

Westminster Debate on Finance Bill

New Clause 5

Environmental protection rebates scheme

- (1) The Treasury may by order made by statutory instrument introduce a scheme of rebates to those persons charged with the aggregates levy and who have employed environmental protection measures in the process of commercial exploitation of aggregate;
- (2) Environmental protection measures in this part are those measures which the Secretary of State shall by order determine to be in the interests of protecting or enhancing the environment;
- (3) No rebate under this scheme shall be made unless the environmental protection measures:
- (a) relate directly to the process of commercial exploitation of aggregate; and
 - (b) shall have been verified and certified by an external body prescribed for that purpose by the Secretary of State;
- (4) A statutory instrument containing an order under this section shall not be made without prior consultation with those persons appearing to the Secretary of State to be representative of those having an interest in:
- (i) the commercial exploitation of aggregate;
 - (ii) the protection of the natural environment;
 - (iii) the local communities affected.
- (5) A statutory instrument containing an order under this section shall be laid before Parliament and approved by resolution of the House of Commons.'--
[Mr. David Heath.]

Brought up, and read the First time.

Mr. David Heath (Somerton and Frome): I beg to move, That the clause be read a Second time.

Mr. Deputy Speaker: With this, it will be convenient to discuss the following amendments: No. 1, in clause 16, page 12, leave out from line 18 to end of line 8 on page 41.

No. 3, in page 12, line 37, at end insert:

- (7) The provisions of this section shall cease to have effect on 5 April 2004 unless the Treasury makes provision by order made by statutory instrument for its continuation.
- (8) The Treasury shall not make an order under subsection (7) above unless a draft of the order has been laid before Parliament and approved by resolution of the House of Commons.

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No. 2, in schedule 4, page 102, leave out from line 18 to end of line 17 on page 143.

Mr. Heath: Returning to the aggregates tax seems like revisiting an old friend. The Financial Secretary will recall that I tabled an amendment and the new clause in Committee. They were connected: the amendment would have required the Government not to introduce the aggregates tax until they had introduced a rebate scheme, while the new clause would permit the Government to apply that rebate scheme to companies subject to the levy.

I shall not waste the House's time going over the arguments that I adduced in Committee. To my mind, they still hold true. I still believe that there is a serious design fault in the Government's proposals that will do enormous damage to the quarrying sector and to related industries, such as the concrete industry. Firms in my constituency, for example, will not benefit from the proposals.

The question before the House today is whether there should be a rebate scheme at all. What is the purpose behind the Government's proposed aggregates levy? We have heard the Government's justifications for it. The Budget 2000 statement said that the tax would generate "reductions in noise, dust, visual intrusion, damage to wildlife habitats and other environmental impacts."

Elsewhere, the Treasury stated in evidence that ; "the encouragement of recycling is the main tax purpose."

We have heard also that the tax would reflect the environmental cost of quarrying.

If the tax did that, it would be fine. However, I live in a quarrying area on the edge of the Mendips, and I know that it is far from obvious that the tax will bring with it any of the predicted benefits. It is also hard to see how it will improve the local environment.

The tax could easily improve local environments if there were a direct link between the performance of the quarrying companies in terms of what they do to protect or enhance the local environment and the protection of environmental amenities enjoyed by local residents. At present, residents suffer from all the ills that the Government cite as factors behind the introduction of the tax. The new clause would provide the appropriate mechanism to make the tax work. It would institute a system of rebate against the aggregates levy for companies prepared to take the necessary steps with regard to their processes, or to the infrastructure by which they quarry stone or transport it away. The new clause would reward that endeavour.

The Government's problem is that, without a rebate system, the tax will not achieve its stated objectives. That point has been made many times, in the House and outside it. Industry representatives and independent commentators share an opinion on this matter. The classic quotation is from

Professor David Pearce, who is something of a guru when it comes to environmental taxes. I remember discussing his proposals in connection with the original Environmental Protection Act 1990. Mr. Chris Patten was Secretary of State for the Environment in the then Conservative Government, and he toyed with many of David Pearce's ideas, but did not bring many of them to fruition.

In July 1999, Professor Pearce conducted the only independent research into the proposal, and said that

"we conclude that an aggregates tax is an extremely inefficient way to try and secure an environmental target."

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That was his verdict, but it is not the end of the story. A rebate scheme would deal directly with the problems. New clause 5 covers the salient points. It provides that the Treasury could bring forward a statutory instrument to introduce the rebate scheme, but does not prescribe the exact form of that order. If the process turns out to be difficult, as the Financial Secretary has claimed, the new clause would permit time for the task to be accomplished. In Committee, I argued that the matter was urgent, but the urgency argument is not relevant to the new clause. The new clause does not suggest that there should be a blank cheque for the companies involved; instead, it provides that the Secretary of State would determine the environmental measures to be taken. In other words, the Secretary of State would compile the tariff list of suggested measures that could and should be put in place, which would then be set against an audit of what had been done.

The new clause would link environmental protection measures to the process of commercial exploitation of aggregates, and tie them to the location of the quarrying. A criticism strongly voiced in my part of Somerset, and repeated in Leicestershire, Derbyshire and the other main quarrying areas, is that people do not see how they would benefit if an aggregates tax were introduced. They fear that the benefit would apply a lot further away, and not locally. The new clause would also require that any benefit "should be verified and certified by an external body prescribed for that purpose" by the Secretary of State. Again, it would not allow companies merely to claim to have done something: any action would have to be proved before the rebate came into effect.

That seems a sensible way forward. I cannot see that the Government would wish to produce any argument against that proposition, other than that it does not use their wording. If they intend to introduce a rebate scheme in the future--I sincerely hope that they do, and there is evidence that at least one other Department is keen on it--the new clause would provide them with a legal basis for doing so without bringing back to the House further primary legislation in the form of provisions included in a Finance Act or a separate Bill which would delay the process and make matters more difficult.

Even if the Government are not prepared to accept the words that I suggest, I hope that they will at least give a clear indication that they are committed to doing what they said they wanted to do and what they know they have to do to make the aggregates levy a genuine environmental tax rather than an imposition on the industry which has no direct environmental benefit and is to the detriment of the industry's commercial interests and competitiveness. The quarrying industry and those who are concerned about the local environment in the areas where quarrying takes place are waiting to hear from the Government a clear commitment that they intend to introduce this scheme and that it is being done as a matter of urgency. It would be absurd to introduce the aggregates levy without the only element that provides for local environmental benefit.

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Mr. Letwin: First, let me say a few words first about the proposition of the hon. Member for Somerton and Frome (Mr. Heath). For reasons that I will come to, I am not--as the hon. Gentleman and others may know from the Committee stage and Second Reading--a great fan of this tax. However, the logic of the hon. Gentleman's argument is difficult to dispute.

The Financial Secretary has said on numerous occasions that he will continue discussions with the industry about the possibility of introducing an exemption scheme. If he is so minded, it must be true, as the hon. Member for Somerton and Frome said, that it would be convenient to avoid the necessity for subsequent primary legislation. Indeed, it may be more than merely convenient--it may be necessary for the survival of large parts of the industry that it be possible to introduce the exemption scheme without the need for the laborious process of primary legislation.

We ought to hear today--although I harbour a doubt that we will--that the Financial Secretary has at last capitulated to the demands for at the very least an enabling clause of the kind proposed by the hon. Member for Somerton and Frome. The Financial Secretary said in Committee not a day or two ago that an enabling clause did not commit the Government to very much. That is true. The resistance that the Government have so far displayed towards an enabling clause, however, suggests that they are not so convinced as they make out and that they will eventually introduce an exemption scheme. That would be lamentable. I hope that the expectations that I have voiced will be shown to be false and that the Financial Secretary will accept the hon. Gentleman's new clause.

As we have said repeatedly during the passage of the Bill and those parts of it relating to the aggregates levy, even with the exemption scheme, we strongly oppose the introduction of this new stealth tax. That is why we have tabled amendments Nos. 1, 3 and 2. At this point, I should declare an interest the nature of which has always eluded me, but which might exist.

8.15 pm

I am clear that there is a deficiency in the tax, even in the rational version of it entailing the hon. Gentleman's proposed exemption clause and regulations that provide for exemption. That version is rational because it might at least achieve the environmental effects that the tax purportedly seeks to achieve. In that, I agree with the hon. Gentleman.

Our objection is to the triadic rhythm, which runs like this: the Government announce a tax, in the nature of a fine, for a particular segment of British industry. The second step is that the Government announce that people who behave well will not be subject to the fine. The third step is that the Government institute officials, in a more or less arbitrary fashion, to negotiate with particular parties in the industry sector about whether they are sufficiently good boys not to pay the fine.

That is not how to govern the country. We do not believe that there should be pre-ordained fines or that officials should be put in the position of judges, seeking to determine whether particular firms have behaved sufficiently like good boys or girls to avoid such fines. I grant that it may be effective--in that, I agree with the hon. Gentleman--but I do not think that it is proper. It is not the right way in which to go about achieving the aim.

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If the aim is essentially regulatory, let the device be essentially regulatory. If the aim is to create a market or charging system, let the device be a charging system of tradeable permits or the like. If the aim is to create an economic incentive, let it be an incentive and not a penalty. None of those devices is the same as a fine, which people can avoid if they behave well in the judgment of some official. That is a route, not to immediate disaster, but gradually, by degrees, to an arbitrariness in government which I think even Labour Members will come to regret.

The Financial Secretary to the Treasury (Mr. Stephen Timms): I am listening to the hon. Gentleman's discourse with interest. Would he include in the list of avenues that might be considered the price mechanism, which applies in this case? I should have thought that, on reflection, he would agree that there could be an important role for the price mechanism in achieving environmentally beneficial results.

Mr. Letwin: I do not wish to prolong the debate, but I should like briefly to address the really interesting issue raised by the Financial Secretary. I suspect that all three parties are at one in believing that economic incentives, including pricing mechanisms, are in some circumstances appropriate for achieving desirable environmental effects. The problem about this tax, and particularly in relation to the way in which it is being implemented, is that it is not a pricing mechanism, because the elasticity at the other end--the supply elasticity--does not exist.

The tax will not reduce the propensity of people who are building buildings to use less that is made with aggregates, because that cannot be done. If there

were a serious elasticity of building, the tax would slightly reduce the amount of building in the United Kingdom. I judge the effect to be minimal, however. The Financial Secretary has never brought forward an elasticity study suggesting anything to the contrary. Cross-elasticities, on the other hand, may be considerable, and I shall come to that.

The problem about the tax is that what elasticity effect it has is at the wrong end. It will drive out domestic aggregates production in favour of imported aggregates production, in the form of asphalt and pre-cast concrete. It will destroy British jobs, and in that, it will indeed be a price signal. However, that is not the price signal that the Financial Secretary wants to send, and the tax, in its present form, will have no other serious effect. So although we agree with the hon. Gentleman about the principle, he has unfortunately not translated that principle into practice in this instance.

That leads me directly to the essential point that I want to make tonight. I do not want to rehearse at length all the arguments that we made on Second Reading and in Committee of the whole House about this tax; that would be tedious. I do want to place on the record and put in the mind of the Financial Secretary, who has exhibited a tendency to think about these things and to reach conclusions after debates, a series of answers to his response to a point that I made in the Committee of the whole House.

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I argued in the Committee, as I had on Second Reading, that the effect of the tax would be seriously to displace employment from this country to southern Ireland and the northern continental shelf. The Financial Secretary said--I know from experience that when he says these things, he means them--that he did not believe that proposition. He said that he did not believe that the £1.60 a tonne of tax, even with the differential that it created with the zero tax rate in southern Ireland or the 5p tax rate in France, would be sufficient to offset the transport cost disadvantage of displacing production to those locations outside the United Kingdom.

To be absolutely fair to the Financial Secretary, because this is no party political game and I want to try to get this straight, I believe that he made that argument particularly about northern Europe--the northern continent. He was less firm about southern Ireland. I believe that he did take on board the issue in relation to southern and Northern Ireland.

I stress here that, essentially, we are dealing with the commodities that are made of aggregates, as opposed to the aggregates themselves. The aggregates themselves are correctly subject to tax if imported, just as if produced domestically.

I have looked into that assertion by the Financial Secretary since those debates in the Committee of the whole House, and I have consulted the industry. To say that I have done so widely would be hyperbole. I have consulted a number of people in the industry--among the small producers and

the larger producers--who are very well informed, to try to get a sense of whether there is a serious problem of differentials. I want to try to identify briefly why I believe that there is a very serious problem of differentials.

Eight tenths of this argument depends on understanding that the £1.60 is not the end of the story. The first part of that part of the argument stems from the fact that £1.60 a tonne is a true assessment of the average cost of the tax to the producer, but, as we have had occasion to note in our rather lengthy debates about this matter--although not, alas, sufficiently lengthy in some cases--the production of aggregates is a highly complex business in the sense that many things are being produced simultaneously, some of which are the intended product and some of which are by-products. The Financial Secretary is as familiar with that reality as we are.

It is impossible to sell by-products and low-grade waste--in Committee, we had a long disquisition about dust--at full price. They cannot be sold at much above the price at which they are currently sold. That is what I am told by both sides of the industry--the aggregate producers and the construction industry. As a result, the average cost of production of the high-grade material will go up by more than £1.60 a tonne, because a hefty part of the tax, which would otherwise be borne by the by-products and will be chargeable to the by-products, will have to be loaded on to the price of the primary products. That, I suspect, is an inescapable conclusion.

Mr. David Heath indicated assent.

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Mr. Letwin: I am glad to see that the hon. Gentleman, who knows a great deal about the industry--much more than I do--gives his assent to that proposition. I shall be very surprised if the Financial Secretary can produce any evidence that those assertions, which I believe to have been given to me in good faith by both sides of the industry, are false. The estimates that I have been given vary, but they centred around a 50 per cent. uplift. I believe that the effective rate of tax on the primary products will be not £1.60 but about £2.40.

Next we have to add the increased costs of administration. I do not want to exaggerate the case, because I want to make a genuinely robust case rather than a political statement. I do not know the increased cost of administration, but I am sure that the Financial Secretary will acknowledge that it will be more than zero. Dealing with a new tax and keeping the records required for it, especially in the case of--if I may be permitted a pun--the dis-aggregations required to deal with an aggregates tax that is to be levied on a series of commodities, some of which are exempt and some of which are not, with some that are exempt being produced at the same time as some that are non-exempt, making it difficult to disentangle one from another, is bound to occasion a significant increase in administrative costs for producers.

I have been given various estimates, and I do not know how reliable they are. I am inclined to think that 10p to 20p a tonne is a reasonable estimate of additional administrative costs. If I take the lower end of that scale, at about 10p, that takes us up to about £2.50 a tonne--£1.80 plus the uplift of 80p for the primary products, plus the 10p.

Taxes are collected by Customs and Excise with unvarying efficiency. [Interruption.] I say that with a degree of irony, in the sense that it is not always the case that Customs and Excise collects the right amount and it is not always the case that all our constituents feel that they are properly treated, but taxes are collected with unvarying efficiency in the sense that Customs and Excise always swoops early. This is not a party political point, although the Chancellor has certainly taken policy steps to advance tax receipts in many respects, including corporation tax. This is a point about administration under all Governments.

Customs and Excise quite properly sees it as its duty to protect the Revenue, so it swoops early. It looks for the money as soon as possible. That has a cash-flow effect on the firms that produce the goods, because the goods are not always sold quickly, and the definitions of commercial exploitation in the relevant sections of the Bill are, as we have had reason to note in lengthy discussion, such that one need not have sold the item to be liable to the tax. There will be a cash-flow effect. I do not know what it will be. I have taken estimates, and it sounds as though about 10p a tonne would not be an unreasonable estimate. That gets us to £2.60.

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Undoubtedly, the administrative burden and the price increase will together conspire to accelerate the process of consolidation in the industry. To some degree that may be a good thing; for many producers it will be a bad thing. It is clear that it will tend to concentrate production in fewer locations. The Financial Secretary might argue that the tax is thereby having an effect, but one thing is sure: that that will tend to raise internal transport costs. I do not know the amount, but it has been suggested to me that it might be as high as 75p or as low as 50p. I will take the lower estimate and add 50p. We now have the following: £1.60 plus 80p equals £2.40; £2.40 plus 10p equals £2.50; £2.50 plus 10p equals £2.60; £2.60 plus 50p equals £3.10.

I am told that a differential of £3.10 is vastly greater than the transport cost differential implied by importing pre-cast concrete from northern Europe. If the Financial Secretary has figures to the contrary, we shall be most interested to hear them. Such a differential will clearly hugely exceed the transport costs from southern Ireland. If that were not the case, my estimate of the transport costs increase owing to consolidation in the industry would, clearly, also be too low, but I am told that moving pre-cast concrete by ship is an efficient method of transport--not, of course, one that would be applicable to the use of such concrete deep in Wiltshire, but perfectly applicable on the south coast and, indeed, through the London docks, in London.

8.30 pm

In other words, a large part of the construction industry in the United Kingdom could be serviced by pre-cast concrete from the northern parts of Europe at a far lower transport cost than would be involved because of the more than £3 differential that has been identified. That is a serious problem, but we have yet to hear from the Financial Secretary any set of equivalent figures, or disputations of those figures, that would allay our fears. We have not invented those fears; they have been expressed by the industry, which has, in principle, no reason to invent them. If it were true that the displacement of jobs and business would not occur, why should the industry care about the tax; it would merely pass it on to a virtually inelastic buyer--the construction industry? House occupiers and people trying to build business premises might object, but I have not the slightest idea why the industry would invent those figures, so there must be some truth in them.

Given all the arguments of principle that we have discussed at length and rehearsed again today and given the problems of implementation and the way in which the aggregates tax has been proposed in the Bill--for example, the failure to produce an exemption clause such as that suggested by the hon. Member for Somerton and Frome--I am driven to the conclusion that there is a failure in the Government's factual analysis; they have not recognised that the differential will have a serious effect on thousands of jobs in the United Kingdom, and that needs to be addressed urgently.

Mr. Timms: I shall respond to the hon. Gentleman's points in detail in a moment, but before he completes his speech, will he confirm that it would be the intention of an incoming Conservative Government not to introduce the 0.1 percentage point reduction in employers' national insurance contributions that balances the revenue that we expect to receive from the aggregates levy?

Mr. Letwin: Yes, that is absolutely correct. The intention of an incoming Conservative Administration will be not to introduce the entire package, but to seek to negotiate with the industry the very kinds of environmental improvement that were so near to completion when some siren voice got at the Prime Minister and managed to reverse the trend of Government thinking, pushing them back into introducing an aggregates tax. We want to have a serious and adult discussion with the industry about how the environmental improvements can be achieved without this tax, which, of course, implies without the NIC reductions.

Mr. David Taylor (North-West Leicestershire): The hon. Gentleman's analysis of the projected extra costs is admirably rigorous, but does he accept that those figures are, by their very nature, tentative? The British Aggregates Association has come up with a figure of £4.35, whereas his is £3 or so. Is it not equally possible that the Government's approach, with the figure being very much at the low end of the spectrum, is likely to represent the eventual outcome? If it did not, could not a future Government respond by regulation?

Mr. Letwin: Well, that is possible. Of course there is room for uncertainty. I have also received the British Aggregates Association figures. I have consciously chosen the lower end of the estimates that we have received so that I cannot be accused of inventing figures for effect. Neither the hon. Gentleman nor I--and nor, and this is my problem, the Financial Secretary-- knows what the exact figure is. If it is anything like any of the figures discussed by the industry, it is sufficient to outweigh the transport costs. That is the problem.

I may be wrong, but I do not understand how that problem can be cured within the structure of the tax. If that cannot be done and we all wake up three, four or five years from now and 5,000, 7,500 or 10,000 jobs--the estimates vary-- have disappeared as a result, it will be too late; it will be impossible to re-create those jobs in the United Kingdom for years to come. We have a serious problem: the Government do not have the factual basis on which to be confident that the tax will not have those dire effects. That is why the House should accept the amendments tabled by Conservative Members.

Mr. Timms: As we have heard, under new clause 5, moved by the hon. Member for Somerton and Frome (Mr. Heath), a rebate would be allowed from the aggregates levy for so-called green quarries, and the rebate would be introduced by secondary legislation. We debated a very similar new clause in Committee yesterday. It was moved by the hon. Member for Gordon (Mr. Bruce), who is well able to look after himself on such occasions, but he withdrew it on the basis of the assurances that I was able to give him. Of course, I am happy to repeat those assurances today. I hope that the hon. Member for Somerton and Frome agrees that his hon. Friend the Member for Gordon was right to withdraw his new clause after yesterday's debate in Committee.

I remind the House that the aggregates levy as set out in the Bill will have important and significant environmental benefits. It will do so by ensuring that the price of aggregates reflects the environmental cost of obtaining them--using a straightforward price mechanism for an environmentally beneficial end. That is a mechanism that the Liberal Democrat party well understands; it would thus be mistaken for the hon. Member for Somerton and Frome to suggest that the price mechanism will have no effect. There certainly will be an effect. I stress that point, because it is at the heart of the environmental benefit that we expect from the introduction of the aggregates levy.

Moreover, the package also includes the £35 million sustainability fund that will be available to be applied directly in communities that are affected by quarrying, to help to deal with some of the environmental problems caused by quarrying. The hon. Gentleman's suggestion that there was no direct environmental benefit from the package is mistaken. In those two specific respects, there will be clear environmental benefits from the levy. I again draw the hon. Gentleman's attention to the sustainability fund. That important measure will benefit communities that are affected by quarrying, such as the one in which he lives.

We announced in the Budget that we are attracted to the idea of differential rates of aggregates levy for green quarries. We are exploring with a variety of interested parties options on how that might be achieved, but as I have pointed out several times, significant practical problems remain--not least the definition of a green quarry. We need to know how those issues can be overcome in a practicable and workable way before we introduce legislation to give effect to that idea. When we have a workable scheme, we shall legislate.

The new clause is guesswork. I suggest to the hon. Member for Somerton and Frome that the scheme would need to take into account factors that are not referred to in the new clause, which is couched in terms of environmental protection measures being taken. However, other considerations might need to be taken into account. It is possible, for example, that the location of a quarry might have an impact on the extent of its environmental friendliness. I should certainly not want to exclude that possibility, as the new clause does. As I think that the hon. Member for Gordon acknowledged yesterday, during our debate in Committee on exactly the same proposal, nothing is to be gained in the meantime by introducing legislation that may well turn out not to be quite right when we have resolved the way forward--[Interruption.] I give way to the hon. Member for West Dorset (Mr. Letwin).

Mr. Letwin: I am grateful to the Financial Secretary for giving way, although I was actually chuntering from a sedentary position. However, I will ask him a question. Perhaps the hon. Gentleman should listen to a tape recording of his own remarks. Is he aware of just how "Yes, Ministerish" he sounds? If I had been the official charged with inventing every reason that I could think of--including reasons that I could barely think of--for rejecting the new clause, I could certainly not have come up with a better list than the one he has provided.

Mr. Timms: It would be classic "Yes, Minister" to introduce a new clause to do something when we do not quite know what we are trying to achieve. That would be a serious mistake and I could not support such a proposal. As I pointed out in yesterday's debate, the new clause sets out three groups which should be consulted. I can again assure hon. Members that we shall indeed consult representatives from all three of those groups.

Mr. Edward Davey: I am grateful to the Financial Secretary for giving way, especially as I was unable to be in the Chamber for all of the debate on the new clause. Will he confirm that the sustainability fund, which will produce the environmental improvements referred to in the new clause, is an intrinsic part of the levy? If he can confirm that, will he explain why he is going ahead with the levy even though he has not sorted out the sustainability fund? Mr. Timms: The hon. Gentleman is confused. The sustainability levy is part of the package as it stands. It will have an initial value of £35 million and we are consulting on precisely how the fund will be applied and to what categories of use it will be put. The hon. Gentleman is mistaken: the fund will be in place from the introduction of the levy in April next year and does not depend on any of the mechanisms mentioned in the new clause. Mr. David Taylor: Will my hon. Friend confirm whether he is to consult the British Precast Concrete

Federation, which makes a very powerful case in favour of the pre-cast concrete industry being treated in same way as the clay, silica sand and cement industries, all of which will not be covered by the aggregates tax? Mr. Timms: I confirm that I have in the past week met representatives of the British Precast Concrete Federation. We had a useful discussion. We are consulting widely on the measures, as we always do. Amendments Nos. 1 and 2 propose abolition of the levy. The Committee of the whole House considered that matter at the start of Committee stage and took a clear view that the aggregates levy should be in the Bill. I have no doubt that that view will, rightly, be repeated today. The levy is being introduced to address the significant environmental costs associated with quarrying and it will bring about environmental benefits, as I have described. The introduction of the levy and the associated cut in employer's national insurance contributions will contribute to the Government's strategy, consistently applied, of shifting the burden of taxation from good things, such as employment, to bad things, such as environmental damage. That was the intention we set out in our 1997 statement of intent on environmental taxation and it is the approach that we have taken. I am grateful to the hon. Member for West Dorset for confirming that a Conservative Government would not proceed with the reduction in employer's national insurance contributions. We have also heard that the Conservatives would reverse the reduction in employers national insurance contributions associated with the climate change levy--0.3 per cent. in that case. In addition, the hon. Gentleman has made more clear the Conservatives' intentions regarding the 0.2 per cent. reduction in employers national insurance contributions associated with the landfill tax. I do not know precisely why the Conservatives want to pile up taxation on employment, but I am certain that our approach of shifting the burden of taxation away from employment is the right one. We shall continue to pursue it. The levy will be revenue neutral for the Exchequer because all of the proceeds will be recycled through the reduction in employers national insurance contributions and the £35 million sustainability fund that will help to develop alternatives to primary aggregates extraction and help to redress the local impact of quarrying in communities that are affected by it. Mr. Letwin: Will the Financial Secretary give now the undertaking that he refused to give earlier: that if his 9 May 2001 : Column 196 Government are fortunate enough to be re-elected, each and any subsequent increase in the aggregates levy will be accompanied by an equal and opposite reduction in national insurance contributions or some other tax? Mr. Timms: I do not want to discomfit the hon. Gentleman, but in our enjoyable debate on the subject in the Standing Committee yesterday, he made a lengthy case against the landfill tax, saying that we were giving out more in the reduction in employers national insurance contributions than we were taking in through the landfill tax. He was simply wrong about that: the revenue from the landfill tax is significantly less than--in fact, it is equivalent to about two thirds of--the revenue forgone through the reduction in employer's national insurance contributions. The hon. Gentleman was mistaken in yesterday's debate and it is unwise of him to pursue that line of argument further today. Mr. Letwin rose-- Mr. Timms: No, I want make some progress--a couple of other points need to be made to complete the picture. It is possible to make greater use of recycled aggregates, as we discussed in earlier debates. They will be more attractive because the price of

primary aggregates will include an additional cost that will not apply to them, and that will be beneficial. 8.45 pm In my response to my hon. Friend the Member for North-West Leicestershire (Mr. Taylor), I mentioned my discussions with manufacturers of pre-cast concrete blocks. The hon. Member for West Dorset made something of that. I do not believe that the prospect of significant imports from across the sea of pre-cast concrete blocks will be a serious problem. The industry did not suggest that. However, I accepted in an earlier debate that Northern Ireland might be a different case, and today I met the hon. Member for Foyle (Mr. Hume) and two representatives of the quarrying industry from Northern Ireland. The Northern Ireland Executive is also considering the problem, which we will continue to explore. The land border between Northern Ireland and the Republic means that the situation there is different. As for concrete blocks from Norway or elsewhere in continental Europe, the cost of transport is a sufficiently high hurdle for the 1 per cent. of pre-cast blocks that are imported not to change. Those are specialist products and they do not reflect the bulk of what is produced in the United Kingdom.

Dr. McCrea: Having listened to those representations, when will the Government determine what action to take to alleviate the problem faced by businesses in Northern Ireland?

Mr. Timms: I can only repeat what I said to the hon. Member for Foyle this morning: we will work with the Northern Ireland Executive and, if there is a strong case for us to act, we will do so. I cannot, however, say precisely when that will be. I hope that the House will hold to its clear view on the issue and reject the amendment. It was interesting to hear the hon. Member for West Dorset say that the 9 May 2001 : Column 197 Conservative party would not implement the measure and, instead, would try to achieve a negotiated agreement with the industry. The Quarry Products Association and the Government invested much work in examining the prospects of a negotiated voluntary agreement. For several reasons, those discussions were not successful and the package that the QPA put to us for the Budget last year contained serious difficulties, not least the likelihood of falling foul of European law. However, another reason for that lack of success was the great hostility of the British Aggregates Association, to which my hon. Friend the Member for North-West Leicestershire referred. I think I am right in saying that the BAA came into existence when a group of small quarries came together to object to the big quarrying companies formulating an agreement that did not benefit them. The hon. Member for West Dorset needs to be cautious before believing that a negotiated solution is possible. The real question facing hon. Members is whether we face up to the need to address the environmental costs of quarrying. If the House decides--as I believe it will--that that is necessary, our proposal is the right way to proceed.

Mr. David Taylor: My hon. Friend is right to say that Leicestershire has a significant mineral extraction industry. Many small firms operate there. Does he believe that the implementation of the levy risks accelerating the industry trend towards a smaller number of larger quarries, with the extra haulage costs and other problems that are associated with that?

Mr. Timms: I have not seen any evidence of that, and none that I am aware of has been forthcoming. The way in which the industry responds to the levy is a matter for the industry. Amendment No. 3 at least has the merit that the House has not already rejected it, but the environmental costs of aggregates extraction will not cease in April 2004. Therefore, there is no justification for

limiting the life of the levy to that date. For the reasons that I have set out, I hope that the House will reject the new clause and the amendments. Mr. David Heath: I listened with incredulity to the Financial Secretary's response. His arguments became steadily more preposterous as he went on. That might suggest that we have been right all along and that the impost has been cobbled together at short notice and is half thought through. That is why justifications for the levy are so lacking. Mr. Timms: I am sorry to hear the hon. Gentleman say that. Will he at least acknowledge--as he did not in his opening remarks--that the sustainability fund and the £35 million that will be available will provide an opportunity to tackle some of the local quarrying issues that he referred to earlier? Mr. Heath: I would do that if we knew what the sustainability fund will do. One of the arguments that the Financial Secretary adduced for not accepting the new clause was the fact that he did not yet know the precise detail of the environmental measures that it might encompass. Nevertheless, he is prepared to go ahead with 9 May 2001 : Column 198 imposing a tax on the industry without knowing the precise details--indeed, any details--of the sustainability fund. That is extraordinary. The only lacuna that the hon. Gentleman could identify in my remarks related to some sort of concept of a retrospective planning permission being applied by tax rebate, so that those quarries that happened to be in the wrong place would be taxed out of the market in favour of those that happened to be in the right place. It would be interesting to know the exact mechanism that he had in mind and how it would play in terms of European competition law and the Human Rights Act 1998. The Government have been very clear about what they consider to be the principles of good environmental taxation. They include the fact that an economic instrument must deliver environmental gains cost effectively and must not threaten the competitiveness of UK business. All of us accept that there is an imbalance between the needs of the quarrying industry--the motive for which is to build our infrastructure--and the environmental effects of quarrying. Those of us who represent the areas involved and who have been involved in discussions for more years than we care to remember know that there is a difficult balance to reach. We certainly do not turn our face against the need to provide for economic and environmental instruments to achieve the best balance possible. We simply say that a tax mechanism that fails to differentiate between environmentally sound and environmentally unsound operations is not such an instrument. Because the Government are going ahead without knowing what they will do, we can conclude only that the most important thing for them is appearing to be doing something that is of environmental benefit rather than actually doing something that is of environmental benefit to quarrying areas. The most sensible thing that the Financial Secretary could have said was that he would take the tax away and return with it next year, when it has been properly designed and is in a correct form with a rebate system. We could then all agree that we had an economically and environmentally sound scheme. Instead, we have something which, frankly, is nonsense. We are keen to discuss other groups of amendments in the limited time available--so, for that reason alone, I beg to ask leave to withdraw the motion.

Motion and clause, by leave, withdrawn.