

ARTICLE

The future of Freeports

The drive to establish Freeports, aimed at creating jobs, encouraging investment and regenerating communities, continues apace.

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Bidding prospectus launched

Sea, air and rail ports in England have now been invited to [bid for Freeport status](#). Potential bidders will be able to contact Freeports-MHCLG@communities.gov.uk for clarification on any issues in the Bidding Prospectus until 21 December 2020. Freeport bidding coalitions must submit their proposals to the Ministry of Housing, Communities and Local Government (MHCLG) by 12.00 noon on Friday 5 February 2021.

Proposals will be assessed to determine winners by Spring 2021. Successful bidders will then be granted some seed funding to support set-up costs and develop detailed business cases for their spending plans associated with the regeneration funding offered to Freeports.

The government has committed to a target of 10 Freeports across the UK, however, further awards may be made if bids are particularly strong. It also confirmed the Freeports will benefit from streamlined planning processes to aid brownfield redevelopment as well as a package of tax reliefs to help drive jobs, growth and innovation and simplified customs procedures and duty suspensions on goods.

Origins of the Freeports proposal

The plan has its roots in a [2016 report](#) authored by the now chancellor Rishi Sunak when he was the Member of Parliament for Richmond (Yorkshire) for the Centre for Policy Studies. He argued that the creation of these special economic zones after Brexit will create up to 86,000 new jobs and boost trade and investment in struggling areas. The idea of establishing a network of Freeports after Britain completes its exit from the European Union is also politically attractive, enabling the government to be seen to be acting on its “levelling up” promise by delivering infrastructure investment and opportunity to the UK’s poorer regions - the North of England in particular.

Many have questioned whether these Freeports will indeed deliver the Brexit dividend that the government is suggesting, and several new northern Conservative MPs hope for. Indeed, the argument goes, if lighter regulation and tax breaks are what spurs regeneration and innovation, why limit this to just these 10 locations?

It’s clear that, post-Brexit, maritime links will become more important than ever. However, how those proposed Freeports will be connected to the rest of the transport network (what some have termed their “hinterland links”) and their connection with any [future energy grid](#) has been largely ignored in the consultations – to date at least.

What is a Freeport?

There is no fixed definition of a Freeport (the term is often used synonymously with “free trade zones”) but usually, a Freeport lies within a country’s geographical space but outside its customs territory. Exactly how they operate differs between different countries. Rishi Sunak’s Centre for Policy Studies report, which informed the government’s proposals, drew heavily on the United States experience of Freeports (termed Foreign Trade Zones or FTZ in the U.S.A.). Over 230 FTZ projects and nearly 400 subzones in the United States have, by and large, been effective.

Often situated within, or in proximity to, seaports, riverports and airports it’s estimated that there are 3,500 Freeports in the world, employing 66 million people. The Treasury already has the power to designate Freeports by Statutory Instrument under section 100A of the Customs and Excise Management Act (CEMA) 1979.

Indeed, Britain had several Freeports at various points between 1984 and 2012 (now only one remains in the Isle of Man which is a crown dependency and therefore technically not part of the EU or UK). In 2012, the Statutory Instruments that set up the remaining five Freeports in Liverpool, Southampton, Port of Tilbury, Port of Sheerness and Prestwick Airport expired, and they were closed. Government focused instead on “enterprise zones” where clusters of companies were offered tax relief and accelerated planning permissions.





The advantages of a Freeport: Customs Relief

Importers get relief on customs duties or can defer the duties while the goods are held in the Freeport, and there are simplified customs procedures. Governments can also use other enticements, from tax breaks to fewer regulations.

It's sometimes the case that tariffs are higher on component parts than on the finished products, which is known as 'tariff inversion'. The Freeport model lowers costs for manufacturers who don't pay duties on the imported components, but only on the finished product when it's exported. If the imported goods are used in manufacturing within the boundaries of the Freeport (which can extend for several miles) only the final finished product, when exported, attracts duties.

However, many argue that setting up these Freeports might not deliver the savings that importers might expect to realise. When average customs duties (assuming there's no EU trade deal in place) are only around 3% much of the suggested upside will depend on how far the government can go with tax breaks and other inducements.

Leaving the EU certainly provides more scope for doing that, but World Trade Organisation rules allow countries to retaliate against subsidised exports. Moreover, a paper by the [University of Sussex's U.K. Trade Policy Observatory](#) suggests that the savings importers could realise in U.K. Freeports would only be a tiny portion of the value of the goods. Their research looked at the five categories of goods and services where tariff inversion was greatest (starches and starch products, prepared animal feed, furniture, dairy products and consumer electronics) and which therefore should accrue the greatest advantage from the Freeport concept. They found that, while there certainly was scope for some savings, the impact on the UK economy would be minimal since together these five categories comprise only 1.14% of U.K. imports.

The advantages of a Freeport: Job Creation

Notwithstanding concerns over money laundering, tax avoidance and other illegal activity, some job creation around Freeports can be expected. The U.S. experience of Free Trade Zones has resulted in an improvement in employment and wages in the zones themselves and the broader community according to a [report conducted for the US National Association of Foreign-Trade Zones](#) by The Trade Partnership February 2019. Those gains were greatest in the early years for employment and wages, while the establishment of an FTZ also caused a positive increase in employment growth in the surrounding area.

But what kind of jobs will a Freeport create, and will they really be "new" jobs? While Freeports could help increase export opportunities through giving companies the ability to defer payment of taxes on imported inputs or even avoid them altogether, academics warn that, in terms of employment, Freeports could simply be diverting economic activity from elsewhere and displacing those jobs – which would likely tend to be manual labour.

To arrive at the figure of 86,000 new jobs created, the original Centre for Policy Studies report used the total number of jobs across U.S. Foreign Trade Zones (420,000) and scaled it to the U.K. labour force. It assumed these were all new U.S. jobs rather than ones that were shifted from elsewhere, which wasn't the case.

The advantages of a Freeport: Stimulating infrastructure investment

Freeports can play an important role in [stimulating infrastructure investment](#) and the renaissance of coastal communities, supporting post-COVID economic recovery, but can also have an impact on inland sites. The most attractive Freeport locations will combine fiscal relief for investors and exporters with agile planning regimes and coordinated infrastructure programmes that dovetail with the Freeport's existing hinterland. Economic activity in the Solent area (Portsmouth and Southampton) for example has a large 'multiplier' effect on the local economy but the national economy benefits too, since the North and Midlands also depend on the trade flows which pass through the Solent.

Good transport links to support Freeport activity directly and to accommodate additional traffic in congested areas surrounding sites will also be critical. Each location will face its own unique challenges. For example, the Port of Southampton, unusually for a port of its scale and importance, is located in a densely packed regional city centre. This presents access challenges with competing demands for road space.

Technology is used to manage freight movements into the container port, which is located close to the M271, but access to cruise terminals conflicts with access to the city centre. On many occasions when multiple cruise ships disembark and embark passengers, the road and rail network come under significant stress. Establishing Portsmouth as a Freeport means this pressure will only increase without significant and immediate investment in new infrastructure.

Conclusion

Freeports undoubtedly have political appeal, sending a strong message to voters that government is prepared to put money into port communities and support manufacturing. However, if the aim is to foster innovation, a complex web of policies will also be required as well as changes to border infrastructure. In addition, Freeports don't eliminate many non-tariff trade barriers. Exports would still face checks and tariffs.

Rules of origin principles would still need satisfying and because a Freeport wouldn't be seen as being within the customs territory of the U.K. it could fall foul of the principle of territoriality – where intellectual property rights are limited to the territory of the country where they have been granted - complicating future trade negotiations.

For all their limitations though, Freeports do have the potential to reinvigorate neglected parts of the country, improve employment prospects and drive investment in skills and infrastructure and that at least should be welcomed.

The Team



James Wood-Robertson

Partner

+44 (0)3700 867 360

james.wood-robertson@shoosmiths.co.uk



Nicholas Iliff

Partner

+44 (0)3700 864 365

nicholas.iliff@shoosmiths.co.uk

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