House of Commons

International Trade Committee

Oral evidence: UK Freeports, HC 258

Wednesday 7 October 2020

Ordered by the House of Commons to be published on 7 October 2020.

Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Mark Menzies; Taiwo Owatemi; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Craig Williams.

Questions 166 - 196

Witnesses

II: Aidan McMahon, Deputy Director, Strategic Policy Division, Department of Finance, Northern Ireland Executive; Ivan McKee MSP, Minister for Trade, Investment and Innovation, Scottish Government; and Rebecca Evans MS, Minister for Finance and Trefnydd, Welsh Government.

Examination of Witnesses

Witnesses: Aidan McMahon, Ivan McKee and Rebecca Evans.

Q166 **Chair:** We now move to our second panel. Thank you for joining us. Again a very illustrious panel. This is from the three Governments in Wales, Scotland and Northern Ireland. We have Aidan McMahon, Ivan McKee and Rebecca Evans, and I will let you all introduce yourselves in your own terms. Far be it from me to put words in anybody's mouth here.

Aidan McMahon: My name is Aidan McMahon, deputy director of the strategic policy division in the Department of Finance. My Minister leads and co-ordinates on behalf of the Executive in relation to the freeports policy. Thanks for the invite today. I would like to offer my Minister's apologies for not being able to make the session.

Chair: Thank you, apology accepted. Ivan McKee, who I might have met once or twice in the past.

Ivan McKee: Feasgar math, Chair. Good afternoon. It is good to be here, and I am looking forward to talking to your Committee. Ivan McKee, Scottish Government Minister for Trade, Investment and Innovation.

Chair: Thanks very much. We have had some Scottish Gaelic. I wonder if we can have some Welsh now from Rebecca Evans.

Rebecca Evans: Prynhawn da, good afternoon. Thank you very much for the opportunity to join you this afternoon. I am the Minister for Finance and Trefnydd in the Welsh Government. Trefnydd is our version of Leader of the House.

Q167 **Chair:** Very good. We are having what looks like a trilingual session this afternoon, at least two of the older languages of the British Isles being involved, but we will go with the younger language at the moment.

To all—but I will start with Minister Evans in Wales—what role did your devolved Administration play in developing the UK's freeport proposals?

Rebecca Evans: It is fair to say that engagement thus far has not been satisfactory in terms of the development of the proposals. We are very much open to considering the idea of freeports, but as yet we do not have the information we need to come to a conclusion as to whether or not freeports would be good for Wales. This is partly because we have been pressing the UK Government for an approach that is based on partnership with a particular focus on developing the evidence base and sharing the analysis with us, but we have not yet arrived at that point. As it stands today, we are not in a position where we can come to a determination as to whether freeports are something we would support for Wales.

Q168 **Chair:** Ivan McKee, how does your experience correlate or differ from Wales?

Ivan McKee: Very similar. We have had very little information as to either the shape of the freeports, in terms of the incentives that would be in place and how that would operate, or indeed the economic analysis, the impact analysis, that we would expect to see from HMRC. Until we get that, it is very difficult for us to make a determination as to whether we see these as adding value. We see benefits potentially, depending on how they are configured—I know you have talked about a range of those already, and we will come on to talk about them. As you highlighted in your last comment, Chair, some of those could be as much about signalling, messaging and the cluster building effect as other aspects, and we will maybe talk about that in more detail.

We also see a number of risks around economic displacement. It was interesting when you talked to your earlier panel that everybody was very positive at the start but, once you start talking about the specifics, everybody is worried that somebody else is going to get an advantage over them, so that is an aspect.

Clearly freeports globally have a bit of a sad reputation for illicit activity and bypassing the law of the land, so that is a concern. We need to be sure that is well looked after and well policed. A number of concerns, but at the moment we do not have enough information to take any clear view on this.

Q169 **Chair:** If freeports come to Scotland, Wales and even Northern Ireland, are the UK Government going to fund them directly or will this have to come out of Scottish Government funding and revenues or Welsh Government funding and revenues? Any clarity on that?

Ivan McKee: I will comment on that briefly. There are a number of parts to that. If there is a UK-wide customs or reserve tax incentive, clearly that would apply to everybody. Many of the taxes, of course, are devolved, and we would have to make a determination on what to do in that environment. Clearly there are incentives coming through in terms of cash for setting up freeports. It is not yet clear whether that would go to the freeport, whether it comes through Barnett consequentials or how that would look.

Rebecca Evans: I was recently in a meeting on this topic with the Secretary of State for Wales and the Chief Secretary to the Treasury, and in terms of those elements that are reserved to the UK Government, I probed as to how we would look to receive funding for Wales. The answer was that the starting point is the Barnett formula, which obviously would not be satisfactory if we were in the position where we have, say, 10 freeports, one of which would be in Wales. We would have 10% of the freeports but 5% of the funding, as per the Barnett formula, so clearly that is not an appropriate funding mechanism for this particular piece of work.

Aidan McMahon: Very similar to the two Ministers, my Minister is interested in any policy that can help to grow the local economy and remains open minded on freeports. In terms of the role of the Executive in developing the policy proposals to date, it is fair to say it has been very limited at best. Our engagement has largely been in relation to discussions on the latest developments from a UK Government perspective, and we have not had that role in helping to shape the policy from the outset.

Our view is that there needs to be greater recognition, given the levers with freeports, and in particular those devolved levers, that there is a need for the devolved nations to play a key role in how freeports are taken forward and implemented if they are to be successful. Our Minister has stated in correspondence to the CST that it is important that the Executive and, indeed, the other DAs are not left with a fait accompli in terms of how policy is settled at the end of this process if it is to be successful.

We have touched on finances. Again, our Minister has pressed on this particular issue, asking what level of ambition the UK Government have for freeports in terms of finances. We have heard from stakeholders who say there needs to be significant public sector investment to make freeports successful, but we have not quite got clarity on that as yet.

Chair: Some concerning points made by all three.

Q170 **Mick Whitley:** Good afternoon, panel. I would like to ask Aidan, initially, what engagements have you had with the Department for International Trade and the Treasury as the Government prepare their consultation response?

Aidan McMahon: Again, in terms of engagement with DIT and more broadly, the engagement in the beginning, it is fair to say, was probably intermittent. DIT was the main source of engagement about a year ago. As the policy seemed to switch lead within the UK Government, the main engagement focused on the Treasury. That has been the mainstay of engagement over this year, largely.

Engagement has intensified of late, and certainly post a letter from our Minister in August, where he sought additional engagement under the standard engagement with the CST. It is fair to say that we would prefer a more substantive policy development role in this process, and that is not one we currently have.

My Minister's view is that ultimately, if the UK Government want the Executive to be a key decision-maker within this process, in terms of domestic policies to be utilised, the selection and governance processes to be used and the overall approach to freeports, he would welcome a fuller role in terms of policy development. The key point there is about the substance of engagement as opposed to the frequency. The frequency has been very regular with the Treasury of late, but it is the substance and the policy development process that is the key issue from our perspective.

Ivan McKee: In terms of engagement, I have had a meeting with Steve Barclay recently and there has been official-level engagement ongoing, but at the end of the day what we are not getting, as I said earlier, is the detail on this impact assessment and the detail on the fiscal shape of this. We have repeatedly asked for that. It is very important for us to get that to understand to what extent we should engage with this policy.

It is worth making the point that the way we see this policy is that, at one level, it is hard to escape the conclusion that it is something that has been pulled out as a shiny squirrel to draw attention away from all the other bad stuff that is going on in the trade arena, vis-à-vis the relationship with our largest trading partner in the EU. Frankly, if we stayed in the EU and cancelled Brexit, we would not be having this problem or this discussion, so it is very much a sticking plaster on what is a huge gaping wound. The damage that has inflicted on Scotland's economy is significant and well documented, and this does not do anything to resolve that, other than to try to create a bit of distraction.

Rebecca Evans: It is a similar situation here in Wales. There was some engagement towards the start of the year but, obviously, Covid impacted very much on that, so there was a long void following the early engagement. Since then there has been some more engagement. Again, we had to write to the UK Government back in August to get that started again, but it has been very superficial. What we do not have—and it is the same across all the devolved nations—is access to the information, the analysis and the impact assessments, and so on. Our understanding is that that is because the UK Government are currently quality assuring that work. We can work with the raw information and take it with those advisory notices, but what we really need is access to the information so that we can start to take a considered and informed view on this policy.

Q171 **Taiwo Owatemi:** Minister McKee, you have previously said that you would like more clarity from the UK Government about different aspects of the freeport proposals. This includes the possible economic benefits and the impacts on climate change and inclusive growth. Do you now have the information you require?

Ivan McKee: I have just said we do not have that information, and it has been said that the understanding of the economic logic behind this is essential for us to make a determination on whether it is something we would want to support, so at the moment the answer to the question is no. We are pressing for that, and we need to see it to decide whether we want to take this forward.

Q172 **Mark Menzies:** Minister Evans, what role do you expect to play in the allocation of freeport status?

Rebecca Evans: Given the potential impact of freeport status on the economy in Wales and the inclusion of devolved policy levers within the scope, we would expect to have a meaningful role in both developing a bidding criteria and in assessing those bids against the criteria. That is why we have been pressing for some clarity from the UK Government on those so that we can start to make those considerations. What we do not want is to find ourselves in a situation where a policy is already developed and a proposal is already put forward and we are trying to retrofit the devolved aspects on to that. All of us can do much better than that, and we can work together to develop the policy.

Q173 **Mark Menzies:** In your view, when should the bidding process for any potential freeport open?

Rebecca Evans: It is important that it is consistent either side of the border, across England and Wales. I know colleagues elsewhere will have their views on that as well, in the sense that it would allow joint bids to be developed across borders. If we do not have any consistency in terms of those timescales, it makes it very difficult for the bidding process in those border areas. Do we bid into the England one or do we bid for Wales, rather than coming up with a joint proposal, which is something we would want to support?

Q174 **Mark Menzies:** The Government have initially outlined a proposal of 10 freeports. In some of the other evidence we have had, there has been a suggestion of either a greater number or to have freeports structured in such a way that you are not talking about a single site. It could be a freeport, but it could be over several sites, perhaps incorporating a manufacturing area or incorporating an airport and so on. Do you have any thoughts on what sort of structure would be useful for Wales?

Rebecca Evans: I do not think we have the information we need to answer that directly in terms of what the optimum number would be. I do not think the UK Government have provided evidence on the potential costs and benefits of freeports. They have not provided information as to why 10 would be the number. I understand it might be to protect the Treasury in terms of the exposure to the costs and liability related to freeports, but obviously more information around that would be helpful to us. We understand that, if it were to be 10, there would be the potential for one of those to be in Wales, which is why I take this opportunity to reiterate that point about the Barnett formula not being appropriate, because Barnett is 5% and one in 10 would obviously be a tenth.

Q175 **Mark Menzies:** That is great, thanks. I ask the second part of that question to Minister McKee. I know you have concerns and reservations about freeports. You have made that very clear. In terms of how a freeport should look or how you think it would be best structured to work for Scotland's interests, have you managed to give that any thought?

Ivan McKee: We have. We have done quite a bit of thinking on this. We have had several engagement sessions with the stakeholders and with ports, with businesses and with sectoral interests to gauge their level of thinking and appetite. It needs to be looked at in the context of wider economic development. Again, coming from leftfield as a standalone policy that is not joined up to anything else is a bit of a concern.

You need to look at it in the context of everything else on a number of levels. First of all, in terms of the money you would spend on freeports both at a UK level and at a devolved Administration level, in terms of bang for your buck and economic development, is that the best way to spend it or are you better spending it elsewhere? That is one aspect of it. We have done a lot of thinking and work around the shape of Scotland's economy going forward. In the next two or three weeks we will publish our inward investment strategy that looks at identifying the sectors where Scotland has strengths. One of the things that is very, very clear to us is that those strengths are essentially built on deep academic expertise in a whole range of areas where we are very good, the skills pipeline and the talents applied around those and, to a large extent, natural resources as well.

A lot of that points to a high tech, high productivity, high wage, high innovation economy. The traditional freeport model, of importing widgets, bolting them together and exporting them again, does not necessarily fit into that model, Obviously some of the clusters around those sectors are in poor locations, but many are not because they are built around innovation centres and universities. They are spread across the country in different areas, so when you look at where we are trying to go in terms of the shape of the economy, the freeport model may or may not fit.

There are some exceptions to that. It was great to hear Roy MacGregor earlier because he is absolutely right. In one sense, Scotland is at the heart of the green energy revolution, and we are very focused on maximising the benefits of that in a Scottish context, in terms of manufacturing, technology, export potential, investment and so on. The question then is: what does a freeport give you that you would not get anyway through a cluster, an enterprise zone or whatever? The clustering aspect, the signalling and the messaging is one advantage, but again that is divorced from the fiscal aspect of this. You have to unpick it quite a bit to understand at a deep level how it impacts upon what you are already doing for economic development and what the risks of displacement are, which are potentially real and significant, and to support the other work that is going on.

What is the real advantage of a freeport? Is it the things you get through an enterprise zone anyway around rates and tax relief? Is it on customs? Frankly, the analysis we have done shows very little benefit in terms of tariff inversion and so on and so forth. Or is it about signalling in terms of innovation clusters, which there absolutely is value to? That is something we are doing anyway, but not necessarily in those locations.

That is why we are hesitant. It is not that we are immediately negative. We have done a lot of thinking on it. We have talked to a lot of stakeholders. We understand a lot of the pros and cons, but how that fits into the bigger picture is the unknown. That is why we need more information to be able to take that forward.

Q176 **Mark Menzies:** Do you think it is perfectly possible that you could turn around and say, "We do not want a freeport in Scotland"?

Ivan McKee: It is possible. Absolutely, it is possible. It is also possible we will look at it and say that we want to do it, but do it in a slightly different shape. The location thing is interesting. The UK Government have put geographical limits around it. You heard Roy MacGregor talking earlier about, if there are 10 ports across the UK and only one in Scotland, in terms of ports per square mile we are obviously disadvantaged in that sense, if there is an advantage to be had there. The geographical limitations may be something we look at in a different sense in Scotland. The sectors we are talking about here, offshore, renewables and so on, are much more spread out. It could be that we look at it combined with other policies we have around innovation and enterprise areas, and it could be that we look at certainly the devolved taxation aspects of that in a slightly different way. All those questions are open. As I said, it depends on what the offer from the UK Government looks like.

Q177 **Mark Menzies:** That is very interesting. Aidan, what are your thoughts on this subject area?

Aidan McMahon: In terms of sectors or—

Mark Menzies: Yes. For example, from your point of view, what role would you expect the Government in Northern Ireland to be playing in the allocation of freeport status? Would you want to be picking an area, deciding how a particular freeport is structured? Is it across one site, two sites, three sites? What elements would you want within that?

Ivan McKee: At this stage it still rests with Ministers, and a decision has not been taken at this point in time. Similarly to the two Ministers, we would want more information about the final product of what would be in the freeport policy. Local Ministers would want to understand the full extent of that, the policy levers that will be available to the Executive and the potential economic cost and benefits, and for what sectors in particular, before coming to any conclusions there.

We are carrying out some programme work across Departments in Northern Ireland to try to understand the benefits of the freeport model as currently outlined, conscious that it may change and will change over time. Also to understand, for example, the product journeys into and out of a freeport and the overall economic impact that a freeport might have. We are trying to understand that, but there is a deficit in information that we would like to bridge with the UK Government to try to assist our understanding there. We might have a wider set of parameters at this point that might be able to be narrowed over time, and then we can home in, in a better way, on where we think freeports could sit within Northern Ireland.

Q178 **Craig Williams:** That was particularly fascinating, and perhaps I could touch on two of the points from Ivan and Rebecca. Rebecca, if I am right, you mentioned that you would be interested in a cross-border freeport, or you are certainly open to that concept. Has the panel had any direct local authority or university engagement from people who have taken part in the consultation? Some 350 bodies have taken part in this, which seems a lot.

Also, given that the customs and tariff policies are clearly reserved to UK Gov, and that is the main driver for a freeport, how do you see that framing your relationship with the bidding process going forward?

Rebecca Evans: If I might, Chair, I will ask my colleague, the Minister for Economy and Transport, to drop you a note setting out those local authorities, businesses and universities, and so on, that have responded in that way to the consultation, because he is much closer to that element of it than I am.

What I have a particular interest in is Craig's second point. Although there are taxes that are reserved to the UK Government, non-domestic rates are devolved to us here in Wales, so this will be a particularly important lever in any future freeport. It is important to have an understanding of potential policy intent by the UK Government. Early discussion on that would be helpful. I say that because we had a situation recently with the stamp duty land tax, for example, where the Chancellor made an announcement of changes that were going to come in very quickly. It would have been helpful for us to have had some early sight of that decision, and early discussion, so that we could formulate our policy alongside that because there is inevitably a direct knock-on impact for us in Wales.

I raised that with the Chief Secretary to the Treasury, and he pointed to the fact that other UK Departments do not always have advance notice as to what the Treasury might be doing in terms of tax changes, understandably. My point in return is that it does not have a direct knock-on impact for certain UK Government Departments—health, transport and so on—but it does have a direct knock-on impact to us in Wales. Therefore I think early discussion, early information sharing is vital because the Welsh Government—and my colleagues in the other devolved nations as well—will always make the point that we are extremely trustworthy when sensitive data is shared with us, so we are able to have those discussions in a confidential and trustworthy way.

Chair: I move now to Mark Garnier, and this time I will have a word with the Chairman about not interrupting you when you are asking your questions or making your points.

Q179 **Mark Garnier:** Just wait until I have asked my question.

Ivan McKee, what role could freeports play in attracting trade and investment into the devolved nations? What is behind that question is the extent to which you see the devolved nations and England being allies or competitors. I do not particularly want to open the whole independence debate at this particular moment.

Chair: Oh, go on.

Mark Garnier: I could not get you to shut up, could I? There is an important point there because, ultimately, if a free trade port was opened in, say, Sunderland or in that neck of the woods, it is very close to you guys and it may have an effect on the economy of Scotland itself. Do you see these as a weapon or as part of an arsenal that whole UK can use together? How do you see it working with the other parts of the UK?

Ivan McKee: That is a very fair question. This works at a whole layer of levels. There are situations where we are co-operating very closely with DIT in our work on promoting Scottish exports and attracting investment day in, day out. Very often we are working closely with DIT. It is particularly on inward investment. We are competing with our friends and colleagues in Wales, Northern Ireland, the northern powerhouse and the Midlands engine, and so on, and that is the way things are.

Within Scotland there will be parts of Scotland that compete with each other. Glasgow and Edinburgh are forever competing on all kinds of stuff. If you take that to another level, you go and talk to the Commission in Brussels. It sees it as Europe versus China versus the US versus India. This allies versus competitors thing plays out at all those levels, and that is the spirit in which we take part.

Q180 **Mark Garnier:** To that extent, in your position as Minister for Trade, Investment and Innovation, I would be looking at which areas I could be specifically working on. Obviously you are brilliant at Scottish whisky and you have £4 billion-worth of exports every year, but what other areas could you potentially do? If you are going to back a particular type of industry, do you see freeports as being part of the arsenal you need to be able to support that?

Ivan McKee: Potentially, yes, and it goes back to what I said earlier. We have clearly identified where we have strengths. You will see our inward investment plan in the next two or three weeks, which identifies nine core subsectors where we see we have strength on a global basis and where we are going in to bat for Scotland, whatever the freeport shape is going to be. That is why it is so important to understand what that shape looks like because, you are right, it is part of the toolkit. It is not a silver bullet or a magic wand. It is something that you could or could not deploy as part of that arsenal along with enterprise zones, innovation centres and other incentives we may put in place, and along with investment we put in to support specific sectors, specific technologies and so on.

All of that is part of the toolkit. The freeports may assist there. As I said earlier, it may even just be by virtue of signalling that you are building a cluster around a particular set of assets in a part of the country or a particular sector, or it could be there are possible advantages there. It is one tool in the toolkit, and that is why it is so important to understand what that tool is—is it a hammer, a screwdriver or what is it?—so that we know how we are going to use it or not.

Q181 **Mark Garnier:** The other point is that it is a very specific part of a toolkit, but it can be used specifically for trying to develop, as you say, clusters or to try to support industrial sectors and this kind of stuff. When you look at it in terms of trade policy, so forgetting that economic side of it, do you think it is a bit of a red herring when you compare this with other things like free trade agreements? Would it be better to get free trade agreements, or would it be better to try to undercut that by having free trade ports?

Ivan McKee: It is a complex environment, obviously. I am also closely involved in watching what the UK Government say. On free trade agreements we are not as engaged as we would like to be, but we certainly see what is happening. I will not rehearse the argument that if we had not made the mistake on Brexit we would not be in this situation, but as part of that landscape understanding how that plays out is important to watch. Clearly it will depend on the scenario.

With FTAs, effectively what the UK Government is doing at the moment is largely replicating the FTAs that we are losing with third countries as a consequence of Brexit. It is working through those to get us back to square one. Beyond that, the analysis we have done on the US, NZ, Australia, et cetera, we do not see much in the way of benefits that add a lot to Scotland's economy. On the trade promotion stuff, our export plan that came out last year had more than 100 actions in it. We track those on a regular basis and move forward.

There is a whole range of things that I could go through here, but we do not have time. Delivering on that export growth is part of how you do that, which is through a whole series of actions across a whole range of activities. Can freeports help that? Maybe. Again, we need to see the shape. The FTAs help that. It depends on what it is, what you are giving away and what you are getting for it. There are many, many other things in there, market access barriers, how you do your promotion through to how you organise your resources internationally, through to how you support exporters with advice and guidance, through a whole range of things that are all part of that picture.

Mark Garnier: Rebecca, do you want to add anything to that and speak up for Wales?

Rebecca Evans: I would certainly add that, in terms of the competitive nature and so on, displacement is a real concern for us in Wales. In Wales 1.7 million people live within 25 miles of the border with England, and one of our concerns about freeports is that there could be the displacement of jobs and wealth from less affluent areas to areas that are already affluent or more affluent. Obviously, as Finance Minister, I have a concern in growing our tax base here in Wales as well. I would not want to see good quality jobs moved across the border, and the people moving across with them, so we have to be very mindful of displacement as we take forward these policies. If it was a choice between a free trade agreement with Europe and freeports, obviously we would take the FTA with Europe every time.

Mark Garnier: That is very interesting. Aidan, do you want to add anything from the point of view of Northern Ireland?

Aidan McMahon: In terms of the freeport policy, there are a lot of variables still to be settled. It is hard to rank the freeport policy against other industrial development tools. From a Northern Ireland perspective, and with the NI protocol in place, there are concerns from the Northern Ireland Executive about how the freeport policy will be delivered within Northern Ireland and if there will be differences in Northern Ireland vis-à-vis other freeports across the rest of the UK. That is an area of concern that we have raised with the Government and on which would like more information. That is something we are definitely focused on from a Northern Ireland point of view.

Mark Garnier: Thank you, that is very helpful. Angus, I will hand back to you.

Q182 **Chair:** Thanks very much, and almost interruption free. You made an interesting point that got me thinking. You said you did not want to mention the independence point, and I thought of the independent Republic of Ireland. You mentioned Sunderland as being close to Scotland, which might be independent in the future, hopefully of course.

Aidan McMahon, based on the two thoughts I had from listening to Mark Garnier, has there been much reaction in the Republic of Ireland, the independent country next door, to the idea of freeports in Northern Ireland? Are freeports of any interest at all? I have not heard it mentioned from political friends in the Republic, or indeed seen anything in the Republic's press. I do not look at it that closely, so I would be interested to know what the thoughts are in the Republic on freeports coming to Northern Ireland. Is there any tremor at all?

Aidan McMahon: I have to admit, and maybe it is a sign, that I have not heard or seen any particular narrative from the Republic in relation to freeports. We had some stakeholder engagement over the summer in Northern Ireland where we virtually brought Treasury across to speak to over 80 stakeholders across a number of different sessions. I do not think that issue ever came to the fore, I have to admit. Therefore I am not quite sure what the thoughts are in the Republic in relation to freeports. It is something I will certainly look into.

Q183 **Chair:** If you do find any answers, it would be interesting. If you could maybe write to the Committee with that answer, we would be fascinated to know. Perhaps the success of independence in the Republic is such that they don't bother, but I will not say that at all. I will just leave that point hanging there.

Aidan McMahon, to what extent do you expect to tailor the freeports package, and what would you want to see different there? Has much thought been given in Northern Ireland to what businesses in Northern

Ireland might want? What would be the strengths you could play to there, or is it that—given what Minister McKee and Minister Evans were saying—that the lack of detail makes that thinking difficult at the moment?

Aidan McMahon: I think that is it. Tailoring an NI freeport to fit our specific needs is something that was certainly raised with Treasury, and Treasury has indicated it is open to further discussions on this matter and how that could be achieved. We have talked about the potential for a variation in the freeport offer in Northern Ireland in terms of size and scope, and obviously some of that has been reflected in the consultation document that was published today.

It is fair to say that there is some sort of listening ear to that, but whether that materialises in any real change is difficult to say. There is some acceptance that a final model could be a bit different in Northern Ireland, given our unique circumstances. That said, it is important in order to attract trade investment that a freeport in Northern Ireland—as I have said previously—is not at a competitive disadvantage to other freeports across the UK. We need to be able to align the freeport policy with other policy levers being used by the Executive to attract trade and investment into Northern Ireland. It is important to have that flexibility but it is also important—and I think it has been raised by the two Ministers—that, in terms of a level playing field, no one freeport is disadvantaged versus the others to any great degree.

Q184 **Chair:** With your situation in Northern Ireland, with the single market and with customs union advantages, have you been looking at freeports elsewhere in Europe to see what you might do there? There are still some freeports around the European Union. Is that an area of interest for you guys? You would be in a different situation from the Welsh and Scottish situation, presumably.

Aidan McMahon: Yes. We have looked at that a bit and continue to do so. What we see from freeports in Europe is that they tend to have been there for quite some time and tend to be a legacy from before accession for most of those countries. There are potentially some lessons there, but I do not think there is any silver bullet that we could replicate in a Northern Ireland sense that would necessarily give it real and much more weighting. That said, we are taking forward a programme of work looking into that. That still has to conclude, and I think it ties into where the UK Government eventually go on this policy and what we think we can rule out in a Northern Ireland sense in relation to that.

Q185 **Chair:** We will turn to Wales and Minister Evans. Earlier we had Tim Williams, the CEO of the Welsh Automotive Forum, talking about freeports. What thought have the Welsh Government given to a freeport status to complement the car industry, in particular, or any other industries? I was trying to guess where you might be going, but where has your thinking gone around this if they come to you? You still have many questions that the UK Government have not answered but probably, like Minister McKee, you have done some thinking and engaged with sectors. What sort of direction do you see that going in for Wales?

Rebecca Evans: As I say, we find it very difficult to get access to the information we need to set out what our proposals might be if we were to have a freeport in Wales. I do not think we are at the point yet where we could say anything with confidence about which sectors we would particularly be looking to support, or whether we would want to take that kind of sectoral approach. What I will say is that, generally, we have a number of large, important sectors here in Wales that we are concerned about, one being the automotive industry and the impact that Brexit will have on that sector. It is a major employer for us here in Wales, and part of what has thus far been a success story in terms of that sector. Clearly, coming to the end of the transition period is going to be difficult for that sector, so that would be one of the ones with which we would want to be entering into more in-depth conversations in terms of the way forward, but we have not come to a view on that yet.

Q186 **Chair:** Similarly to Minister McKee, if you assume some variables from the UK Government, have you managed to do that in the absence of being given anything definite? What might possibly come from it? We obviously heard Roy MacGregor's views earlier. What is your own thinking?

Ivan McKee: I want to answer that just on your question before last. Our understanding is that there is still a freeport in Shannon and there are about 80 freeports across the EU. I was in Hamburg last year, and they stopped being a freeport because the cost and activity involved in maintaining the customs border was more than it was worth in terms of the advantages they got, so clearly there are ups and downs to those—

Q187 **Chair:** If memory serves me right, Shannon is a freeport almost just in name.

Ivan McKee: In terms of the question around sectors, yes, I have done four one-hour engagement sessions with different sectoral groups and interests over the last few weeks, and officials have done other engagement as well. I have to say it is very, very evolving thinking. It is very early. There are a number of things that are coming through that we will see where they go and whether we can explore them in more detail. The obvious one we have spoken about—and you have had Roy on already—is around offshore because that is a combination of a growth sector, a technology sector, that is also a sector that has a footprint in a port because of the nature of the sector, so it ticks those boxes. Some of the other sectors where we clearly have strength in Scotland are not in that kind of port location. If you are talking about precision medicine and drug discovery or these kinds of areas, quantum photonics, it is less obvious that the port location would be of value.

An interesting one is perhaps around digital, where clearly we have huge strengths in Scotland. When you start looking at that through the prospect of data centres and you look at international connectivity on data lines—and let's say it is powered by renewable energy and these kind of things—you start to get to an interesting area where there is potentially something there. There is also some potential just in terms of logistics. If there are sectors where we have import and export going on because of the nature of the sector and complex supply chains, life science might fall into that space. There are a number of things where there might be something, but it is very early days to be able to nail that down. I look forward to engaging further with stakeholders as the shape of the UK offer becomes clearer, and we will have a look and have further discussion with them to see where there may be value there.

Q188 **Chair:** Given the thinking and the work you have done, presumably in Wales as well and elsewhere, perhaps as you wait for the UK offer—which is taking its time, as you put it—would it not be better to have the Scottish Government's demand, the Welsh Government's demand and the Northern Irish Government's demand as opposed to waiting for them?

Ivan McKee: Well, the demand would be clear. We want at least the Barnett share of any money you are giving out, and we want reserved taxes to be applied to anything you are doing there—to be applied in at least equal measure as across Scotland—and for us to be able to make the decisions, working with stakeholders in Scotland, as to how and where those freeports should be with some freedom, given our geographical challenges, to be able to be flexible on that. That would be the position. We have articulated that certainly in the discussions we have had with the UK Government, so yes, that is the answer to the question. We will see what they come forward with.

Chair: Do Aidan McMahon or Minister Evans want to add to that last point or are you happy enough?

Rebecca Evans: Yes, just to add in terms of what our demands would be. It would absolutely be about fair funding for any freeports, so over and above the Barnett formula. That would be the starting point for us, despite what we have discussed with the Chief Secretary to the Treasury so far. We need to have further conversations about an appropriate funding mechanism, and then also a head of terms to set out the clear roles and responsibilities for Welsh Ministers, the Secretary of State for Wales and wider UK Government Ministers, including the agreed governance arrangements around bidding and implementation. Also setting out the key principles alongside each of our parties' roles and our responsibilities and our powers, so essentially proper clarity and proper engagement, and then an understanding of what is expected of each partner.

Aidan McMahon: I would agree with both Ministers' comments, but maybe on top of that would be more information around the tax levers. What tax levers have been selected as part of the consultation process? Why have they been selected? And a little more information on what is in there and, importantly, on the tax levers that have not been selected. We would like to see some more information about, for example, why corporation tax was not included in the offer. Is there potential for other taxes to be included within that as well?

Q189 **Martin Vickers:** We have touched on what economic assessment has been carried out by the devolved Administrations. I would just like to dig a little deeper into that because, Minister McKee, as I understood from your earlier comments, the Scottish Government have not done any detailed analysis of the economic impact of the freeports. Do you intend to do that? We know from our previous hearings that there are Scottish port operators who do see advantages. What sort of work will the Administration be doing with them?

Ivan McKee: It is hard to evaluate something when you do not know what it is. That is the problem we have. At the point where we see what the UK Government are proposing, given that so much of it falls under reserved competence in terms of the tax levers and so on, we will see what the offer is and we would do an assessment. Frankly, we have also been asking the Treasury to share its assessment with us, its impact assessment based on where it thinks this is going, and we have not seen that either. That is the issue we have. We have an extensive stakeholder engagement, as I said, and are listening very carefully to what stakeholders are saying. We are very well aware of who is expressing interest and where they are coming from on that. I will continue that dialogue, but we obviously cannot assess something if we do not know what it is.

Q190 **Martin Vickers:** Rebecca Evans, would you like to comment on the economic impact assessments that the Welsh Administration have carried out?

Rebecca Evans: We are in very much the same position as Scotland in terms of not being able to quantify what it is that we are assessing, where we do not have proper sight of what the plans might be. At the same time, though, we continue to think about ways in which policy might diverge. Freeports will inevitably evolve in different ways, and we need to consider in Wales how we do so in a way that respects the requirements of the Well-being of Future Generations (Wales) Act. As a Government, we have a strong priority for fair work, and we are very cognisant of our responsibilities around the environmental agenda as well, so all those things will be part of our approach to freeports, should it be something that we feel we are able to support when we receive the data.

Q191 **Martin Vickers:** If you were to decide that it was not to the advantage of Wales, and yet England was motoring ahead with freeports, would you see that as a disadvantage?

Rebecca Evans: This is one of the problems. Potentially this could have serious implications in terms of displacement of jobs and wealth, which we were talking about earlier. That would be of real concern. It is in all our interest to work closely together on this and to share information, thinking, data, modelling and analysis, and so on. It baffles me that we are struggling so much to get the information we need.

Martin Vickers: Aidan, do you have any comments on the assessments?

Aidan McMahon: We know from a DA perspective that Treasury is carrying out some economic modelling at the moment. We expect to get sight of that, but we have not seen it as yet. Treasury is doing some economic modelling to work out what it thinks the aggregate impact of freeport policy will be across the UK. We also understand that that will be able to drill down to some degree in terms of the DAs and when levers are basically pulled or not pulled, and dependent on the final shape of that freeport package. We know that work is going on within Treasury, and we are interested to see it and hope to see that soon.

From our perspective, we have our own work programme. The Department for the Economy is carrying out an assessment of the potential impact of freeports in Northern Ireland. As the two Ministers have alluded to, the parameters around that work is quite wide at the moment, and it can only narrow as we get more and more detail from the UK Government on the final shape of the policy.

From a Northern Ireland perspective, it is hoped that the local economic assessment, in conjunction with the Treasury modelling, will allow Ministers to take a more informed view of the likely costs and benefits of a freeport policy and of what might be required to make it successful in Northern Ireland.

Chair: Now we go to Mark Menzies.

Mark Menzies: Angus, you are letting yourself down today. You normally give fabulous geographical descriptions of where we are in the country.

Chair: I was waiting for your words.

Mark Menzies: That is fine.

Chair: In the lovely part of Lancashire called Fylde, Mark Menzies is waiting patiently by.

Q192 **Mark Menzies:** Indeed. Before I move on to my primary question, I come back to this issue, which is quite concerning me, about the level of information that appears to be going to the devolved Governments. If we could focus on you, Ivan. You have raised this a few times. When did you start asking for this information? For how long have the Government of Scotland been asking for this information?

Ivan McKee: Since the freeport idea was floated, we have been trying to understand what it is and have been asking for more details on that. I would need to check exactly how long that is, but obviously a good number of months, if not years. A year or two perhaps, I am not sure. It is a good number of months.

Q193 **Mark Menzies:** What kind of dialogue have you been having with Ministers or senior officials? Can you describe that? I think this is important.

Ivan McKee: I have had a conversation on this with Steve Barclay in the last few weeks. Official-level conversations have obviously been going on prior to that, on an ongoing basis, around what information is available. Obviously at a UK level the policy is developing. Did he have answers to all those questions? Probably not. As we said earlier, even if the Treasury did have answers to all those questions, much of it would not be shared very widely anyway. In terms of the questions: do I think they are a good idea? How would it play in Scotland? What would the impact be? That is the information that we need to get. As I said, Treasury will be running impact assessments on that, so understanding. As Minister Evans said, we are quite comfortable looking at that in a more raw state and working with them on that, but we have not seen it.

I do not know if that is because they have not decided how it looks or, assuming they have done various analysis of different scenarios, is it because the benefit of it does not have an impact that is worth talking about and they do not want to share that at this stage? I do not know. Certainly an independent analysis—I think Suffolk University did some work on this and was struggling to find areas, certainly on the tariff side, where tariff inversion or customs advantages made any real difference at all to anything. The advantage is more likely going to come on the price side rather than on the customs side.

Q194 **Mark Menzies:** Earlier you talked through a very impactful vision of the sorts of sectors that you want to focus on in terms of economic development and the benefits you think that could bring. Have you submitted a submission to Steve Barclay to say, "When you are formulating freeport policy, this is what we want from a Scottish perspective and this is why"? Have you done anything like that?

Ivan McKee: We have written to say, "This is what our concerns are. These are the things that are important to us, and these are the things that we want you to take on board when you are doing that." That has been laid out in terms of where we are coming from in our economic development focus round, around net zero and green jobs, around inclusive growth, around including all Scotland, around the various things we have spoken about. That has been articulated, and we continue to do that.

Rebecca Evans: We are very much in the same place. It has now been over 12 months since we asked for greater involvement and greater sharing of information. It is probably fair to say that we have no access to anything that is not already in the public domain. That is the level of information that has been shared with us. At the same time, we have also set out in writing our concerns about the potential of freeports and what that might mean for Wales, and about what is important to us. The UK Government is aware of our views.

Q195 **Mark Menzies:** That is good. Minister McKee, to begin with, you have talked about the risks of displacement that you believe a freeport could generate. What sort of solutions do you think could be put in place to help mitigate those risks?

Ivan McKee: I suppose it depends who you are asking the question to. If you take the scenario that was posited before, where something in the north-east of England had a significant impact on areas of the economy that were important to Scotland, then clearly, as and when that happened, we would need to look at the specifics of that and figure out how or if we were going to respond accordingly. If it was a sectoral basis and a sector that did not have a huge impact on us, obviously it is less of an impact.

If you are asking the question on the effect of distortion at a UK level, and again we need to consider this at a Scottish level, so if you do something somewhere, what does it do to the rest of the economy? We would hope that would be part of the economic impact analysis, because there are some advantages obviously to having a cluster, but if what you are doing is shutting businesses in one place to reopen them somewhere else, clearly that is not what it should all be about.

Rebecca Evans: I would echo those same points and emphasise the importance of coming to a shared agreement and a shared understanding with the UK Government about our respective roles and responsibilities, working together. If we decide to go forward with the freeport in Wales, we should do so in a way that has a level playing field underneath it, in a way that is fair for all of us.

Aidan McMahon: Displacement is a key concern. There are some disputes about the study, but the Centre for Cities estimates that some 35% of job creation in enterprise zones is down to displacement, and this feels like a difficult place to be in with regards to freeports, so there needs to be measures. Whether that is in relation to the bidding process that is being rolled out for England or in terms of the actual levers that are put in place, that goes to genuinely new economic activity as opposed to displacing activity that is already taking place.

Q196 **Chair:** Just a final point. Aidan McMahon, you mentioned 35% jobs in displacement in enterprise zones. You might not have the source for that at the moment, but could you let us know the source of that in writing? That is quite an interesting point.

Aidan McMahon: I think it is the Centre for Cities, but I will send that through.

Chair: Thank you. That is appreciated. Thank you all for your time. We have come to the end of our evidence session. We are finishing on time, which is very good. It will be good for your diaries, I am sure, Ministers.

There is an overarching message I am taking from this, and maybe a message that the UK Government want to hear and maybe want to rectify. All three of you are saying that there are glaring gaps in the information that you have. Northern Ireland, Wales and Scotland are singing from the same hymn sheet of lack of details. Perhaps some of the lack of details is understandable, but the general information is not as understandable. You would want that to be ameliorated very quickly so that you could engage with this more meaningfully and see what it would mean for your nations. Do I understand that correctly?

Aidan McMahon: Yes.

Chair: Thank you all very much, feasgar math. It was great to see you all. It was good to start in Welsh and Gaelic. It may be an example for other members to learn some of the older languages of the current United Kingdom. It is always good homework. I am looking particularly at Mark Menzies at the moment, and hopefully the next time he sees Minister McKee he will have a few words of Gaelic and perhaps, if we see Minister Evans, I might have some words of Welsh as well, so I have some homework myself. Thank you, Aidan McMahon, Minister McKee and Minister Evans for your time today. It was very interesting and there are some powerful messages given there. Thank you all. Feasgar math.