

# BAA RESPONSE to H M CUSTOMS AND EXCISE on AGGREGATES TAX

**September 2000**

## **Chapter I**

### **Overview of the B.A.A.**

The British Aggregates Association was formed last year to represent independent quarry companies throughout mainland Britain and Northern Ireland. We currently list 64 member quarry companies who operate over 100 sites. Our members also operate ready-mix concrete and asphalt plants as well as re-cycling and landfill operations. We are entirely separate from the Quarry Products Association. It is important to stress that the BAA represents the interests of genuinely independent quarry operators who will often have a rather different approach to the five major companies, Tarmac, Lafarge, Aggregate Industries, RMC and Hanson, who are so important in the QPA.

### **The Importance of the Industry**

The quarrying industry is vital to the economic and social fabric of the nation. Quarried materials are a fundamental input into all major infrastructure and construction projects. Any increase in the cost of aggregates inevitably feeds through into the costs of infrastructure and construction investment, threatening to damage the UK's competitiveness.

Quarrying is also vital to the economy of rural areas, many of which already suffer from economic deprivation. Indeed the Government's own Performance and Innovation Unit has stated that:

*"economic matters are central to the overall health and welfare of rural England and to the quality of life experienced by its inhabitants and visitors."*

### **And:**

*"Without a strong local economic base, many rural communities risk becoming little more than dormitory facilities for urban commuters."*

(Rural Economies: A Performance And Innovation Unit Report – December 1999)

Unfortunately, the quarrying industry has already suffered a significant decline in employment. In 1999 the quarrying industry employed 31,000\* people in the United Kingdom, compared to 41,000 in 1979, a decline of 25% (source: Office of National Statistics).(\* this figure predates several thousand jobs lost with the Tilcon / Tarmac and Hanson / Pioneer mergers)

The Quarrying industry is now dominated by the big five players who control 90% of the industry. Far too many small quarry companies have already been bought out by the majors, only to be closed down and their work transferred. This often means that the customer will have to travel further for materials, have a restricted choice, pay more and will probably receive an inferior service. It is important to remember that all these small quarries were

successful businesses, which once provided much local employment and had a relatively small environmental impact. Indeed it is now widely accepted that the policy of fewer larger quarries is environmentally detrimental as road miles are increased and the problems of by-products and waste greatly magnified.

### **Objections to the Aggregates Tax**

The BAA is a new association, which has therefore not had a formal opportunity to comment on the proposed aggregates tax before now. We are therefore taking this opportunity to set out our fundamental objections to the tax, which we believe will have disastrous consequences for our industry and for the environment.

We believe that there is a long series of problems likely to be caused by the aggregates tax.

#### **1. Impact on the quarrying industry**

- i. Direct loss of employment. We have already referred to the significant reduction in employment over the last two decades. With the aggregates tax designed to cut production, there will be an inevitable consequence for jobs in the industry. BAA members do not accept that the demand for aggregate is inelastic. This argument was advanced by the QPA in an attempt to justify their own alternate package and is widely regarded within the industry as patent nonsense.
- ii. Collateral damage to suppliers and sub-contractors. The quarrying industry, as a primary industry generates much employment in related industries such as mechanical engineering, fabrication, plant hire, electrical contracting, maintenance engineering and so on. Many of these jobs will also be lost.
- iii. Further consolidation within the industry. Small, independent operators will be disproportionately affected by the tax, given the compliance costs. Many are likely to be forced to close, increasing the anti-competitive power of major operators.
- iv. Reduction in funds available for environmental programmes. Many operators already do far more for the local environment than required by law. In future, funds available for such activity will be diverted into paying for the tax, only a small part of which will be reallocated for environmental projects.
- v. Cutbacks in spending on research and development. There will inevitably be less to spend on R.& D., which has, in the past, produced many of the technical improvements that have played a major part in minimising the impact of quarrying on the environment.

#### **2. Impact on the pre-cast and ready-mixed concrete industry**

Additionally, there will be adverse effects on the pre-cast concrete industry, because the tax will be applied to aggregate used in domestically produced pre-cast, even if it is exported, but no tax will be applied to imported pre-cast products. The future of these industries will be seriously compromised. We anticipate pre-cast concrete factories being relocated to the Republic of

Ireland and France. Imports of these products, already evident, will increase dramatically.

The tax will therefore be especially damaging in Northern Ireland, presently a leading producer of concrete products. The additional threat of cheaper imports from Eire could destroy the local pre-cast concrete industry altogether. Our preliminary findings show that between 4-5,000 tonnes per week of pre-cast concrete is being shipped from Northern Ireland to the mainland. There is considerable danger that, in the future, suppliers from the Republic will undercut those from the north in supplying the mainland. As the price can vary from £60 per tonne to over £100 per tonne, the loss to the Northern Ireland economy if these plants were to close would be considerable. At present many Northern Ireland operators supply ready-mix concrete and hot asphalt products to Southern Ireland. Not only will this business be lost but it is almost certain that quarries in the Republic will be extensively used to supply to Northern Ireland added value markets as no tax will be charged on aggregate imported within a product. Even if it were possible to plug this gaping loophole past experience of Irish cross border trading demonstrates that this type of tax simply creates an environment for illegal activity to flourish.

### **3. Impact on customers**

Although the tax is to be set, initially, at £1.60 per tonne, in reality the actual increase to the customer will be much greater. Every quarry has by-products and less popular sizes, such as scalplings, fine sand and dust, which often have to be sold cheaply simply to clear the decks. It will not be possible to apply the full rate of tax to these products, as they will now have to compete with exempt materials. Therefore the more popular sizes will have to bear a higher proportion of tax. This means that the mainstream aggregate price increase will most likely be between £2.50 / £3.00 per tonne. It is also important to remember that £1.60 per tonne will generate some £350 million for the exchequer, however this figure is forecast to rise to £550 million by 2004.

### **4. Construction standards compromised**

Sub-standard material will reappear on many construction sites. Old colliery spoil heaps will be opened up along with slag heaps and various other materials that have given well documented problems in the past. These workings are often transient in nature with poor environmental standards.

### **5. Disproportionate effect**

The price of aggregates varies considerably across the country. The imposition of a fixed rate tax, throughout the country, means that the poorer rural areas suffer a much higher percentage increase.

### **6. Cause disruption to sales - production ratio**

As secondary aggregates will also be taxed but will have to compete with products that are exempt one of two things will happen.

- i. Quarries will quickly become choked out with scalplings, dust and less popular sizes.
- ii. Mainstream aggregates have to be allocated a higher proportion of tax to keep the price of secondary aggregates competitive. This will mean that the more popular sizes will probably see increases of £2.50 / £3.00 per tonne.

### **7. The impact on Local Authority budgets**

Many road building and construction projects are financed by the public sector, which will face a consequential increase in costs. This will exacerbate existing problems with road maintenance, and poor public sector infrastructure.

### **8. Burdens on business**

The complex nature of the tax will add an onerous burden of bureaucracy to quarry operators, particularly smaller operators. It will also be extremely expensive for the civil service to administer:

- i. Products are classified as construction or industrial minerals by their end use. Therefore one quarry can produce both taxable and exempt aggregate as industrial minerals were exempted
- ii. It will be virtually impossible to maintain accurate records of products used for in-house added value products. It would be a logistical impossibility to weigh these materials and the problem will be exacerbated when recycled and reclaimed material are also present and are being blended in different proportions to suit various customer specifications. Here again, this tax may, unfortunately, create the opportunity for illegal trading and recording.

In summary the imposition of a penal Aggregate Tax will undoubtedly precipitate a whole range of serious problems for not only the construction and building materials industry but will have far reaching repercussions for the whole country.

#### Summary of problems

- Direct loss of employment, mostly in rural areas.
- Severe job losses in related trades and associated businesses.
- Inflate cost of our basic social fabric, such as schools and hospitals.
- Inflate cost or cause reduction of recently announced roads programme
- Damage to suppliers and sub-contractors.
- Closure of smaller quarrying companies.
- Construction standards compromised.
- Reduction in funding for health and safety schemes.
- Environmental impact with creation of new waste tips.
- Environmental impact due to trucks travelling more miles.
- Environmental impact with more waste being created at larger centralised sites.

- Environmental impact with old tips being opened up.
- Cause future aggregate requirements to be imported, as with coal.

## **Chapter II**

### Specific comments on Revised Aggregates Tax Clauses

#### **1. Clarity of the Legislation**

The legislation lacks a degree of clarity and is verging on being unreasonably complicated and hard to interpret.

#### **2. Exemptions**

BAA do not feel that commenting on specific exemptions serves any useful purpose at this stage but would like to state clearly its belief that the tax should only apply to British Standard graded materials and not secondary aggregates which should be exempt from this taxation.

**Secondary Aggregates:** Secondary aggregates, sometimes referred to as scalpings, are low specification materials generated during the quarrying and/or production process and are normally sold off cheaply due to limited scope for their use. By taxing such products they will become unsaleable and quickly build up in quarries. This will lead to the creation of new waste stockpiles, which in turn will begin to sterilise reserves of rock by preventing access to these reserves. This process will eventually lead to the need to identify new additional reserves elsewhere. It is important to consider that scalpings or secondary aggregate exists to a greater or lesser degree in every single quarry and can approach 40% of production in some deposits.

**Other Sizes:** It is also important to remember that it is not possible to produce only the sizes which are required for sale. Sand and gravel deposits can vary tremendously. There is often a problem obtaining sufficient gravel and coarse sand in relation to fine sand. This means that fine sand will often have to be marketed at a much lower price than coarse or "concrete" sand. As stated, this situation varies from deposit to deposit and here again a broad-brush approach, with a penal rate of tax, will have a highly disproportionate effect on adjacent producing companies. Rock quarries produce a complete range of sizes within recognised parameters during their crushing and screening process. It is only possible to achieve slight variations in these parameters by altering the process. Here again fine sizes such as 6mm and dust can predominate causing significant marketing problems. Although there is no problem with unpopular larger fractions, as these can be re-crushed, this process again produces a high percentage of 6mm and dust.

#### **3. Imports**

We are concerned by the absence in Chapter 2 sect 1 of any mention of tax on aggregates contained in imports. The tax should also apply pro-rata for the content of any imported item (e.g. pre-cast concrete) of which the UK manufactured equivalent has been subject to aggregates tax. This is the only way to ensure "level playing field" or of course exempt the ingredients of

manufacture in the UK where similar products get imported! ( ref. Our previous para. 2 chapter 1)

#### **4. Coated aggregates**

Clause 2(1) 'In this Part 'aggregate' means (subject to the following provisions of this section and to section 3 below) any rock, gravel or sand, together with whatever substances are for the time being incorporated in, or mixed with the rock, gravel or sand'.

The bracketed wording removes a range of commodities from the definition of aggregates for the purposes of the tax.

Taken on face value, however, the word 'substances' would appear to include, for example, coating bitumen within the definition of 'aggregates' upon which the levy is applied.

We understand that HMCE expect materials to be weighed prior to being coated. If this is not possible, HMCE envisage a range of factors being agreed (see clause 8) to be applied to added value products in order to determine the aggregate component. Similar issues arise with concrete products, block manufacture, etc.

There will inevitably be additional costs and practical problems associated with weighing aggregate prior to coating. Whilst the HMCE would prefer materials to be weighed, it may be that many operators will prefer to agree a series of factors that can be applied to recorded sales of a range of added value products. This will not be a simple matter to resolve and may well give rise to dispute( ref. Our previous para. 8 ii chapter 1 ) as well as complicated and onerous bureaucracy.

#### **6. Cash flow implications**

It appears that the mineral operator will be liable to pay the levy, whether or not at the date of payment it has received payment from the customer (Clause 15(1)(e)). There is provision to recover levy paid on bad debt sales, but clearly there are cash flow consequences of the proposal. These cash flow problems will be greatly magnified in the sale of secondary or low value materials where the level of tax will approach or even exceed 100% of the sales value ! This will impact particularly strongly on smaller, independent quarries, which incur higher charges for credit to cover any interim shortfalls.

#### **5. Cost of Compliance**

Current assessments for costs ( see Regulatory Impact Assessment paras 27 & 28 and Annex C, pages 10 & 11) are crude and probably grossly underestimated. Government departments are not generally credited with accurate assessments of costs and invariably underestimate. In the RIA there is criticism (of the industry) for not providing cost estimates (paras 27 & 28) but when these have been given and were high they were discounted as being "unrealistic" ( Annex C, page 10 2nd para)

Although we do not have sufficient time or information to prepare a detailed case on costs of compliance, it is reasonable to expect that the cost, both to industry and HM Customs & Excise will be much higher than those quoted in the RIA. It is not unreasonable to expect if this proves to be the case that the government will press for an increase of the levy. This would, therefore, have no regard to the current stated justification of 'environmental cost' as determined by (flawed) research commissioned by another government department ( DETR ) to justify its previous call for an 'environmental tax' on aggregates.

### **Conclusions**

It is apparent that the construction materials industry will have huge and complex problems, as a result of the broad-brush application of this tax to all quarries. Quarries face widely differing geological problems and have to operate within completely different price structures. The punitive level of tax proposed will inevitably cause major disruption and economic damage to the entire industry.

Moreover, the BAA believes that the tax will not achieve the objectives that has been set for it, namely to protect the environment. Instead it will lead to increases in uneconomic secondary aggregate waste and the closure of many local quarries. It risks blighting our countryside and increasing road freight traffic to transport aggregates across longer distances. Prices to public and private sector clients will be driven to unprecedented levels, threatening infrastructure investment in Britain. There is also a significant risk that artificially inflated prices will cause building and construction materials to be imported from countries outside EEC control.

We call on the Government urgently to reconsider its plans to introduce Aggregates Tax.