

Barriers to entry

1. The parties and other brick manufacturers have told us that barriers to entry and expansion are very high and primarily relate to:
 - the availability and cost of clay reserves;
 - the difficulty of obtaining planning consent to develop clay reserves; and
 - the cost of developing manufacturing facilities and the minimum economic scale of investment.

Availability of clay

2. Both Ibstock and Hanson told us that the principal barrier to new entry is the availability of suitable clay reserves to support the investment in a new plant, which generally requires a 25-year supply to justify the investment. The parties told us that there is limited availability of sizeable quality clay reserves and that, where adequate reserves exist; it is easier to obtain permission to expand an existing clay quarry than to obtain permits to win previously unexploited clay reserves. This would suggest that prospective new entrants would be likely to find the availability of exploitable clay reserves a practical barrier to entering the market.

Planning consent

3. We were also told by the parties and their competitors that obtaining planning permission for a clay quarry is a significant barrier to entry. York Handmade Bricks told us that obtaining mineral extraction planning permissions is a long and detailed process and it may take up to five years to obtain permission. Wienerberger has also told us that planning permissions have become more onerous as there are more environmental regulations such as Environmental Impact Assessments, increased local area sensitivity and public awareness of the implications of mineral exploitation. This evidence implies that, even if a prospective new entrant obtained appropriate and sufficient clay reserves, there would be a lengthy period of time before it could exert a competitive constraint. We have been told that mineral extraction planning permissions are usually limited to existing sites and that planning permission for a new clay quarry is 'rare'.

Manufacturing facilities

4. With the exception of hand-made or traditional plants, there are significant economies of scale in brick production. As a result, brick factories have a high capital cost, most of which is sunk, creating a significant barrier to entry.¹ We have been told by Hanson and Ibstock that the cost of building a new factory associated with a clay site on a scale sufficient to benefit fully from production scale economies (around 70 million bricks per year) is between £30 million and £40 million and would have a lead time of five years. This excludes working capital and commissioning costs and

¹We are not aware of the plant and equipment having an alternative use other than the production of bricks.

the costs of acquiring the land and clay reserves. Hanson considers that the small number of new brick factories built is due to their high capital cost.²

²Hanson told us that [REDACTED]