



Minutes: AGGREGATES LEVY 2nd WORKING GROUP

Meeting date: 29th May 2019 (10:30 – 12:30)

Location: HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Attending: HM Treasury: Ann-Therese Farmer [chairing], Christina Hart, Lucy Felton, Isabelle Scott, Florence Eastoe [minutes]
HMRC: Darren Greedy, Tim Smith, Claire Hardy
British Aggregates Association: Paul McManus
British Ceramics Confederation: Lee Brownsword
British Geological Survey: Andrew Bloodworth, Joseph Mankelow
CBI Minerals Group: David Payne
Imerys Minerals Ltd: Gary Bell
Mineral Products Association: Jerry McLaughlin
Mineral Products Association NI: Gordon Best
Mineral Products Association Scotland: Alan Mackenzie
NI Environment Link: Dr Jonathan Bell [dialled in]
Planning Officers Society: Vicky Perkin [dialled in]
RSPB: Paul Morling
Woodland Trust: Ann Rooney

Apologies: CECA: Steve Livingstone
Construction Employers Federation (NI): David Fry
Environmental Services Association: Libby Forest
Royal Town Planning Institute: James Harris
Wales Environment Link: James Byrne

Summary: HM Treasury hosted the second meeting of the Aggregates Levy Working Group, made up of expert stakeholders.
The discussion focused on the scope of the levy, including exemptions.

1. Introductions and welcome

1.1 All participants introduced themselves. Ann-Therese Farmer (HM Treasury, chairing) welcomed the group and thanked everyone for attending.

1.2 Planning Officers Society (who were unable to dial in to the 1st Working Group meeting) stated for the record that they supported the reintroduction of the Sustainability Fund.

2. Agreement on the minutes of 1st meeting

2.1 The chair asked for feedback on the draft minutes of the first meeting that had been previously circulated.

2.2 MPA NI requested one change: that on page 5, the wording "Both representatives of MPA NI explained that quarries in Northern Ireland may experience significant negative impact due to proximity to the border" is changed to "...quarries in Northern Ireland have experienced significant negative impacts...", to reflect their view.

2.3 HM Treasury confirmed their intention to publish the agendas, agreed minutes and presentation slides of the Working Group meetings online. HM Treasury also highlighted that any information or material submitted may be subject to release under Freedom of Information requests.

3. Update on the review

3.1 Christina Hart (HM Treasury) gave a brief presentation setting out progress since the last Working Group meeting, including engagement across government and with devolved administrations and several site visits and meetings with Working Group members. HM Treasury said the review was still at the exploring and engaging stage and as yet no conclusions had been reached or Ministerial views sought, given that the deadline for representations was still over a month away.

4. Aggregates Levy: reliefs, exemptions and exempt processes presentation

4.1 Tim Smith (HMRC) outlined the scope of the Aggregates Levy, and the Working Group then discussed the circumstances in which aggregates are not taxed or are eligible for relief.

General remarks arising during the discussion about the scope of the tax

- Several stakeholders reiterated thoughts on the rationale and objectives for the tax, as discussed in the first working group meeting.
- British Geological Survey queried whether definitions of materials within the levy are sufficiently clear, particularly in relation to slate and clay. Several stakeholders felt that the legislation needs to be clearer, all involved want definitions and corresponding legislation to be as clear as possible.
- The environmental/sustainable credentials of the aggregates industry were discussed, as industry representatives reiterated their view that these have improved since the levy was first introduced. Several attendees outlined concerns that the tax is not conducive to reducing stockpiles of waste products. MPA suggested that revenue from the tax could be used to invest in this technology to make better use of waste products.
- The group discussed environmental sustainability, and some raised concerns about the impact of the tax on the international market for aggregates, or the risk that customers could instead choose less sustainable alternatives to aggregates.
- The group briefly discussed in what circumstances waste should be classified as spoil or by-product, with some suggestion that there could be a distinction between waste from the extraction process and waste from processing aggregate.
- Many stakeholders raised their concerns with the number of unregistered pits. Compliance issues are due for discussion at the third Working Group.

- BAA reiterated their objection to the quarrying industry being targeted by an environmental levy. They noted that they successfully campaigned for the removal of the exemption for shale, based on its properties and usage.
- RSPB argued the case for a better framework to consider the environmental impacts of quarrying: the site impacts as well as the lifecycle impacts of aggregates.
- Referencing the environmental impact of waste piles, BGS noted that being able to sell more waste would increase the efficiency of quarrying, where production may be energy intensive.
- MPA Scotland noted that many quarries were geographically remote.
- MPA highlighted that the issue of scale should be considered – 250 million tonnes of aggregate of which 64 million tonnes is recycled.

Construction and Demolition Waste

- Attendees were content with the principle that recycled aggregate previously used for construction purposes is excluded from the levy.

Exempt aggregates - Slate

- The group discussed the definitions of slate, the waste produced by slate extraction, and whether there are any ways to use this waste aggregate.
- BGS noted the complexities of a precise geological definition of slate, a point supported by a number of other stakeholders. There was agreement by stakeholders that slate is suitable for some aggregate uses.
- MPA Scotland noted that slate quarrying can result in 96% by-product, and that the large amounts of by-product/waste produced is an environmental issue. They suggested a levy on this waste would either risk waste build up or in some cases the cessation of quarrying.
- BGS noted that what is considered 'waste' in one part of the UK is not in another, and this depends on whether there is demand in the (local) market into which the waste can be sold.
- BAA expressed the view that most operators could produce an argument that their particular product should be exempt. BAA also noted that the primary purpose of some slate quarries is to produce aggregate. HMRC requested evidence of this for the review.
- MPA said the volumes of material under consideration are important. Based on MPA evidence, volumes of slate extraction are relatively small. MPA said that their research showed that the supply of slate waste has been constant for the last 10 years and that the levy had not affected this. MPA also noted that changing markets for aggregates create waste, not just the levy; and also, that the regulatory environment had moved on since the Levy began.
- MPA NI said that industry is developing innovative ways to use the dust which is a by-product of rock extraction and such innovation should be supported. BAA added that operators have an economic incentive to reduce and reuse waste where possible. MPA noted that, in the past, research into this area had been funded by the Aggregates Levy Sustainability Fund.

Exempt aggregates - Clay

- BGS initiated a discussion on defining clay, noting that there are many definitions of clay, including vernacular, scientific, and commercial. There were suggestions that the tax system could differentiate between hard clay and soft clay, including the former and exempting the latter.
- BAA claimed that clay materials are often used as aggregate. BGS added that clay tends not to be an aggregate material, but can be used that way when hard enough to crush. BAA claimed the environmental impact of extracting clay for use as aggregate was the same as for other materials.
- British Ceramic Confederation emphasised to the group that their members both extract their own clays and manufacture products from it, adding that their members are not aggregate producers and the minerals extracted are input for their manufacturing processes.
- BCC highlighted that when you break down regional ONS Annual Minerals Raised Inquiry (AMRI) data, virtually 100% of ceramic manufacturing is in England, but that 50% - 70% of clays that go into "constructional end-uses" originates in Wales and Scotland. BCC highlighted that it is demonstrable that the vast majority of clays extracted by ceramic manufacturers are used for "ceramic manufacturing purposes".
- BCC stated that raw materials for ceramic manufacturing cannot be substituted, and the industry is reliant on virgin clays.
- BCC highlighted that ceramic manufacturing is an energy-intensive industry, and competes on a global market. The exemptions and reliefs for industrial processes are critical to the UK industry and to maintain its international competitiveness.
- BCC sought recognition that ceramic products are, in their view "long lasting, hard wearing, and adaptable, with good sustainability credentials".
- MPA noted that taxing clay in construction products would make these less competitive and might lead to increased use of alternatives, such as plastic pipes. BAA said the same argument could be applied to other materials which were taxed.
- MPA Scotland reminded the attendees that whether or not clay is used as an aggregate, it is also seen as waste product e.g. by those extracting granite.
- BGS noted that the compositional differences in clay, shale and other materials are not an indication of end use.
- MPA NI suggested that given the challenges associated with defining use, in their opinion one possible way forward could be to have a tax on extraction.
- BAA agreed, noting that even granite could be defined as clay, making it easy for materials to be misreported.
- MPA and BCC noted there are broader market issues to consider on scope and exemptions, including impacts on competitiveness, exports and imports.
- BCC highlighted that clay brick imports have risen substantially in recent years, and these even include non-EU imports from China, India and Pakistan. BCC argued that it is not environmentally sustainable to ship heavy construction products to the UK, and suggested that taxing clay used in ceramic construction products would further encourage these imports.

- BCC also noted that a wide variety of construction materials compete with bricks and other clay-based materials, including concrete and glass, steel, plastic and timber; and that having spoken to the glass sector (as one downstream manufacturing industry) they are not aware of this review.

Exempt aggregates - Industrial by-products

- MPA Scotland and BGS noted that industrial by-products can be used for either for their cementitious or bulk properties.
- Attendees were otherwise content to move to the next agenda item.

Exempt aggregates - Incidental aggregate from non-quarrying activities

- There was agreement around the table that the principle of this exemption is honourable, in that it encourages the use of the aggregate arising in preference to newly-quarried aggregate.

Exempt aggregates - China and ball clay waste

- Imerys Minerals states that the waste from extracting china clay is circa 85%, which is not as high as slate waste.
- Imerys Minerals set out that the issues for china and ball clay waste are similar to slate waste (high proportion of waste arising from the extraction process, often remote areas with limited local markets). Imerys added that the sand produced is a result of an industrial process, rather than aggregate production.
- It was agreed that consideration of the exemption for ball or china clay waste should be informed by relevant site visits.

Exempt processes - Cement

- MPA believed that the levy should not be applied to extracted materials used for cement and lime manufacture. They asserted that such taxation would have no impact on the choice of materials used for cement/lime manufacture as there are no alternatives, and would just impact on costs. The cement and lime industries make use of alternative non-fossil fuels including industrial wastes and have exposure to energy and climate change taxes and measures.
- BAA said that cement production is the second-highest producer of CO₂ after steel production, and questioned its exemption from the tax.
- It was noted that there are other taxes in place to incentivise a reduction in carbon emissions.

Exempt processes – Extracting Industrial Minerals

- BGS indicated that all industrial minerals listed on the slide, apart from pumice, vermiculite and perlite had been extracted in the UK in the last 100 years.

- HMRC said they welcome comments on the list of industrial minerals and the principle of not taxing the waste from their extraction.

Reliefs - Industrial and agricultural processes

- A handout listing the industrial and agricultural processes minerals was shared.
- MPA referred to broader market impacts if the reliefs for industrial and agricultural process would be removed, as this would make the raw materials for the products listed more expensive and less internationally competitive. HMRC asked for evidence on the impact.
- BCC reiterated that discussions about the reliefs for industrial and agricultural processes would need to include stakeholders not represented (or aware) of the review of the Aggregates Levy.
- HMRC asked for feedback on the list of industrial and agricultural processes reliefs.

5. Closing remarks

5.1 The chair summarised the conversation, noting that there were a range of views expressed in the discussion.

5.2 The chair confirmed the date for the next meeting, advised that any additional conversations between now and then would be welcomed and thanked everyone for their time.

Next meeting: Wednesday 3rd July, 12:30 – 14:30
HMRC
3rd Floor Conference Room
City Centre House
30 Union Street
Birmingham
B2 4AD