AN ANALYSIS OF TRENDS IN AGGREGATES MARKETS SINCE 1990

- and the effects of the landfill tax and aggregates levy

Prepared for: British Aggregates Association

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Executive summary

i) The production of primary aggregates has been falling since 1990. However, it was the introduction of the landfill tax in 1996 that saw the start of primary aggregates production falling behind construction output.
ii) Other factors resulting in a decline in primary aggregates production have been a decline in road building, a move towards less aggregates intensive building projects, an increase in other forms of construction such as glass and steel, and introduction of the aggregates levy.
iii) Despite the aggregates levy being only one of a number of factors, the effects of the levy continue to cause great difficulties for the industry. Environmental costs are high when bringing secondary aggregates from isolated areas to the main markets. Illicit quarries have been established. Primary aggregates' companies struggle to dispose of poor quality materials which are naturally generated in the quarry. Untaxed slate and shale materials are seen as having an unfair advantage.

Background

This is an independent report prepared by BDS Marketing & Research Ltd to identify trends in aggregates markets and the effects of the introduction of the landfill tax and aggregates levy.

The landfill tax was introduced in October 1996, and the aggregates levy in April 2002. Trends have been analysed in three periods:

i) Between 1990 and 1996, before the landfill tax.
ii) Between 1997 and 2001, after introduction of the landfill tax but before the aggregates levy
iii) The period since 2002.

Aggregates markets since 1990

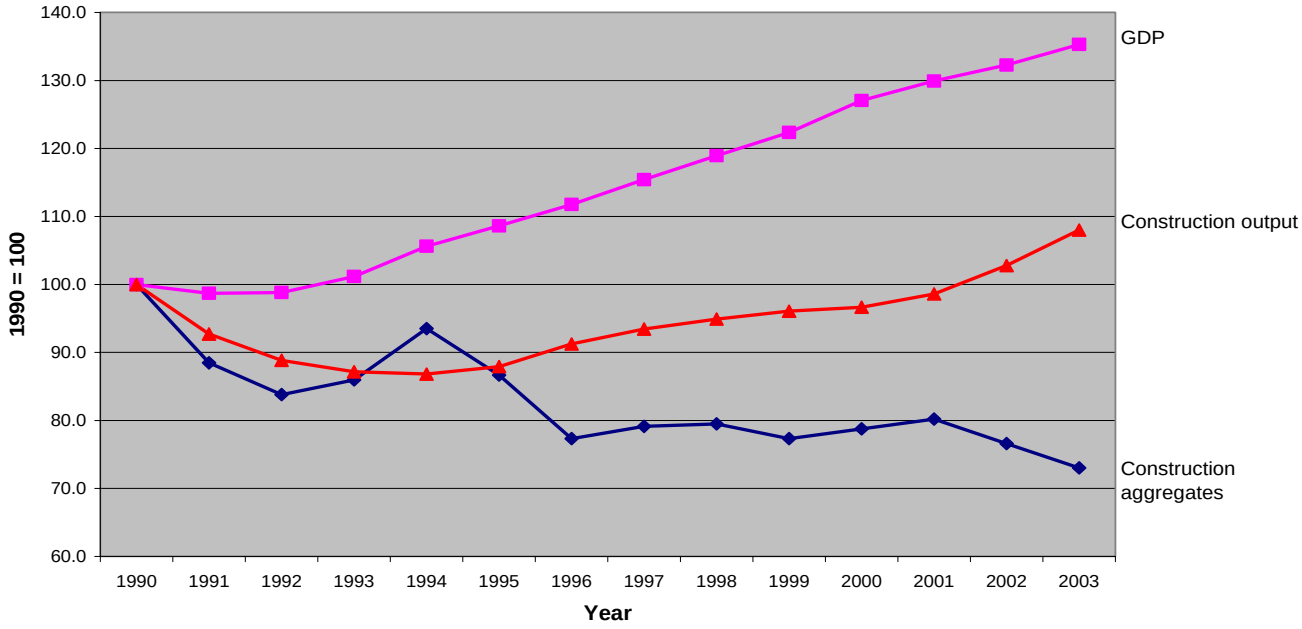
The graphs overleaf show the trend in the production of construction aggregates (excluding aggregates used for industrial purposes) since 1990, with a comparison with construction output and GDP. Aggregates production had been increasing during the 1980's and reached a peak in 1989. Some correction in volumes during the early years of the 1990's could have been expected, but the downward trend in aggregates production has continued over many years. Demand showed some recovery in 1994 when several major road schemes were completed, but then fell again in 1995 and 1996.

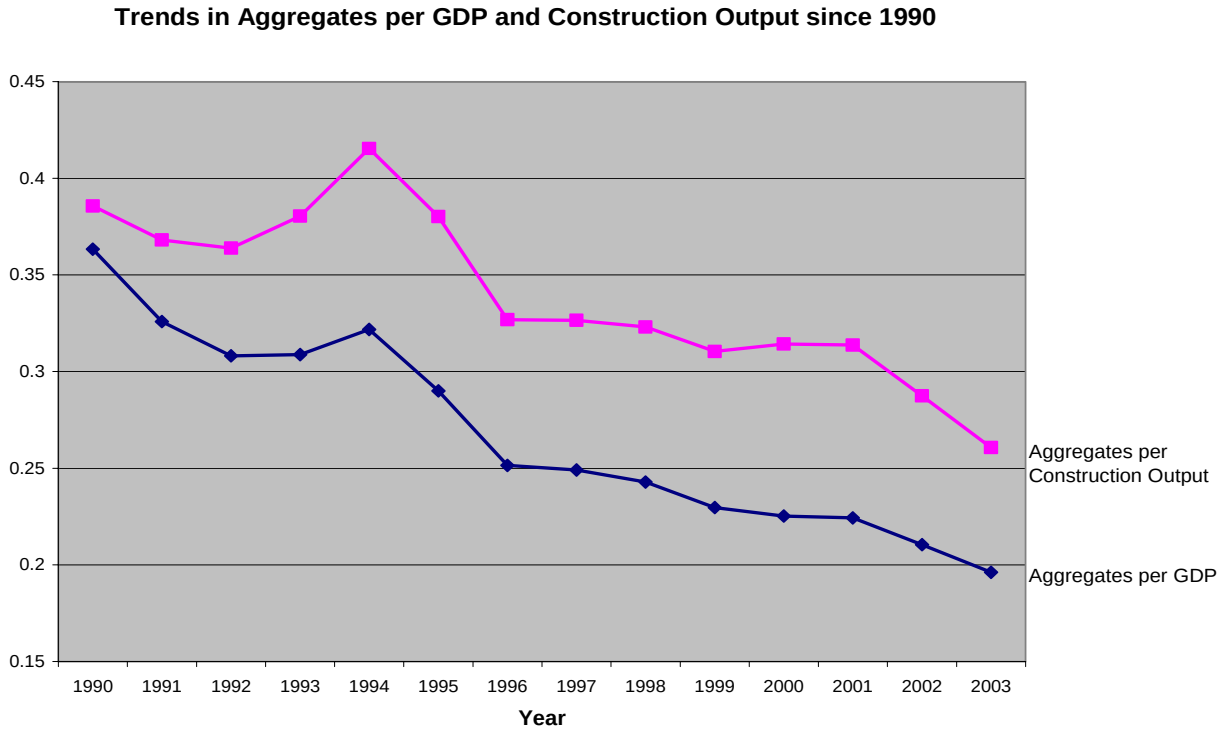
By 1995, the trends in aggregates production and construction output were similar, when compared with 1990. However, both indices were lagging behind GDP. Since introduction of the landfill tax in 1996, aggregates output has fallen behind both construction output and GDP.

Introduction of the landfill tax resulted in an increase in waste disposal costs for demolition contractors, skip hire and haulage businesses. To reduce these costs, it was this sector that was responsible for most of the aggregates recycling plants which have been established. These companies now operate over two thirds of all static aggregates recycling plants. Despite the much larger primary aggregates sector, aggregates companies have established relatively few recycling plants.

In addition, introduction of the aggregates levy has resulted in a switch to aggregates that are not taxed.

Trends in Aggregates, GDP and Construction Output since 1990





The two graphs confirm that the demand for construction aggregates started to fall behind construction output after the landfill tax was introduced. This trend was further strengthened after introduction of the aggregates levy.

Provisional figures for 2004 suggest that the trend has continued, with aggregates production falling but both construction output and GDP continuing to rise.

The report published by Capita Symonds Ltd in October 2004 on behalf of the ODPM estimated 36.47 m tonnes of recycled aggregates in 2003 in England. BDS estimates that around 41 m tonnes of aggregates could be recycled in Great Britain in total. Limited information is available on the size of the recycled aggregates market in 1990. More than three quarters of all static plants have been established since 1990. Therefore the amount of recycled aggregates in 1990 could have been around 10 m tonnes in Great Britain.

To this net increase of 21 m tonnes in recycled aggregates between 1990 and 2003 needs to be added a further estimated 4 m tonnes' increase in the use of secondary aggregates over the same period. If aggregates production had achieved the same performance as construction output, then aggregates production in 2003 should have been 300 m tonnes. This compares with an actual figure of 203 m tonnes. Therefore, of the decline of 97 m tonnes in primary aggregates since 1990, we estimate that 25 m tonnes have been the result of an increase in secondary and recycled aggregates. The remainder is due to:

i) Expensive building projects such as the Millenium Dome and Wembley Stadium have required relatively small volumes of aggregates, and there has been a general trend towards less aggregates intensive building projects rather than civil engineering.

ii) There continues to be a move towards steel, glass and other forms of construction, and away from concrete structures.

iii) The Government has switched expenditure away from road building. This is one of aggregates' main markets. The growth of other public buildings, and a general construction industry move towards repair and maintenance, has adversely affected demand for aggregates.

The actual decline in primary aggregates sales is thought to be larger than the production figures would suggest. Low value aggregates are naturally generated as a by product of the quarrying process. However, these unprocessed (but taxed) materials have to compete with untaxed secondary and recycled products. For example, the extraction of Kentish Ragstone also generates large volumes of Hassock sand. This poorer quality material is taxed but has to compete with imported slags that are untaxed. In other areas, primary aggregates have to try and compete with untaxed materials such as shale and slate. Illicit quarries have also opened. Stocks of unsold lower quality primary aggregates have been increasing. This is also an environmental problem. The situation appears to be deteriorating.

Recent publication of the UEPG 2004 report of the European Aggregates Association makes interesting reading. It confirms that the UK has a considerably higher level of aggregates recycling than in all other major European countries. The UK now has a recycling rate of over four times the European average:

Country	Proportion of recycled aggregates to total primary and recycled aggregates production
UK	23%
Germany	16%
Belgium	5%
France	4%
Italy	1%
Spain	0.5%
Total Europe inc UK	7%
Total Europe exc UK	5%

(Source: UEPG)

Development of aggregates recycling plants

In 2004, BDS published details of all known static aggregates recycling plants in Great Britain. This included details of over 500 plants. Every company was contacted for information on site address, volumes handled by each plant and the years of operation. Before introduction of the landfill tax, the number of new plants established each year averaged 16. Introduction of the landfill tax resulted in a doubling of the plants established each year. Since introduction of the aggregates levy, there has been only a slight increase in the number of new plants established:

Period	Number of new aggregates recycling plants established:	
	Total	Average per annum
1990-1996	109	16
1997-2001	164	33
2002-2004	118	39

Secondary aggregates

Power station ash, slag and other secondary materials have been used by the construction industry for many years. The use of slate waste and china clay sand have historically been restricted to local markets, as the cost of transport is high for all types of aggregates. These secondary wastes also have the additional problem of being isolated from the main construction markets. Introduction of the aggregates levy has changed the economics.

It is now possible to economically supply china clay sand into the south east, and slate wastes into the midlands. However, these movements often involve deliveries in excess of 100 miles. These have serious environmental impacts. The aggregates levy has therefore resulted in a higher environmental cost. Yet the main aim of the levy was to reduce such impact.