resources may have been within a family's ownership for generations. It is therefore possible to take the value of such resources for granted and to fail to cost them accurately when deciding on selling prices. When properly costed, aggregates should cost of the order of 20% of the selling price of readymix concrete. If the full costs of these resources are not taken into account, then a very competitive selling price can be provided. The problem will not emerge until the company wishes to open a new source of aggregates and has to meet requirements introduced by more recent planning legislation. These may include a need for a rigorous planning approval process plus the payment of relatively substantial development levies. Therefore, replacement costs of aggregate reserves should be a factor in determining selling prices for aggregates and other materials containing aggregates.
The indication is that many companies may not be taking full cognisance of the costs of production when making sales price decisions. The impact of this may not become evident for some time.

Delayed payments

This issue has been highlighted in consultations. This problem affects companies' access to capital and cash flow. Given the impact of this issue on SMEs, the EU is proposing to strengthen the 2000/35/EC directive to combat late payment by replacing it with a new Directive to come in function in 2013. The main provisions within the new Directive could be summarised as follows:

- Harmonisation of period for payment by public authorities to businesses: Public authorities will have to pay for the goods and services that they procure within 30 days or, in very exceptional circumstances, within 60 days.

- Contractual freedom in businesses commercial transactions: Enterprises will have to pay their invoices within 60 days, unless they expressly agree otherwise and if it is not grossly unfair.

- Enterprises will automatically be entitled to claim interest for late payment and will also be able to obtain a minimum fixed amount of €40 as a compensation for recovery costs. They can claim compensation for all remaining reasonable recovery costs.

- The statutory interest rate for late payment will be increased to at least eight percentage points above the European Central Bank's reference. Public authorities are not allowed to fix an interest rate for late payment below this level.[8]

Protection of suppliers

The issue of protection of those in the construction supply chain has also been raised in consultation. In recent years, both in Ireland and Northern Ireland, there have been examples where small construction and construction materials sub-contractors have been denied payments from bigger companies. In March 2011 the Construction Contracts Bill was passed in Seanad Eireann with the aim of addressing non-payment to construction sector contractors, subcontractors and subcontractors who have completed work on construction projects. Part of the solution is a Disputes Resolution mechanism.[9]

Another potential solution being used in larger construction jobs in the UK is the 'project bank account'. A project bank account is essentially a bank account held jointly on trust by the employer and main contractor. Funds are paid into the account and then paid directly to the party that needs them, whether it is the contractor, consultant, sub-contractor or supplier. This method has been recommended for use both by the Office of Government Commerce and the National Audit Office in the UK.

3.1 Output and Capacity

Northern Ireland

Asphalt – 2003 base
The base figure for production of asphalt in Northern Ireland in 2003 was estimated at 2.545 million tonnes. The figure was provided by BDS Marketing and Research Ltd, an independent firm of market researchers. The research showed that the market is served by some 25 companies.

Readymix Concrete – 2003 base
It was estimated that in 2003, there were over 30 readymix concrete companies in total in Northern Ireland, which operated their own concrete plants. Many operated more than one plant. A number of other businesses traded in the sector but acquired concrete from other companies. The total market in 2003 was estimated at 2.385 million cubic metres by BDS Marketing and Research Ltd.

Aggregates – 2003 base
The output of aggregates was estimated by BDS Marketing and Research Ltd at 24.265 million tonnes comprising 5.935 million tonnes of sand and gravel and 18.330 million tonnes of crushed rock. It was estimated at the time that ten companies accounted for about 53% of output.

These industry estimates differed from the Geological Survey of Northern Ireland published and attempts were made to reconcile the data. It was understood that not all companies contributed to the Geological Survey figures, which was given as the reason for industry data being higher. It was estimated that there were nearly 100 companies in this market operating around 135 pits and quarries, excluding temporary sites.

Current Output Estimates - Asphalt
In volume terms, expenditure on infrastructure increased by some 208% in 2009 over 2003. This includes repairs and maintenance works as well as new build. This level of increase suggests that asphalt output increased in the period after 2003. However, asphalt

[8] European Commission, Enterprise and Industry, Single Market for Goods, Fighting Late Payments available at: http://ec.europa.eu/enterprise/policies/single-market-goods/fighting-late-payments/index_en.htm#h2-2
[9] For further information on the legislation and the regulory impact assessment see http://per.gov.ie/2011/09/27/publication-of-the-regulatory-impact-analysis-of-the-construction-contracts-bill/

prices were increasing broadly in line with oil price increases; prices in 2010 were some 12.5% over 2006 prices. Consequently, the demand for asphalt in Northern Ireland would not have risen in line with overall spends. However, Northern Ireland companies were also supplying product to Ireland, though detailed export figures are difficult to extract. In overall terms, these considerations imply a 2009 asphalt output of something in the order of 4.0 million tonnes. Output has fallen substantially since then, potentially to the order of 2.0 million to 2.5 million tonnes, or circa 50% of peak output. Consultation with the industry provides a strong basis for deducing that output of asphalt has not fallen as much as for other construction material segments.

Current Output Estimates – Readymix Concrete

Readymix concrete is generally sold within a relatively short distance from the production plant and therefore substantial exports to Ireland have not been experienced. However there has been some cross-border trade and so this sector has not maintained volumes in line with the overall construction sector. It is estimated that the peak volume was recorded in 2007 at the order of 3.0 million cubic metres.

On the basis of the Northern Ireland trade alone, sales volumes would be down by some 40% from their peak, which appears to have occurred in 2007. The volume of housing fell by some 19% in 2008 over 2007 and this would traditionally have been a major market segment for readymix concrete. Further falls in housing output – down to 50% of the 2007 levels in the most recent official data – suggest that a substantial fall in concrete has been experienced.

Industry sources stated a decline by late 2011 of 60% and potentially up to 65% from the peak, which given the continued fall in construction in the second half of 2011 in Northern Ireland and the lack of activity in Ireland in recent years, appears to be reasonable estimates. This implies a current level of output of the order of 1.2 million cubic metres

Current Output Estimates – Aggregates

An extrapolation of the sectors of the construction industry in Northern Ireland from 2003 onwards, suggest a peak output of 31.8 million tonnes of aggregates in 2007. This is marginally higher than the figure of 29.511 million tonnes shown in the 2007 Annual Mineral Statement produced by the Department of Enterprise, Trade and Investment (DETI). However, given that the 2003 industry estimate was also higher than the DETI figure, this is not unexpected.

The DETI figure for 2009 – the latest available – shows an output of 20.377 million tonnes – a reduction of 31% from peak. Cumulative reductions of 27% in construction industry output since then, suggest that aggregate production in the first half of 2011 was close to 50% of the peak. Further reductions in construction activity since then suggest that the current industry estimates of a 60% to 65% fall in aggregate output from the peak are not far from the correct figure.

Current Output Estimates – Precast Concrete

Research carried out during this review with the assistance of the Quarry Products Association NI indicates that precast concrete output is currently at a level of £96 million per annum, down some 20% from its peak in 2007. Output has been maintained by means of a strong drive to develop export markets, primarily in Great Britain.

Ireland

To provide an estimate of the volume of construction materials being produced in Ireland's market, a survey carried out by Grant Thornton for the Irish Concrete Federation (ICF) in early 2006 was used as a point of reference. This survey identified industry volumes of readymix concrete, stone, sand and aggregates; concrete blocks, pre-cast concrete and other concrete products. The results of the market survey gave rise to some discussion and following consultation with members, coupled with the detailed analysis of end users, it was concluded that the volume of aggregates in 2005 that were produced in Ireland was in the order of 110 million tonnes. The information in relation to

ready-mix concrete, namely 8.6 million cubic metres, has generally been accepted as a reasonably accurate indicator of industry volumes.

Table 6: Ireland, concrete products output 2005

'000s of people employed	2005
Readymix Concrete - 000s cu m	8,600
Aggregates - millions tonnes	110
Precast concrete - €millions	243

Source: Industry survey by Grant Thornton for ICF

In the intervening period the Central Statistic Office (CSO) has published information on the production of a range of construction materials under the general title of PRODCOM and the results as published by the CSO for the years 2005 to 2010 are shown in the following two tables. The first of these tables shows the value of particular construction inputs as identified by PRODCOM and the second table shows the volumes produced of these products.

Table 7: Ireland, concrete products sales values 2005 to 2010

Sales €'000	2005	2006	2007	2008	2009	2010
14.21.12.10, Gravel; pebbles; shingle; and flint	€43,854	€49,970	€90,556	€60,632	€49,743	€42,319
14.21.12.30, Crushed stone of a kind used for concrete aggregates	€295,023	€398,625	€393,447	€318,800	€205,607	€155,792
14.21.13.50 Pre-coated aggregates	€170,995	€199,573	€230,936	€197,582	€206,109	€148,943
23.99.13.10, Bituminous mixtures based on natural and artificial aggregate				€197,370	€140,466	€127,692
26.63.10.00, Ready-mixed concrete	€554,032	€626,137	€731,795	€584,826	€319,175	€194,866
26.66.12.00, Articles of cement; concrete or artificial stone	€22,042	€25,791	€26,101	€11,396	€9,914	€4,283

Source: CSO PRODCOM Reports

Table 8: Ireland, Concrete products sales volumes, 2005 to 2010

Sales by volume	2005	2006	2007	2008	2009	2010
14.21.12.10, Gravel; pebbles; of a kind used for concrete aggregates - tonnes	4,756,889	4,725,581	7,468,886	5,288,004	4,940,454	5,078,333
14.21.12.30, Crushed stone of a kind used for concrete aggregates - tonnes	35,687,993	46,910,734	48,130,592	37,654,950	26,948,359	21,274,232
14.21.13.50 Pre-coated aggregates - tonnes	4,706,912	5,012,457	5,500,989	4,381,578	4,5051,173	2,916,417
23.99.13.10, Bituminous mixtures - tonnes	N/A	N/A	N/A	861,556	763,233	595,094
26.63.10.00, Ready-mixed concrete - 000's of cubic metres	5,531	6,926	7,858	6,392	3,403	2,351
26.66.12.00, Articles of cement; concrete or artificial stone for non-constructional - tonnes	75,981	85,749	90,508	41,439	96,743	54,454

A review of the tables shows that there are some significant differences in relation to the results of the industry survey completed in 2006 and the data provided by PRODCOM, which is also a survey based project. The key differences are as follows:

1. The total volume of stone, sand and gravel shown under PRODCOM in 2005 amount to 45 million tonnes, which is less than half of what the 2005 industry survey and consultations estimated to be the total output of aggregates. It is possible that some substantial end uses of aggregates, such as the manufacture of cement or aggregate used in readymix concrete, have not been included in the returns submitted by the industry in the CSO survey. We use the 2006 aggregate volumes of 110 million tonnes as the base for estimating current capacity utilisation.

2. The output of ready-mix concrete in cubic meters shown in PRODCOM, namely 5.53 million cubic meters in 2005, is substantially below the industry survey estimate of 8.6 million cubic meters. The sales volumes to sales value relationship indicate a sales price per cubic metre of concrete of €100.16 in 2005. This is considerably higher than the going market rate at that time. An imputed selling price of €65 per cubic metre would infer a sales volume in 2005 of 8.523 million cubic metres. This is close to the 2005 industry survey estimate and we therefore use a figure of 8.5 million in our estimate.

3. The data for “articles of cement” bears no relationship to the estimate of pre-cast concrete output in 2005. Our view is that the categorisation in PRODCOM may be too wide to permit precast concrete output to be extracted.

Data from the European Asphalt Pavement Association (EAPA) suggests that peak output in the Republic of Ireland was 3.5 million tonnes in 2006 declining to 2.3 million tonnes in 2010.

Allowing for these reservations, the study concludes that the levels of capacity in Ireland’s construction materials sector were as follows:

Table 9:
Ireland, concrete products estimated capacity

	Peak
Readymix Concrete - 000s cu m	8,960
Aggregates - millions tonnes	123
Precast concrete - €millions	289
Asphalt - 000s tonnes	7,000

Table 10 below shows the industry capacity and current utilisation estimates Ireland and Northern Ireland. The adjustments to the PRODCOM data described above suggest that the peak output for the various construction materials were as shown in Table 10, with the peak year occurring in 2007 in most cases. As noted previously, data for asphalt output in Ireland were not available until 2008, but given that infrastructure spend there was higher in 2008 than in 2007, we conclude that the 2008 figure can be taken as representing the peak in that material.

Table 10: Summary of estimated capacity

Product	ROI Capacity	NI Capacity	Total	Current Output	Capacity Utilisation %
Readymix Concrete - 000s cu m	8,960	3,000	11,960	3,200	27%
Aggregates - millions tonnes	123	32	155	41	26%
Precast concrete - €millions	289	145	434	175	40%
Aggregates - millions tonnes	7.0	4.0	11.0	123	44%

It is evident from the table that current capacity utilisation across the island is very low. A typical response from an industry would be to reduce capacity when there are such low levels of utilisation. During the consultations for the report, there were references to cases where production plants have ceased operation and these included plants involved in manufacturing concrete products such as pre-cast flooring, concrete pipes and suchlike. There were some specific examples of concrete batching plants and quarries being closed but in other cases, plants currently remain open for six days per week.

This capacity utilisation refers to plant and equipment and not to employment. As noted previously, there have been significant job losses in the sector, reductions in outsourced services such as transport and some disposals of mobile equipment such as cranes.

While plants have been closed, in many cases they have been “mothballed” and are capable of being reopened at any time. Therefore the study concludes that there has been no significant rationalisation of plant in the readymix concrete or quarrying sectors. There are also examples where companies have gone into receivership, but continue to operate under the receiver or where the assets are, or have been sold to potential operators. There are indications of significant unused capacity in the sector. Indeed, in the quarrying sector in Ireland, there is significant potential capacity hanging over the market. There is an estimated 300 quarries in the ownership of existing operators. However, there are some 1,200 registered quarries, many of which are owned by landowners who have no tradition or experience in operating quarries.

3.2 Employment

It is estimated that employment has fallen from 5,000 people in the sector in Northern Ireland in 2007 to some 3,700 people at present. In Ireland, employment has fallen from some 15,000 to 4,000 over the same period. Taking the island as a whole, the scale of these reductions in employment has been higher than in the construction industry. In Ireland, overall construction sector employment has fallen to 44% of its peak by Q3 of 2011 (Table 5). The reduction in the construction materials sector has been to 27% of peak employment. In Northern Ireland, construction materials sector employment has fallen in line with the overall construction industry fall.

It is not possible to disaggregate the jobs losses and define particular aspects such as the skills of those losing their jobs. The skills inherent in the jobs lost range from senior design engineers in precast concrete companies to quarry workers and truck drivers. A significant loss is the “know how” that is inherent in areas such as readymix concrete production, where different mixes provide differing strengths; or in asphalt production and laying, where the way the product has been laid; the weather conditions and how the material has been stored, can all affect the product performance. The sector comprises mostly small enterprises and given the prospects for the sector, coupled with the levels of over-capacity that exist; it is unlikely that many staff would be re-employed even when the sector sees some improvement in activity.

Certain management and leadership skills have been lost as well as operations support skills such as health and safety personnel. It is possible that some of these skills could be transferable into other industry sectors and that retraining may offer some personnel opportunities to pursue careers in other business sectors. On the other hand, some skills are of use in the construction materials sector only and therefore in the absence of improved demand, the skill and know-how losses may become permanent. Further reductions in employment levels are expected as the industry continues to decline.

3.3 Conclusions

The key conclusion from the desk research is that in overall terms, capacity utilisation in the construction materials sector is of the order of 27% across the island of Ireland. The broad consensus of the industry is that construction materials output have fallen by something of the order of 60% to 65% from their peaks of 2007/2008 in the cases of readymix concrete and aggregates, while the decline in asphalt and precast concrete production has been less than that.

However, the effective capacity of the construction materials sector has not been reduced to any significant level as a permanent response to the current low levels of activity in the construction sector.

A significant aspect of the decline in the sector is the loss of jobs. In total it is estimated that the sector has shed some 12,300 people since the peak some four years ago. These losses account for some 62% of staff employed at the industry peak.

4. Prospects for the sector

This chapter sets out a view on the future prospects for the construction materials sector in Ireland and Northern Ireland based on estimated activity in the housing, commercial and government markets.

4.1 Prospects for Ireland

Housing

Given the current levels of output, it is anticipated that housing completions will be of the order of 10,000 units in 2011 as a whole. This is a substantial reduction on the 88,000 houses completed in 2006. Of more relevance is the data for new house commencements, for which two measures exist. New house registrations under construction guarantee schemes are expected to be some 750 or so for 2011, while Commencement Notices should be close to 5,000 units. Of these Commencement Notices, 78% are currently for one-off housing, meaning that "scheme" housing will account for just over 1,000 starts in 2011.

Irish Banking Federation data show that since the start of 2011, the annual rate of first time buyer mortgage drawdowns has been running at about 6,000 per annum. This is about 50% of the levels seen in 2010. The rate of first time buyer mortgage drawdowns is a key indicator of the rate at which the housing overhang is being dissipated. At the current rate, it is difficult to foresee when demand will achieve levels at which supply will have to pick up.

Commercial construction

A key factor constraining housing activity is the current overhang – estimated to be at least some 60,000 dwelling units and possibly higher according to some commentators – which is the excess of housing units[10] built up over the 2002 to 2007 period. Mortgage lending is severely constrained at present due to a lack of funding available to the banking sector, which coupled with weak consumer sentiment, makes it difficult to see any basis for a pick up in new dwelling starts for some time. Long term demographic demand is estimated at some 35,000 to 40,000 new housing units per annum, but it appears that it will be along time before the market operates at those levels.

Table 11 shows the planning approvals for different sectors of the construction market in Ireland based on the total floor area for which planning approval was obtained.

Table 11: Floor areas of planning permissions granted

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	20010 Q1	20010 Q2	20010 Q3	20010 Q4	20011 Q1	20011 Q2
All types of construction	3,419	2,906	2,466	1,399	1,328	1,561	1,412	955	1,177	1,222
Dwellings	2,090	1,753	1,273	812	844	776	727	514	599	560
Other new construction	870	872	915	408	303	553	415	254	376	452
Extensions	459	281	278	179	181	232	271	186	202	209

Source: CSO

[10] There has been much debate in Ireland on the scale of the "overhang" of vacant dwellings. Some commentators have estimated that there are in excess of 300,000 vacant dwellings in the Republic. However; these include second homes; holiday homes and dwellings that are vacant because their owners are abroad. In October 2010, local authorities in Ireland carried out a detailed survey of 2,846 housing developments and concluded that 33,226 houses were completed or "near complete". At the same time, estate agents estimated that there were 53,900 second hand houses for sale across the country, which combined with the new build houses gives a total of 87,126 properties on the market. Furthermore, it is normal for estate agents and builders/developers to have a certain amount of vacant properties "on their books" at any one time. We define the "overhang" as the excess stock over this "normal" level. Allowing a "stock on hand" of 27,000 units – which is based on data from the early 1990s; the pre-Celtic Tiger era – suggests that the "overhang" was of the order of 60,000 units. This has not changed significantly since the surveys of 2010.

It can be seen that the floor area of planning approvals provided in 2011 is substantially below the level of approvals granted in 2009. The greatest fall has been in the agricultural sector, which accounted for a substantial portion of the approvals in 2007 and 2008, but with the end of various agricultural grant schemes, the level of activity in this sector has fallen by over 90%. This mirrors the overall decline in agricultural construction activity reported within the industry.

The industrial sector has also shown a substantial reduction while, with the exception of the health and welfare and education sectors, both of which are supported to a substantial extent by public funding, reductions in relevant planning approvals have been very substantial.

Given that the decline in non-residential planning approvals in the most recent quarters is of the order of 50% from the levels of planning approvals being provided in 2009 – which in turn would have been affected by the slowdown after the "building boom" had expired, it is likely that future levels of construction activity in the non-residential sector will remain depressed for some time.

There is limited data available on commercial building, however latest data indicates that the office vacancy rate in the Greater Dublin area is close to 20%. The information suggests that the greater part of office vacancies is in relatively modest sized units and often comprises two or three floors of a multi story building. There is a view in the market that there is a shortage of large single units that could accommodate for example, a major overseas company announcing an investment requiring substantial office space. However, it is also felt that any such announcement would be of a one-off nature and would not significantly impact on overall construction demand.

The conclusion that could be drawn is that the non-residential sector will show little upturn in activity in 2012 and that it is difficult to see any substantive upturn in the medium term.

One area of interest is what NAMA will do in respect of partly built commercial developments that it has taken over. It is possible that NAMA will complete some developments while it is also possible that it may suspend some developments. Completion of developments may give rise to a small increase in construction related activity but it is felt that many of these developments would already have floor slabs, foundations and other concrete elements in place and so the impact on the concrete and aggregates sector is not expected to be significant.

Government capital programme - Ireland

In November 2011 the Government issued its proposed capital programme for the period 2010 – 2016. The advised levels of projected capital expenditure in key areas associated with construction are estimated as shown in the following table.

Table 12: Floor areas of planning permissions granted

€million	2012	2013	2014	2015	2016
Roads	890	528	528	493	492
Housing	390	305	240	240	240
Education	430	415	475	475	415
Health	390	390	390	390	390
Agriculture	168	168	168	168	168
Total	**2,268**	**1,806**	**1,801**	**1,766**	**1,715**

Source: Drawn from Infrastructure and Capital Investment 2010-2016; Dept of Public Expenditure Reform; November 2011

Two key trends are immediately evident from Table 12, the first being that the overall construction related expenditure is set to fall on a continuous basis between 2012 and 2016 with the expenditure at the end of the period being some 25% lower than in 2010. The second element is that the projected expenditure is substantially below the levels recorded over the period 2004-2009. For example, spending on health facilities is reduced by one third whereas expenditure on housing on the part

of the Department of the Environment is reduced by almost one half, though this reflects in part a shift from construction of houses to leasing.

Recent developments in Ireland especially in relation to the state of the national finances suggest a strong possibility that these provisions will be reduced further in the near term at least.

4.2 Prospects for Northern Ireland

Housing

In respect of housing, an issue is the length of time it takes for data to reach the market place, but the most recent data shows that in 2010-2011 Northern Ireland housing starts were 8,017. This compares with the 14,000 to 15,000 experienced in the period 2004 to 2007. Starts in the first two months of 2011-2012 were down some 35% on the same period in 2010-2011, but one should not read too much into a single figure.

House completions in 2010-2011 were 7,644, which was the lowest figure since 2000 and is a significant reduction on the 17,797 seen in 2006-2007.

The Department for Social Development has indicated that on the basis of population projections, the long term average need for new housing is about 12,000 units per annum and current output levels are substantially lower than this. It must therefore be expected that provided the market does not overheat, the likely housing output will be of the order of 50% greater than current volumes. However, it is not anticipated that this level of output will be seen in the short to medium term.

Non-residential

In respect of infrastructure development, Northern Ireland public expenditure rose from £1 billion in 2003-04 to £1.7 billion in 2009-2010. However, Gross Capital Expenditure is budgeted to fall from £1.33 billion in 2011-2012 to £1.23 billion in 2013-2014 before increasing to £1.51 billion in 2014-2015. There is no distinct pattern to the budgeted expenditure with different areas fluctuating over the period. The health sector will see its expenditure fall progressively, while agriculture and transport will remain static for the short term, before rising from 2013 onwards.
However, with inflation taken into consideration, there is no anticipation of any significant increase in public spending for some time.

A concern evident in Northern Ireland, as in Ireland, has been the pressure on tender prices and construction companies' profitability surveys indicate that profits in the sector are under severe pressure.

The commercial and industrial sectors have fluctuated somewhat in the recent past but the level of activity at present is estimated to be of the order of 25% below 2008. The current economic recession has led to reduced volumes of business and any growth in business activity in the short term could be serviced by existing capacity. There appears to be no basis for projecting any increase in industrial or commercial construction works. A similar analysis is presented in other sectors such as retail where recent VAT changes may lead to a change in cross-border shopping. However, this does not appear to need any additional capacity and so it extremely unlikely that any strong demand for construction activity will emerge.

4.3 Conclusions

The performance of the construction materials sector has traditionally been dependent for the most part on the performance of the housing and public infrastructure spends. The prospects for these two market segments is very muted at present and with no alternative source of significant demand being evident, current prospects suggest that construction output will fall in 2012, potentially in the order of 10% over 2011. No evident prospect of an upturn in demand in the short term is seen at this stage.

The view at present is that the Northern Ireland construction sector will at best remain steady in some segments such as infrastructure and decline in others such as housing and commercial but that any uplift is difficult to see in the medium term. The same could be said of the sector in Ireland, where at the moment it is difficult to foresee any substantive increase in construction activity in the short to medium term.

5. Financial Challenges

The consultations within the industry suggested that the financial performance of the sector was poor and that many companies were operating at a loss. It was widely felt that the industry is dependent on three sources of funding to stay in business, namely the cement companies which had extended credit to their customers, the banks and the owners, who are providing additional funding to keep their businesses in operation.

To get a better picture of the situation, the research team sourced accounts filed with the relevant Companies Offices. Some companies did not provide detailed accounts on the basis, for example, that they were exempt from certain disclosure on account of their small size or in some cases, companies have unlimited company status, which exempts them from disclosure. The search provided twenty sets of accounts for the years 2010 and 2009 with sufficient detail to carry out an analysis. These companies ranged across all parts of the island; were in all the product categories being reviewed and were both small and medium sized enterprises. Fourteen companies are from Ireland and six are from Northern Ireland. Many of the accounts analysed were for the calendar year of 2010 but where the year ended on another date, the period that most closely conformed to the calendar year 2010 was used.

The large "plcs", such as Roadstone Wood – a subsidiary of the CRH Group or Readymix plc – which is owned by Cemex, were not included. This is because their inclusion might skew the results of the analysis which is intended to provide a "snapshot" of a majority of the companies in the sector. On account of the absence of some details from disclosed accounts, some assumptions and simplifications have been made, but any variation from these assumptions are not considered material in the context of the conclusions.

This analysis has helped in the identification of key elements or features present in the majority of companies that have remained profitable. A profile of successful companies in the industry is presented in Section 5.2.

5.1 Financial analysis

Profitability and Cash Generation

Only few companies of the sample provided turnover figures, therefore it is not possible to include sales/ turnover in the financial analysis. Some of the companies did not provide precise profit figures, but from total retained earnings data, we can deduce that in 2010 the performance of the companies was as follows:

Profitable	7
Loss making	13

In overall terms, 35% of the companies were profitable. Of those in Ireland, 29% were profitable while of the Northern Ireland companies, 50% were profitable. It is not possible to offer detailed analyses for companies in either part of the island as the sample is not sufficiently robust to provide for a detailed analysis of parts of the overall sample.

The profitable companies tended to be the larger companies and were ones that had a unique element, a unique product, a unique skill or some unique specialism. It is possible that these companies were not subject to the same levels of price pressure as those with products that are more widely available. Although the companies were not directly surveyed, it may be assumed that good management has played a key role in maintaining profits.

The losses retained for 2010 by the twenty companies were €7.37 million. The comparable figure for 2009 was for retained losses of €1.80 million. Clearly the companies contained in the sample saw a substantial deterioration in the level of losses incurred in 2010 over 2009.

To assess the level of cash generated, the depreciation charges were added to the retained profits to provide an estimate of cash generation. (Taxes paid/due do not appear to be a significant element in determining retained profits.)

This approach shows that while the companies were largely not profitable, they still generated a positive cash flow of €12.1 million. However, this was again a substantial reduction on the previous year's performance, when cash generation had been €19.62 million. There was a noticeable difference here though. Northern Ireland companies saw their cash generation fall by some 13% while the cash generation amongst Ireland's companies was 57% lower than the previous year.

In summary, the profile of the sample is that many were loss making in 2010, but still generating a positive cash flow. However, as discussed previously, construction activity has continued to contract in 2011 over 2010. This, combined with the deterioration in 2010 compared to 2009 (when a contraction in the market was seen), suggests that a further possibly substantial reduction in cash generation will have occurred in 2011.

Balance Sheet Movements

Findings from the review of the balance sheets are as follows:

1. Stocks, debtors and creditors all saw a reduction in 2010 over 2009. The reduction in stocks was €3.38 million, the reduction in debtors was €15.55 million and the reduction in creditors was €18.84 million. What is interesting in these figures is that the total reduction in stocks and debtors is quite close to the reduction in creditors. In some of the accounts, the creditors figure does not distinguish between trade creditors and short term bank facilities and so it is not possible to say what particular creditors have been reduced. It is also possible that the reduction in debtors was caused in part by write-offs of sums due from customers – again it is not possible to extract these.

However, it is of interest that the reduction in these current assets almost matched the reduction in creditors and it may be inferred that creditors are being serviced through more diligent debtor management. The trend seen here was confirmed in the consultations, which led to the view that credit was not being extended to the industry, but was in fact being reduced. Where bank borrowings are shown, total financing –i.e. long term loans, short term loans and lease/finance obligations– fell from €55.21 million in 2009 to €45.82 million in 2010, a reduction of €9.39 million or 17%.

There is a perception within the industry that the construction materials sector is dependent on trade and bank credit to a significant extent. The consultations and the evidence of the accounts available suggest that the dependency on these sources is based on the current levels of credit largely remaining in place and not on credit from these sources being extended further.

2. The cash at bank held by the twenty companies in 2010 was €27.2 million. There were some significant variations in the amounts held by individual companies, from very low amounts to significant sums and while the sample that was obtained might not represent the entire sector, there does appear to be a case where it can be said that a number of companies – if not the sector as a whole – have sufficient reserves to remain in business at least in the short term. While some company closures have occurred and others will occur in the future, the position revealed by this analysis supports the views expressed to us that while an industry shake-out should have be seen by now, it has not been seen to the extent that might have been expected. Making forecasts in the midst of a recession is fraught with difficulty, but the evidence found suggests that while some individual companies could fail in the near future, there are companies that are generating cash and have reasonable reserves that will sustain them for some time to come.

3. Where disclosed, the remuneration of the Directors of the companies fell from €3.43 million in 2009 to €2.50 million in 2010. These outgoings will have been accounted for in the retained earnings.

4. We also note that fixed assets were reduced. This is accounted for to a significant extent by the depreciation charge. However, we also note that disposal of assets occurred, mainly in mobile plant. Disposals are estimated at the order of €6.60 million. There are no indications as to whether these were disposed of at a profit, but any such profit will have been taken into account in the retained earnings figure.

Indications

This analysis is based on available accounts and on the availability of information therein and might not be a scientific survey of the sector as a whole. However, the available information is representative of the views expressed in the consultations that many companies are remaining in operation, primarily because they produce a positive cash flow. This positive cash flow is being supported through the sale of fixed assets, reduced director remuneration and, in individual cases, the re-investment of reserves that were built up during the mid-2000s.

During the consultations, it was observed by industry interests that the companies in the sector could be categorised into two groups; those who maintained a strategic focus and concentrated on the construction materials sector, and those who diversified into sectors such as property development or hotel accommodation. It was felt that those in the latter category would have suffered substantially from the severe reductions in property values and property occupancy in recent years and therefore would be the more likely to suffer from a shortage of financial reserves.

There is a concern within the industry that companies that did not retain reserves may go out of business through liquidation/receivership and can recommence operations as “phoenix” companies with significant debt reductions. It is perceived that this would give such companies a competitive advantage. Under current legislation, it is possible that companies can enter liquidation/receivership processes and the assets can be purchased back by the directors of the previous entity, except in certain specific circumstances. Companies that are facing financial difficulties can also seek to enter an examinership process, which could, under particular circumstances, see a portion of their indebtedness written off, with the agreement of the creditors.
While recognising the perception amongst industry participants that this is “unfair competition”, there is little likelihood of any changes in the current legislative provisions that will affect the current provisions.
Across the industry, reliance on third party credit is falling and it appears that while major creditors are seeing their exposures reduced and while the industry is generating some cash, then in the absence of precipitative action, the indications are that many companies in the sector may stay in existence for a substantial period. There is the possibility that many owners are reinvesting reserves into the company on the basis that they have provided personal guarantees for loans extended to them which if exercised would mean their personal assets being provided to creditors.
We caution against applying these generalised indicators to individual cases as our research shows that some are in a perilous state and unless new business can be found, they may be in danger of having to exit the sector in the short term.

5.2 Success factors

Based on the previous analysis, a generic profile of successful companies in the industry is provided in this section. With a random sample of this nature and in the absence of consultation with all the companies that were taken into that sample, it is difficult to be specific about the factors that differentiate the profitable from the unprofitable companies. However, the following is a list of characteristics found in most of the profitable companies analysed:

1. 70% of the profitable companies are in the precast concrete products sector and have developed markets in Great Britain and across the island of Ireland.

2. The majority of the precast companies found to be profitable were active at the higher end of the product category in terms of technical requirements and/or expertise involved in design and production of the items. Some of these companies would be recognised as leaders in particular product segments or niches.

3. About half of the profitable companies that are involved in precast also supply readymix concrete and aggregates and two of the profitable companies are involved in asphalt supply.

4. The non-precast companies in the profitable category appear to have focused more on the civil engineering market segment rather than the residential or commercial segments.

5. Most of the profitable companies would have been considered to be large companies – i.e. in excess of 50 employees at their peak; and some would have been substantially larger than this.

6. The profitable companies are all long established businesses.

This profile suggests that long established companies that have a focus on those product/market categories that are relatively less affected by the downturn in construction (i.e. precast concrete and infrastructure) tend to be the profitable companies. However, the corollary is not true, i.e. the loss making companies include some that were very active in precast concrete and infrastructure and some that are long established and would have been classed as large companies at their peak. This suggests that strong management and firm competitiveness play an extremely important role in determining success. It is noticeable, for example, that Northern Ireland precast companies have succeeded in winning work in Ireland, whereas we were unable to find examples from Ireland securing contracts in Northern Ireland. Such examples may exist, but none were identified through the research.

6. Options for the industry

This chapter sets out to define the nature of the overcapacity in the sector; then evaluates the strategic options available to businesses in the sector to tackle this issue.

6.1 The scale and nature of the industry over-capacity

Table 10 previously showed the estimated industry capacity and utilisation as of the end of 2011. In summary and allowing for the relevant scale of the different product segments, it is concluded that overall industry capacity utilisation in the island of Ireland is currently of the order of 27%.

From Table 1, which shows the Gross Value Added (GVA) for construction in Northern Ireland and the GVA for the region as a whole, it is deduced that construction's share of GVA is estimated at 6.2% for 2010. Using the construction output as shown in the NI Construction Quarterly reports and using the Eurostat figure for regional GDP, we deduce a construction to regional GDP percentage of 8.8% in 2006 and just below 8% in 2010.

Tables 2 and 4 shown previously provide the GDP of Ireland (ROI) and the output of the construction sector respectively. From these it is deduced that construction's share of ROI GDP was 8.0% in 2010. It is currently estimated that ROI GDP will increase marginally in 2011, but the construction output is estimated to have fallen by some 25%. This means that for 2011, ROI construction will account for close to 6.0% of ROI GDP.

It may thus be deduced that for the island as a whole, construction output as a percentage of GDP is of the order of 6.5%.

According to CEN (The European Committee for Standardization) the construction sector is one of Europe's biggest industries accounting for 10% of GDP in 2010. The sector employs directly 12 million EU citizens with 26 million workers dependent on the sector.

In addition, approximately 92% of manufacturers of construction materials amounting to 65,000 enterprises are SMEs with fewer than 250 employees[11]. It was noted that "the economic downturn has hit the EU construction hard with companies across the EU going bankrupt and workers losing their livelihood." Previous reports issued by economic commentators[12] put average EU construction output as a percentage of GDP at higher levels in previous years, ranging from 12% to 14% during the last decade.

If, when Ireland recovers to a more normal level of economic activity, it is assumed that its construction output will mirror that of other EU Member States, then it may be expected that construction in the island of Ireland will represent some 12% to 14% of GDP. It may be argued that it should be at the higher end of this level, given that we have a younger population than the EU on average and we therefore have a greater need for new housing. In addition, the recognised infrastructure deficit should require higher levels of development in that area. However, we assume that future "property bubbles" will not drive construction activity to levels higher than 14% of GDP.

At around that level of activity, the required capacity for the construction materials would be 63% of current capacity. This infers in turn that the current capacity can be defined as being of the order of:

Capacity in use	27%
Cyclical over-capacity	36%
Structural over-capacity	37%

Cyclical over-capacity is capacity that will be required when the economic cycle shows recovery, the structural over-capacity will not be required in a normally operating economy. It would normally be expected that where capacity utilisation has fallen to the extent that it has in this industry, capacity would be reduced through closures and disposal of plant. This is referred to as "shakeout" and usually it is the less competitive businesses that close earlier.

[11] Committee on the Internal Market and Consumer Protection of the European Parliament – EU Parliament document 10753/3/2010 – C7-0267/2010 – 2008/0098 (COD)

[12] e.g. Irish Construction – Constructive Thinking, Goodbody Stockbrokers, October 2006

Within the construction materials sector however, there are many examples of locations being closed – though on a temporary basis. Such locations are capable of being reactivated very quickly and without any significant expenditure. The view taken in this review is that capacity that has been "mothballed" has not in fact been taken out of use and therefore capacity has not been removed or eliminated.

While some closures of companies have taken place, the levels of closure have not matched the level of capacity that is not being used and therefore the expected "shake-out" has not been evident.

A search of a range of databases relating to insolvency activity showed that the number of company insolvencies within the construction industry over the past three years was 932 in Ireland. It was not possible to obtain similar data for Northern Ireland. The figure of 932 includes all types of companies within the construction industry and it was not possible to identify the number of companies involved in construction materials sector. The views of consultees is that the level of insolvencies amongst building contractors and developers has – in relative terms – been much greater than in the construction materials sector.

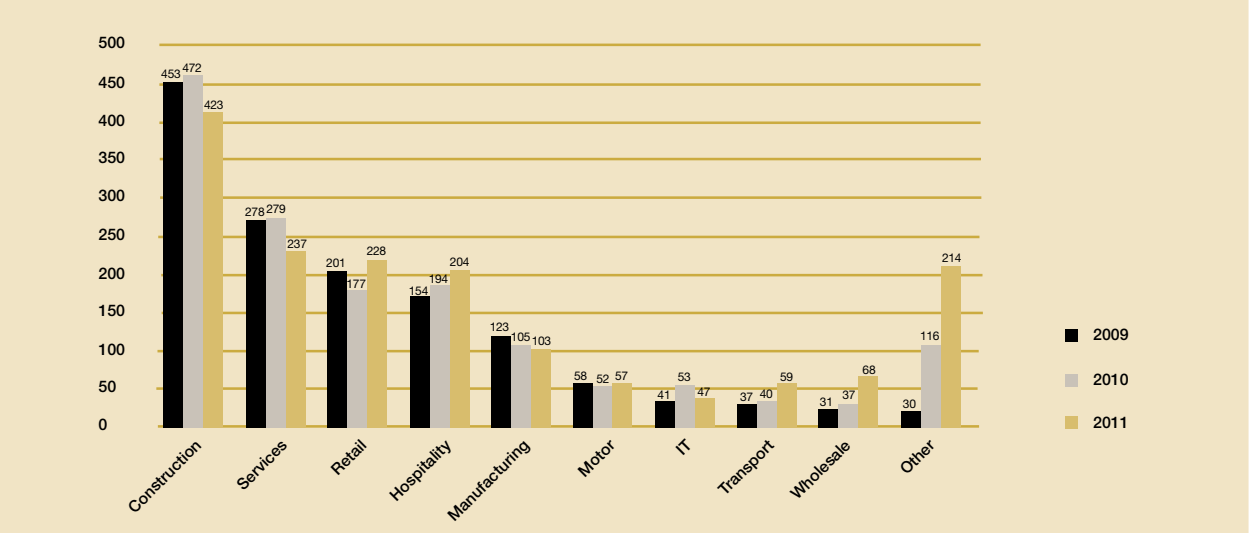
When compared to other industries it can be seen that the construction industry has experienced substantially more insolvencies, with construction industry insolvencies running at nearly double that of the services industry which had the second highest number of insolvencies over the period.

A key question is whether the levels of closure/ insolvency in the construction materials sector will accelerate in future years.

The financial review shown previously in chapter 5 looked at the financial performance of a sample of companies in 2010. Market demand fell further in 2011 and thus it should be expected that the financial position of the industry will have worsened to some extent. It infers that a further drain on reserves has occurred. Reference was also made to the need within the industry for the continuation of the support from suppliers and from the financial services sector. The indications are that these are not providing any further funding, therefore the survival of many materials companies depends on the length of time for which these individual companies can supplement their losses; or on how long the owners/directors are willing to subsidise losses.

In the context of this form of over-capacity and the absence, so far, of an industry shake-out, the following section reviews the strategic options that individual companies might consider.

Figure 8: Total Insolvencies by Industry - Comparison from 2009 to 2011



Source: insolvencyjournal.ie

6.2 Strategic options at company level

At the level of individual companies, there are in theory a number of options that may be availed of to address the current situation and allow them to address the issue of individual company over-capacity. These are illustrated in Figure 9.

Figure 9: Company Level Strategic Options

The Growth Option

The growth option is exercised by developing more business with the existing product range (i.e. readymix concrete, asphalt, aggregates and pre-cast concrete) and within the existing market.

During the consultations the discussion on opportunities for growth prompted the following views:

- The market on the island is likely to remain depressed, or decline further, though asphalt may see a more stable market if current indications that road maintenance and repairs will remain a priority in the public spending plans are met.

- In Great Britain, the Markit/CIPS UK Construction PMI for December 2011 recorded a figure of 53.2, this being the 12th consecutive month in which growth was seen. [13] The figure for December was slightly higher than in November 2011 (at 52.3). However, the PMIs are just over the "static" index measure of 50.0, which indicates that growth is moderate.

- Purchasing managers in the three sub-sectors - housing, commercial and civil engineering - reported rises in the December 2011 survey, the first time there had been growth in all segments in nine months. New business also grew for the third straight month but at a slower rate. The report indicated that purchasing managers expect to see some growth in 2012 but there are concerns over market conditions and client confidence.

Given these market conditions, it appears that it is difficult for any company in the sector in Ireland or Northern Ireland to anticipate growth in their existing markets for the medium term.

Reference has been made to some market segments that may provide opportunities. These include the agriculture segment and new developments in wind farms.

Prior to the substantial expansion in output in Ireland's construction, agriculture accounted for the order of 1% of construction output. (A similar breakdown was not available for Northern Ireland.) Grant schemes for farm infrastructure caused spending on farm buildings to expand, and in the period after 2007, when housing demand fell sharply, many producers relied on the agriculture sector to provide strong demand. However, the cessation of the grant schemes has seen agricultural demand fall and in the absence of any future grant schemes, it is difficult to see any substantial increase in this sector in the short term.

Agriculture is facing a prolonged period of further investment as milk quotas are abolished and production should expand, which should in turn promote food and agri-product exports. This will create a benign environment for expenditure on new farm facilities, but this is a long term prospect. However, while such developments will be welcome and individual

[13] In PMI, an index of 50.0 signifies no change; an index in excess of 50 shows growth while an index of less than 50 shows decline.

companies may benefit substantially, it is unlikely that agriculture will provide significant volumes of business for the sector as a whole.

In relation to wind farms, the main use of concrete products is expected to be in building the base for the generator sets and the access roads. Consultees advise that a base could contain 300 m3 to 500 m3 of readymix concrete. Each base should have a value of the order of €18,000 to €30,000 (£15,000 to £25,000) though the actual price may be lower due to competition amongst prospective suppliers. Northern Ireland plans to increase the output from wind farms by some five times by 2020, so there should be an attractive long term demand. However, while attractive, such business would not be as beneficial as an improvement in the housing, infrastructure or commercial sectors. Overall, under the current market conditions some companies may see a degree of buoyancy but few will be able to rely on market growth to address the cyclical over-capacity for some time.

The Expansion Option

The expansion option is defined here as developing new customers or new markets for the existing product range.

The previous discussion defined the existing markets for companies in the sector in geographic terms. The consultations lead us to the conclusion that in effect, all companies in the construction materials sector are working within those geographic areas within which they can operate competitively.

The exercise of this option therefore depends to a substantial extent on the scale of opportunities for product substitution. In some areas the scope for product substitution is limited. Foundations will continue to be made of concrete and roads will require asphalt, concrete and aggregates.

In the past, competition for the concrete sector came from two sources; namely timber frame construction for housing and structural steel for the frameworks of commercial buildings, such as office blocks or hotels. These other materials have suffered in the current construction sector recession and when the sector improves, it is anticipated that there will be on-going competition. (In ROI, PRODCOM data provided by the Central Statistics Office show that the value of production of “Prefabricated buildings made of wood” fell from €165.7 million in 2007 to €36.9 million in 2010 – a reduction of some 78 %.) Much of the marketing efforts of each of these product categories have in the past been directed towards the “specifiers”, namely the property developers and professional advisers such as architects or consultant engineers.

In the current market conditions, the potential for developing new customers is severely limited.

The Development Option

The development option is defined as developing more business within the existing markets by expanding the existing product range through new product development. This option would for the most part require companies to develop into higher value products, i.e. from aggregates and readymix concrete to asphalt production or to precast. There are some considerations in respect of this option however:

1. The new product areas would require particular skills to be added to a company’s capability. Asphalt and precast concrete require a certain level of technical capability that is not necessarily available in a ready mix concrete or aggregates supplier. In particular, specific designs of load bearing precast concrete can be technically complex; needing design engineering skills to ensure that the design is robust and fit for purpose.

2. The investment needed to manufacture such higher value products is not likely to be justified on the basis of demand in local markets such as those readily served by aggregate or readymix suppliers. Therefore,

dependence would be on larger regional, national or, in the case of precast concrete, international markets. There are no indications of any shortfall between demand and supply and therefore any business developed by individual companies would constitute displacement from other companies. This option – if acted upon by individual companies - would not address the scale or nature of the overcapacity across the island.

From the consultations it is deduced that the development option would be more readily available to Northern Ireland companies than their counterparts in Ireland given the competitive advantages detailed in Chapter 8. In summary, from an individual company perspective, this may be an option, but the overall impact would not affect the levels of capacity utilisation. The option could in fact see overall production capacity increase if new plant were to be invested in and may simply lead to displacement of business.

The Diversification Option

The diversification option is defined as developing business in the new markets by expanding the existing product range through new product introduction. In many ways this is merely a combination of the two previous options and while some individual companies may consider such a course of action; it too would not reduce the levels of industry over-capacity.
For the most part, companies in the construction materials sector rely on local markets. Precast concrete companies and those companies with a unique skill or product may look at broader markets. Consequently, in the absence of local demand for construction services, most construction materials suppliers have little option other than to reduce costs to the greatest extent possible and seek to outlast the slowdown in demand. Developing into wider geographic markets requires a combination of a transportable product, such as precast, or a unique product; with competitiveness and good management skills.

6.3 Corporate debt reduction

In the event of a company not being able to take any action to reduce capacity and finally exhausting its financial reserves it would normally expect to be approaching a state of insolvency. However, there are procedures available in both Northern Ireland and Ireland which may allow a company to restructure its corporate debt and remain in business. Some of these potential courses of action will not of themselves address any of the overcapacity in the industry. Indeed, liquidation and receiverships might not, in every case, lead to a reduction in industry capacity.

Outlined below are the various processes open to companies in both jurisdictions, noting that there are differences in the processes and those that are available. Table 13 following, provides a summary of the processes available in each jurisdiction.

Table 13: Corporate debt restructuring processes in Ireland and Northern Ireland

Process	NI	Ireland
Administration	✔	✘
CVA (Company Voluntary Arrangement)	✔	✘
Examinership	✘	✔
Liquidation	✔	✔
Receivership	✔	✔

Ireland

When a company becomes insolvent it can be placed into one of the following three processes dependent on the level of insolvency it is experiencing.

Liquidation

Under Irish law, the liquidation or winding-up of a company, in other words, its legal death, can take one of two forms. It can be a winding-up by order of the court (also known as an official liquidation). Far more frequently, however, it will be a voluntary winding-up (which, in turn, may be either a members' voluntary winding-up, or a creditor's voluntary winding-up).

1. A Creditors' Voluntary Liquidation is the most commonly used procedure for dealing with an insolvent company. In summary, this process is usually initiated by the insolvent company, acting through its board. In a Creditors' Voluntary Liquidation, the liquidator is primarily concerned with the interests of the creditors.

2. A Members' Voluntary Liquidation is a mechanism whereby a solvent company, acting through its directors and members, decides to wind-up a company, primarily for the purpose of selling its assets and distributing the surplus to its shareholders.

Examinership

Examinership is an alternative to liquidation. The Companies (Amendment) Act, 1990 introduced the examinership process to provide a mechanism for the rescue and return to health of ailing, but potentially viable, company.

An application is made to a court of law to appoint an Examiner. An application is usually made by the company itself, but it can be made by the directors, creditors, contingent or prospective creditors - including the employees.

The Examiner's primary function is to evaluate the company's viability and if it is salvageable, the Examiner is responsible for developing a long-term survival plan. Once an Examiner has been appointed, the company goes under the protection of the court. This means that for the period in which the company is under examinership, no application can be made to wind up the company, nor can a receiver be appointed.

Receivership

Receivership is not usually initiated by the company itself but rather by its creditors. It normally arises when the company has defaulted on a contract to repay loans or debts outstanding. The Receiver's primary role is to recover the money owing to the creditor and in theory; the company can continue trading while in Receivership. However, in order to recover the creditor's money the Receiver may have to sell off assets to the point that the company can no longer continue to operate. In those circumstances, the company is likely to end up in liquidation. Although historically and virtually exclusively a process used by banks as a means of recovery, it is a procedure of last resort in the lender-borrower relationship.

Northern Ireland

When a company becomes insolvent it can be placed into one of the following four processes dependent on the level of insolvency it is experiencing.

Company Voluntary Arrangement (CVA)

Through a CVA the Directors of an insolvent or potentially insolvent company can put a proposal to its members and creditors for payment of part or all of its debts over a period of time.

It can also be proposed by the administrators or the liquidator of the company but not by creditors or shareholders.

Administration

This takes place after a company, its directors or one or more of its creditors has asked the courts to step in. The court will appoint administrators whose powers are very broad and who replace the existing directors. Administration also protects a company from any legal action. The administrator's primary objective is to keep the company operating as a going concern to achieve the best possible returns for creditors before going into liquidation. The equivalent process in Ireland is called Examinership.

Liquidation

If companies cannot keep operating as a going concern, liquidation may be the only option. This is intended to release as many assets as possible to pay off creditors. Crucially, though, companies in administration cannot be forced into liquidation.

Receivership

While administrators are appointed by the court, an administrative receiver is called in by a bank or other creditor who has a charge over all or most of the assets of a company. The receiver's goal is to act in the interests of the holder of the charge. Legal actions can still be brought and liquidators can still be appointed.

Some of the processes described above are designed to allow potentially viable businesses to remain in operation during a difficult period. However, their use would be expected to lead to capacity being retained within the industry. Many of the consultees expressed concern that some businesses may avail of the types of arrangements described above and may become "phoenix" companies. This could result in such companies becoming much more competitive as a result of reduced debt levels and could be possible under current legislation.

6.4 Strategic options at industry level

At the level of industry, there are a number of potential options that might be considered in respect of addressing the industry's issues, particularly the excess capacity. However, some of these options may have competition law aspects and therefore, if considered, further consultation with the relevant agencies and competition authorities in both jurisdictions would be required.

Structured Reduction

For the purposes of this review, a structured reduction in industry capacity is defined as one that is based on an industry agreement to bring about a reduction in capacity.

It should be stated from the outset of this discussion that consideration of such agreements in Ireland "like all types of collaboration among competitors, must be examined under section 4 of the Act (the Competition Act, 2002) or under Article 101 TFEU (the Treaty on the Functioning of the European Union) where the agreement is capable of affecting trade between Member States. As the BIDS (Beef Industry Development Society Ltd.) case shows, an agreement between competitors to reduce capacity including features such as those in the BIDS agreement will always have the object of preventing, restricting or distorting competition and will therefore be prohibited by section 4(1) of the Act and Article 101(1) TFEU. The critical question therefore will be whether the agreement meets the four cumulative conditions required in order to be exempted from prohibition under section 4(5) (or Article 101(3)). [14]" A similar precondition would exist in Northern Ireland.

In principle therefore, the application of competition law would generally tend to prohibit the setting up of a scheme aimed at reducing industry capacity if either the objective of the agreement were to reduce competition or if the impact of the agreement were to be a reduction in competition.

[14] Notice on Agreements to Reduce Capacity; Document N/11/001; The Competition Authority; Dublin; June 2011

The background to Ireland's Competition Authority paper cited above lies in a proposed structured reduction of capacity in the Irish beef processing industry. This stemmed from a 1998 review of the sector and the planned implementation of the scheme in 2002. A perception at the time was that the Synthetic Fibres case (1984) in which the EU Commission dealt with an agreement notified by the main European producers of synthetic fibres to reduce capacity in that industry and the Stichting Baksteen case (1994 - also known as the Dutch Bricks case) in which the Commission dealt with an agreement providing for a collective reduction in capacity in the Dutch bricks industry, provided a basis for the Irish beef sector rationalisation. The Commission's traditional approach to the application of competition law to industry rationalisation agreements had been to draw a distinction between cyclical overcapacity and structural overcapacity; and the Commission's decisions in these cases implied that agreements between market participants to reduce capacity in the context of structural overcapacity could satisfy the conditions for exemption set out in Article 101(3) TFEU11.

However, thinking in respect of these conditions has developed and the Competition Authority "is of the view that the analysis conducted by the Commission in the past in respect of cases dealing with agreements to reduce capacity (including the Synthetic Fibres and Dutch Bricks cases) is inconsistent with the current approach of the Commission as reflected in the Guidelines[15] and that the distinction between cyclical overcapacity and structural overcapacity should no longer be considered relevant." [16]A further consideration is that in the cases referred to, capacity reduction took place across all companies in the sector – there were no individual company cessations.

In the BIDS case, the 1998 review identified overcapacity in the Irish beef industry and some industry rationalisation was proposed. To implement this scheme, a corporate vehicle, the Beef Industry Development Society Ltd. (BIDS) was set up in 2002. Ten beef processing companies became members of BIDS. The aim was to achieve a 25% reduction in processing capacity in the industry. The industry would be composed of those leaving the industry (the "goers") and those remaining in the industry (the "stayers"). The "goers" would decommission their plants; sell plant only to "stayers" or foreign purchasers and agree non-competing clauses. In return, the "stayers" would compensate the "goers" through a levy per head of cattle slaughtered.

The Competition Authority initiated civil proceedings against the proposed scheme and the case was argued first in the High Court and then in Supreme Court. The latter referred a question to the European Court of Justice which subsequently concluded that an agreement with the features of the BIDS agreement had as its object the prevention, restriction or distortion of competition within the meaning of Article 101(1) TFEU[17]. Therefore the BIDS agreement was in breach of competition law.

The remaining question was whether the BIDS agreement could benefit from the exemption provided for under article 101(3) TFEU. However, BIDS withdrew its claim before the High Court and so no determination was made in respect of this potential exemption.

The view of the Competition Authority is that "an agreement to reduce capacity, such as the BIDS agreement, must meet the four conditions of Article 101(3) as of the date of its proposed implementation." [18] Thus timing may be critical in considering any proposed scheme. Furthermore, the Authority takes the view that the nature of the over-capacity, i.e. whether it is cyclical or structural, is irrelevant.

The first condition under Article 101(3) is that "the agreement contributes to improving the production or distribution of goods or to promoting technical or economic progress"[19]. The efficiency gains that are claimed to flow from the agreement must outweigh its anti-competitive effects and all efficiency claims must be substantiated.

[15] The Commissions Guidelines to Article 101

[16] Notice on Agreements to Reduce Capacity; Document N/11/001; The Competition Authority; Dublin; June 2011

[17] Ibid

[18] Ibid

[19] Ibid

The second condition under Article 101(3) is that "consumers must receive a fair share of the efficiencies resulting from the restrictive agreement."[20] The term "consumers" includes both direct and indirect users of the products covered by the agreement. The concept of "fair share" implies that the passing-on of efficiencies must at least compensate consumers for any negative effects of the agreement, i.e. consumers must not be worse off as a result of the agreement.

The third condition under Article 101(3) is that "the agreement does not impose on the undertakings concerned restrictions which are not indispensable to the attainment of the objectives of improving the production or distribution of goods or to promoting technical or economic progress".[21] In other words, any restrictions placed on the companies involved in the agreement must be necessary for the achievement of the claimed efficiency gains.

The fourth and final condition under Article 101(3) is that "the agreement must not afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products concerned."[22] In effect the agreement must ensure that there is no elimination of competition.

All the four tests or conditions must be met if any proposed capacity reduction agreement is to be considered as potentially not being in breach of competition law.

This study does not contain the type of analysis that would be required to enable a view on the potential of any proposed scheme to be considered. The construction materials industry itself must consider whether any such rationalisation proposals merit further study. However, it can be said that the position of the regulatory authorities, whether in the individual jurisdictions or the EU is that any such arrangements or schemes would be a breach of competition law and thus approval, if ever attained, would require substantial work on the part of the industry.

Company Acquisition or Mergers

The Competition Authority document[23] says that:

"In the case of agreements aimed at reducing capacity, one important question is whether market forces could have solved within a reasonable period of time the problem of overcapacity without the collective intervention of individual undertakings being necessary. A general rule in a well-functioning free market economy is that market forces alone should remove unnecessary capacity from a market. It is for each undertaking to decide for itself whether and at which point in time, its overcapacity becomes economically unsustainable and to take the necessary steps to reduce it. Hence, it is important to consider whether competition would itself correct overcapacity problems and would, within a reasonable period of time, bring the market back to equilibrium, without any need for coordination between the undertakings on the market.

However, there may be situations where problems of overcapacity are not likely to be remedied by market forces alone within a reasonable time. In this situation, it would need to be assessed whether there is a credible possibility that excess capacity could not be reduced by way of mergers or specialisation agreements."

This indicates that mergers or corporate actions that could be defined as "specialisation agreements" could potentially be put in place and not be in breach of competition law.

The general rule for mandatory notification of a proposed merger to the Competition Authority is if, in the most recent financial year;

- The world-wide turnover of each of two or more of the undertakings involved in the merger or acquisition is not less than €40,000,000,

- Each of two or more of the undertakings involved in the merger or acquisition carries on business in any part of the island of Ireland and

[20] Ibid
[21] Ibid
[22] Ibid
[23] Notice on Agreements to Reduce Capacity; Document N/11/001; The Competition Authority; Dublin; June 2011

- The turnover in the State of any one of the undertakings involved in the merger or acquisition is not less than €40,000,000. This limit is £70,000,000 for companies in the UK.

There are exceptions this rule in areas such as media and banking. It would appear that many of the firms in the sector would not exceed the turnover threshold; however, the relevant competition body can examine a merger if it considers that there is a potential impact on competition in the market. The market would be likely to be defined as the area/region within which the new merged entity would operate and the test is fundamentally whether or not there is a "substantial lessening of competition". Any lessening of competition might not be an objective of the merger, but if it has the impact of lessening competition, it may be in breach of competition rules.

It is possible that mergers of companies would not breach competition rules. However, it is not possible within the scope of this review to define the circumstances under which such mergers would be, or may not be, compliant with competition law. Each proposed merger would be assessed on a case-by-case basis; and where interest in a potential merger exists, we recommended that early informal consultation with the relevant competition body be undertaken.

Co-operation on production facilities

The reference by the Competition Authority to "specialisation agreements" allows potentially for arrangements such as sharing production facilities. This would allow capacity to be reduced and costs to be saved. This should help to improve competitiveness, but as in other cases described, if there is a "substantial lessening of competition" in the relevant market area, the agreement may be in breach of competition law.

Where there is competition in the market and where a specialisation agreement would reduce costs and capacity and where the benefits are shared with the customers, then it is possible that this course of action could be beneficial to the industry and to its customers. This includes cases where the unused plant is decommissioned and disposed of rather than sold to a third party – thus reducing industry capacity.
The difficulty with this form of agreement is one of practical implementation. The nature of the industry is that any corporate action that will allow capacity to be eliminated and costs to be reduced will, for the most part, take place between enterprises that are in close geographic proximity and that have been in competition with each other, possibly for generations. A merger between, say, readymix concrete producers in Cork and Tyrone would not provide any production or logistics cost savings or benefits.

The key to any merger or specialisation agreement, assuming that it is does not contravene competition rules, is reaching an agreement in which both parties feel that they are securing a fair share of the benefits. Arranging a merger usually requires disclosure of confidential information and businesses are generally unhappy about disclosing sensitive information to their nearest and sometimes fiercest competitor.
There may be a role for an independent assessor that could evaluate the potential benefits of any merger or specialisation agreement and this would lead to the parties sharing information only where there is a case for substantive benefits and a willingness on the part of the parties to seriously consider such a move.

As with the case of mergers, it is not possible within the scope of this review to define the circumstances under which specialisation agreements would be; or may not be; compliant with competition law. Each proposed agreement would be assessed on a case-by-case basis and where interest in a potential agreement exists, we recommended that early informal consultation with the relevant competition body be undertaken.

The experience of industry-wide attempts at industry rationalisation such as that of the BIDS case, suggests that such approaches would be subject to close examination by the relevant competition bodies and it appears that it would be difficult to design such a

scheme that remains compliant with competition law. There may be opportunities for individual companies to make local arrangements that would not be considered to contravene competition law. It is not possible in a report of this nature to prescribe the circumstances where this may be possible, as each case would be assessed on its particular merits.

In general, given the local nature of the markets for construction materials companies, it is likely that the generation of operational benefits from co-operation arrangements are most likely to be found where companies are located reasonably close to each other. This is likely to raise difficulties in the exchange of information. In such cases, consideration might be given to the use of confidential third parties that could evaluate the merits or otherwise of specialist agreements. Such an approach could take place alongside informal consultations with the relevant competition authorities regarding potential issues inherent in any particular arrangement.

While such arrangements as those described above may not suit particular businesses; the option of a unilateral temporary closure may be worthy of consideration by individual companies. Much depends on the particular circumstances that a business finds itself in, but the option of temporary closure that would bring about a cessation of loss making activities that would maintain aggregate reserves and that would allow for the maintenance of plant, might merit consideration, again on a company-by-company basis.

7. Regulations, Certification and Enforcement

This section of the report aims to outline the key areas of concern within the industry based on the research and consultation exercise. It is not intended thus to provide a review of the entire regulatory environment of the sector.

There is a widespread view that the burden of compliance falls on the compliant and that insufficient action is taken with non-compliant operations. This view is drawn in part from the perception that the sector has to deal with a wide range of regulatory agencies, including local councils/local authorities in the case of planning matters and conformity to planning approvals; the relevant environmental agencies in respect of the environmental aspects of operations; the relevant health and safety authorities; the security forces in respect of explosives uses as well as the range of taxation and corporate compliance bodies. For smaller companies, the burden of compliance is regarded as very high.

The views on the burden of compliance are driven in part by what is seen as a failure on the part of the regulatory authorities to address the issue of non-compliant companies, especially in Ireland. The issue is not as significant now as it was some years ago when business volumes were very high. The common perception is that local authorities, who are the planning enforcement bodies, have been slow or have failed to act to address the issue of persons operating quarries that did not have planning approval. This lack of enforcement is alleged to have included not only business between building contractors and aggregate suppliers in areas such as housing, office and commercial developments but also building contractors carrying out public works contracts such as new road construction.

It is not possible to estimate the extent of such non-compliant trading, though the indications are that in the absence of major public works contracts and housing or commercial developments; the scale of such activity has diminished. Much material is now purchased directly by local authorities for their known road maintenance works, and local authorities ensure that all their direct suppliers are compliant. However, such compliance checks do not appear to be in place or carried out in cases where the purchasing of the aggregates is carried out by a contractor.

Issues have arisen in the recent past regarding the quality and fitness for purpose of aggregates supplied by some companies. To address these issues, there is a view in the industry that consideration should be given to the setting up of a certification system, possibly with statutory backing, for the construction materials sector and particularly for aggregates. There is a certification process in pace for readymix concrete, normally based on the European standard EN 206. There is a European standard for aggregates,[24] but it relates only to stone sizes and not the material content.

This form of system would be similar to the current certification system. It would require operators to set up facilities to test and certify their product; to retain samples of product and to provide certificates to purchasers and where appropriate to end-users. The requirement for such certification should be included in construction contracts, whether public works or private sector contracts. Such a system should be monitored and approved as required by the relevant national body. We understand that an annex to EN 993-1 is under consideration for Ireland.

In the future all construction materials specified and manufactured for construction projects should be produced in accordance to the relevant European standard. A requirement for certification of materials and products stating compliance to the relevant European standard, would lead to consistency and conformity

[24] EN 933-1: Test for geometrical properties of aggregates - Part 1: determination of particle size distribution - Sieving method

in the quality standards of construction materials in Irish construction projects. An example of this is the development by the Irish Concrete Federation (ICF) of the National Annex to the European concrete standard (EN 206) and the parallel mandatory third party certification system which was introduced by the Department of Agriculture and Food in order to raise standard for concrete for use in agricultural buildings.

It is recognised that many companies do already operate certification systems, so there should be additional costs only in exceptional cases. However, the key benefit of such an approach would be to raise standards and should curtail, if not eliminate non-compliant operators.

In summary, there are two areas where regulation and enforcement should be applied more rigorously, that would raise standards and that would ensure that the industry is not undermined by non-compliant operators.

These are:

1. In the industry's view there is a need for improved product certification and standards. This would not only improve confidence in the industry, but would reduce the potential for non-compliant businesses to undermine the sector; and

2. There is a need for stricter enforcement of planning legislation to prevent non-compliant operators from coming into existence.

8. Cross-border insights

Cross-border trade

Unfortunately, in assessing levels of cross-border trade there is no exact match for construction materials in the figures from the Central Statistics Office or the Department of Enterprise, Trade and Investment.

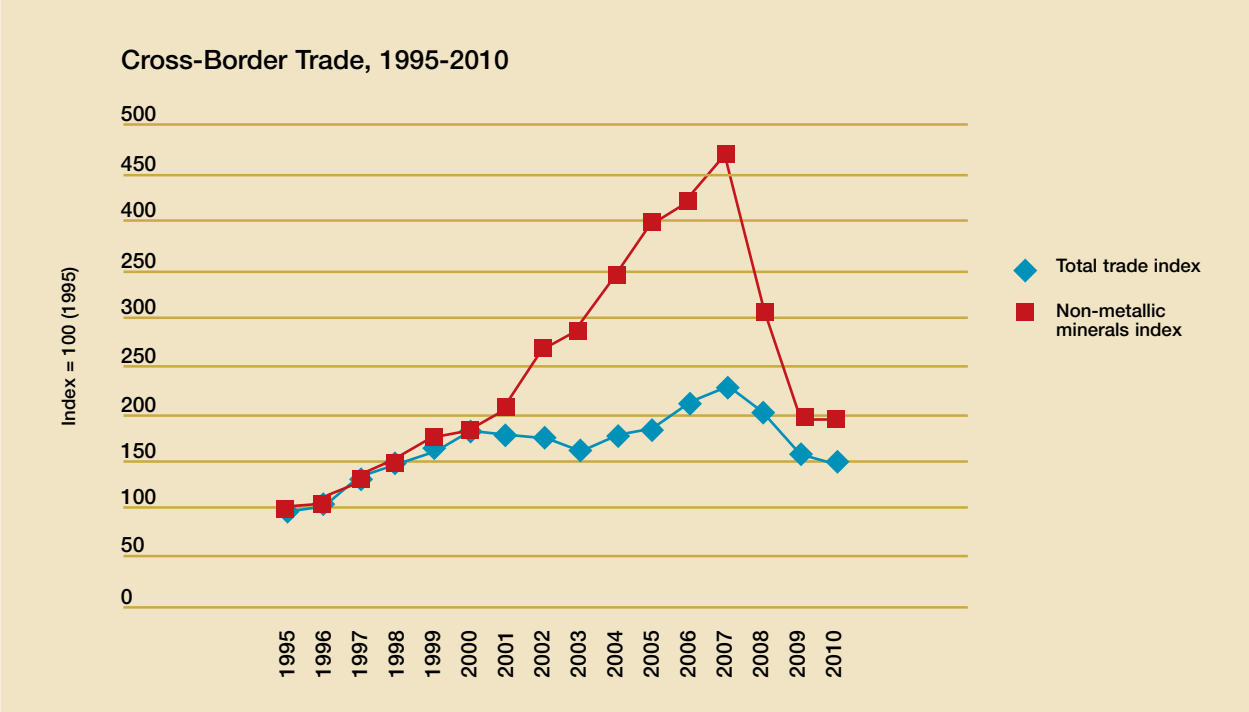
For our purposes in showing the importance of this sector to cross-border trade we have used the closest category which is SIC(07) code 23 which covers 'manufacture of other non-metallic mineral products'. This is one of 12 manufacturing sectors used by InterTradeIreland in its trade statistics website.[25]

The non-metallic minerals sector has grown in the 2000s to become a significant one for cross-border trade. In 2000 the sector accounted for €162.5m or 5% of the total manufactured goods crossing the border in both directions. By 2007 this had increased more than 2½ times to €421m or 11% of total cross-border trade. The latest annual figures, from 2010, show a decline back to €175.2m (or below 2001 levels) and 7% of the total. Figure 10 shows how the growth in non-metallic minerals, from 2000, far outstripped that of total cross-border trade. It also reveals that the depth of decline after 2007 has been much sharper than that of cross-border trade in general.

From the late 1990s to 2009 Northern Ireland was in a trading surplus with Ireland in the non-metallic minerals sector. As Figure 11 shows, since 2001 North-to-South trade in this sector has grown much faster than in the opposite direction, though in 2009 and 2010 South-to-North trade has been in a surplus position.

A key difference between construction materials companies in Northern Ireland and the Ireland is the differing levels of competitiveness. Northern Irish companies are perceived as being the more competitive, primarily on account of wage and salary differentials, but also on other company operating overheads. For most segments of the industry, the competitive differentials cannot be addressed by product redesign or process change and therefore the agencies can have little

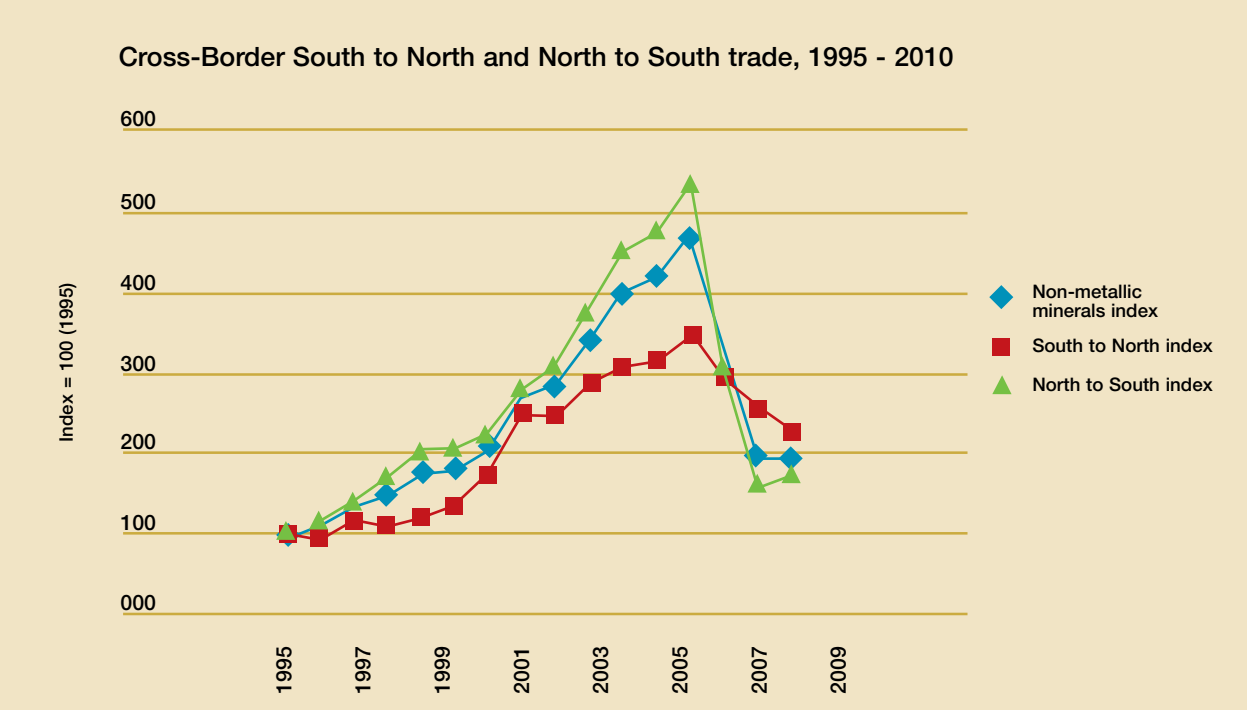
Figure 10: Cross-Border Trade: Manufacturing and Non-metallic minerals 1995-2010



Source: http://www.intertradeireland.com/trade-statistics/

[25] The sector includes cement, concrete, stones but also glass and ceramic goods.

Figure 11: Cross-Border Trade: Non-metallic minerals, South to North and North to South 1995-2010



Source: http://www.intertradeireland.com/trade-statistics/

influence on, or capability to address these differences. The desk research and consultations revealed no fiscal or regulatory barriers to trade across the island for this sector and no requirement with regard to a need to open up the market on the island. Indeed consultees cited examples of precast concrete pipes being delivered by companies from Northern Ireland to southerly counties of Ireland as an example both of the openness of trade and the relative competitiveness of Northern Ireland businesses. This is due, in part, to staff costs and the consensus is that labour costs in Ireland are 40% to 50% higher than in Northern Ireland. The second reason is the wider range of overhead costs and while in some cases such as vehicle fuel, Ireland has an advantage at present in general the Northern Ireland companies are seen as having a cost advantage of the order of 10%.

The barriers to island-wide trade are technical – such as the distance that vehicles can transport readymix concrete before the material becomes unusable – or financial – such as where transport costs are high relative to the value of the loads being transported. These technical and financial conditions exist throughout the sector not only on the island but also internationally. Therefore, in consultations, there was no identified requirement for assistance from agencies to develop new markets in the island of Ireland as a whole.

Opportunities for North/South collaboration

There are areas where cross-border collaboration between departments and agencies from both jurisdictions and between industry actors could bring benefits to the sector.

Standards and product certification

There could be opportunities for north/south cooperation in the adoption or implementation of standards and product certification on an all-island basis. According to a European report “the different national standards and approval systems constitute a barrier to the realisation of the internal market for construction materials”. Having harmonised standards and product certification schemes could contribute to the competitiveness of the industry of the island and increase its export opportunities to European markets. Furthermore, at the European level, it is expected a move towards stronger standardisation and product certification for the sector, therefore the there is the opportunity for the industry on the island to become first-movers in this area.

Innovation

Areas for innovation in the sector include for example, development of smart materials, the use of ICT to optimise production and logistics processes and the use of textile-based materials. Given the nature of the sector, R&D and innovation investment is not as high as in other sectors. InterTradeIreland has helped companies in the sector to become more innovative and efficient through cross-border collaboration. For example, with the Fusion programme, Aughey Screen Ltd originally, a quarry company is working with University of Ulster to design and develop newly identified screen based products and broaden in their current market engagement.

9. Recommendations

Given that the sector is facing a restructuring of significant proportions following a collapse in demand and output, the report proposes a series of recommendations for Government departments, agencies and the construction materials industry to consider and take forward. These recommendations have emerged from the key findings of the research and consultations with the industry and have been categorised into short and medium term.

Short term

- InterTradeIreland to cooperate with industry bodies and agencies to disseminate the findings of this review.

- The agencies and the representative bodies need to interact to explore how existing services and supports could be used more effectively by the sector in both jurisdictions and on a cross-border basis.

- Agencies and industry bodies should prioritise the provision of management skills training for the sector, with a focus on operations management, financial aspects such product costing and profit management.

- Agencies to promote support available for both product innovation – such as glass reinforced concrete – and process innovation – such as improved methods for repairing potholes in roads – that would have spin off benefits for the construction materials sector.

- Agencies to continue the ongoing work in the promotion of sales off the island in the pre-cast concrete product segment, particularly the higher value added end of the product category.

- Agencies to explore opportunities for exporting the intellectual property associated with high quality pre-cast concrete design and potentially providing design bureau services from bases on the island.

- Industry actors should develop and adopt an improved product certification and standards.

- Industry actors and the relevant Departments and agencies to cooperate on exploring the potential for using 'project bank accounts' and for enforcing other regulations to fully protect the construction supply chain.

- Individual companies in the sector should undertake a critical analysis of its current market, sales and financial performance and likely future prospects in order to allow owner/directors to consider the costs of staying in business versus the long term payback that may accrue when the economy improves.

Medium term

- The two governments to address the issue of sustainable levels of capital investment in required infrastructure. Projects where the identified fiscal and economic benefits are substantial and/or substantial private sector investment is available, should be prioritised.

- At the same time maintenance of infrastructure and state buildings constructed during the past ten years should be considered.

- The relevant agencies and Departments to explore options for providing assistance for those made redundant from the sector through retraining to assist them to find employment in other industries and funding mechanisms such as the European Globalisation adjustment Fund (EGF).

- The relevant agencies to work with the industry to explore how regulation of the sector through product certification and improved planning enforcement.

- Work with the construction materials industry to seek the means to bring about improvements in planning enforcement where such improvements are needed.

- Local authorities should seek to plan their demand patterns insofar as possible, so as to enable the industry to respond to demand in the most efficient manner possible.

10. The way forward: a vision for the industry

The analysis emerged from this report as well as the findings of the consultation exercise and the feedback from the steering group that coordinated this study, provided base for the following vision for the Construction Materials industry of the island. It is intended that this proposed vision, provides direction to the industry in the aspiration to re-emerge from the economic crisis as a sustainable and competitive industry.

In succinct terms, a potential vision for the construction materials sector is that:

- It has sufficient capacity that allows it to serve the market efficiently.
- It is smaller than its current scale, but yet is a well managed competitive industry.
- It encourages skills development and capacity-building activities at all levels.
- It has an increased innovation capacity for the development of better and more sustainable products.
- Operates in a fair but strict regulatory environment and has high quality standards assisted by harmonised product certification schemes.
- It maintains the highest health & safety and environmental standards.
- It values its role as custodian of finite resources and
- It generates a fair level of profit that will sustain the industry for the future.

InterTradeIreland

The Trade and Business Development Body
The Old Gasworks Business Park
Kilmorey Street
Newry
Co Down
BT34 2DE

Telephone: 028 3083 4100
(048 from Ireland)
Fax: 028 3083 4155 (048 from Ireland)
Textphone: 028 3083 4164
(048 from Ireland)
Email: info@intertradeireland.com
Web: www.intertradeireland.com