

5<sup>th</sup> March 2020

## Freeports Consultation

### Purpose of Report

This report provides LEP Board Members with background on the development of this Government's 'Freeports' agenda and associated consultation.

### Thematic Priority

- Attract investment from other parts of the UK and overseas and improve our brand.
- Secure investment in infrastructure where it will do most to support growth.

### Freedom of Information

This paper will be available under the SCR Publication Scheme.

### Recommendations

That LEP Board Members are asked to:

- Note the government's direction of travel on Freeports and the nature of the public consultation.
- Note the criteria the Government are proposing for what a Freeport could be and the City Region's intention to work with Doncaster Sheffield Airport (DSA) on the consultation response.

## 1. Introduction

- 1.1 A freeport (sometimes described as "free zone") is an area that is inside the geographic boundary of a country, but which is legally considered outside the country for customs purposes. Goods brought into the Freeports are subject to exemptions discussed below. Freeports can be thought of as Enterprise Zones (with favourable rules in terms of business rates, planning permissions, and other incentives) with the additional provision of being a customs-free zone.
- 1.2 The establishment of Freeports has been mooted throughout the Brexit debate in the context of opportunities that will arise due to repatriation of international trade policy. It is also now presented as an opportunity to 'level-up' and address regional inequality.
- 1.3 This report provides an outline for the LEP Board on the content of the Government's Freeports consultation and how SCR intends to respond.

## 2. Proposal and justification

- 2.1 This Government has ambitions to establish Freeports as part of its post-Brexit trade policy. Freeports are allowed under EU rules, but EU rules provide restrictions on what form freeports can take, for example by applying state aid rules that limit the nature of tax

incentives. Hence the reasoning that leaving the EU opens up new opportunities for Freeports in the UK.

- 2.2** Freeports are expected to confer benefits to businesses. Being a customs-free zone means that goods entering a Freeport would attract no tariffs and may also face lower non-tariff barriers such as simpler customs procedures. 'Intermediate' goods could be manufactured within the Freeport and be either re-exported (where again no tariff would apply) or be imported into the UK as a 'finished' good and face a lower tariff rate. Reports which have modelled potential trade impacts find that potential benefits of freeports include increasing manufacturing output, creating regionally focussed employment, and promoting trade. In particular modelling undertaken separately by Centre for Policy Studies and Mace, the international building and consultancy firm, find very favourable projections in terms of jobs and trade impacts.
- 2.3** The Government began a consultation on Freeports policy on the 10<sup>th</sup> February 2020, which ends on the 20<sup>th</sup> April 2020. This consultation sets out how the Government intends to identify and award up to 10 Freeports across the UK by 2021. They set the following objectives:
- **establish Freeports as national hubs for global trade and investment across the UK:** intensify the economic impact of our ports by enhancing trade and investment and generating increased economic activity across the UK
  - **promote regeneration and job creation:** create high-skilled jobs in ports and the areas around them, prioritising some of our most deprived communities to level up the UK economy
  - **create hotbeds for innovation:** create dynamic environments, capitalising on new ideas and fostering the conditions that will attract new businesses, investors and innovations

With the main benefits being:

- **Duty suspension** – No tariffs, import VAT or excise to be paid on goods brought into a Freeport from overseas until they leave the Freeport and enter the UK's domestic market.
  - **Duty inversion** – If the duty on a finished product is lower than that on the component parts, a company could benefit by importing components duty free, manufacture the final product in the Freeport, and then pay the duty at the rate of the finished product when it enters the UK's domestic market.
  - **Duty exemption for re-exports** – A company could import components duty free, manufacture the final product in the Freeport, and then pay no tariffs on the components when the final product is re-exported.
  - **Simplified customs procedures** – the Government intends to introduce streamlined procedures to enable businesses to access Freeports.
- 2.4** The consultation outlines how Freeports will operate within customs, tax and planning law. It also sets out the types of ports which could be eligible:
- Airports
  - Rail Ports
  - Sea Ports

The Government also sets out that a 'credible Freeport may be based on a collaboration between two or more ports, including ports of different modalities. For example, two seaports in close proximity may wish to become a single Freeport; or an inland rail port (terminals and interchanges) may wish to become a Freeport with either a connected seaport or a nearby airport.'

- 2.5** The consultation also states that where Mayoral Combined Authorities (MCAs) or Combined Authorities (CAs) exist, they could submit a Freeport application on behalf of partners. Within this model, MCAs/CAs/LEPs could be asked to prioritise one application for Freeport status from within their geography. It is stated that any effective Freeport

application will require strong collaboration between the port, the relevant MCA/CA/LEP and local businesses.

**2.6** Given that of the types of Freeports the Government will consider (as identified in 2.4), SCR has two of these i.e. an airport and rail ports, it would be prudent at this stage to work with Doncaster Sheffield Airport (DSA) on a joint consultation response to demonstrate early close collaboration between LEP, MCA and the port owners. This would also need to include seeking to work with the site owners of the rail ports in SCR (e.g. iPort and Doncaster Rail Hub). Given their expertise in this field, DSA have already secured the services of Mace. SCR will join that arrangement on a 50-50 basis so that Mace can advise all parties and prepare a consultation response to be agreed by the MCA at its meeting in March. In undertaking this work, Mace will consider how it will align with SCR's developing Strategic Economic Plan and emerging growth clusters.

### **3. Consideration of alternative approaches**

**3.1** SCR could choose not to respond to the Freeports consultation and wait until the Government makes a call for proposals towards the end of the year. However, this would appear passive and we will lose an opportunity to get on the front foot with identifying where a Freeport could work in SCR.

In addition, another alternative could be that SCR responds on its own and does not seek to work with local partners. Again, this is not considered optimal given the Government's criteria is quite clear on the types of ports they will consider and the need to demonstrate close collaboration between LEPs, the MCA and the ports.

### **4. Implications**

#### **4.1 Financial**

Mace have been procured and contracted by DSA to develop a consultation response. As Combined Authority need to be part of the response and "own" the outcome, the appointment of Mace has been varied with SCR paying 50% of the cost of the commission capped at £30k. This will be funded from current 2019/20 budget.

#### **4.2 Legal**

There are no direct legal implications to this paper at this stage. Future Freeports policy would have legal implications which would apply if a Freeport was to be located in SCR.

#### **4.3 Risk Management**

There are no specific risk implications to this paper at this stage.

#### **4.4 Equality, Diversity and Social Inclusion**

We recommend that the commissioned report on Freeports consider equality, diversity, and social inclusion outcomes of establishing a Freeport in SCR.

### **5. Communications**

**5.1** Depending on the outcomes and recommendations of this work the Board might want to recommend further work to communicate to, or engage with, communities, sectors or businesses in the SCR.

### **6. Appendices/Annexes**

**6.1** N/A

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POST**

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ