Aggregate Tax The ***Actual*** Effect on Price, May 2001

Government is not prepared to accept claims that S.E. England will be flooded with pre-cast concrete products, emanating from France, as they are of the opinion that the price of transport would preclude this happening. If it was a simple matter of a £1.60 increase in the price of all aggregates then they would possibly be correct, however the reality will be entirely different and the whole country can now be regarded as being at risk from import substitution.
The price of aggregate will be driven up to an unprecedented level for the following reasons. **(*)**

1. Although set at £1.60 [+ vat] the industry will have to "tailor" amount charged to cater for by-products and low grade waste which still has to be sold to maintain working space. Therefore mainstream popular sizes will inevitably have to bear a higher proportion of tax, we estimate by around 50% + 80p year 1.
2. Cost of administration. This will quite simply be horrendous. Our existing software will not cope, new software will cost upwards of £25k + glitches + increased staffing + + + we estimate average companies annual compliance cost per tonne at not less than + 15p.
3. Cash flow costs. HM Customs has to be paid promptly, however, it will take much longer to collect cash. The tax greatly exceeds current profit levels and this problem will be magnified in low value materials thus driving up lending charges +10p
4. Consolidation. Many small companies faced with a tax 4 or 5 times their profit level with little chance of recovering the full cost within an increasingly restricted market will, quite rightly, sell out. The only people able to offer a realistic price will be the people who control the downstream market, the majors. The eventual result will be a complete lack of meaningful competition and prices will rise. Now the question here is by how much? As a guide, the 5 majors all increased their prices by £0.80p. per tonne this year. We predicted last year that this would happen due to OFT failure to react to our concerns about the mergers of Tarmac with Anglo-American and Hanson with Pioneer, reducing number of majors from 7 to 5. Taking everything into account I would suggest that it would now be reasonable to expect yearly increases of up to £0.75p.
5. An inescapable result of consolidation will be the consequent increase in radial mileage by delivery trucks which will raise current norm from 15 miles to 25 miles over a relatively short period. At current costs of 12p per mile this represents £1.20 increase.
6. Another imponderable is the Chancellor. If you expect there to be no annual increase in the tax then fine, otherwise suggest we can expect no less than 25p per annum.

Our Association considers that the following tables represent a realistic assessment of the likely outcome. They also demonstrate that the market will be completely destabilised, construction costs needlessly inflated, our competitiveness destroyed and import substitution will undoubtedly follow.

(*) MODELLED ON A HARD ROCK QUARRY DOING 200,000 t.p.a.

National Average Price Effect:

With £0.25p Annual trade price increase (ex-works prices)

Year	Base Price	Aggregate Tax	+50% for Mainstream	Admin.	Increased Finance	Total Added	Net Result

						Burden	
2001	£4.75						£4.75
2002	£5.00	£1.60	£0.80	£0.15	£0.10	£2.65	£7.65
2003	£5.25	£1.85	£0.92	£0.15	£0.10	£3.02	£8.27
2004	£5.50	£2.10	£1.05	£0.15	£0.10	£3.40	£8.90
2005	£5.75	£2.35	£1.18	£0.15	£0.10	£3.78	£9.53
2006	£6.00	£2.60	£1.30	£0.15	£0.10	£4.15	£10.15

With £0.50p Annual Increase (ex-works prices)

Year	Base Price	Aggregate Tax	+50% for Mainstream	Admin.	Increased Finance	Total Added Burden	Net Result
2001	£4.75						£4.75
2002	£5.25	£1.60	£0.80	£0.15	£0.10	£2.65	£7.90
2003	£5.75	£1.85	£0.92	£0.15	£0.10	£3.02	£8.77
2004	£6.25	£2.10	£1.05	£0.15	£0.10	£3.40	£9.65
2005	£6.75	£2.35	£1.18	£0.15	£0.10	£3.78	£10.53
2006	£7.25	£2.60	£1.30	£0.15	£0.10	£4.15	£11.40

With £0.75p Annual Increase (ex-works prices)

Year	Base Price	Aggregate Tax	+50% for Mainstream	Admin.	Increased Finance	Total Added Burden	Net Result
2001	£4.75					£4.75	
2002	£5.50	£1.60	£0.80	£0.15	£0.10	£2.65	£8.15
2003	£6.25	£1.85	£0.92	£0.15	£0.10	£3.02	£9.27
2004	£7.00	£2.10	£1.05	£0.15	£0.10	£3.40	£10.40
2005	£7.75	£2.35	£1.18	£0.15	£0.10	£3.78	£11.53
2006	£8.50	£2.60	£1.30	£0.15	£0.10	£4.15	£12.65

On Site Prices [calculated on £0.50p. annual Industry increase] *see note 1

Year	Increased Radials	Added Burden	Annual Increase	Scottish Highlands	Central Scotland	Northern Ireland	North East England	Midlands	South East England (1)
2001				£6.00	£7.50	£4.50	£5.00	£9.00	£12.00
2002	£1.20	£2.65	£0.50	£10.35	£11.85	£8.85	£9.35	£13.35	£15.15
%	1st year	increase		+72%	+58%	+96%	+87%	+48%	+26%

2003	£1.20	£3.02	£1.00	£11.22	£12.72	£9.72	£10.22	£14.22	£16.02
2004	£1.20	£3.40	£1.50	£12.10	£13.60	£10.60	£11.10	£15.10	£16.90
2005	£1.20	£3.78	£2.00	£11.48	£12.98	£9.98	£10.48	£15.98	£17.78
2006	£1.20	£4.15	£2.50	£13.85	£15.35	£12.35	£12.85	£16.85	£18.65
%	5 year	increase		+131%	+105%	+275%	+257%	+87%	+55%

Notes:

1. South East England haulage radial delivery mileages are unaffected.
2. The majors all applied an £0.80p per tonne increase to single size aggregates in 2001.
3. At these prices asphalt is also liable to be imported.
4. The average price of aggregate, like haulage, has been stable for a 20 year period.
5. World wide prices of aggregate are remarkably similar.
6. There are abundant supplies of aggregate well within economic shipping distance.