



Department for International Trade

Consultation response

Freeports

The Scottish Council for Development and Industry (SCDI) is Scotland's Economic and Social Forum. We are an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members, partners and stakeholders across the private, public and third sectors to deliver inclusive and sustainable economic growth for Scotland.

For more information on this consultation response, or to engage on any other issue, please contact the SCDI Policy Team:

Matt Lancashire
Deputy CEO
matt.lancashire@scdi.org.uk

Gareth Williams
Head of Policy
gareth.williams@scdi.org.uk

David Kelly
Policy Manager
david.kelly@scdi.org.uk

Scottish Council for Development and Industry
1 Cadogan Square
Cadogan Street
Glasgow
G2 7HF

0141 243 2667

Freeports Consultation: Boosting Trade, Jobs and Investment Across the UK

INTRODUCTION

SCDI's mission is inclusive and sustainable growth for all of Scotland. We believe in an economy that works for everyone, everywhere. We represent businesses and organisations from all sectors and all geographies of the Scottish economy.

The UK Government's levelling up agenda is therefore very welcome. The UK economy is deeply imbalanced towards London and the South East of England. It is important that government policy, interventions and investments are designed to reduce widening inequalities between the nations and regions of the UK and maximise the social and economic potential of all of our people, communities and businesses. Internationalisation of the Scottish economy is also a key priority.

We are delighted to represent our members and Scotland on the working group providing advice on levelling up economic performance as we recover from the COVID-19 crisis to Alok Sharma MP, Secretary of State for Business, Energy and Industrial Strategy.

The Department for International Trade is developing proposals for freeports with the objective of boosting trade, jobs and investment across the UK. We agree that freeports – if designed in the right way and created in the right places with the right safeguards – could deliver some economic benefit by simplifying and increasing trade in goods or attracting new inward investment to regions which need it most.

However, we note serious and legitimate concerns due to the serious risks and likely negative impacts associated with freeports globally. These need to be considered and addressed or mitigated as appropriate.

We therefore propose the following five tests as part of a cautious, collaborative and evidence-based approach to deciding whether, where and how to create freeports in Scotland:

1. **Delivering economic benefit:** *Would freeports deliver economic benefit or simply displace existing economic activity? Would any freeport in the rest of the UK displace economic activity from Scotland, its existing ports or any new freeports?*
2. **Levelling up the UK economy:** *Would freeports rebalance the UK economy and level up economic performance across Scotland? Would the location of any freeport in the rest of the UK put Scotland at a competitive advantage?*
3. **Preventing illicit activity:** *Would freeports facilitate increased illicit activity such as tax evasion, tax avoidance, money laundering and trafficking? Would these risks be sufficiently mitigated?*
4. **Protecting public finances:** *Would freeports result in a net loss or a net benefit to the public finances?*
5. **Respecting devolution:** *How would freeports be delivered by the UK Government in partnership with the Scottish Government and Scottish local authorities?*

ECONOMIC BENEFIT

Would freeports deliver economic benefit or simply displace existing economic activity? Would any freeport in the rest of the UK displace economic activity from Scotland, its existing ports or any new freeports?

The main expected benefit of any freeports would be to stimulate more trade in goods by attracting increased imports due to lower duties and less 'red tape'. The reduced declaration requirements for moving goods into any freeport would represent a useful simplification of the administration of customs processes for freeport operators and businesses. Freeports could also potentially attract investment and economic activity into regions which need it most, especially in key clean growth sectors such as offshore renewable energy. However, the proposals would need to be reviewed to rebalance the administrative and legal burden and start-up costs placed on prospective freeport operators.

Nevertheless, there is evidence globally that freeports may deliver only very limited by largely displacing existing economic activity at a cost to the public finances and other areas. For example, research by the Centre of Cities suggests that over 1 in 3 jobs created in such areas in 2017 in the UK moved from elsewhere and were not new jobs.¹ With a relatively high risk of economic displacement, freeports may result in disadvantage for those areas not selected, especially neighbouring areas.

Although freeports could simplify and increase trade in goods, they do not support or address the Services sector, which is over 80% of the Scottish economy and should be a key priority in the internationalisation of the Scottish economy.

Moreover, the wider potential economic benefits of freeports are unclear given the current context. The COVID-19 crisis has significantly disrupted trade flows in and out of Scotland. It is unknown whether the crisis may result in new import and export trends globally. It is also currently unclear how freeports would align with UK trade and industrial policy given the continuing uncertainty over the UK's future relationship with the EU. It is critical to give clarity and reassurance to Scottish business. The UK and the EU should negotiate and agree a comprehensive Free Trade Agreement which will sustain a strong future partnership based on free, fair and frictionless trade and maintaining key standards which protect consumers, workers and the environment, and which underpin reciprocal access to markets.

HM Treasury and the Department for International Trade should therefore conduct a rigorous and transparent analysis of whether and to what extent freeports would likely deliver economic benefit in terms of employment, productivity and inclusive and sustainable economic growth. This is closely related to fourth test and questions around the potential fiscal impact of freeports for the public finances.

LEVELLING UP

Would freeports rebalance the UK economy and level up economic performance across Scotland? Would the location of any freeport in the rest of the UK put Scotland at a competitive advantage?

We agree that freeports sites could be located inland as well as adjacent to ports. This could increase the range of options for sites and facilitate the designation of not only maritime ports, but also airports and strategic industrial or manufacturing facilities. However, this could result in greater logistical and regulatory complexity and a higher risk profile.

We welcome the commitment to spread the potential economic benefits of any freeports across the nations of the UK and develop a distinct allocation process for Scotland in partnership with the Scottish Government which is fair, transparent and robust.

The allocation process should be genuinely aligned to the levelling up agenda to rebalance the UK economy. It should recognise and reflect the diversity of the Scottish economy and

¹ www.centreforcities.org/wp-content/uploads/2019/07/19-07-10-In-the-zone-have-Enterprise-Zones-delivered-jobs.pdf

its regions, as well as the strengths, assets and potential of its ports, airports and strategic industrial facilities. In line with the principles of the levelling up agenda, it should also take into account of the inequalities between different regions of Scotland, balancing the need for investment to be targeted where it is most needed and where it could have most impact.

The distinct allocation process for Scotland must be fair, transparent and robust in relation to the competing bids of potential Scottish sites, but also to Scotland as a whole within the context of the separate allocation processes for England, Wales and Northern Ireland. It is critical that strong weighting is given to fairly reflecting the diversity of the UK's nations and regions. It is critical that the location of any freeports are complementary and do not put Scotland at a competitive disadvantage or displace economic activity from Scotland, its existing ports or any new Scottish freeports.

ILLICIT ACTIVITY

Would freeports facilitate increased illicit activity such as tax evasion, tax avoidance, money laundering and human trafficking? Would these risks be sufficiently mitigated?

There is significant evidence globally that freeports are closely associated with increased levels of serious and harmful illicit activity, especially tax evasion, tax avoidance, money laundering and trafficking.^{2 3 4} On the basis of these risks, the European Parliament has requested that the European Commission phase out freeports across the European Union.⁵

Many stakeholders across our economy and our society have legitimate concerns that the risk of UK freeports facilitating illicit activity is relatively high without significant investment in prevention, mitigation and compliance. The nature and scale of the threat is likely to be different to other freeports globally because the proposal does not envisage trade in the most high-risk markets, such as high-value art, and due to different trade routes. However, the threat remains real and should encourage caution.

It is essential that policies are developed and properly resourced to tackle illicit activity and mitigate these risks in any freeports in partnership with all relevant authorities and regulators. A much greater focus on tackling illicit activity than presented in the consultation document is required if any freeports are to be safely created in the UK.

PUBLIC FINANCES

Would freeports result in a net loss or a net benefit to the public finances?

Given the range of tax and regulatory incentives which form part of the freeports proposals, there will be immediate and net fiscal impacts. Reducing the immediate level of fiscal revenue by creating zones where the tax and regulatory burden is lighter could increase ultimately deliver a net benefit to the public finances if it stimulated greater economic activity, innovation and trade resulting in higher levels of economic growth, more jobs, more exports and so on.

However, evidence has not been presented to illustrate this. Special economic zones or enterprise zones with similar packages of incentives have largely failed to deliver the anticipated economic benefit at substantial cost to the taxpayer.⁶

² www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundering-FINAL.pdf

³ rusi.org/sites/default/files/27042020_freeports_final.pdf

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www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/CLT/pdf/2_FC_free_port_working_document_Final_EN_revcle an.pdf

⁵ www.europarl.europa.eu/doceo/document/A-8-2019-0170_EN.html

⁶ www.centreforcities.org/wp-content/uploads/2019/07/19-07-10-In-the-zone-have-Enterprise-Zones-delivered-jobs.pdf

HM Treasury and the Department for International Trade should task the Office for Budget Responsibility to conduct a rigorous and transparent analysis of whether, and to what extent, freeports would likely result in a net loss or a net benefit to the public finances. This is closely related to first test and the question of whether freeports would deliver wider economic benefit.

DEVOLUTION

How would freeports be delivered by the UK Government in partnership with the Scottish Government and Scottish local authorities?

The Department for International Trade's freeports proposals would result in changes not just to trade policy, but also to a number of significant policy areas which are partially or wholly devolved. This includes taxation, planning, infrastructure and innovation policy.

It is therefore essential that the UK Government engages constructively with the Scottish Government, Scottish local authorities and other local and regional stakeholders to tailor the proposals for a Scottish context and to mutually agree a path forward which respects the devolution settlement. It is currently unclear how freeports would align with current Scottish Government policies and approaches to maximise economic benefit and taxpayer return.