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Building Materials Company Ireland Loves to Hate

By BRIAN LAVERY SEPT. 5, 2002

Correction Appended

Ireland's boom years have benefited the construction industry like no other, and they have benefited no company like CRH.

From 1997 to 2001, the company, one of the largest suppliers of building materials in the world, more than doubled its sales, to 10.4 billion euros ($10.3 billion), and its profits, to 582 million euros ($577 million). Even this year, with the world economy slowing and building projects everywhere being delayed, CRH kept growing; on Monday it reported a 7 percent gain in sales and a 5 percent rise in profit for the first half of 2002.

For a company that employs 50,000 workers in 22 countries, including a growing presence in the United States, CRH keeps a remarkably low stance. Its stock accounts for 13 percent of the total value of all shares traded on the Irish Stock Exchange, behind only the country's two giant banks, but its name and logo are nowhere to be seen on its vast fleets of cement mixers and dump trucks. CRH is an immense roll-up, built by acquiring dozens of small companies, generally family owned, in what once was a fragmented industry.

"We try to keep the crusty entrepreneurs on board," CRH's chief executive, Liam O'Mahony, said in an interview. "We keep the family name over the door."

That corporate modesty, though, has made the company a target of intense criticism in Ireland, and on a more muted scale in the United States. Critics say the company tries to use its numerous public names and its extensive political connections as a shield, preserving an illusion of competition in markets that it actually has all but cornered. CRH denies using any improper tactics.

The company has certainly been a very active buyer, spending an average of nearly $100 million a month on acquisitions over the last year and a half. Recent purchases include the EHL Group in Germany and parts of U.S. Aggregates, a bankrupt building materials company with operations in Idaho and Alabama. It is in talks to buy a cement plant in Egypt.

CRH bought 25 businesses in the United States last year, the largest being Mount Hope Rock Products in Wharton, N.J., for $144 million. CRH's American holding company, Oldcastle, is the leading American producer of asphalt, the No. 4 producer of aggregates, and No. 15 in ready-mix concrete. It owns companies that are regional leaders in glass, brick and precast products. In the New York area, it owns Tilcon and New York Trap Rock, major suppliers of aggregate and crushed rock for construction.

But the place where its weight is felt most, and where it has thrown off the most sparks, is Ireland. Mainly through Irish Cement, its main subsidiary here, CRH controls 80 percent of the Irish building materials market. For 60 years until 1993, the company was the only one licensed to make cement in the country.

CRH found itself the subject of unwelcome public attention earlier this year when it was linked to the biggest financial scandal in recent memory. The company's former nonexecutive chairman, Des Traynor, was found to have been running an illegal offshore bank out of CRH's offices and using it to operate a complex tax avoidance plan for some of the country's wealthiest businesspeople and politicians.

Mr. Traynor, who died in 1994, also served as a personal financial adviser and confidant to a disgraced prime minister, Charles J. Haughey, whose shadow still looms over contemporary Irish politics.

A government investigation cleared the company of any wrongdoing in the case, though it found that eight of its directors had accounts in the illegal offshore bank. The company's current chairman, Pat Molloy, said the board was "astonished" at the findings, condemned the tax-dodging and said Mr. Traynor had committed "a grave abuse of trust."

Still, when the Irish Parliament debated the matter in July, opposition politicians demanded an inquiry into whether the government might have unfairly favored CRH and helped it build its dominance in Ireland during the period when Mr. Traynor was running the operation.

In one deal that critics have questioned, the government sold 83 acres of scenic woodland at Glen Ding, south of Dublin, to the company in 1991 for 1.6 million euros without public bidding, after rebuffing other potential buyers; rock quarries on the property have since been valued at 89 million euros.

In 1999, a government anticorruption tribunal declined to examine the deal because the tribunal's chairman said he had a conflict of interest -- he owned a significant block of CRH stock. The tribunal was ordered by the Irish attorney general to proceed anyway; its inquiry is continuing.

CRH also ran into trouble in Britain, where a court found in 1996 that it had colluded with four other companies to fix prices in Northern Ireland. The same year, European Union officials fined Irish Cement for trying to stop the sale of cement across national borders. In 2000, CRH acknowledged that it was the operator of 11 companies, accounting for 3.5 percent of its revenue, that were not named in its annual report.

Mr. O'Mahony said that for all that, CRH is a model of transparency, winning frequent awards for the clarity and comprehensiveness of its financial reports. It recently began providing detailed breakdowns of its earnings across divisions, from materials to products and distribution, and it provides shareholders with details on how its acquisitions perform over time.

"We've always had a very simple corporate structure," Mr. O'Mahony said. "We come from a kind of Jesuitical school of accounting."

CRH's critics see it less benignly. Seamus Maye, a manufacturer in County Sligo in northwestern Ireland, said CRH drove his company, National Concrete, out of business in 1993 with unfair trade practices. He is suing CRH in the Irish courts and has sent details of his case to the Irish government's powerful Competition Authority. Mr. Maye also heads an alliance of nine Irish business families who have similar complaints against CRH.

Jim Larkin, owner of Larkin Quarries in western Ireland, said CRH is just as tough today. He said a CRH manager approached him in 2000 with demands that his company stick to certain price guidelines and refrain from seeking business outside a certain geographical area. When he refused, he said, an industry group supported by CRH caused him to lose two contracts worth more than 10 million euros, and he has since seen his annual sales fall by half. He also said that his trucks had been harassed with repeated inspections by local police officers who are friendly with the CRH manager.

"We're looking for justice in the market," Mr. Larkin said. "They're fleecing the Irish market to subsidize their overseas acquisitions."

A CRH spokesman said that the accusations by Mr. Larkin and Mr. Maye were untrue, but that the company could not comment in detail because of continuing litigation.

In the United States, CRH's growing presence has been more evident in prices, according to industry executives. "These guys made a big investment here by buying lots of stone quarries, and now they're trying to recoup their investment by raising prices," said the vice president of a medium-sized ready-mix concrete plant in the New York area, referring to Tilcon. He said that companies like his have little choice but to pay Tilcon's prices for materials like three-quarter-inch stone, which has gone up from $9 to $13 a ton since 2000.

Carmine Valente, president of the New York Readymix Association and the head of Jenna Concrete, based in the Bronx, said many of his group's members were worried that Tilcon could raise prices at will, but he had not seen any such problems yet. "It's something to be aware of, but I haven't seen it materialize," he said.

CRH's Irish critics think it has certainly materialized there. Though CRH depends on Ireland for only 6 percent of its revenue, down from 11 percent in 1997, it gets 21 percent of its operating profits from its home country. Philip Lee, a law professor at University College Dublin who represents Mr. Maye in his suit against CRH, said such huge profitability could only be achieved by squelching competition.

"I don't think there's any other explanation," he said. "It isn't just that they're brilliant at making cement."

Correction: *September 25, 2002, Wednesday An article in World Business on Sept. 5 about CRH, a building materials maker, referred incorrectly to its market share in Ireland. Analysts and industry experts estimate that at 70 percent, not 80. The article also misstated the size of Glen Ding, a tract of woodland the company bought from the Irish government in 1991. It was 147 acres, not 83. The article referred incorrectly to 11 subsidiaries that were not mentioned in the company's 1999 annual report. They accounted for 3.5 percent of CRH's revenue in Ireland, not overall revenue. The article referred imprecisely to eight people who were found to be clients of an offshore bank run by Des Traynor, a former chairman of CRH who died in 1994. While the eight people were directors of CRH when they were clients of the bank, they are not currently on the board. The article misstated the response of a CRH spokesman to accusations of unfair practices. The spokesman said that while the accusations made by a businessman, Seamus Maye, were not true, CRH could not comment in detail because of pending litigation; the spokesman was not asked about accusations of another businessman, Jim Larkin, which the company also denies.*