

INDUSTRY STILL TRYING TO SHAKE OFF CHILL EFFECTS OF AGGIES TAX

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Three years after its introduction the tax on aggregates is still as unpopular as ever.

Producers may have become used to paying the £1.60 per tonne levy but time has not been a great healer as Paul Thompson reports

A QUICK phone poll around the industry reveals the depth of ill feeling that still surrounds the aggregates levy. People throughout the quarrying and quarry products industries are damning in their criticism of the stone tax and the level of that criticism has not diminished in the three years since its introduction.

Quarryman after quarryman talks of his frustration with the levy, and echoes the deeply held view that the aggregates tax is nothing more than a cash cow for the Government.

But how did it all go so badly wrong?

After all it is not as if the quarrying industry did not have enough time to prepare for the introduction of a quarrying tax.

As long ago as 1991 Construction News reported that the then Environment Minister Tim Yeo had called for greater use of secondary aggregates. On the back of that call a report by consultant Arup for the Department of the Environment outlined proposed taxes to help cut down on sand, gravel and rock extraction.

Then in 1996 Construction News was bang on the button again when it predicted both the introduction of a tax on aggregates and a clampdown on planning permissions for quarrying.

But it took a change of Government and another few years of thinking time before the tax had been taken up as a runner.

Even then though the Government was in such a pickle over the complexities of the issue that it did not really know where or how to start.

"One of the reasons the tax is such a cock-up is that the Government decided to levy it on geological terms. If they had decided it is payable on all material used as aggregate it would have been easier but they wanted to make some stone exempt," says Richard Bird, executive officer of independent quarry's body the British Aggregates Association. "If you put 10 different geologists in a room, show them a rock sample and ask them what kind of rock it is you can end up getting 10 different answers. There are so many different forms of the same material that it is incredibly difficult to pin down exactly what it is."

And therein lies one of the major gripes about the levy. Three years on and it is difficult, if not impossible, to argue that the tax has actually sent any quarrying operations to the wall. What it has done is open up an unfair advantage for quarries trading in exempt material and this is putting pressure on neighbouring quarrymen who do trade in taxable stone.

Take secondary aggregates from china clay quarries in Cornwall or those produced in slate pits in North Wales, both fine, good quality aggregates that can easily find a home in the construction industry. Both are exempt from the £1.60 per tonne charge and both are experiencing greater use since the levy was introduced because of that exemption.

A road stone quarry next door could be producing similar quality material but now has the economic disadvantage of having to pay the charge. No surprise to learn that sales are down.

"In a practical sense the main issue has been that it is becoming increasingly difficult to sell the lower value products," says Jerry McLaughlin, chief economist at the Quarry Products Association. "There has definitely been some substitution for non-taxed products."

Not only that but because the china clay waste and the slate are now much cheaper they are being used more widely, travelling further distances along the road network making a mockery of the Government's claim that it is an environmental tax, according to Mr Bird.

"The slate boys are getting grants to buy crushers and increase production of their aggregates, which are being shipped out by road.

Cornish china clay operations are shipping their material by road up as far as Exeter, spending more money on fuel and polluting the environment," he says.

The greatest degree of scorn is reserved for the claims that the levy has actually reduced the amount of material quarried and that is therefore proof of its effectiveness.

What this actually does prove is what the Government knows about quarrying can be written on the back of a piece of 14 mm aggregate.

It deduces that because sales of recycled and certain secondary aggregates are up and sales volumes from the quarry gate are down, then less material is being quarried. It spectacularly fails to realise that demand for virgin, quality stone, has not changed because no-one has managed to come up with a way of replacing it at the top end of the chain.

So if the UK quarrying industry still has to produce the same amount of top end stone it will produce the same amount of primary by-product as it did pre-levy.

It is the market for this by-product that has been swept away by the tax.

The result of all this is that quarries up and down the country now have to stockpile material they cannot even give away and this very move increases the risk to the environment the levy is supposed to protect, argues Mr Bird.

"The tax might be reducing the total amount of material sold but not the amount extracted. The land take at most quarries is exactly the same as it was three years ago. In the future it could actually rise because the area under the stockpiles has been sterilised, you cannot quarry under the scalplings but the material has to come from somewhere," he says.

But what is the alternative? The Government is unlikely to doff its cap, announce that the industry was right all along, and throw away a £400 million a year tax haul.

"We do not have an alternative up our sleeves," says Mr McLaughlin "We would need to sit down with the Government and find out exactly what it wants to achieve environmentally. What we are saying is that if the Government cannot justify the tax on environmental terms, what is it for?"

Recycling boost or cash cow?

ONE OF Chancellor of the Exchequer Gordon Brown's main arguments for continuing the aggregates tax is that it has promoted the use of recycled aggregates.

A cursory glance at the Government's figures would seem to back this up. The use of recycled aggregates has indeed increased by one million tonnes each year since its introduction.

But delve deeper into the economics of this increase, says Jerry McLaughlin, and the figures just do not stack up. The extra one million tonnes of recycled material being used in the UK actually increases recycled aggregates overall market share by less than 1 per cent.

And with the Government skimming off £400 million in tax on virgin aggregates to promote recycled material, that means that every extra tonne of recycled material has cost £400. This, says Mr McLaughlin, makes the n See page 38 aggies levy the most inefficient environmental mechanism known to man.

The fact that the official definition of recycled material includes the use of tax exempt quarried minerals is another bug-bear.

"Undoubtedly the aggregates levy has had an effect on the amount of recycled material in use around the country," says Mr McLaughlin. "But given that the use of recycled aggregates was more popular here than any other country in Europe anyway it is very questionable that the increase has delivered value for money. Here we are effectively handing over £400 per tonne in tax for a material that may only cost £10 per tonne."

Countdown to taxation

1991: Then Environment Minister Tim Yeo calls for more use of secondary aggregates to cut down on sand, gravel and rock extraction. Consultant Arup publishes a report that claims a tax on the extraction of sand, gravel and rock could boost the use of secondary aggregates by as much as 80 million tonnes per year.

1996: Industrial forecaster Cambridge Econometrics predicts further taxation on aggregates following the introduction of the landfill tax

1997: Quarriers begin lobbying against the introduction of the aggregates levy after the new Labour Government outlined its plans for environmental taxation.

2000: Quarrying industry is left reeling by Chancellor of the Exchequer Gordon Brown's decision to set a tax of £1.60 per tonne on aggregates to be introduced in April 2002.

2001: Customs and Excise aggregates levy team advise Treasury the introduction of the tax in Northern Ireland will have significant effect on the market because of its land border with non-taxing Republic of Ireland.

March, 2002: British Aggregates Association wins a judicial review to make the Treasury justify its planned tax. Still confusion throughout the industry and the Government about what material the tax should be paid on, who should pay it and how it will be collected.

April 1, 2002: £1.60 per tonne aggregates levy introduced. Huge stockpiling of pre-levy material.

April 17, 2002: Gordon Brown announces the intricacies of the tax in the Finance Bill on Budget Day.

December, 2004: Northern Ireland wins its case for special treatment. Rates are cut by 80 per cent and the full levy will be phased in over a number of years.

March, 2005: Conservatives announce they will bin the tax if elected.

March, 2005: A Department of Transport report concedes the aggies tax "does not tackle the environmental impacts directly" April, 2005: Government reveals that communities blighted by quarrying activities will receive just 1 per cent of the aggregates tax haul.

May, 2005: Government reveals plans to simplify tax discount calculations for added water