

AGGREGATE TAX - AN ASSESSMENT BY THE BRITISH AGGREGATES ASSOCIATION

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The Government's plan to introduce an aggregates tax, in this year's Finance Bill, will have a severe impact on an important industry. Unfortunately the Government appears either not to have considered, or is prepared to ignore, the full extent of the damage this tax will cause.

Disproportionate Effects

One of the most significant dimensions to this tax is the disproportionate effect it will have.

1. **Different parts of the country:** Because the price of aggregate varies greatly, from £2.50 in rural areas to £12 in London and the Home Counties the actual percentage increase occurring will range from around 12% to over 50%
2. **Secondary Aggregate:** The percentage increase on secondary aggregates will be even more alarming when you consider that many quarries are forced to sell secondary aggregates for less than £1 per tonne, to gain much needed space
3. **Competing Products:** Some operators will have to compete with material which will be exempt such as recycled, steel work slag, colliery spoil and china clay arisings. The result of this will be that, in an effort to get rid of existing waste, new waste will be created
4. **Geological:** The effect will vary between adjoining quarries. Some resources produce a much higher proportion of secondary aggregate, there will also be a significant difference between low grade reserves where common fills are produced with little by-product and better quality reserves used for single size aggregate production where there can be many by-products such as scalpings, dust and less popular sizes
5. **Geographical:** Minerals have to be quarried where they occur and sold within a certain radius, set by cost of haulage. This has, over a long period, effectively shaped the industry into its present form. However introducing a blunt instrument, such as aggregate tax, will cause widespread disruption and it is likely that materials will end up being transported much greater distances.

Individual operators will therefore suffer varying degrees of damage according to type of reserve, location, market forces and availability of competing material.

International Implications

Pre-cast concrete products will be shipped from countries with no tax.

Northern Ireland: HM Customs and Excise are under the impression that because the tax is "only £1.60" that this simply equates to some 16 miles of road haulage. Although this has some truth to it, £1.60 per tonne can never be considered "prudent" when the average sale price in Northern Ireland is only

£3.00 ! There is no question that concrete production will be switched South of the Border. If you consider a medium size concrete plant using 250,000 t of aggregate, per annum, not only will the tax take £400,000 from their bottom line, it will create a great deal of uncertainty about future investment, with tax revenue projected to rise significantly by 2004 . The concrete market is highly competitive throughout the UK and especially so in Northern Ireland with its greater number of small quarries. There are the added problems of a different tax regime in the South and the punt being much lower than sterling. Several of our N.I. members have also stated that the tax will lead to illegal cross border trading.

Mainland Europe: A great deal of the UK pre-cast concrete requirement will be produced in Holland, Belgium or France. It is also likely that these products will be produced by British companies who will relocate to bases in Western Europe. The majors also have the capability to supply from Norway where they already operate coastal quarries.

Dimension Stone: The Dimension stone industry has to compete with foreign stone which will now be more cost effective. Due to the arduous labour intensive nature of this industry it has already suffered greatly in the face of international competition, often from countries with a poor human rights record and virtually no environmental controls. Although dimension stone will be exempt all waste or secondary aggregate generated by the process and subsequently sold will be subject to the same amount of tax as top quality mainstream aggregate and have to compete with other wastes and by-products which are to be exempt. Foreign producers will not have this burden and this could well spell the end of what little is left of Britain's dimension stone production.

Limestone

The UK Limestone industry will be crippled. It can take up to 6 tonnes of feed material to produce 1 tonne of industrial grade limestone as any weak or impure stone is removed by a process often referred to as scalping. These "scalpings" are in fact secondary aggregates which are most often used for construction purposes but will now be subject to tax. It is essential that these secondary aggregates are removed from the producing site to maintain working space. This raises anomalies with, for example, the china clay industry, which will not have to pay tax on waste material raised in the production of clay, and this material can be reprocessed for sale, tax free, as aggregate. However, limestone companies who produce industrial and agricultural limestone, whilst exempt from tax on the limestone, will not enjoy this relaxation on associated waste and their businesses will quickly become uneconomic. Foreign limestone, which is readily available, will suffer none of these problems and will not be taxed, on import.

Added Value Quarry Products

Asphalt and ready-mix concrete sales, by Northern Ireland operators, as an export to Eire will stop and we will have a situation whereby this trade will be converted to an import, because aggregate incorporated in either asphalt or ready-mixed concrete will not be subject to tax.

Speciality aggregates such as decorative quality (coloured) which are exported will be exempt. However, here again all lesser quality, secondary aggregates produced at the same time and sold to the local market will be taxed, thus compromising international competitiveness.

Although the strong negative effects of this tax may not have an immediate effect on international trade the cumulative medium to long term effects will be significant.

The complex nature of the tax will add an onerous burden of bureaucracy to quarry operators, stone merchants and the civil service alike.

1. Products are classified as construction or industrial minerals by their end use. Therefore one quarry can produce both taxable and exempt aggregate, industrial minerals being exempt. As well as being a bureaucratic nightmare it can not be consistent to label one product as causing environmental damage, therefore taxable, and at the same time, exempt a similar product, coming from the same quarry and process, in recognition of potential commercial damage.
2. It will be virtually impossible to maintain accurate records of products used for in-house added value products. It is a logistical impossibility to weigh these materials and the problem will be exacerbated when recycled or reclaimed materials are also present and are possibly even being blended, in different proportions, to suit various customer specifications. Here again we may, unfortunately, simply create an environment for illegal trading and recording.
3. Complete new computer programs will need to be developed. Integrating these programs with existing systems will lead to problems with stability, therefore, it is likely that the entire software will need to be rewritten. It is also likely that standard sales ledger systems, such as Global and Sage will need to be replaced with a bespoke system capable of accounting for the additional tax element. *[initial feedback from software suppliers is extremely worrying, they doubt their ability to create a suitable package]*
4. In addition to the well documented problems of attempting to differentiate between primary and secondary aggregate we must consider overburden. Every quarry has different types and measures of overburden which can be top-soil, peat, clay or decomposed or rotten rock. Sometimes these materials are sold, as dug, or mixed with other materials for a variety of purposes. It would be unrealistic to expect Customs & Excise to monitor these activities.

Environmental Result

In reality there are very few complaints made to Environmental Protection Agencies regarding either sand and gravel or hard rock quarries and of the few complaints that are received the majority relate to transport, which is simply a fact of life, there being no other way of delivering stone. The UK quarry industry is already the most highly regulated in the world and it has invested heavily to comply with modern environmental standards. Any further improvements will be minimal and very much subject to the law of diminishing returns. In addition, with almost all available materials already being recycled,

as a result in part, of landfill tax, it is difficult to perceive what possible environmental gains, if any, will accrue

However it is relatively easy to identify environmental losses.

1. Many small operations will close, causing stone to be transported much further.
2. Concentrating more production into fewer sites will greatly magnify the problem of secondary aggregates and waste.
3. Existing waste products, such as colliery shale and steel slag are to be exempt to “encourage their re-use,” however this will simply cause new waste tips of secondary aggregates to be created. All quarries struggle for space and any additional area created is immediately commandeered for access roads, stockpiles, plant and production. If you consider a typical rock quarry where the specific gravity of the parent rock is 2.8 tonnes per cubic metre, in solid form, yet only 1.6 tonnes per cubic metre when processed, the amount of space required simply to stockpile individual sizes, with an angle of repose of 45 degrees, is immense in comparison to the area cleared by extraction. We must also take into account that many quarries are worked in benches whereby it is impossible to back-fill working areas for very many years. Sand and gravel operations differ in that they will normally have a rolling reinstatement programme.
4. Most of the existing waste tips are very old and overgrown, and are often havens for wildlife. Crippling the quarry industry, in an effort to deal with old tips, which were not even caused by quarry industry, is perverse and illogical. Old waste should be assessed and dealt with on a site specific basis to protect the environment.
5. Tip workings are transient in nature often with poor environmental standards and with colliery spoil there is the additional problem of ignition.
6. Many of these materials have given well documented problems in the past. Steel slag, for example, has caused cracking to foundations, throughout the country.

Damage to Customers

Cost

Although the headline rate is £1.60 per tonne, in reality the actual increase to the customer will be far greater. Every quarry has by-products and less popular sizes, such as scalpings, 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 lie between £2.00 & £2.75 per tonne. It is also important to remember that £1.60 per tonne will generate some £350 million for the exchequer, however with revenue projected to rise by 2004, from a static or diminishing tonnage, [a result of tax] we can see that the standard rate could approach £3 per tonne. Here again, the actual rate will have to exceed the

headline rate, to account for secondary aggregate and by-products, by a factor of around 50% giving a price hike on popular mainstream aggregate sizes of well over £4.00 per tonne. This would cause massive damage to both public and private sector construction as well as precipitating a great deal of import substitution.

Competition

Although the majors have been trying to mop up the few remaining independent operators for years without success, Aggregate Tax may well hand them the tool they need to finish the job. Because the majors control 90% of the downstream markets of ready-mix concrete and asphalt they will have the ability to recover the cost of Aggregate Tax by loading it onto these products. This would allow them to sell their aggregates "Tax Free," if they want, and that would spell the end, for what little competition remains.

Material Choice and Quality

We will undoubtedly lose a substantial number of our smaller operators who are under continual pressure to sell out to the majors. The industry is dominated by five companies who control 80% of the quarry industry and 90% of the ready-mix concrete and asphalt industry. All too many small quarry companies have already been bought out by the majors, only to be closed down and their work transferred. This will result in customers having to travel further for materials, paying more and receiving an inferior service with less choice. It is worthwhile remembering that these small companies were once successful businesses, returning a great deal to the communities they served by way of much needed local employment and with a relatively small environmental impact. Indeed it is now acknowledged that the policy of fewer larger quarries is environmentally, as well as commercially, detrimental with road miles increased and the problems of by-products and waste greatly magnified.

A Tax on Safety

To improve the skid resistance properties of busy roads, aggregate with a high degree of resistance to polishing is often specified. However these will also be taxed. No alternative to this type of aggregate is available from the recycling industry.

Damage to Quarry Industry

Although there can be no doubt that all quarry operators will suffer commercial damage and financial loss as a direct result of this levy some operators will be much worse off than others. Although it is not possible to be certain of the full scale of damage that will be caused, it will fall into three categories.

- **Level 1 Damage (All sites)**

Cashflow problems and increased bureaucracy will put pressure on margins causing cuts to investment, staffing levels and research and development. Operational problems with a build up of secondary aggregates and less popular sizes.

Significant levels of damage, varying from site to site

- **Level 2 Damage (Add Limestone, Dimension Stone and Northern Ireland)**
Severe to terminal damage will be inflicted on all operators within this group.
- **Level 3 Damage (Add All level 2 sites plus smaller operations)**
We need to be aware of the likely effect on smaller operators. These are often family run businesses with limited staff and resources and a number are presently finding it tough enough simply trying to comply with the recent flood of new legislation.
These operators are liable to go out of business

Summary of problems

- Loss of jobs in quarries, affecting rural areas.
- Loss of jobs, suppliers, related trades, contractors and associated businesses.
- Inflate cost of our basic social fabric, such as roads, schools and hospitals.
- Inflate cost of or cause reduction to recently announced roads programme.
- Inflate cost of industrial minerals, contrary to government intention.
- Closure of smaller quarrying companies.
- Closure of small welding and fabricating businesses.
- Construction standards compromised with inferior material from old tips.
- Construction standards compromised with reduction in quality and choice from fewer larger quarries.
- Construction standards compromised with designs being altered to reduce demand for overly expensive virgin aggregates.
- Reduction in funding for health and safety schemes.
- Reduction in funding for research and development which has given, by far, the most environmental improvements to date.
- Environmental impact with creation of massive new waste tips in quarries.
- Environmental impact and congestion due to trucks travelling more miles.
- Environmental impact and loss of bio-diversity with old tips being opened up.
- Damage to our international competitiveness.
- Probable loss of UK limestone production.
- Probable loss of UK dimension stone production.
- Probable loss of Northern Ireland pre-cast concrete production.
- Cause future aggregate requirements to be imported, as with coal.
- Cause future pre-cast concrete products to be manufactured abroad.

Background Issues

The environmental cost of aggregate production, was established using the unscientific form of analysis called contingent valuation. Unfortunately no

assessment was made of the environmental benefit of quarrying or the environmental cost of recycling. Sand and gravel operations, for example, have often provided tangible public gain with award winning nature reserves, lakes and improvement to agricultural land. The aim of recycling the maximum possible amount of aggregates is not a position opposed by the quarry industry. However, it appears that the Government's justification of the tax lies in their belief in the intrinsic good of recycling. This itself can prove to be false, as the distances that recycled materials have to be transported [lorries must make twice the amount of journeys with their cargo - to and from the recycling plant - as they do from a quarry] have economic and polluting effects, as well as inflicting noise and dust pollution more widely. It is also recognised that much more power is required to re-cycle than to produce primary aggregate. Quarrying for construction materials occupies a fraction of 1% of the landmass. We have reserves for countless centuries.

The control and regulation of the environmental aspects of the aggregates industry are adequately covered in the Environment Act, 1995. This provides for the planning permissions for minerals extraction, including aggregates, to be reviewed and updated on a regular basis by the mineral planning authorities. The minerals planning guidance notes MPG 6 and 11 are currently being updated to ensure that all mineral operators provide local benefits that clearly outweigh the likely impacts of mineral extraction. The imposition of the aggregates tax as well, would appear to be redundant.

In Conclusion

Although it would appear that the minerals industry itself must shoulder part of the blame, for its current predicament, due to a lack of communication with the DETR, there is a growing awareness that this tax is much more about money for the exchequer than about protecting the environment. The £1.60 flat rate levy will mean that the government will have a much higher return than the industry, with typical quarry margins struggling to better 35p per tonne. In effect it represents back door nationalisation with the added benefit to Government that they will not have to worry about such mundane matters as health and safety, research and development, investment in capital projects or staff welfare. At the end of the day it is the public will have to pick up the bill.

The British Aggregates Association strongly believes that aggregates should be worked in the least environmentally damaging manner, consistent with common sense and commercial reality. However we also believe that the aggregates tax is both environmentally and commercially damaging as well as representing a strong blend of ignorance and hypocrisy.

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