Review of the Aggregates Levy
Review of the Aggregates Levy

Introductions and opening remarks

Ann-Therese Farmer
Review of the Aggregates Levy

Reviewing the Process
Review process

Expert working group
- The role of the working group is to provide expert input, advice and challenge to HM Treasury and HMRC
- Meetings on 3 themes:
  - Objectives
  - Scope
  - Operational issues, including devolution and compliance
- Meeting with the Exchequer Secretary to the Treasury

Written representations
- From representative organisations, individual businesses and other stakeholders
- By email to ETTanswers@HMTreasury.gov.uk or by post by the 5th July 2019

Regional visits
- A mix of meetings and site visits

The Chancellor of the Exchequer will announce next steps by the end of 2019
DAVID PAYNE
CBI MINERALS GROUP
OVERVIEW

• What minerals and mineral products sector does
• Economic significance of minerals and mineral products
• Mineral extraction & supply chains for other sectors
• Shape of the industry: distribution between materials, market concentration, regional distribution
• Performance of the Sector
• Performance compared to overseas
• Industry priorities and challenges
CBI MINERALS GROUP

• **All the non-energy trade associations** for mineral products, clay and ceramics, industrial minerals and coal
  
  • plus Crown Estate, BGS, consultants, legal firms
  
  • **Represents virtually 100% of mineral extraction** excluding oil & gas
  
  • **Chaired by MPA** - represents 90% of all non energy mineral extraction and mineral products
WHAT DOES THE SECTOR DO?

- Supplies raw materials
  - Construction
  - Manufacturing
  - Agriculture
  - Pharmaceuticals
- Manufactured products – concrete, pre-cast
- Largest material flow in the economy – 1mt/day
WHAT DOES THE SECTOR DO?
LINKS TO SUPPLY CHAINS

- RAILWAYS
- ROADS
- SCHOOLS
- HOMES
- HOSPITALS
- SHOPS
- OFFICES
- WATER TREATMENT
- FACTORIES
- WAREHOUSES
- ENERGY GENERATION

- LEISURE
- GLASS
- IRON AND STEEL
- AGRICULTURE
- FOOD MANUFACTURE
- WATER FILTRATION

- LIMESTONE
- IGNEOUS ROCK
- SANDSTONE
- SAND & GRAVEL (LAND WON)
- SAND & GRAVEL (MARINE)
- RECYCLED AND SECONDARY

AGGREGATES/ASPHALT
CEMENT/DIMENSION STONE
INDUSTRIAL SAND/MORTAR
LIME/CONCRETE PRODUCTS
SLAG/READY-MIXED CONCRETE

CONSTRUCTION

NON-CONSTRUCTION
ECONOMIC SIGNIFICANCE & SHAPE OF SECTOR

210mt
UK mineral extraction

£15bn
Turnover of mineral extraction

£68bn
Turnover of mineral products manufacture

£5bn
Gross value added of mineral extraction

£22bn
Gross value added of mineral products manufacture

£209bn
Gross value added of “first use” markets

£235bn
Total gross value added generated by minerals, including mineral extraction, products manufacture and “first use” markets

16%
Share of the UK total economy directly attributable to minerals

34,000
People employed directly in mineral extraction

4.3m
Jobs supported through the supply chain

Table 1: Minerals production in the UK (2013)
(Source: BGS)

<table>
<thead>
<tr>
<th>Minerals</th>
<th>Million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction minerals</td>
<td>172.2</td>
</tr>
<tr>
<td>including</td>
<td></td>
</tr>
<tr>
<td>Limestone, dolomite &amp; chalk</td>
<td>53.6</td>
</tr>
<tr>
<td>(construction uses)</td>
<td></td>
</tr>
<tr>
<td>Sandstone</td>
<td>11.5</td>
</tr>
<tr>
<td>Sand &amp; gravel - limestone</td>
<td>13.4</td>
</tr>
<tr>
<td>Sand &amp; gravel - Marine</td>
<td>14.6</td>
</tr>
<tr>
<td>Slate</td>
<td>0.9</td>
</tr>
<tr>
<td>Gypsum</td>
<td>1.2</td>
</tr>
<tr>
<td>Fireclay</td>
<td>0.1</td>
</tr>
<tr>
<td>Clay &amp; shale</td>
<td>6.5</td>
</tr>
<tr>
<td>Total</td>
<td>24.8</td>
</tr>
</tbody>
</table>

Industrial minerals

<table>
<thead>
<tr>
<th>Minerals</th>
<th>Million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>including</td>
<td></td>
</tr>
<tr>
<td>Limestone, dolomite &amp; chalk</td>
<td>10.5</td>
</tr>
<tr>
<td>(industrial &amp; agricultural uses)</td>
<td></td>
</tr>
<tr>
<td>Silica industrial sand</td>
<td>4.0</td>
</tr>
<tr>
<td>China clay (kaolin)</td>
<td>1.1</td>
</tr>
<tr>
<td>Salt</td>
<td>0.6</td>
</tr>
<tr>
<td>Potassium compounds</td>
<td>0.9</td>
</tr>
<tr>
<td>Ball clay</td>
<td>0.7</td>
</tr>
<tr>
<td>Pest</td>
<td>0.2</td>
</tr>
<tr>
<td>Other industrial minerals*</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Metals

<table>
<thead>
<tr>
<th>Minerals</th>
<th>Million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron ore</td>
<td>0.0</td>
</tr>
<tr>
<td>Tungsten</td>
<td>0.0</td>
</tr>
<tr>
<td>Tin</td>
<td>0.0</td>
</tr>
<tr>
<td>Gold</td>
<td>0.0</td>
</tr>
<tr>
<td>Silver</td>
<td>0.0</td>
</tr>
<tr>
<td>Zinc</td>
<td>0.0</td>
</tr>
<tr>
<td>Copper</td>
<td>0.0</td>
</tr>
<tr>
<td>Lead</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Energy

<table>
<thead>
<tr>
<th>Minerals</th>
<th>Million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>47.6</td>
</tr>
<tr>
<td>Gas</td>
<td>34.5</td>
</tr>
<tr>
<td>Coal</td>
<td>12.8</td>
</tr>
<tr>
<td>Total</td>
<td>94.9</td>
</tr>
</tbody>
</table>

* Includes Fisons earth benedict karmy, furnos pet, coal coke, alkril, alkril, chino done, dndiang phono.

Chart 1.2: GVA generated by minerals at various stages of the supply chain (2013)
(Source: ABS, ONS, LFS, MPA)

Chart 1.1: Estimated turnover of UK non-energy minerals and coal (2013)
(Source: ONS, ABS, MFA)
Chart 2: The flow of minerals through the economy (2013) [Source: GFS, ABIS, MPA]

Notes:
1. Sections A-L.
2. Includes mining, quarrying activities.
3. Production only. Does not include distribution or any other related services.
4. BIS believes the 2012 estimate for the cement industry’s GVA is underestimated.
5. 2013 GVA for this industry was estimated to be £12bn.

The entire economy relies on minerals (total UK GVA = £1.519bn)

Minerals (exc oil & gas)

Extraction

Products manufacture

First use

GVA

Turnover

£5bn

£15bn

£22bn

£69bn

£209bn

£570bn
ECONOMIC SIGNIFICANCE & SHAPE OF SECTOR

Chart 2.3.b: **Productivity by industry, £ per employee (2013)** (Source: ABS, ONS, LFS, MPA)

- **Real estate**: £218,133
- **Mining & quarrying (inc oil & gas)**: £133,256
- **Electricity, gas, steam & air conditioning**: £122,340
- **Financial & insurance**: £107,596
- **Information & communication**: £81,616
- **Water, sewerage, waste**: £80,749
- **Mineral extraction & products manufacture**
  - **Professional, scientific & technical**: £55,244
  - **Administrative & support services**: £52,097
  - **UK Economy (A-S)**: £51,390
  - **Manufacturing**: £50,447
  - **Transport & storage**: £42,988
  - **Construction**: £42,871
  - **Wholesale & retail trade**: £42,771
  - **Public administration & defence**: £41,545
  - **Other service activities**: £39,978
  - **Agriculture, forestry & fishing**: £33,440
  - **Education**: £32,883
  - **Arts, entertainment & recreation**: £31,618
  - **Accommodation & food service**: £28,195
  - **Human health & social work**: £26,425

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This is not an official ONS Standard Industrial Classification but represents the minerals industry as defined in this publication.

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Chart 2.3.a: **GVA and employment generated by the minerals industry relative to the total UK economy (2013)** (Source: ABS, ONS, LFS, MPA)

- **GVA (£bn)**:
  - UK Economy: 28
  - Minerals Industry: 0.7

- **Employment (m)**:
  - UK Economy: 32
  - Minerals Industry: 0.2

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Sections A-S of the Standard Industrial Classification (SIC 2007).
Includes mineral extraction, products manufacture and "first use" markets.
## SHAPE OF THE SECTOR

### Minerals production in the UK (2013) (Source: BGS)

<table>
<thead>
<tr>
<th>Mineral Type</th>
<th>Production (Million Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>41</td>
</tr>
<tr>
<td>Natural gas</td>
<td>37</td>
</tr>
<tr>
<td>Coal</td>
<td>13</td>
</tr>
<tr>
<td>Construction and industrial minerals</td>
<td>197</td>
</tr>
<tr>
<td>Limestone &amp; dolomite</td>
<td>60</td>
</tr>
<tr>
<td>Sand &amp; gravel - Land won</td>
<td>43</td>
</tr>
<tr>
<td>Sand &amp; gravel - Marine</td>
<td>15</td>
</tr>
<tr>
<td>Igneous rock</td>
<td>41</td>
</tr>
<tr>
<td>Sandstone</td>
<td>12</td>
</tr>
<tr>
<td>Salt</td>
<td>7</td>
</tr>
<tr>
<td>Clay and shales</td>
<td>6</td>
</tr>
<tr>
<td>Silica sand</td>
<td>4</td>
</tr>
<tr>
<td>Chalk</td>
<td>4</td>
</tr>
<tr>
<td>Other minerals</td>
<td>3</td>
</tr>
<tr>
<td>Gypsum</td>
<td>1</td>
</tr>
<tr>
<td>China clay</td>
<td>1</td>
</tr>
<tr>
<td>Peat (000 m³)</td>
<td>1</td>
</tr>
</tbody>
</table>

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### Chart 3.1.b: UK primary aggregates production (2014) (Source: AMRI, MPA, QPA Northern Ireland)

- **England**: 111 million tonnes
- **Wales**: 14 million tonnes
- **Scotland**: 25 million tonnes
- **NI**: 20 million tonnes

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Footnotes:

1. 2013/14 MPA sales volumes growth rates for England, Scotland and Wales are applied to official 2013 AMRI production estimates.

Notes:

1. Includes crude oil onshore and offshore, and condensates.
2. Includes non-ferrous ores, ball clay, slate, barytes, talc and potash.
PERFORMANCE

3.1a: GB aggregates market by sources of supply. Source: ONS (AMR), BGS (AM surveys), MPA.

Marine dredged30 = c.20% of total sand and gravel
PERFORMANCE

2007-09

- UK GDP down 5%
- Construction output fell 15%
- Primary aggregates fell by a staggering 30%

Source: ONS.
PERFORMANCE

2013-15

- 5.5% growth in GDP
- Construction output up 13.5%
- 20.6% growth in primary aggregates sales
PERFORMANCE

7.1b: Share of recycled\(^{a}\) and secondary materials in total aggregates sales, 2016. Source: UEPG (2017), MPA.


\(^{a}\) Includes manufactured, recycled (fixed and mobile) and aggregates re-used on site.

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GB
Netherlands
Belgium
Germany
Switzerland
Poland
France
Denmark
Austria
Bulgaria
Slovakia
Spain
Italy
Finland
Sweden
Ireland
Norway
Greece
Portugal
Jerry McLaughlin
MPA Executive Director
Key Facts

**390Mt**
GB production of aggregates and manufactured mineral products

**£6.8bn**
Gross value added generated by the industry

**£513bn**
Annual turnover of the industries we supply

**3.5m**
Jobs supported in our supply chain

**74,000**
People employed in the industry

**4 times**
The volume of energy minerals produced in the UK including oil, gas and coal

**£18bn**
Annual turnover for the Minerals and Mineral Products Industry

**£152bn**
Value of construction output, our main customer
Locations of MPA member active sites/plants, 2016

1.2: Number of MPA member active sites/plants in 2016.
Source: MPA.
Crushed rock quarries  253
Sand & gravel quarries  260
Depots or wharves  113
Railheads  15
Recycling plants  94
Cement quarries and plants  24
Ready-mixed concrete plants  864
Precast concrete plants  61
Lime quarries and plants  12
Asphalt plants  275
Mortar plants  38
Dimension stone quarries  43
Silica sand quarries  18
Slag plants  4
Locations of MPA member active sites/plants, 2016
Actual sales 2004 - 2018

Source: MPA.
*Sum of fixed & site plants.
Aggregates Supply Scenarios - GB

Baseline

<table>
<thead>
<tr>
<th>(GB, Mt)</th>
<th>2015</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land-won sand &amp; gravel</td>
<td>46</td>
<td>21</td>
</tr>
<tr>
<td>Marine sand &amp; gravel</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Crushed Rock</td>
<td>104</td>
<td>146</td>
</tr>
<tr>
<td>Recycled &amp; Secondary</td>
<td>64</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>226</strong></td>
<td><strong>267</strong></td>
</tr>
</tbody>
</table>

Low intensity

<table>
<thead>
<tr>
<th>(GB, Mt)</th>
<th>2015</th>
<th>2030</th>
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<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>226</strong></td>
<td><strong>201</strong></td>
</tr>
</tbody>
</table>
Construction - not just housing!

CONSTRUCTION OUTPUT GB

- R&M Non housing: 17%
- New housing (Public): 4%
- New Housing (Private): 22%
- R&M Housing: 17%
- Public non-housing: 6%
- Infrastructure: 12%
- Industrial: 3%
- Commercial: 19%
5 year horizon - issues & challenges

- Political uncertainty - policy consistency?
- Devolution and Brexit outcomes remain uncertain & unsettling. Business implications for investment, trade, skills?
- Economy is subdued, 1.5% GDP growth trend to 2023.
- 2019 market outlook flat. 2020,21 growth dependent on Infrastructure delivery
- Planning & permitting concerns: localism vs strategic? Resourcing of the mineral planning system?
- Cumulative costs of regulation/operations increasing. Including energy, transport, regulatory costs.
- Increasing focus on carbon emissions, air quality, biodiversity/net gain, water abstraction, resource use, circular economy.
- Relationships/engagement with local communities
MPA Charter

- Launched 2017
- Clarifies, simplifies and consolidates expectations for Members
- Enables the Vision for 2025 and the Strategic Priorities to be achieved by ‘Driving Change, Raising Standards and Improving Perceptions’
What we stand for: our values

MPA Members are:

- Committed to the principles of sustainable development
- Committed to achieving Zero Harm
- Committed to raising competence and skill levels in the industry
- Committed to protecting and enhancing UK Biodiversity
- Committed to the high quality restoration of land to valuable after uses
- Committed to reducing carbon and other industrial emissions
- Socially and environmentally responsible suppliers of essential materials
- Committed to the sustainable use of their products by end users
- Committed to maximising recycling of materials, improving resource efficiency and contributing to the ‘circular economy’
- Valuable and active members of their communities, particularly in rural areas
- Able to provide a range of career opportunities and career development and respond to skills shortages
- Innovative and share good and best practice particularly in health and safety and sustainable development
The policy context of aggregates extraction

Andrew Bloodworth and Joseph Mankelow
“Minerals can only be worked where they occur”

- UK relatively rich in resources
- Unevenly distributed/occur in inconvenient places
- Demographics drive demand and constrain supply
  - Demand concentrated in major urban centres (particularly mineral-deficient SE England)
  - Supply constrained by competition for land use (development and designation) + public perception
Crushed rock inter-regional flows, 2014

~ 4% (3 Mt) of demand (84 Mt) in England and Wales met by imports

*For clarity, exports less than 25,000 tonnes are not shown.

Source: Aggregate Minerals Survey, Department for Communities and Local Government / British Geological Survey
Sand and gravel inter-regional flows, 2014

Marine-dredged = 14 Mt
Total = 54.6 Mt

*For clarity, exports less than 25 000 tonnes are not shown.*

Source: Aggregate Minerals Survey, Department for Communities and Local Government / British Geological Survey
27 quarries capable of producing > 1 Mt/year (out of ~550)*

Population density

*England only
GB aggregates production, 1980 - 2017

Source: UK Minerals Yearbook, BGS Mineral Products Association
GB aggregates production, 1980 - 2017

Source: UK Minerals Yearbook, BGS Mineral Products Association
EU aggregates production, 2017
Policy environment

- NPPF + PPW + SPP + SPPS-NI
- MASS (Eng & Wales) – supply / landbank
- Environmental Permitting / mitigation of local impacts – water
- Economic Instruments – Agg Levy + Landfill Tax – env externalities of production
Review of the Aggregates Levy

Reviewing the Objectives

Christina Hart
Content

- Introduction of the Aggregates Levy
- Review of the levy
- Government’s approach
- Principles of environmental taxes
- Government objectives
Introduction of the Aggregates Levy

- A new levy on aggregates came into effect in April 2002 to tackle the environmental costs associated with the extraction and transport of aggregates and to encourage the use of recycled materials.

An aggregates levy will ensure that the environmental impacts of aggregates production not already addressed by regulation are more fully reflected in prices, encouraging a shift in demand away from virgin aggregate towards alternative materials such as recycled aggregate. (Budget 2000)

- The timing of the introduction coincided with businesses benefitting from a cut in employers' national insurance contributions (as part of a shift towards a greater proportion of the tax burden falling on activities with negative externalities); and

- a new Sustainability Fund was created to deliver environmental benefits to the local communities affected by quarrying.
Review of the Aggregates Levy

The government has committed to:

- reviewing the Aggregates Levy’s objectives,
- assessing how effective the current design of the levy is in meeting those objectives;
- looking at the impact that the levy has had on the industry and the environment,
- considering the impacts of the production and supply of all mineral products (including all types of aggregate) as well as the extraction of other construction materials.
Our Approach to the Review

To do this, we will:

• consider the current policy, business and environmental context;

• reflect on the levy’s objectives in the context of current government objectives;

• follow the principles of good tax policy making, (predictability, stability and simplicity), ensuring reforms align with the ambition for the tax system to be competitive, simple, fair and green;

• follow the principles underpinning environmental taxation.

We welcome all views and representations, specific examples and data are particularly helpful.
Environmental Taxes

- Our approach to addressing environmental issues is based on tackling market failures.
- Environmental taxes are particularly effective in correcting market failures where there are negative externalities that are not currently reflected in prices.
- Taxes and other economic instruments therefore have a central role to play. They can:
  - improve economic efficiency and promote resource productivity;
  - provide incentives for behaviour that protects or improves the environment, and deter actions that are damaging to the environment (in line with the Natural Capital accounting principles embedded within the 25 Year Environment Plan);
  - enable environmental goals to be achieved in the most efficient way; and
  - send out a clear signal to markets to encourage innovation and development of new technology.
- Ensure a steady, adequate and sustainable supply of mineral products;
  - ensuring this does not have unacceptable adverse impacts on the natural and historic environment or human health;
  - taking account of the contribution that substitute or secondary and recycled materials and minerals waste can make;
  - considering the adverse impacts on the natural and historic environment;
  - considering the noise, dust and particle emissions, and blasting vibrations;
  - ensuring high quality restoration and aftercare.

*Minerals Planning Policy, National Planning Policy Framework*

- An adequate supply of minerals and construction products is essential for economic growth.

*Industrial Strategy Construction Sector Deal*
• Minimise waste, promote resource efficiency and move towards a circular economy – including recycling and recovery of materials, waste management - while minimising damage to our natural environment.  

  *Resources and Waste Strategy, DEFRA*

• Minimise impacts on, and provide net gains for, biodiversity, including by establishing coherent ecological networks that are more resilient to current and future pressures.  

  *National Planning Policy Framework; forthcoming Environment Bill*

• A tax system that is straightforward for our customers to pay the right tax at the right time.  

  *HMRC*

• Ensure stable and sustainable tax receipts to fund government spending in the least distortive way.  

  *HM Treasury*
Discussion point 1: What impact has the Aggregates Levy had on the industry and environment?
Review of the Aggregates Levy

Discussion point 2: What aspects of the levy are more/less effective in meeting its objectives?

What are your views on how the levy’s objectives fit with the governments current objectives?
Review of the Aggregates Levy

Closing Remarks

Ann-Therese Farmer