HOUSE OF COMMONS

International Trade Committee

Oral evidence: Free ports, HC 2629

Wednesday 4 September 2019

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Emma Little Pengelly; Julia Lopez; Faisal Rashid; Gareth Thomas.

Questions 1 - 45

Witnesses

I: Geoff Lippitt, Group Commercial Director, PD Ports, Tim Morris, CEO of UK Major Ports Group and member of the Government’s Free Ports Advisory panel, Neil Davidson, Senior Analyst – Ports and Terminals, Drewry.

Examination of witnesses

Witnesses: Geoff Lippitt, Tim Morris and Neil Davidson.

Q1 **Chair:** Thank you, gentlemen, for coming along this morning to our introductory session on free ports, which is something that, among many other things, was making some headlines. Quite what is making headlines now, given the amount of headlines that have been generated, if it is still in the headlines is the question. Before I go too much further, can I ask you all to introduce yourselves and your organisations for the record, please, starting on my left?

Tim Morris: Good morning. My name is Tim Morris. I am the Chief Executive of the UK Major Ports Group. It is the trade association for the UK's major port operators who collectively handle 75% of the UK's port volumes and invest around about £0.5 billion annually.

Geoff Lippitt: Morning. I am Geoff Lippitt. I am the Group Business Development Director for PD Ports. PD Ports is one of the major UK ports groups and we are the owner and operator of Teesport, where we are also the Statutory Harbour Authority.

Neil Davidson: Good morning. I am Neil Davidson. I am the Senior Port Specialist at Drewry, which is a London-based maritime consultancy and publishing firm. Before I was at Drewry, I spent nine years with the Port of Tilbury and two of those years as free port manager, which carried on from my gaining free port status for the port in the early 1990s.

Q2 **Chair:** Thank you. We have a short session today. As you can imagine, Parliament's attention is in many other places at the moment. We are not quite sure where their proper attention is and where it should be, but we know that probably for the next 45 to 50 minutes we will have our attention in this room on free ports.

In general terms, what are free ports and how, if at all, do they differ from free zones or are there a number of technical terms for the same thing effectively?

Neil Davidson: Basically, in their purest sense, free ports are areas of a country designated as being technically outside that country for the purpose of customs duties and customs controls. It can be a physical area or it may be a virtual area. It doesn't have to be physical necessarily. That is in their purest sense, but the concept of a free port quite quickly morphs into free zones and into special enterprise and economic zones, so it rapidly broadens out. The specific benefits of free ports relate to customs duties but in most places in the world where you see free ports you have these wider related benefits, which are connected with the likes of enterprise zones.

Q3 **Chair:** There was a thought hanging around here—it might be a trite thought—that in Northern Ireland, if you extended that to make it an entire free zone, and it just so happened that it aligned with all the policies, tariffs and standards of the European Union, would that be a way around a backstop? I understand that between a free port and the free zone and the host country there is a border at that point.

Neil Davidson: Yes, you can designate any location as a free zone, but the important thing is that the custom controls are just one part of the story when it comes to free ports.

I was struck in particular when Liz Truss mentioned about the creation of the Freeports Advisory Panel and gave the example of London Docklands regeneration in this free ports context. London Docklands was never a free port because at the time it needed regenerating it was not handling any cargo. It could not be a free port because there was no cargo being handled. It was an enterprise zone.

We have to be very clear at the outset about this conflation of free ports, free zones and enterprise zones. It is all part of the story. That is very important.

Q4 **Chair:** Thank you. I will ask for other viewpoints on that.

Tim Morris: I endorse what Neil said about it is very important to think about free ports or free zones, if they are to be truly effective. What we see from around the world is that they are more than just a tariff and customs-related constant. That is one element of a broader package of measures aimed at attracting inward investment, growing jobs and stimulating business.

Q5 **Chair:** How large and how small can they get?

Tim Morris: They can be quite considerable in terms of the physical size. The Jebel Ali in Dubai, which is one of the biggest in the world, is 57 square kilometres. That is reasonably sizeable. But as Neil has said there are other models. For example, in North America the actual port itself is a zone, but then there are designated individual facilities in the broader hinterland of the port, which are like a factory or a large warehouse, which are designated as being free zones, and there is some clever technology that allows the goods to move between, so the actual geographical area itself that is subject to these provisions is much smaller but it sits within a broader hinterland.

Geoff Lippitt: I haven't much to add.

Chair: That is fine. I appreciate that, given our timing.

Q6 **Julia Lopez:** It would be helpful if you could set out the broad purposes of what Governments try to achieve by a free port. Also, Mr Morris, you represent a range of ports. For those ports that do not have free port status, is there any concern about the impact on them if there is a competitor in a different part of the coast that could have advantages that they do not have?

Tim Morris: One of the advantages we have in the UK, with the port sector that we have and the way it is structured, is it is an intensively competitive sector anyway. There are a number of large ports and a number of large port operators and they compete fiercely with each other for business, so to a certain extent that competitive dynamic is already there.

In terms of what is important for the UK Major Ports Group as a trade association, it is an equality or level playing field of opportunity for those. We welcome the idea that it is a call for bids. Our position is that the strongest, most viable bid or bids should be the ones that go forward.

Regarding what the purposes are, my understanding is the purposes are—and what we very much hope the purposes are as the trade association—more inward investment into the UK's coastal communities, stronger gateways for the UK to trade with the world: 95% of the UK's trade already passes through its ports and we want to see stronger gateways. Lastly, and probably most importantly, jobs, prosperity and opportunity being injected into coastal communities potentially all around the UK.

Geoff Lippitt: I would echo what Tim has said about the specific needs of the ports. It is about rebalancing those economically challenged areas.

Q7 **Chair:** On the jobs, I think 126,000 jobs have been lost in manufacturing. How many jobs would be created by free ports? I do take the point it might be around the coast, which as a coastal MP is more attractive than having jobs perhaps in the centre of somewhere else, but I would like to tease out the numbers.

Geoff Lippitt: If you take the specific example of Teesport where there is a case being made for a potential free port, in terms of direct jobs, direct impact would be up to 30,000 jobs. Locally, Tees Valley has a GVA of £13 billion and a population of 670,000, so 30,000 extra jobs directly in the supply chain. Then in the wider supply chain roughly double that again and nationally another 30,000, so up to £5.5 billion gross GVA and 90,000 jobs. It is quite impactful.

Q8 **Emma Little Pengelly:** A very quick follow up from Neil's initial contribution. From my understanding—and apologies I don't know a lot about the way these generally operate—there are a number of free ports across the EU. Goods come in from anywhere in the world, effectively tariff-free. What then happens in terms of the circulation of those goods within the EU market? If they come in tariff-free, say from the US, Canada, they can just freely circulate within the market tariff-free and effectively quota free? How does that operate?

Neil Davidson: No. They can sit in a free port area free of tariffs. They don't have to pay them until they exit the free port area and go into free circulation in the EU, at which point you have to pay the tariffs.

Q9 **Emma Little Pengelly:** Using the Northern Ireland situation, goods would come in tariff-free in terms of customs and so on, but if those goods were to go into the UK or to the Republic of Ireland at that point tariffs would have to be collected?

Neil Davidson: Yes. If the goods are destined for consumption or use within the UK or the EU, ultimately you have to pay the duty but you have had some benefit of deferring that while the goods have been sitting in the free port. You can do that other ways now anyway. You can do that through customs warehousing and bonded warehousing, so there are alternatives today for that.

Q10 **Emma Little Pengelly:** Are those generally collected, so once they sit in the free port those tariffs are collected there at that place before they move on? Or is it as they move on and enter a different country that it becomes—

Neil Davidson: Yes. The point at which they leave the free zone or the customs warehouse is the point at which the duty has to be paid.

Q11 **Julia Lopez:** Should we ever reach a post-Brexit context for free ports, to what extent do they offer the UK a competitive advantage over nearby EU-based ports or would those EU-based ports be servicing a completely different kind of prospect for people?

Neil Davidson: There are two aspects to it because there are two key areas of use of free ports. One is for imports, as we have just discussed, so goods that are coming in to be consumed. The other is the re-exports idea where you bring in goods, you do something with them and then you export them out again. After Brexit—in whatever form that may be—on the imports side I think the need for free ports would probably reduce, because we are potentially moving to an era of low tariffs or no tariffs. The lower the tariffs, the less attractive free ports are. We are also looking at the possibility of freer flowing of cargo to keep ports from clogging up, so the more customs is relaxed the less the need for free ports.

For the re-exports idea—which is the one that everybody gets excited about because of the possibility of jobs, because there is processing and manufacturing—that is very interesting post-Brexit because on the upside the UK faces the possibility of greater freedom to set the rules, which could potentially be attractive, but on the downside there will be much greater competition for those free ports because the UK would be outside the EU. Therefore, a third country would perhaps be seeking to serve the EU, so you will be up against free ports in Turkey, in Morocco and potentially Jebel Ali as we mentioned. It becomes a global business and so the critical element here is the competitiveness, or the potential competitiveness of UK free ports.

Q12 **Julia Lopez:** In that context, how would you make a UK free port more competitive and a more interesting prospect for manufacturers than you would somewhere in Dubai? Would that be a skills base?

Neil Davidson: You have to find the niches that work. One of the problems with some of the studies that have been done so far is they have taken a blanket approach, a macro approach, to the potential benefits, and really it is about the detail. It is about specific commodities and activities: which ones will work and where is the advantage, where is the niche? It is not a blanket opportunity. If you want to go down the blanket opportunity route, you have to level yourself with the likes of the Jebel Ali free zone where you have 0% corporation tax, no VAT, no income tax, no taxation at all.

Potentially, if the Government wish to do that, that is an option but the more important thing is to find the niches. You have to look at the market.

Q13 **Julia Lopez:** In that sense, where are you guys finding the niches? My concern with free ports is that it is one of these things that politicians do not understand, but they sound new and fun and I just want it to be more than a gimmick. How do we make this more than a gimmick?

Neil Davidson: You have to do the research. Geoff, you probably have some examples?

Geoff Lippitt: I will talk about Teesport, purely because it is my point of reference, but there are other examples around the UK. Where you have large industrial ports that have, for example, access to energy consumption, which is behind the wider group, that is an attractive proposition for manufacturers and importers because they can do process manufacturing at a lower cost base than if they are in the UK.

You then have the benefit of removing the secondary leg of distribution to an inland zone. Even if it were a free zone, you are minimising the physical distribution cost in either direction. That is where competitiveness comes in a free port and the creation of those extra jobs without displacement. A number of these areas that have been proposed already have high levels of unemployment. Teesport sits at 8.4% unemployment so putting extra jobs in is not displacing other jobs.

Tim Morris: Having spoken to some of the free ports that are successful in North America, it is very much a package of measures. The tariffs element is one part of it, but it sits within a much broader package of measures that the free port or the local development agency is able to present to inward investors. That includes investment incentives.

As Geoff has said, it would include things around utility connections but it goes down to alignment with local skills providers--the UK equivalent would possibly be further education colleges and local universities tailoring their innovation programmes. It is that broadly based package of "This is a good place to invest": it is more than the tariffs and the customs, which is particularly important, as Neil said, in a world where the UK may be going to a very low tariff environment.

The concept needs to be robust for that context and that is by making sure it has the right package, crucially involving planning, frameworks and consents that are encouraging investment and allowing it to proceed quickly and with a degree of certainty.

Q14 **Julia Lopez:** One last question. Is there any value to be gained in international partnerships with other free ports in other countries that you could work as a package with an American free port? I am just thinking off the top of my head. Is that not something that would make any difference?

Neil Davidson: It is hard to see off the top of my head how that might be advantageous. Each location of free ports has their own attractions and that attracts certain activity and it is fairly specific. The American free ports or foreign trade zones have a very specific purpose to do with a complicated thing called tariff inversion. They serve that need in the US. It works well in the US but you cannot translate that to other places because it is a very specific thing.

Q15 **Faisal Rashid:** As you mentioned, it is a whole package and every free port serves its own purpose depending on the sector they are focusing on, depending the market they are focusing on and which products they are focusing on. The competitiveness is also a key part of that as well, the price and the market where they sell it. That is a fair comment, isn't it?

Neil Davidson: Absolutely. If you take the Jebel Ali free zone, which is probably the most successful in the world, you can defer your customs duty there, that is a given, that is the same in every free port. You also have the 0% corporation tax. You have low cost land, cheap labour. It is a major shipping centre with a lot of connectivity and that is why it is successful.

Q16 **Faisal Rashid:** It reduces your cost and you are very competitive in other markets then?

Tim Morris: It reduces your cost bill, so it is the value you can add. Should they arise, UK free ports will not be competing on, "What is the lowest labour cost model that you can operate?"

Q17 **Faisal Rashid:** No. That depends on the product, on what we are selling?

Tim Morris: It depends on the product, yes. It is about the value of your package. Geoff's package will be different from the Jebel Ali package. It is about playing to your strengths as a particular area.

Q18 **Faisal Rashid:** That is fine. How do you see the Government's proposal of having 10 free ports around the country? How do you view that after Brexit? That is the proposal after Brexit.

Tim Morris: I am not sure we would be fixed on a number. What we welcome is the call for bids or propositions. Let's see what the good, solid, sustainable propositions are. If there are three, let there be three. If there are 15, let there be 15. I don't think we should necessarily get too hung up about a particular number.

Geoff Lippitt: Notwithstanding that, Tim, it is worth saying that, of the waterborne trade, 85% of UK trade is handled by 15 ports.

Q19 **Faisal Rashid:** Yes, 85% by 15 ports?

Geoff Lippitt: Yes, 85% of UK trade is handled by 15 ports, in terms of tonnage volume not value. A proposal for 10 free ports is going to be material.

Q20 **Chair:** If I could butt in for a second. How is that different between the containerisation that comes a distance and the turn up and go, roll on, roll off, which is more problematic when things change?

Tim Morris: The roll on, roll off—the classic picture we are confronted with whenever there is a Brexit story in the media are trucks with drivers—that is 8% of UK port volumes. There is the eight, and then there are six. The six is Dover. What gets pictured in the media as being the classic port traffic is in fact very concentrated.

The big deep sea container traffic that comes from Shanghai, Hong Kong, and so on, in its direct route goes into a relatively small number of ports—like Felixstowe, Southampton, London Gateway and Liverpool—but then there is an extensive network of transhipment or feeder ports.

Q21 **Chair:** Sometimes via Rotterdam as well.

Tim Morris: Ports like Felixstowe will be on something of a milk round or bus route or whatever between Asia and, for example, Felixstowe.

Q22 **Chair:** What is the volume percentage of that? Is that the other 92?

Tim Morris: No, because then what you have—and I will provide a breakdown of this to the Committee—is containers, you have trucks, you have trailers without trucks. Then, of course, you have wheat, you have biomass, you have oil, gas, sugar and so on.

Geoff Lippitt: Liquid bulks.

Tim Morris: Liquid bulks as well. I will provide a breakdown to the group but there are some big segments of the market that do not get a lot of media coverage.

Q23 **Faisal Rashid:** In your view, are there any ideal locations for these free ports around the UK?

Geoff Lippitt: One of the ports proposed is Teesport and one of the reasons it is proposed is because it has a large available land bank. It has a devolved mayoral capability linked to the combined authority, and a development corporation with one of the largest ports sitting in the proposed area. All of those things mean that it is an opportunity that is contained but large enough to be material and has basically got the desirability of the reigniting of employment as well. It fits both criteria. It is feasible and it is desirable.

Q24 **Faisal Rashid:** There is no other free port—

Geoff Lippitt: There are others.

Tim Morris: There is considerable, I would it describe it as, interest from the UK's port operators since the Secretary of State's announcement. It will be up to those individual port operators or groups in those areas to make compelling cases. As I think you have heard, Geoff is intent on making a compelling case for Teesside, but we anticipate a number.

Geoff Lippitt: I would equally expect our competitors to make the same compelling case, because a number of them have similar characteristics.

Q25 **Faisal Rashid:** You cannot name any locations other than the one you have just mentioned so any other location—

Tim Morris: I do not want to be drawn on particular locations because there will be a number of locations coming forward all around the UK.

Q26 **Faisal Rashid:** On what basis will they be chosen?

Tim Morris: That is a very interesting question. That would be a question to put to the Government about the criteria that they will be adopting. It is important that there are criteria and that those criteria are visible and objective, so that people can be confident that they are entering into a credible process.

Q27 **Chair:** Can we bring in Neil at this point as well? My question is: you could have places in the west coast of Scotland but what size of community would you need to support that sort of stuff? Would Stranraer seriously be a contender or would it not, Neil? On the general point first and then—

Neil Davidson: The most successful free ports around the world are based in successful ports, big, busy ports with high levels of connectivity. That is one of the key criteria for success. You cannot wave a magic wand over a small port and suddenly make it a big one by turning it into a free port. Critical mass matters in the free port game, so that is one consideration.

With all of these ideas—10, if 10 is the number—you have to say, "Is there a market and, if so, what is the market? What specific commodities are we talking about? Where have they come from? Where would they go to? What would be done to them in the free port?" You have to do very detailed research to identify a true, real market that cannot be served by other means. As we mentioned there are other ways. Then you would have to be able to show that it can be competitive on a global basis. That whatever it is planning to do it can find an advantage compared to other options, of which there are many around the world. You have to also make sure that it is not a diversion issue where you are just moving jobs from one place to another in the country. There is always a danger of that.

There has be a lot of research done and a very, very strong case made for—

Q28 **Chair:** That will upset the losers far more than it will ever cheer the winners when you have the displacement.

Neil Davidson: Yes. Diversion does not really help anybody in the long run.

Q29 **Faisal Rashid:** Why did the Government not renew free port licences for five sites in 2012?

Neil Davidson: It was because basically they were not needed anymore. The alternative customs regimes that had been brought in—customs warehousing and more sophisticated means of tracking cargo and doing your customs entry—meant that you could get the same benefits from other means, so there was no need to renew the licences and free ports just quietly disappeared out of existence.

Q30 **Faisal Rashid:** Why are the Government preparing to have another 10 free ports when they are not giving licences for the five? They are in very good locations, like Liverpool, Southampton, the Port of Tilbury, the Port of Sheerness, and Prestwick Airport. Do you think that will be relooked at after Brexit if that is—

Neil Davidson: This is all driven by Brexit, of course, the view that outside of the EU there is a way to do things differently and an opportunity to do things differently. That was the key point I was making about the fact that there is an element of freedom that comes from that, to choose what rules to make in the free port environment. On the downside, there is also much more competition because instead of being in the customs union in the single market you are in the global competitive marketplace.

It is that, and it is also about all these wider issues that I mentioned; particularly enterprise zone status, taxation, and what the rules would be in that respect going forward. That has a significant bearing on the viability of these ideas. It is also one you have to be careful of because of issues of subsidy, of course. At the moment, the EU is very strong on not allowing subsidies. You could argue once the UK leaves that is not an issue but, in fact, it is still an issue because the World Trade Organisation monitors subsidies in free zones and free ports and if you have a trading relationship with the EU after Brexit, which presumably we will have some kind of relationship—

Q31 **Faisal Rashid:** It is right saying that in announcing we will open 10 free ports around the country after Brexit does not give any direction as such. Unless there is some kind of material direction on what we are focusing on and the package each free port will bring to this economy, until then you can announce anything you want.

Neil Davidson: A case has to be made. A very strong case; a compelling case has to be made.

Q32 **Chair:** Off the back of that, in 1959 the Irish Government set up the Shannon Airport area as a free port. From my understanding of Ireland's politics and economics, it was done to stimulate the west. I think in reality the Shannon free port is more in abeyance now; it is a political thing that Shannon is still a free zone, a free port, but other things have happened around about it. The Shannon thing has gone into abeyance. The UK five free zones went into abeyance. Why have they gone into abeyance? Is it because of other taxes and they are not making that much of a difference? I think you said earlier, Neil, there was a difference.

Neil Davidson: Alternative custom regimes exist. If you want to defer duty on your imports, you don't have to put it in a free port; you can put it in a bonded warehouse. There are other ways to get those same benefits today. That is one reason.

It is also part of the fact that the UK and the Republic of Ireland have become part of the customs union and single market. So much of the trade within Europe is moving freely anyway that there was less need for the free port activity.

Q33 **Chair:** The Shannon free port could have been for trade with France but the minute you are in the single market and the customs union you no longer need it?

Neil Davidson: Yes.

Q34 **Chair:** I think it was probably more for America but it could have been. What you are saying is: once you are out of the free market of 500 million people and you start to erect barriers, you need more free ports because there is no free market?

Neil Davidson: Yes. The more tariffs you have and the more barriers you have the more need you have for free ports, yes.

Tim Morris: There are highly successful free ports around the world. As we mentioned, one of the key characteristics is that they come with that broader package. It is not just this question about customs and tariffs.

Also, to come back to the point about competitiveness and whether you are creating a small number of winners and everyone else will be a loser, it would be a mistake to look at this issue in terms of achieving the objective of stronger global gateways, more jobs, and more investment, saying that the choice is binary between free ports and nothing if you are a port. This proposal needs to sit within a broader strategy of: how do we strengthen our global gateways and our coastal communities? There are a range of things you can do to do that. Free ports are one of them, but there are some relatively straightforward things around, for example, planning consents that do not require turning the rule book upside down but still help to achieve the same kinds of goals, maybe on a smaller scale but would have much broader applicability.

Q35 **Chair:** The Secretary of State for International Trade has said she wants the UK to create the world's most advanced free port model. Is that a political soundbite do you think, or does that entail anything of substance behind it? There may be a reluctance to criticise the Secretary of State for International Trade.

Tim Morris: We are at a relatively early stage—as this discussion is illustrating—in defining what the free port proposition or envelope is for the UK. It is certainly possible to see how some types of technology, blockchain, big data solutions might have applications within a free port concept. It is possible that that is what the Secretary of State is referring to.

Geoff Lippitt: By the time you come to implement any free port solution—whatever we end up with—it will be the most technologically advanced, because technology is playing more and more a part in the way that ports are used. Tim has already alluded to the fact that it is as much about information exchange and information management as the physical management of goods. It certainly could be an aspiration, but I think it will end up being a fact because the management of technology and information will be paramount in any free ports solution.

Neil Davidson: It is part of a much broader story. 'Free port' is the buzz word but, as we have said, the free port element is a very small part of a much bigger package and picture. The most technologically advanced free port has to address the pure free port aspect but it is about the whole package, it is about the activity that goes on. All of that has to be part of the story. 'Free port' is a handy buzz word and it sounds nice, and it has got the word "free" in it, which everybody thinks is great, but it masks a much bigger thing. It goes way beyond the pure concept of free ports.

Q36 **Emma Little Pengelly:** I know that you have touched on this already but the UK Trade Policy Observatory has argued that when tariffs are low the direct balance of free sums is small. I know that it is still under discussion, but in the event that the UK imposes zero or low tariffs, particularly in a no deal situation, is there still a benefit for doing free ports and, if there is, is there anything in particular that we should be considering to ask the Government to look at as part of this?

Neil Davidson: In general, yes, the lower the tariffs the lower the advantages. It takes away the need really. It is difficult to see any particular upside from low tariffs in a free port context.

Tim Morris: If you take out the whole question of tariffs, so in a zero tariff world, what you are then looking at is quite a specific development zone concept, a boosted enterprise zone or a mega local development order or framework consent and so on. Within that context, one of the main things that would make a difference is the planning regime around that area zone—call it what you will—that incentivises more investment, gives more speed and certainty that the port area or the coastal community can offer inward investors. There are things that can be done within a port development zone—and I am just picking a term—that are not necessarily linked to tariffs that would help.

Q37 **Emma Little Pengelly:** In your view, would you agree that an enterprise zone could effectively do something fairly similar or perhaps even be better in a situation where tariffs are very low?

Tim Morris: There are some very specific characteristics and opportunities from having that zone—whatever we end up calling it—located in a deep sea global gateway that are not currently provided for within the traditional enterprise zone, but you could see how an enterprise zone might act as a starting point for a broader development.

Q38 **Emma Little Pengelly:** One of the concerns about enterprise zones that we touched on very briefly is the idea of displacement, which of course brings no value in terms of additional jobs or additional investment. One of the things that I think has been done previously on enterprise zones is to offer some of those incentives only for new job creation or for new foreign direct investment and so on. In terms of the other free zones that have been operating, is there the possibility of that type of criteria to avoid the displacement risk?

Neil Davidson: Do you mean the other free zones around the world?

Q39 **Emma Little Pengelly:** Yes, so in the other free zones that have operated in the UK but even those in the European mainland. Are there criteria there to restrict maybe in-country displacement into those areas and to incentivise new investment?

Neil Davidson: I am not aware that that has been a particular criterion. Many of the existing free ports and free zones are very old anyway. Even Jebel Ali has been around since 1985 as a free zone. It does not crop up as being a particular approach but, again, we are talking more about enterprise zones than free ports now so this illustrates the importance of the enterprise zone aspect in this discussion.

Q40 **Emma Little Pengelly:** Although we talked a lot about tariffs, there was reference at the beginning in relation to a standards issue. In terms of the operation of free zones elsewhere in the European Union, presumably goods come into those free zones from all over the world. Some of those are fully aligned with the European standards and some are not. Are those goods checked on entry to the free ports in terms of having to meet European standards, or are those goods in general checked depending on the final destination? Presumably some of those goods go elsewhere in the world as opposed to circulating within the EU single market.

Neil Davidson: It is only when you take the goods into free circulation in the EU, when you have effectively crossed the border into the EU, that those checks are necessary.

Q41 **Emma Little Pengelly:** In that sense—using Northern Island as an example—in the way that these free ports work elsewhere, the goods would come in and they would not necessarily be checked because the end destination may not be the European Union. It is when they leave to go into the European Union, at that point they would have to be checked to be compatible with—

Neil Davidson: Even within the free port there is going to be a regulatory regime. In the UK, HM Customs oversaw the free ports that existed up until 2012. There were rules and regulations. You had to make a declaration that the goods were coming into the free port so that customs were aware what was coming in and that it wasn't something unacceptable or whatever. It is all driven by the responsibility of the Government, the customs authority and the regulatory regime that is created.

Q42 **Emma Little Pengelly:** One of the issues in Northern Ireland, for example, is the concern that the UK offers zero tariffs to Irish farmers but that the European Union will insist on the full tariffs being paid for Northern Ireland farmers who import into the Republic of Ireland and the European Union, which would give Irish farmers a competitive advantage. As I understand how these free ports operate, there can be factories, people will keep goods there, so is it the case where people can bring their goods up there tariff-free, have a manufacturing plant that could bring ingredients and different aspects into a product, which is produced in the free port, which then in turn could attract different tariffs from the original product or how does that work?

If what was brought in—for example, in the Republic of Ireland—say beef for example, is turned into a different product that would attract a different tariff if it went on into GB or the rest of the world, is the tariff only payable on the end product or at the point of leaving is everything payable in terms of what would come up?

Neil Davidson: It is payable on the product that leaves the free port and goes into free circulation. If you take the US example, the components to make a car come into the free trade zones and there is no tariff on them, then when the finished car goes into the US that is when the tariff is payable.

Q43 **Chair:** A report from the European Commission earlier this year stated that misuse of free ports may lead to an infringement of property rights, VAT fraud, corruption, money laundering. It seems a bit grim. How far would you go with this assessment? Are there any risks to labour rights and environmental standards at larger free ports?

Neil Davidson: Again, it depends on how responsible the Government are and the regulatory regime that oversees free ports. They are not complete free-for-all places where there is no law. They are still controlled by the country that they sit in by whatever legislation and regulatory systems that are put in place. It is up to Government of the country to act in a responsible way and put in the necessary safeguards.

Q44 **Chair:** Do you agree with that, Geoff?

Geoff Lippitt: I agree with that, yes. There is a difference between the tariff-free and the commercial aspects that we have just talked about versus regulatory and compliance. I think all the things that have been talked about there would be controlled by the local or the national Government.

Tim Morris: I think I could say this without fear of getting fired by my members as soon as I walk out of this room, the major port operators would have no problem with meeting high standards of security compliance, environmental performance and so on that are responsible and in line with attracting investment and jobs. That is the end goal that people want rather than this being some kind of money tumble dryer.

Q45 **Chair:** We are coming towards the end now. A final question to Tim. I know you are a member of the Government's new Freeports Advisory Panel. What will the role of the panel be and how often will you be meeting or how often have you met?

Tim Morris: You should probably ask me that after the end of day tomorrow because the first meeting of the panel is tomorrow afternoon.

Chair: In this fast moving Brexit news environment, do let us know if the meeting occurs tomorrow.

Thank you all for your speedy responses. We certainly learned a lot about free ports in that short time. Even Northern Ireland's farming was thrown in there as well. The body of knowledge keeps growing in this area around the large experiment that is going on at the moment. Thanks to all three of you. If the Committee revisits this in a more detailed form in the future we will probably be back in touch, but for the moment thank you all.