

**AGENDA ITEM 7****REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET****FRIDAY MAY 29th 2020****REPORT OF THE POLICY ADVISER TO THE MAYOR****RESPONSE TO THE GOVERNMENT'S FREEPORTS CONSULTATION****SUMMARY**

This report details the Tees Valley Mayor and Combined Authority's proposed response to the Government's Freeports Consultation.

**RECOMMENDATIONS**

It is recommended that the Tees Valley Combined Authority Cabinet supports the submission of the consultation response to Government

**BACKGROUND**

Analysis carried out for the Tees Valley Combined Authority highlighted that a Freeport on the River Tees could create up to 32,000 jobs and add £2 billion to regional GVA. This used the South Tees Development Corporation Masterplan as its baseline and enshrined the highest environmental and safety standards into TVCA's approach towards this issue.

In early 2019 the Tees Valley Mayor submitted a policy paper including this analysis to Government, via the offices of relevant Secretaries of State and other ministers. This built on recommendations in a 2016 policy paper by now Chancellor or the Exchequer Rt. Hon. Rishi Sunak MP stating that Freeports could have a transformative impact on the Tees Valley and other areas, and formed part of an ongoing discussion with Government about Freeports that began when the Mayor was elected in 2017.

The creation of up to ten Freeports became Government Policy later in 2019, and these zones has received cross party support though the All Party Parliamentary Group for Freeports.

**SCOPE OF CONSULTATION**

The Government has the following objectives for UK freeports:

- establish freeports as national hubs for global trade and investment across the UK
- promote regeneration and job creation
- create hotbeds for innovation

The Government has drawn on evidence from successful freeports around the world to develop a UK Freeport model. The proposed model includes tariff flexibility, customs facilitations and tax measures. It is also considering planning reforms, additional targeted funding for infrastructure improvements and measures to incentivise innovation.

The consultation asks questions on the following areas Customs-

- Tax
- Planning
- Regeneration
- Innovation
- Additional policy considerations
- Allocation and governance of Freeports in England

TVCA's response draws on our initial policy paper and its supporting research, as well as input from expert stakeholders where appropriate.

This consultation does not constitute a formal bid for a Freeport and it does not ask consultees to specify any particular port or other geography for consideration.

## **STAKEHOLDER ENGAGEMENT**

Representatives of TVCA's Constituent Authorities were updated on this consultation through the Tees Valley Management Group, with a view to progressing to a formal presentation of the consultation response to the authorities and their leaders through the Cabinet process.

TVCA worked with Redcar and Cleveland Council on the draft response, for which the council provided answers to questions including planning and business rates. The leaders of both Redcar and Cleveland and Hartlepool councils were consulted with directly, as the region's two ports sit within their boroughs.

The Strategic Harbour Authority (PD Ports) and the North East Process Industry Cluster (NEPIC) both held public events to encourage participation in the consultation and a representative of the Mayor and TVCA sat on the panel at both events. In addition to feedback gained through these events, and often as a result of them, a number of stakeholders approached TVCA directly or were introduced to the organisation. These included a customs expert, a major housing association, a local FE college and a DIT sector specialist.

Engagement with the business and wider communities demonstrated significant support for a Freeport in the Tees Valley, and that there would be an appetite for further consultation and contribution when the region makes its formal bid to government for such a zone. This engagement exercise also served as an ideal opportunity to counter a number of misapprehensions about the mechanics of Freeports and issues such as displacement.

Our response will be shared with interested stakeholders when a final draft is agreed.

## **FINANCIAL IMPLICATIONS**

1. There are no financial implications to this report.

## **LEGAL IMPLICATIONS**

2. There are no legal implications to this report.

## **RISK ASSESSMENT**

3. This is a response to Government consultation and is in no way binding on TVCA so can be considered low risk.

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## Freeport Consultation – Draft Answers

### Customs

#### Declarations

Q1: To what extent do you agree/disagree that the reduced declaration requirements for moving goods into a Freeport represent a useful simplification of the administration of customs processes? Please explain your answer. Strongly agree/Somewhat agree/Neither agree nor disagree/Somewhat disagree/Strongly disagree

Somewhat agree

Q1.i: Please explain your answer. Free text box

Perceptions of bureaucratic hurdles as a barrier to doing business in the UK persist. Businesses report significant costs and frustration in accessing customs related incentives in the UK, including inward processing relief. In line with self-assessments and automatic exemptions offered in free port regimes in Europe and the United States, UK free ports should offer automatic concessions from duties, excise and VAT on any imported goods and simplified customs declarations and filings required by UK customs authorities. Together with reduced filing requirements, VAT exemptions can also improve the cash flow for a typical investor.

A useful solution might be the use of Customs Simplified Freight Procedures (CSFP). This would reduce bureaucratic hurdles as:

- All information regarding the goods entering the Port, moving from Port to Site and then leaving Site would be in one system – HM Revenue and Customs Customs Declaration Service (CDS);
- HMRC would therefore have all the information in their system, which can be checked and audited directly without the need to go out to Businesses or Free Port Operator records management system
- This could eradicate the need for the Businesses to maintain and provide lengthy, detailed commercial records
- This could also eradicate the need for the Businesses to provide additional information to the Port Operators Management System
- 5. The Port Operator could include HMRC CDS as part of their records management system
- 6. There would be fair greater security and transparency of information
- 7. The information would be fully auditable
- 8. CSFP is a known simplification system so easier for businesses to understand

Q2: Please suggest any ways in which you think the administration of customs processes could be simplified further in Freeports. Free text box

Although we are supportive of all four of the core customs and tariff benefits cited in the report, including: Duty suspension, simplified customs procedures and duty inversion, we are particularly interested in the further application of the duty exemption for re-exports

and how this could be rolled out to the wider supply chain of a newly attracted apex company to the Free Port. This would at a stroke embed the newly attracted apex company to the free port, but would also ensure that the firm maximises sourcing from the UK supply chain and without displacing existing activity as this is a newly attracted apex company for which most indigenous UK SMEs have not previously traded with.

### Freeport operators and Freeport businesses

Q3: If you are a potential Freeport operator, will you be able to adapt current processes you have to allow goods to be moved into a Freeport? Yes/No/Don't know/Not applicable

Don't know

Q3.i: Please explain your answer. Free text box

If the Freeport Operator is an independent body rather than an individual company, which we recommend in the strongest terms, the operational aspect of this would need to be administered by a number of service providers such as customs agents, freight forwarders, security personnel and back office administration. The records management system would develop out of this collaboration.

In its report, Frictionless Trade, PUBLIC.IO has investigated the use of technology to adapt existing processes and ensure they surpass those offered in competitor regions.

Freezones offer a controlled environment to pilot initiative for enhancing the efficiency of frictionless trade including but not limited to:

- **Invest in the UK's first proper 'Smart Port':** The success of Rotterdam's Smart Port venture a partnership between the Rotterdam Port Authority and multiple research and innovation institution, should act as a guide for the UK; and
- **Encourage and facilitate the sharing of data:** The public sector has a significant role to play to bring the industry together to improve the way that data is shared in the maritime industry. The EU funded Sea Traffic Management Validation Project is an example of public sector leadership in the development of data sharing. In addition, HMRCs new CDS platform represents a great opportunity for third party developers to quickly add value to the ecosystem. By making it possible to transfer CDS data through web services developers could build applications on top of the system which can streamline the customs process for traders and make data available for decision makers throughout the supply chain

Q4: Please provide any feedback you have on the requirement for perimeter fences. Free text box

Yes, there is a continuing role for physical security but this needs to be augmented with technological solutions which incentivise the sharing of information to encourage supply chain diversification.

Q5: Please highlight any alternative ways you think security could be maintained without a perimeter fence. Free text box

See response to question 3.i.

Q6: In your view, is the proposed split in responsibility between Freeport operators and Freeport businesses correct or incorrect? Correct/Incorrect/Don't know

Correct

Q6.i: Please explain your answer. Free text box

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The burden of such responsibilities on Free Port businesses could be mitigated by adopting Customs Simplified Freight Procedures.

### Goods already in the UK

Q7: How important is it for your business to be able to bring goods into the Freeport from the UK, whether the goods are in free circulation or under another customs procedure?  
Essential to my business/ Very important to my 39 business/Moderately important to my business/Slightly important to my business/Not important to my business/Not applicable

Very important

Q7.i: Please explain your answer. Free text box

We are keen to attract apex companies and for them to source intermediate goods from the wider UK supply chain. Particularly in relation to our proposed Clean Energy Free Zone it is essential that companies on the site be able to avail of opportunities for industrial symbiosis with industry in the nearby Wilton Site (16% of UK chemical output) and other providers of intermediate goods.

### Location of Freeports

Q8: What do you see as the advantages and/or disadvantages of an inland Freeport site compared to a Freeport site which is adjacent to a port? Free text box

While inland sites have many of the advantages of Freeports especially those with alternative transportation offers such as airports and rail hubs, direct access to sea freight is vital for Freeports based around sectors such as offshore clean energy and chemicals.

#### Programme Rationale and Selection of Place:

- **Rationale for intervention:** The Combined Authority developed the Freeport proposition not as a tool for area regeneration, but as a specialist inward investment instrument focused on developing or enhancing globally competitive clusters, and which if properly implemented will have significant regenerative spill-over impacts on adjacent communities within the wider catchment area for the zone;
- **Sectoral Prioritisation:** In line with the UK's Industrial Strategy any UK wide Freeport Programme must be focused on those few sectors for which the UK already has global competitiveness or for which it plans to assert such influence;

- **Geographical Prioritisation:** A sector first approach must be undertaken, choosing those locations where there is existing provision or an opportunity to build a confluence between the cluster, supply chain, raw materials, global accessibility, innovation and skills provision; and
- **Wider spill-over effects:** The proposed Programme will have two principal spatial impacts: the attraction of additional higher value adding activities in ports, including greater logistics and production activity and wider spill-over impacts in communities in the catchment for the free-zone. Many of these adjacent communities have suffered population decline and urban decay, however the catalytic impact of large scale industrial repurposing on the free zone coupled with targeted urban regeneration (Stronger Towns Fund) could reduce regional transfer/leakage and return many vital communities to once again being net contributors to the UK economy.

### Excluded goods and excise goods

Q9: If you are considering becoming a Freeport operator, how attractive would the proposed customs design be to your business? Very attractive to my business/ Attractive to my business/Unattractive to my business/Very unattractive to my business/Not applicable

Not applicable

Q9.i: Please explain your answer. Free text box

A variable approach to delivery must be adopted across the UK, reflecting the particular needs and opportunities of the specific site and sector. The Programme must however be focused on supporting the long term needs/opportunities of the sector and not just short term commercial objectives (commercial or otherwise). Therefore Programme Management must have specific long term objectives developed and be provided with sufficient political and financial autonomy with which to pursue said objectives.

Q10: If you are considering becoming a Freeport business and would like to store imported goods or manufacture products using imported goods in the UK, how attractive would the proposed customs design be to your business? Very attractive to my business/Attractive to my business/Unattractive to my business/Very unattractive to my business/Not applicable

Very attractive

Q10.i: Please explain your answer. Free text box

Although we are supportive of all four of the core customs and tariff benefits cited in the report, including: Duty suspension, simplified customs procedures and duty inversion, we are particularly interested in the further application of the duty exemption for re-exports and how this could be rolled out to the wider supply chain of a newly attracted apex company to the Free Port. This would at a stroke embed the newly attracted apex company to the Free Port, but would also ensure that the firm maximises sourcing from the UK supply chain and without displacing existing activity as this is a newly attracted apex company for which most indigenous UK SMEs have not previously traded with.

Q11: To what extent would the suspension of import VAT be of value to your business? Very valuable to my business/Moderately valuable to my business/Not very valuable to my business/Not at all valuable to my business/Not applicable

Very important

Q11.i: Please explain your answer. Free text box

Although we are supportive of all four of the core customs and tariff benefits cited in the report, including: Duty suspension, simplified customs procedures and duty inversion, we are particularly interested in the further application of the duty exemption for re-exports and how this could be rolled out to the wider supply chain of a newly attracted apex company to the Free Port. This would at a stroke embed the newly attracted apex company to the Free Port, but would also ensure that the firm maximises sourcing from the UK supply chain and without displacing existing activity as this is a newly attracted apex company for which most indigenous UK SMEs have not previously traded with.

Q12: How important would it be for your business to be able to buy and sell goods within Freeports? Essential to my business/Very important to my business/Moderately important to my business/ Slightly important to my business/Not important to my business/Not applicable

Essential

Q12.i: Please explain your answer. Free text box

We are trying to develop a cluster approach, which attracts a greater amount of higher value adding activities which as experience dictates only flourish in a situation of co-location.

#### **Trade remedies and countermeasures**

Q13: To what extent do you agree or disagree that trade remedies or countermeasures should be applied to goods exiting Freeports, whether or not they are processed in the Freeports? Strongly agree/Somewhat agree/Neither agree nor disagree/Somewhat disagree/Strongly disagree 40

Disagree

Q13.i: Please explain your answer. Free Box

We are in a situation where we are trying to create and protect emerging infant industries and reinvigorate those few sectors where our global supremacy is at stake. Freeports must chime with the National Industrial Strategy and UK trade policy must actively promote these key sectors and their physical manifestations, ideally a small number of globally significant free ports

Q14: To what extent do you agree or disagree that trade remedies or countermeasures should be applied to goods exiting Freeports, whether they are destined for consumption in the UK or exported to foreign markets? Strongly agree/Somewhat agree/Neither agree nor disagree/Somewhat disagree/Strongly disagree

Disagree

Q14.i: Please explain your answer. Free text box

There needs to be a strong export orientation in the selection of the sectors to be supported by the Free Port proposition and they need to be able to develop a significant competitive advantage, to raise the UK above competitors in these vital sectors.

#### **General questions**



Q15: In your view how does this Freeport design compare to existing customs special procedures, such as customs warehousing or inward processing? Free text box

Previous solutions simply relate to more efficient logistics, what is being proposed is cluster development, augmenting what other competitor nations such as Singapore and South Korea have, the attraction of apex companies using tax, planning and a supportive innovation and training ecosystem.

Q16: Please suggest any ways in which this customs design could be improved. For example, could technology be used to streamline the requirements? Free text box

In the report Frictionless Trade, Public IO has investigated the use of technology to adapt existing processes and ensure they surpass those offered in competitor regions. Free Ports offer a controlled environment to pilot initiative for enhancing the efficiency of frictionless trade including but not limited to:

- **Invest in the UK's first proper 'Smart Port':** The success of Rotterdam's Smart Port venture a partnership between the Rotterdam Port Authority and multiple research and innovation institution, should act as a guide for the UK; and
- **Encourage and facilitate the sharing of data:** The public sector has a significant role to play to bring the industry together to improve the way that data is shared in the maritime industry. The EU funded Sea Traffic Management Validation Project is an example of public sector leadership in the development of data sharing. In addition, HMRCs new CDS platform represents a great opportunity for third party developers to quickly add value to the ecosystem. By making it possible to transfer CDS data through web services developers could build applications on top of the system which can streamline the customs process for traders and make data available for decision makers throughout the supply chain

Q17: Please provide any other feedback you have relating to this customs design. Free text box

See response to question 16

## Tax

Q18: In your view, do the specific tax incentives provided in existing English Enterprise Zones (Business Rates discount and Enhanced Capital Allowances) encourage increased business activity and employment in England? Yes/No/Don't know

Yes

Q18.i: Please explain your answer and support your response with evidence where possible. Free text box

Tees Valley extensively utilised Enterprise Zones which were found to provide a 1:2.3 return on investment overall. However, this tool, allowed increased competition within the UK, but needs to be significantly enhanced to be able to compete globally.

Q19: How could the following policies be used to encourage employment and investment in business, infrastructure and innovation in a Freeport or surrounding area? Please explain your answer, and support your response with evidence where possible:

- • facilitative solutions on VAT and Excise Duties for goods within Freeports (UK Wide)
- • Stamp Duty Land Tax (England and Northern Ireland)
- • Research and Development (R&D) Tax Credits (UK Wide)
- • Employer National Insurance Contributions (UK Wide)

Free text box

Incentives should reward investment in productivity enhancing activities, such as capital investment, research and development and training. The UK Government should consider a package of incentives which include a combination of some or all of the following:

- Duty, excise and VAT deferral for imported goods and equipment;
- Duty exemptions on imported inputs into exported final products, as well as for untransformed re-exports;
- Duty exemptions on capital machinery and equipment;
- Tariff inversion for transformation of imports for further sale into the domestic economy;
- Corporate income tax allowances for productive development of capital including:
  - Expanded capital allowance, especially for activities that enhance land productivity;
  - R&D allowance;
  - Training allowance; and
  - Business rate relief for free zone floor space.
- Lower headline corporate tax rates should be considered as they are often used to benchmark investment destinations, but may not directly promote productive investment;
- Reductions to employer national insurance contributions;
- VAT exemption from imports and transactions within the Free Port and with zero-rating for sales by domestic suppliers into the Free Port;
- Co-investment in training; and
- Free zone windows in announced funding programmes such as the Stronger Towns Fund, Industrial Strategy Challenge Fund and British Patient Capital Programme to provide grants for capital projects, infrastructure and R&D activities aligned with the Industrial Strategy.

The value of the package of incentives needs to be significant relative to the size of investments, in the 10-30% range.

Q20: Is there any evidence to suggest that changes in these tax policies would be the deciding factor in investment decisions? Yes/No/Don't know

Yes

Q20.i: Please explain your answer. Free text box 41

Tees Valley's A Proposal for a national Free Zone Policy and BEIS Northern Powerhouse Chemicals Sector Science and Innovation Audit, draws extensive reliance on international benchmarking, particularly in Singapore, Rotterdam, Jebel Ali and South Korea which have utilised a range of tax incentives to attract higher valuing adding activities and also apex companies.

21: In your view, are there any particular tax policies that could increase the risk of tax avoidance or tax evasion activity being routed through a Freeport? Yes/No

Yes

Q21.i: Please provide details. Free text box

Enhanced attraction of mobile capital always increases the risk of tax avoidance, however the careful use of technology and transparency should more than offset the risk

Q21.ii: If your answer is yes, then please suggest ways in which the Government could deter or prevent the tax avoidance or evasion risk you have identified. Free text box

Use of blockchain solutions could ensure transparency of costs and sourcing.

Q22: In your view, would any of the potential tax policies set out in this document unnecessarily increase the administrative burden of business activity in the Freeport?  
Yes/No/Don't know

No

Q22.i: Please explain your answer. Free text box

Industry tested and approved processes utilising technology should decrease administrative burden, particularly if activity is focused on supply chains within defined sectors

Q22.ii: If your answer is yes, then please explain which of the tax policies could be modified to reduce administrative requirements and how they could be modified. Free text box

N/A

Q23: Please provide any other feedback you have relating to tax incentives for Freeports.  
Free text box

The South Tees Development Corporation's site in Redcar, which would be likely be central to a Freeport in the Tees Valley has been designated a Special Economic Area by Government, with special arrangements around business rates. 50% of these rates will be retained by the Development Corporation to be reinvested into the site while 50% will go to the Local Authority. While a Freeport on this site might attract sufficient investment, public or private, to mitigate the need for the Development Corporation to retain half of the business rates generated there, we would propose a system whereby the Local Authority could continue to collect 50% business rates from the site or be fully compensated for their loss by Government, as per the current business rate scheme proposals for local retention of business rate growth.

### **Planning Permitted development rights**

Q24: Do you agree or disagree that the permitted development rights for airports and sea ports should be brought into closer alignment by allowing the use of buildings on ports for purposes connected with the operation of the port? Agree/Disagree/Don't know

Yes

Q24.i: Please explain your answer. Free text box

As noted in the report Frictionless Trade, there is a need to ensure that ports and airports are fit for purpose, there will need to be investment in novel technology to support the smart port proposition, the provision of which will be greatly aided by permitted development right

### **Zonal planning**

Q25: Are there suitable incentives in place that encourage the use of Local Development Orders by local authorities to support faster development? Yes/No/Don't know

No

Q25.i: Please explain your answer. Free text box

In some locations it is possible that developments will require a Habitats Regulations Appraisal and Appropriate Assessment. An LDO would not let applicants avoid this process and, therefore, would not necessarily speed up planning permission. Similarly, there may also be a need for an Environmental Impact Assessment in a high proportion of schemes.

Q25.ii: If not, what more could be done to encourage their use? Free text box

An efficient local planning service provided by a responsive Council could be equally useful to investors.

### **National Policy Statement for Ports (NPSP)**

Q26: Would it be appropriate or inappropriate to consider amending the National Policy Statement for Ports to allow for changes to planning process(es) for significant port development? Appropriate/Inappropriate/Don't know

Appropriate

Q26.i: If your answer is 'appropriate', what specific element(s) of the process or document could this focus on, and what potential benefits could this unlock? Free text box

In the specific case of Teesside, which is governed by the following legislation: Tees and Hartlepool Port Authority (THPA) Act 1966 (as amended), there is a practical recommendation to possibly extend the boundaries in order to ensure the Free Port Policy is harmonised with other related regulations and their definition of the legal boundaries of the river (Tees) and the port. The limits of the port are currently defined in accordance with the historical operational area in the control of the Tees Commissioners and the Hartlepool Commissioners prior to the 1966 Act coming into force. The Act itself allows the boundaries of the Harbour to be flexible in certain circumstances, an example being, at section 103 of the Act, the power for the THPA to maintain a separate police force and for that force to operate within the harbour and in any place not more than 2 miles beyond the limits of the harbour.

Q26.ii: If your answer is 'inappropriate', please explain why. Free text box

Not applicable

### **Additional planning freedoms**

Q27: Please tell us about any additional planning freedoms related to planning powers and/or increasing the efficiency and effectiveness of planning that you think could be used to support development in Freeports. Free text box

The powers already provided to Mayoral Development Corporations (which should be coterminous with any Tees Valley based Free Port) are already sufficiently comprehensive, however in order to ensure complementarity with other Devolved Administrations consideration must be given as regards planning authority for large scale energy providers, co-located on site and providing private wire support to other businesses in the Free Zone area.

We believe vesting 'planning powers' in Freeport arrangements could be problematic because of the existence of the coastal SPA (Special Protection Area for birds) and the requirements under other regulations to assess the impact of development on those sensitive designations but do not believe, in principle, there would be an objection to this if

it was so drafted, there might be objections from Natural England and other stakeholders though for the reasons set out.

### **Regulatory impacts**

Q28: Please provide any feedback you have on the regulatory impact of the planning measures set out in this consultation. For example, do you have any information on the costs and benefits to business of these measures? Free text box

No comment

### **Regeneration Infrastructure**

Q29: What infrastructure could encourage increased business activity in a Freeport? Please support your response with evidence where possible. Free text box

Hard infrastructure incentives including utilities, transport links, waste facilities, buildings and other superstructures that support investor production and shift costs for new businesses to the zone developer or national government. Development of trade focused infrastructure such as ports or airports are common infrastructure features of free ports for example in Subic Bay Free port or the Jebel Ali Free Zone. Serviced land connected to local utilities and shared infrastructure for power generation, waste management and transport are often provided in free ports, usually at a cost to tenants but sometimes on a subsidised basis

Q30: What infrastructure could support wider regeneration opportunities and promote job creation in the areas around a Freeport? Free text box

Many of these adjacent communities have suffered population decline and urban decay, however the catalytic impact of large scale industrial repurposing on the free port coupled with targeted urban regeneration (Stronger Towns Fund) and targeted sectoral training schemes (such as Intermediate Labour Market approach and bespoke curriculum development and augmented Adult Education Budget approach ) could reduce regional transfer/leakage and return many vital communities to once again being net contributors to the UK economy.

Q31: Please provide any additional feedback you have on the issue of infrastructure for Freeports not specifically addressed by any of the questions in this section. Free text box

International good practice dictates the co-location of a world class innovation function to initially attract R&D, but ultimately to work in the generation and spin out of R&Di not only for the apex company but also the wider UK based supply chain, both within the Free Port and across the wider UK

### **Business support**

Q32: What dedicated trade and investment support, advice and guidance would best enable your business to take advantage of the opportunities Freeports would create? Free text box

Soft infrastructure incentives offered through free ports can be effective in reducing barriers to investment through the provision of information and reduction of approval time lines. A one stop shop for each zone is a key benefit to help foreign investors access information required to invest and navigate the regulatory landscape once operating in the UK. Successful free ports (including Jurong Island and Jebel Ali) offer one stop shops that serve as account managers for zone businesses, providing information on regulatory developments, linking investors to domestic supply chain business and supporting bids for expansion to home offices around the world, including expediting visas for employees. At present the various incentives available to investors are dispersed amongst different programmes and funds, administered by different authorities and awarding authorities. A one stop shop should consolidate and repackage existing and zone specific incentives available to investors, reducing the costs of researching and applying to different scheme.

## Skills

Q33. Working with Mayoral Combined Authorities, Combined Authorities and Local Enterprise Partnerships (which will be informed by their newly established Skills Advisory Panels), how might a Freeport contribute to the skills offer in your area? Free text box 43

A sector specific approach, tied into the co-location of an Institute of Technology or other appropriate training facility should provide the focus for ensuring a targeted and long term set of training priorities along with the mechanisms for onsite delivery. Utilising the Combined Authority Skills function there is the opportunity for ensuring bespoke sectoral approaches on the Free Port of the following types of interventions: such as Intermediate Labour Market approach and targeted curriculum development and augmented Adult Education Budget approach.

The Local Enterprise Council has an active Skills Advisory Council model with members from the further education and skills sectors represented and actively contributing to the formation and delivery of skills policy.

A free port would attract inward investment, innovators and entrepreneurs who in turn would build on the strengths of the local supply chain, our highly skilled personnel, our education and skills providers and our existing manufacturing capabilities. Working together and informed by our skills advisory panels and local enterprise council, these capacities and capabilities will provide the opportunity for growth in both the volumes and the skills levels of our employment landscape.

There remains significant untapped potential within the people of the Tees Valley – with the area looking forward positively to the opportunities presented by levelling up our economy and through opening up our trading routes through a local Freeport. We have

the infrastructure, the people, the educators, the innovators and the will and determination to make this a success for the whole of the UK.

Q34: How could employers involved in Freeport applications demonstrate their commitment to engagement with, and support for, local FE and skills providers? Free text box

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Sourcing a significant percentage of employees (not just entry level) from the immediate catchment area and co-developing with the Institute of Technology/local knowledge providers training schemes to address gaps in provision/ accelerating local managers into key positions.

The Tees Valley Combined Authority and local enterprise Partnership is also developing a skills pledge and certificate to recognise and reward all employers who engage with providers to offer apprenticeship, intern or work experience placements.

## Housing

Q35: What are the main housing needs of the local economies which surround ports (suitable for Freeport status), both now and in the future? Free text box

Within the Tees Valley, there is no shortage of housing provision, rather we anticipate that the attraction and retention of increased numbers of individuals in highly productive jobs could kick start the local housing market, particularly in the key second hand sector, where lack of demand has created a vicious cycle of falling quality and prices.

Q36: How can local areas align their housing interventions with the wider regeneration agenda to make Freeports a success? Free text box

Not relevant. The major issue is transport and accessibility to existing communities where there is presently a sufficiency of accommodation.

Q37: What role could zonal planning, including the use of Local Development Orders, play in delivering the wider regeneration of local areas around Freeports? Free text box

Not relevant

## Innovation

### Challenge-based initiatives

Q38: What specific operational barriers to efficiency exist in ports that could be addressed through the development of innovative technology and processes? Free text box

- Vessel operations: getting ships from the sea into berth and ports . Areas of technology innovation here include autonomous and unmanned ships, improved communication platforms to manage multiple required parties and tools that can optimise the flow of ships in and out of ports;
- Port management systems and platforms that help ports to run more efficiently. These include smart warehousing and storage solutions: by fitting IoT sensors to cargo handling equipment like pumps and cranes it is possible to monitor and optimise the use of port assets; and
- Border and port security: the physical security of our ports and borders is crucial and IoT sensors fitted to individual containers and shipments will make it possible to monitor whether they have interfered with. AI will also enable the monitoring of multiple data streams to track and flag suspicious vehicles and people entering and leaving ports.

Q39: What specific aspects of customs administration present barriers to business efficiency? Free text box

Post Brexit, the number of customs declarations HMRC needs to process could escalate to 255 million per year, a fivefold increase on current activity. There is a significant opportunity for artificial intelligence to be employed to flag up suspicious shipments to HMRC and border control so that they can be intercepted away from ports but before they reach their final destination.

Q39.i: (Only if answered first question) How could the development of innovative technology and processes be used to address these, and maintain a secure environment? Free text box



In its report called Frictionless Trade, Public IO has investigated the use of technology to adapt existing processes and ensure they surpass those offered on competitor regions. Free Ports offer a controlled environment to pilot initiative for enhancing the efficiency of frictionless trade including but not limited to:

- **Invest in the UK's first proper 'Smart Port'**: The success of Rotterdam's Smart Port venture a partnership between the Rotterdam Port Authority and multiple research and innovation institution, should act as a guide for the UK; and
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### **Freeports and academic collaboration**

Q40: How can ports collaborate with public agencies - including universities and other academic institutions, businesses, and local governments - to develop and adopt new technologies? Free text box

As noted earlier the development of a sector specific innovation ecosystem/knowledge provider, co-located on the site has the potential to develop the necessary linkages between universities, businesses and local Government if the Free Port is coterminous with the Mayoral Development Corporation

### **Regulatory sandboxes**

Q41: How could challenge-based initiatives and innovative procurement opportunities help ports and local partners work together to innovate? Free text box

In Tees Valley we have been working to develop Mayoral Challenges to address particular constraints/opportunities affecting companies/sectors, however this approach could be further enhanced with sector specific calls developed in conjunction with UKRI.

### **Data availability and usability**

Q42: What obstacles are there to greater data availability in the customs and transport sectors? Free text box 44

The most significant obstacle is the use of different metrics and terminology by a range of partner organisations.

Q43: What opportunities are there for data generated within Freeports to support innovation by businesses and innovation stakeholders? Free text box

In its report Frictionless Trade, Public IO has investigated the use of technology to adapt existing processes and ensure they surpass those offered in competitor regions. Free Ports offer a controlled environment to pilot initiatives for enhancing the efficiency of frictionless trade including but not limited to:

- **Invest in the UK's first proper 'Smart Port'**: The success of Rotterdam's Smart Port venture a partnership between the Rotterdam Port Authority and multiple research and innovation institution, should act as a guide for the UK; and
- **Encourage and facilitate the sharing of data**: The public sector has a significant role to play to bring the industry together to improve the way that data is shared in the maritime industry. The EU funded Sea Traffic Management Validation Project is an example of public sector leadership in the development of data sharing. In addition, HMRCs new CDS platform represents a great opportunity for third party developers to quickly add value to the ecosystem. By making it possible to transfer CDS data through web services developers could build applications on top of the system which can streamline the customs process for traders and make data available for decision makers throughout the supply chain

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Q43.i: (Only if answered first question) What changes would be needed to facilitate this?

Free text box

See previous answer

### **Contribution to the decarbonisation agenda**

Q44: How could regulatory flexibility within Freeports help businesses to trial and implement new products and processes? Free text box

The proposed Tees Valley Free Port proposition is based entirely on clean growth and we are in the process of developing a Net Zero Innovation Centre co-funded by ERDF and UKRI which will ultimately provide a mechanism to assist businesses to trial and implement new products and processes. The co-location of businesses and innovation support within a zero VAT area and enhanced level of grant support for R&D will encourage greater collaboration and the creation of enhanced levels of sectoral expertise.

Q45: How could Freeports be used to test new ideas and support business and industry to decarbonise in line with the UK's Net Zero target? Free text box

This could be a general requirement for investment in innovation on each free port site and reflected in the key performance metrics, however Tees Valley aims to develop its entire proposition in line with Clean Growth/Net Zero and all activity on the site will correspondingly contribute to the reduction of Carbon emissions across the port site, wider region and Nation, at the same time as encouraging an expansion of industrial capacity.

Q46: Please provide any additional feedback you have on the issue of innovation in Freeport policy not specifically addressed by any of the questions in this section. Free text box

### **Additional policy considerations**

#### **Preventing illicit activity**

Q47: In your view, what is the level of risk of illicit activity in Freeports? Very high/High/Medium/Low/Very low/None/Don't know

Medium

Q48: What additional measures should be implemented to mitigate such activities? Free text box

Our legal advisors, Womble Bond Dickinson note the following:

Existing laws provide sufficiently strong protection against unlawful activities. However, if inflexibly applied those existing laws could inhibit legitimate business activities and create a risk of breach through normal business operation. Consequently, we recommend that HMRC's rule making powers under the Taxation (Cross Border Trade) Bill should be exercised in a way that accommodates existing business processes within any free port designation.

The Inter-American Drug Abuse Commission (CICAD) published an instrument of best practice which made the following recommendations in relation to the security performance of free trade zones, including:

- To have a system to verify the identity of all persons who must enter the port facilities and limit access to people outside the area;
- Manage proper control of vehicles;
- Inspections of persons, personal effects, vehicles entering and leaving the commercial area;
- Limit the number of access points to the zone with the effect of increasing the existing controls;

- Keep strict records of employees and others who work in the area;
- Maintain a specialised unit or an interdisciplinary group in the detection and monitoring of both narcotics and precursor chemicals
- Establish a system of CCTV and security technology
- Have a system of advanced information for movement of goods, allowing risk based verification;
- Establish a special and segregated area for inspection of suspicious cargo;
- Use scanners for non intrusive or invasive inspections;
- Institute a programme to perform routine inspections of warehousing and stores in the Tax Free Zones with canine units to verify the cargo of existing merchandise;
- In the case of free trade zones in ports the documentation of cargo that was declared should be analysed along with the certification of the existing cargo at the warehouse;
- Constitute a risk analysis group to establish criminal profiles according to the type of merchandise; and
- Implement a continuous training of staff in procedures and techniques to search for narcotics and other dangerous substances.

Q49: Please provide any other feedback you have on the issue of preventing illicit activity within Freeports. Free text box

No further comment

### **Business impacts**

Q50: Please provide any comments on the impact on businesses of the measures set out in this consultation Please provide any information on the costs and benefits to businesses of these measures. Free text box

The most significant impact will be catalytic, as Vivid Economics has estimated that roll out of Freeport powers to the South Tees Development Corporation site, may increase the economy by a magnitude of circa 200%, due to the attraction of higher value adding functions and the speeding up of investment decisions

### **Equalities impacts**

Q51: Please provide any views about the implications of our proposals on people with protected characteristics as defined in section 149 of the Equality Act 2010. Please provide any evidence you have to support your views. Is there anything that could be done to mitigate any impact identified? Free text box 45

We do not imagine that the use of a Free Port will have any direct negative implications on people with protected characteristics, but its application to key geographies and sectors may necessitate mitigating activities to overcome issues of physical exclusion (transport) and perceived skills gaps/low levels of take up in specific sectors (such as Advanced Manufacturing – a key element of the clean growth agenda). In the case of the latter, social clauses should be considered for all employers within the zone, at the same as developing a pipeline of support for target groups to be able to avail of on-site opportunities.

Q52: If you are a business owner, what actions would you take if a Freeport was established in your local area? Please explain your answer. Free text box

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See earlier answer

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Q53: In your view, what is the level of risk of economic displacement? Very high/High/Medium/Low/Very low/None/Don't know

Low

Q53.i: What should the Government do to mitigate these risks? Please explain your answer.

Free text box

Targeting only inward investment for specified sectors and specifically apex companies or those companies where there is a gap in the existing UK supply chain.

Q54: Please provide any other comments on any potential environmental impacts which may arise as a result of the considerations in this consultation. Free text box

This will largely be mitigated by the attraction of additional complementary investment to regions which already have significant expertise in specified sectors and who will have direct experience of minimising any negative environmental impact.

Q55: Please provide any other feedback on the impacts of the development of Freeports in the UK not specifically addressed by any of the questions in this section. Free text box

Not applicable

### **Allocation and governance of Freeports in England**

#### **Port modality**

Q56: What factors do we need to consider in order to support different port modes becoming Freeports? Free text box

We recognise that a one size fits all approach does not fit, but it is essential that all free ports have an export orientation and therefore must have access to a major transport hub which will support global connectivity. In order to minimise environmental impact, it would be very useful if there was an integrated approach to transport provision such as is the case within the Tees Valley proposal where an international port and airport are connected by both road and rail.

Q57: Do you agree or disagree that a Freeport could include multiple ports?

Agree/Disagree/Don't know

Agree

Q57.i: Please explain your answer. Free text box

We believe this can make Freeports more effective in terms of their operations while ensuring allowing their economic benefits to a wider selection of geographies. With a sector specific approach, there is a need for a degree of cooperation and trading between sectors, particularly Tees Valley's Clean Growth sector approach which is an enabling technology, producing mainly intermediate goods (admittedly higher value adding post implementation of the Free Port approach).

Q58: What factors do we need to consider in order to support applications from multiple ports? Free text box

We would suggest that all applications, including those with multiple ports demonstrate how they support a key sector and not just reducing the cost of operation for the ports. This would service to maximise economic development and minimise displacement.

#### **Objectives and criteria**

Q59: In your view, how appropriate are the proposed criteria for assessing how potential Freeport applications can meet the stated policy objectives? Very appropriate/Fairly appropriate/Not very appropriate/Not at all appropriate/Don't know

Fairly appropriate

Q59.i: Please explain your answer. Free text box

The objectives at present have a spatial orientation, rather they need to give primacy as to how the Free Ports will aid specified sectors first and then the particular geography.

Q60: Please suggest any other criteria that we could use to effectively assess potential Freeport applications. Free text box

- The Combined Authority developed the Freeport proposition not as a tool for area regeneration, but as a specialist inward investment instrument focused on developing or enhancing globally competitive clusters, and which if properly implemented will have significant regenerative spill-over impacts on adjacent communities within the wider catchment area for the zone;
- **Sectoral Prioritisation:** In line with the UK's Industrial Strategy any UK wide Freeport Programme must be focused on those few sectors for which the UK already has global competitiveness or for which it plans to assert such influence;
- **Geographical Prioritisation:** A sector first approach must be undertaken, choosing those locations where there is existing provision or an opportunity to build a confluence between the cluster, supply chain, raw materials, global accessibility, innovation and skills provision;
- **Additionality:** The Programme must not displace existing UK based output, rather it must focus on addressing gaps in existing fragmented supply chains through reshoring / attraction of new inward investment. The Programme should not be about protecting existing strengths, but must clearly have an import substitution effect and a subsequent attributable growth in higher value adding export activity;
- **Economic Impact:** The Programme is designed to help key sectors and associated geographies to be able to compete on a global scale and must first and foremost have the ability to create a step change in the sector's overall competitiveness and scale of output. Utilising the Combined Authority's econometric analysis<sup>1</sup> of Freeport's allows us to anticipate the scope and scale of impact across the following headings:
  - **Increase in sectoral output on site:** When applied to the South Tees Development Corporation site, it was anticipated that the Gross effect would be a doubling of projected onsite output ( a subsequent rise of £1bn to £2bn per annum);
  - **Increase in Exports:** It is envisaged that the Programme should produce higher value adding activities, which will have a higher propensity to be exported, than existing intermediate good;
  - **Attraction of higher value added activities:** Consequently the overall quantum of jobs attracted will increase, but the Programme must also target higher value adding activities, including more headquarter functions, which means that there will be more and better jobs, all of which will be additional to the region, this will lead to the following investment benefits:
    - Increase in Business Expenditure on Research and Development (BERD)

<sup>1</sup> A proposal for a national Free Zone policy , Tees Valley Mayor and Tees Valley Combined Authority (2019)



- Increase in Government Expenditure on Research and Development (GERD); and
  - Increase in Higher Education Expenditure on Research and Development (HERD).
- **Wider spill-over effects:** The proposed Programme will have two principal spatial impacts: the attraction of more higher value adding activities in ports, including greater logistics and production activity and wider spill-over impacts in communities in the catchment for the freezone. Many of these adjacent communities have suffered population decline and urban decay, however the catalytic impact of large scale industrial repurposing on the free zone coupled with targeted urban regeneration (Stronger Towns Fund and Coastal Communities Fund) and targeted sectoral training scheme (such as Intermediate Labour Market approach and targeted curriculum development and augmented Adult Education Budget approach) could reduce regional transfer/leakage and return many vital communities to once again being net contributors to the UK economy.
  - **Perceptual change:** The proposed Programme has the ability to demonstrate the UK's global strengths and specifically that key sectors and geographies are open to business, not just internationally, but to act as a catalyst to reinvigorating supply chains post Brexit and Corona Virus.

### **Public and private sector partnerships**

Q61: What are the advantages and/or disadvantages of asking Mayoral Combined Authorities/Combined Authorities where they exist, or Local Enterprise Partnerships and upper tier local authorities where they do not, to lead on submitting applications?

It is important to ensure that Free Port do not just become a standard tool for local economic development, rather they need to be used sparingly and be utilised where there is evidence that a free port would enhance the competitiveness of an existing globally competitive cluster or be the necessary catalyst for an emerging sector. If there is that confluence of sectoral opportunity and local will, a Mayoral Combined Authority or LEP would be the most appropriate body to lead, as they have the ability to develop an integrated application which includes key sectoral representatives from business, transport operators, knowledge providers and as the case of Tees Valley, have access to sizeable land holding and planning powers through its own Mayoral Development Corporation.

Q62: What are the advantages and/or disadvantages of asking MCAs/CAs where they exist, and LEPs where they do not, to support a single application in their local area? In what circumstances should this be flexed to allow for more than one application? Free text box

As noted above it is highly unlikely that one MCA/LEP Area would have the scope and scale to have more than one globally competitive sector to warrant another free port application.

Q63: What are the advantages and/or disadvantages of enabling ports to submit applications for Freeport status directly to central government? Free text box

We have received significant feedback from trade related businesses concerned about port operation companies having effective monopolies over Freeports, which could temper the economic development potential of these zones. We would therefore propose an independent governance model, ideally including Mayoral Combined Authorities (and LEPs where MCAs don't exist) as well as the possibility of integrating Mayoral Development Corporations.

Q64: Please outline the most effective models for partnership between private, public sector and local economic partners to design and submit applications. Free text box

The Combined Authority leads on the development of an application, and if successful a standalone delivery body is established to promote the Freeport proposition (and one stop shop approach discussed earlier), in conjunction with separate bodies who are responsible for the delivery of specialist port/airport services, provision of investment land, provision of onsite innovation and training support

Q65: Please provide any other feedback you have on the allocation of Freeports not specifically addressed by any of the questions in this section. Free text box

N/A

### Measuring impact

Q66: How can the Government best monitor and evaluate Freeports? Free text box

In terms of the following:

- Take up rate of land
- Total investment on site
- GVA;
- GVA per job;
- Total exports;
- BERD;
- GERD;
- HERD
- Number of on site spinouts
- Impact on supply chain

Q67: Are there ways that we could ensure a counterfactual impact evaluation is feasible and deliverable for all Freeport areas? Please explain your answer. Free text box

Yes, a neighbouring region approach could be utilised, which is comparable in terms of sectoral composition and also has access to a port and airport, with an initial baseline established and agreed metrics for the relative performance of both.

Q68: For the Freeport model described in this consultation, what might be an appropriate time period for incentives to initially operate for to give certainty to investors and businesses

and provide an opportunity for the Government to evaluate their effectiveness? If you think the appropriate period could differ for different incentives within the Freeports model, then specify a different time period for each incentive. Free text box

10 years

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