

MPA Autumn Budget Submission 2018

The Mineral Products Industry – Why it Matters

The Mineral Products Association (MPA) is the trade association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar and Silica Sand Industries. We represent over 500 companies with a combined turnover of £20 billion, 78,000 employees supplying one million tonnes of essential materials, products and services daily for industries with a combined turnover of £500 billion throughout the UK. Industry production is the largest materials flow in the economy and is also one of the largest manufacturing sectors.

90% of our markets are construction related to which we are the largest supplier, with the balance supplying a wide range of industrial, manufacturing, agricultural and environmental markets.

It is vital that the Government's primary focus is on boosting and sustaining economic growth and securing a good deal on Brexit which maintains UK competitiveness, protects our reputation and builds confidence to encourage investment. Muted growth and increasing cumulative costs are squeezing industry and in turn the economy which is constraining investment and risking job losses.

Make Brexit Work for Trade and Skills

- Secure transitional and trading agreements to enable the fullest access to European and other international markets post Brexit, while allowing UK businesses good access to essential labour and skills at all levels.
- Ensure pragmatic customs arrangements to support Northern Irish businesses post-Brexit.
- Maintain regulatory and codes and standards equivalence between the UK and EU.

Boost UK Growth and Investment

- Strengthen the economy by ensuring stability and minimizing uncertainty.
- Increase the Annual Investment Allowance.

Accelerate Infrastructure Delivery, Improve Regional Connectivity and Local Road Maintenance

- Accelerate the delivery of the Highways England Road Investment Strategy (RIS1) and ensure investment is sustained through the RIS2 period.
- Sustain infrastructure investment as a key building block of Industrial strategy to improve connectivity within and between Regions and reduce disparities.
- Establish a more effective means of funding local road maintenance, including potholes.

Increase and Sustain Housebuilding and UK Supply Chains

- Address both planning and regulatory constraints on the delivery of higher levels of sustainable and affordable housing.
- Recognise the criticality of UK supply chains such as mineral products and ensure mineral planning and regulatory systems are adequately resourced to operate effectively.

Freeze and Improve the Aggregates Levy

- Continue to freeze the Aggregates Levy rate at £2.00 per tonne.
- Establish a new Aggregates Levy Community Fund (ALCF) to support local communities, biodiversity improvements, net gain and the delivery of Defra's 25-year Environment Plan.
- End the commercial advantage Government is allowing importers and start taxing the aggregates content of concrete product imports.

Protect the Competitiveness and Productivity of UK Energy Intensive Industries

- Implement the most cost-effective measures to limit industrial carbon emissions and scrap the carbon price floor.
- Ensure the Cement and Lime industries receive relief from escalating energy costs.
- Recognise the value of the Cement industry as an outlet for recycling low value plastics.

Reject Increased Taxation of Rebated Red Diesel

- Retain the current rebate to avoid additional significant costs to industries where the technology is not yet available to switch to plant which use alternative non-diesel fuels.

Improve the Quality and Implementation of Regulation

- Re-visit the outputs of the 'Cutting Red Tape' review of mineral extraction to improve the efficiency, effectiveness and implementation of regulation and to reduce cumulative impacts and costs.

Market and Economic Context

MPA market data indicates that industry sales volumes were much stronger in 2018Q2 than 2018Q1. However, in the 12 months to June 2018, aggregates sales were 2% down and ready-mixed concrete and asphalt sales 5% and 3% lower respectively. Compared with the same period of 2017, these data suggest that construction activity is flattening. While there is evidence that the level of new housing activity remains positive, the 75% of construction which is not new housing is likely to be negative in 2018.

Without further housing growth and a significant upturn in infrastructure investment in 2019 and 2020, total construction is likely to decline and will therefore be a negative drag on overall economic activity. This emphasises the importance of delivering key elements of the National Infrastructure Pipeline, such as Highways England's Road Investment Strategy.

The importance of essential mineral products supply has been highlighted recently in the Industrial Strategy Construction Sector Deal, the updated National Planning Policy Framework (NPPF) and the UK Minerals Strategy. There is a range of policy development and implementation underway across Government in which the role of mineral products is and will be critical, including:

- Delivering infrastructure projects throughout the UK.
- Delivering significantly higher volumes of new homes.
- Delivering the Government's 25-year Environment Plan, including the Clean Air Strategy, Waste and Resources Strategy, Review of Landscape Designations and ambitions for Net Gain and Biodiversity.
- Implementing Industrial Strategy, Regional Growth and Clean Growth.
- Improving housing safety, resilience to fire, flood and noise mitigation and adaptation to climate change.

Make Brexit Work for Trade and Skills

Industry feedback indicates that investments are being delayed due to Brexit uncertainty and an associated lack of business confidence. This is a particular issue for larger businesses making choices on international investment locations and for investment decisions by our customers. We urge the Government to ensure that UK businesses continue to have the best possible access to European and other international markets post-Brexit. It is critical for mineral products businesses in Northern Ireland that the border with the Republic remains frictionless.

Our construction customers and mineral products businesses need long term access to labour and skills. Existing initiatives may improve the availability of domestic skills but continuing access will be needed to the skills of EU workers in the UK. The Government needs to think innovatively and creatively to provide UK businesses with sufficient and proportionate free movement of labour from both EU and non-EU countries to help fill our skills gaps at all levels.

As the recent CBI Report 'Open and Controlled – CBI Recommendations for a new approach to Immigration Post-Brexit' included the following reference to the Mineral Products industry:

"Looking beyond energy and utilities, EU workers are equally important for the quarrying and distribution of mineral products. They help to fill vacancies in non-graduate technical skills – for example operating quarrying machinery, or manning a weighbridge. Over half of all EU workers within the sector are specifically in logistics and haulage, largely as HGV drivers which are in shortage, particularly in London and the South East. Over a million tons of mineral products are transported via road every day, placing a significant demand on HGV drivers. Materials from aggregates and asphalt, to cement and concrete, form a key part of the construction industry's supply chain. If the construction industry can't access the people and skills it needs from overseas, this will have an impact down through the supply chain. The end result will be to reduce the UK's ability to build new homes and deliver major infrastructure projects, with a knock-on fall in demand for mineral products."

It will be critical to UK business to ensure continuing regulatory and standards equivalence between the UK and EU. MPA is heavily engaged in European codes and standards work and anticipates that this engagement will continue.

Boost UK Growth and Investment

The UK has consistently been at the bottom of the G7 league table on business investment. Increasing investment will be a key element of improving UK productivity and the operation of the tax system provides the Government with an opportunity to incentivise higher investment. The UK tax system is less generous than other G7 countries in the ability of businesses to recover investment costs through the use of capital allowances and measures including increasing the Annual Investment Allowance could be used in the Autumn Budget to promote investment and productivity.

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Focus on Infrastructure Delivery, Better Regional Connectivity and Sustained Improvements in Local Road Maintenance

The National Infrastructure Assessment published in July 2018 summarises our infrastructure challenges as follows: *“By 2050, the UK’s population and economy will have grown significantly. This will place substantial pressures on infrastructure. And meeting the challenge of climate change will require a transformation in energy, waste and transport by 2050. Even so, the effects of climate change will still be felt, with higher average temperatures and increased risk of drought and flooding. The UK’s infrastructure will need to adapt to these pressures.”*

The latest National Infrastructure and Construction Pipeline (NICP) identifies £463 billion of infrastructure work comprising 694 projects and programmes.

NICP project values in constant 2016/17 prices £ billion

Sector	To 2020/21	After 2020/21
Energy	57.1	134.3
Transport	78.5	56.8
Utilities	47.4	20.0
Total	244.6	218.0

Given that 47% of identified spending is not scheduled until after 2020/21 and that the NICP does not include all longer-term expenditure requirements, the NICP presents an outstanding case for long term investment commitments from public and private sector infrastructure providers. However, project implementation remains a concern for the supply chains needed to gear up to enable project delivery. For example, the Highways England Road Investment Strategy (RIS1) is heavily backloaded to the end of the first RIS period (2019/20) and the first year of the second RIS period (2020/21), even after re-programming to bring forward some schemes. There is also a commitment to spend £1 billion pa from the planned Roads Fund on major local road improvements from 2020/21 onwards and a £9 billion backlog of local road maintenance work, including potholes. It is therefore essential that the businesses which will deliver the planned projects are given the confidence to invest for the long term. The 3% reduction in asphalt sales over the year to June 2018 is indicative of no overall improvement in GB road construction and maintenance work over that period.

Investment to improve connectivity between and within Regions will be critical to achieving more balanced growth throughout the UK.

Increase and Sustain Housebuilding and UK Supply Chains

There is broad agreement that we need to build more homes. The 2017 White Paper ‘Fixing our broken housing market’ states:

“Since the 1970s there have been an average 160,000 new houses built each year in England. The consensus is that we need 225,000 to 275,000 new homes per year to keep up with population growth and start to tackle years of under-supply.”

Initiatives have been introduced to support housing demand (e.g. ‘Help to Buy’) and boost supply (e.g. planning reforms) but there has been little consideration of the implications of a higher rate of housebuilding on key elements of the supply chain, particularly the operation of the mineral planning system which helps to manage the availability and supply of mineral products, which are the largest volume element of the housing supply chain. It will be critical for future housing supply (as well as infrastructure and other development) that the operation of the planning and regulatory systems for minerals are given equivalent weight as the operation of the planning system for housing. Government’s response to the consultation on the new National Planning Policy Framework (NPPF) states:

“The Government recognises that planning for minerals is essential to increasing the supply of housing and other development, and that without updated guidelines, there is a real risk of under-provision and possible sterilisation of mineral resources. A number of representations have pointed out that while the MASS (the Managed Aggregates Supply System) may be acknowledged in the NPPF, it has ceased to function in practice. The Government notes the case that has been made for revitalising the MASS. Doing so raises important questions of resources, capability and how to do so in a modern, data-science led way. The Government intends to explore these issues after the publication of the NPPF. Government, planning authorities and industry will need to ensure that these sentiments are followed up by actions to ensure long term supply of aggregates and mineral products.”

Government should focus on improving regulations to ensure resilient construction and leave designers and the construction market to determine the best solutions for projects.

The use of UK produced mineral products, such as concrete and masonry is key to ensuring that new housing is safe, robust, resilient and sustainable.

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Freeze and Improve the Aggregates Levy

The Government has indicated that it remains committed to future indexation of the Aggregates Levy (AGL). There are a range of key policy areas across Government, notably related to sustainability and circular economy, impacting on our industry and markets and as such there should be a more considered and holistic assessment of the future of the Levy in relation to these issues particularly in the light of increasing cumulative and regulatory costs such as planning and permitting fees.

Therefore the evolution of a (nominal) environmental tax such as the AGL should operate in recognition of other issues and policy development, particularly as the regulatory framework evolves in response to Brexit. The current proposal to re-start indexation of the Levy could therefore be characterised as essentially a revenue raising policy.

Aggregates Levy Context: Government's 2015 Statement of Environmental Taxation identifies environmental taxes as those that meet the following three principles:

- *The tax is explicitly linked to the government's environmental objectives; AND*
- *The primary objective of the tax is to encourage environmentally positive behaviour change; AND*
- *The tax is structured in relation to environmental objectives (for example: the more polluting the behaviour, the greater the tax levied).*

The current operation of the Aggregates Levy does not pass these tests. Specifically:

- The original rate of the AGL was based on what in hindsight was an absurd assessment of environmental costs imposed on society by the supply of aggregates, including the wrong assumption that the restoration of industry sites to create wildlife habitats and improve biodiversity had zero environmental benefit.
- Since the implementation of the AGL in 2002, there has been a profound improvement in the operational and environmental standards to which the industry operates, driven by regulation, the expectations of stakeholders including local communities and industry initiatives, including the MPA Charter. This is a very different operating environment than that which preceded the development of the AGL in the late 1990s.
- A key AGL objective, to increase the supply of recycled and secondary materials in aggregates market, was a trend well advanced when the AGL was introduced and the potential for future growth is now incremental as over 90% of available materials are now recycled.
- When the AGL was implemented, a key element of the overall Levy package was the Aggregates Levy Sustainability Fund (ALSF), a fund operated by Defra which distributed 6% to 8% of AGL revenues for a range of sustainability and local community purposes. The ALSF was introduced in recognition of the reality that the AGL, using sales volumes as a proxy for environmental impacts, generated little direct environmental benefit. MPA has proposed the introduction of a smaller and more targeted ALCF to focus on community benefits and biodiversity enhancement, consistent with the Government's 25-Year Environment Plan.
- The current operation of the AGL puts UK producers of aggregates products at a commercial disadvantage. The AGL is not applied to the aggregates content of imports such as concrete products but is levied on the aggregates content of these materials manufactured in the UK. It must be contrary to the principle of the Government's Industrial Strategy for Government to be imposing this competitive disadvantage on UK manufacturers and their supply chains?

While MPA believes that our criticisms of the environmental merits of the AGL are justified, we recognise that reality that the AGL generated £411 million of revenue in 2017.

Our proposals for the AGL in the Autumn Budget are:

- The rate freeze should be continued as there is no environmental justification for an increase and any increase will exacerbate existing cross border trade concerns, notably in Northern Ireland.
- Government commits to reviewing the implementation of a new more targeted ALCF to support local communities and the 25-Year Environment Plan.
- Government implements a review to assess the best means of taxing the aggregates content of imports of aggregates products.

Protect the Competitiveness and Productivity of UK Energy Intensive Industries

The development of taxation and market measures related to energy and climate change will have a significant impact of the UK competitiveness of Energy-Intensive Industries (EIs) such as cement and lime. The sensitivity of domestic production to overseas competition can be illustrated by the fact that cement imports as a share of the UK cement market have increased from 11% in 2007 to 25% in the 2017.

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Issues with the opportunity for positive Government action include:

Climate Change Policy: There is at present considerable uncertainty around the UK's preferred policy to address carbon dioxide emissions after the UK exits the EU. MPA has noted that the UK is considering a range of carbon pricing options, including continuing to participate in the EU ETS, a UK ETS (linked or standalone) or a carbon tax. The UK's paramount objective should be to ensure that the resulting policy is the most cost effective, i.e. achieves abatement at lowest cost to energy intensive mineral product businesses. It should also be predictable and feature mechanisms that allow companies to manage the cost impact of the policies. Moreover, any new policy should feature 'free allocation' so that UK businesses are not unduly impacted by the transition to a low carbon economy whilst other nations play catch up with their own measures. The new carbon pricing policy framework should be accompanied with technology support measures. If Government opts for a new policy framework after Brexit then it should hypothecate revenues for decarbonisation funding to support energy intensive industries faced by international competition.

Energy costs: At present relief against rapidly escalating energy costs is partial and incomplete. The policy costs in electricity prices are complex and numerous and therefore impact on the competitiveness of energy intensive mineral production. Unlike the chemicals, steel and paper sectors, the UK cement and lime production facilities do not receive compensation or exemption relief from the carbon costs (EU ETS and Carbon Price Support) in the electricity costs. This is a result of a quirk in EU State Aid decisions that should be addressed urgently once the UK leaves the EU. Carbon Dioxide (EUA) costs have increased rapidly during 2018 recently reaching €25/tCO₂. When this uncompensated indirect cost is added to the UK only Carbon Price Support (currently fixed at £18/tCO₂) this places UK cement and lime producers at considerable disadvantage compared to both EU and non-EU produced. The Government should remove the Carbon Price Support in the anticipation that EUA prices will escalate further on the launch of the Market Stability Reserve in January 2019.

An area where the UK lags behind other European countries is in the relief provided to EII's associated with network costs in this area of rapidly increasing cost. Government should be looking to provide parity of treatment between domestic EII's and those in the nations that we are competing with.

Support for biomass combustion energy: The Renewable Heat Incentive is available to biomass boilers and other users of indirect heat energy but directly fired operations such as asphalt, cement and lime production cannot access the support to increase the amount of biomass used in mineral production. There is no logical reason to differentiate direct and indirect use of renewable heat energy in this way, particularly as the UK strives to meet its renewable targets. Furthermore, UK producers are competing internationally with, for example, Italy where 'White Certificates' are used to incentive biomass use in lime production. This is significantly disadvantaging UK lime producers. The Government should look closely at the value for money of the RHI and direct some of the incentives for RHI and renewables (which are now well established) towards decarbonising combustion processes such as asphalt, cement and lime production.

Plastics: The Government has confirmed that 'on the go' plastics are a serious environmental problem and has recognised that the cement industry is an outlet for the recycling of plastics at the low end of the value chain. The Government rightly recognises that there is a difference between incineration and the co-processed recycling that takes place during cement production. As such in addressing the environmental damage caused by single use plastics Government must ensure that low value plastic waste which is consumed by cement manufacturing, when other recycling options are exhausted or simply not economically feasible, should not be adversely affected by any economic instruments placed on plastic use or disposal.

Reject Increased Taxation of Rebated Red Diesel

The MPA has engaged in the HMT/Defra Call for Evidence on the use of Red Diesel and in the wider consultations on the Government's Clean Air Strategy. We understand the importance of air quality and are seeking to contribute to improvements, for example in the context of workplace health and industry, transport and operations. The fact that the mineral products industry delivers one million tonnes of products to customers daily means that the industry will be at the forefront of action to improve air quality and reduce carbon emissions related to freight transport. The industry is already the largest user of the rail freight network and water transport, contributing to significant reductions in transport emissions, notably in the delivery of our materials to major urban markets.

We have serious concerns about the potential loss of the red diesel rebate because:

- The Mineral Products Industry makes extensive use of red diesel in over 2,000 operations throughout the UK and the cost to the industry of losing the red diesel rebate would exceed £110 million per year including the tax cost and additional VAT.
- Quarrying operates the largest red diesel powered mobile plant in the industry and is a rural-based based activity, similar to agriculture. As agriculture has been excluded from the scope of the Call for Evidence because of its rural nature, it would be consistent to apply the same logic to the Mineral Products industry.
- Currently, there is no significant opportunity to switch industry mobile plant to alternative non-diesel fuels, particularly for the large mobile

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plant which characterise the industry.

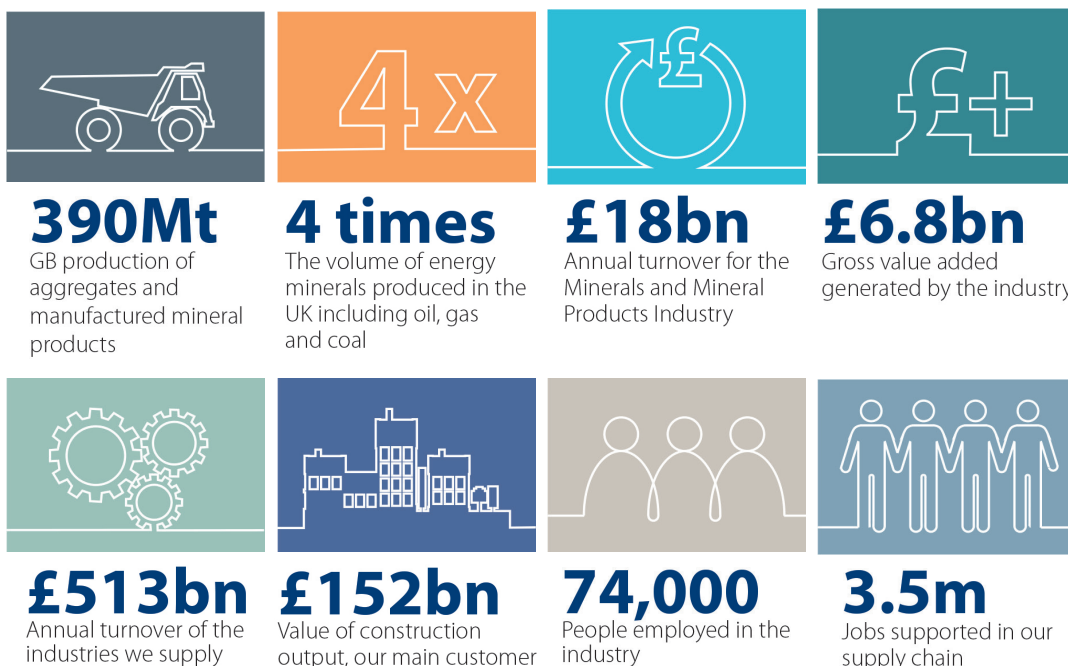
- The key requirement for the long-term reduction of mobile plant emissions is encouraging manufacturers to develop a wide range of non-diesel powered plant, therefore providing a practical purchasing choice for industry.
- The Minerals Products Industry is the largest user of rail freight and also delivers large quantities of materials by water/sea. Freight locomotives use red diesel and have operational lives measured in decades. The loss of the red diesel rebate would add substantial consequential additional cost and make rail freight less competitive relative to road freight.

Improve the Quality and Implementation of Regulation

Planning policy and implementation needs to ensure sustainable long term access to UK Minerals and a steady and adequate supply for housing, infrastructure and other construction and industrial activities. In its response to the recent National Planning Policy Framework (NPPF) consultation in England, Government recognised the significance of mineral supply in planning guidance but there is a major task ahead to ensure that this policy is implemented effectively.

The 'Cutting Red Tape' review of mineral extraction was implemented by the Government in 2015 in recognition of the cumulative burden on industry and generated significant progress within Government, industry and regulators. It identified opportunities to operate a more efficient and effective regulatory system to help ensure the functioning of the domestic minerals supply chain. This was not an exercise in reducing standards but to improve the operation of regulatory and planning systems. In spite of the progress made and significant resource input by all interested parties the initiative has stalled through lack of commitment by Government. In contrast, the Environment Agency has introduced substantial and unjustified increases in its regulatory fees with no improvement in service and unrelated to environment outcomes.

The issue here is not about post Brexit changes in regulation, it is about making the existing systems work more efficiently and effectively. Government has the opportunity to put this right and work with industry and regulators to consider the implementation of the 'Cutting Red Tape' review of mineral extraction.



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For further MPA information visit www.mineralproducts.org

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