

# International Trade Committee

## Oral evidence: UK freeports, HC 258

Wednesday 9 September 2020

Ordered by the House of Commons to be published on 9 September 2020.

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Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Mark Menzies; Martin Vickers; Matt Western; Mick Whitley; Craig Williams.

Questions 81 – 115

### Witnesses

I: Richard Ballantyne, Chief Executive Officer, British Ports Association; Councillor Kevin Bentley, Chair of the People and Places Board, Local Government Association; and Andrew Carter, Chief Executive Officer, Centre for Cities.



## Examination of witnesses

Witnesses: Richard Ballantyne, Councillor Kevin Bentley and Andrew Carter.

Q81 **Chair:** Good afternoon and welcome to our second evidence session on freeports. It is also Gibraltar national day, so we extend warm greetings to friends in Gibraltar, particularly affected by Brexit and all these changes— and who doubtless are interested in freeports and are probably eschewing the pleasures of national day today to tune into our Committee hearing on freeports. I have no doubt this is the case.

We have two panels today. Unfortunately, on our second panel we expected and hoped to have Lars Karlsson, Managing Director of KGH Global Consulting, but he has had to pull out at the last minute for understandable personal reasons so we will have a smaller second panel.

The first panel is Richard Ballantyne, Councillor Kevin Bentley and Andrew Carter. I will let each of them introduce themselves on their own terms— usual name, rank and serial number—starting with Richard Ballantyne.

**Richard Ballantyne:** Good afternoon, everyone, and thank you, Chair. My name is Richard Ballantyne, Chief Executive of the British Ports Association.

**Councillor Bentley:** Thank you, members. Thank you, Chair. I am Councillor Kevin Bentley. I am the Chair of the LGA's People and Places Board but also the Chair of the Brexit Taskforce working with the Government, and in the day job I am the Deputy Leader of Essex County Council.

**Chair:** I think we have met before at a hearing previous.

**Councillor Bentley:** We have, Angus, yes.

**Chair:** It is good to develop our acquaintance again and to keep acquaintances going.

**Andrew Carter:** Hi, Chair. I am Andrew Carter. I am the Chief Executive Officer of the Centre for Cities.

Q82 **Chair:** Thank you all very much and thank you for coming this afternoon to what is quite an interesting area in the era of Brexit, which is freeports.

I will ask Richard Ballantyne initially but I will spread the question afterwards. If I can remind people to keep their microphones closed when they are not speaking, but do please—easier said than done—open your microphones when you start to speak. Richard Ballantyne, in your view, how comprehensive is the package of measures proposed by the Government's consultation on freeports, and are there any areas that



require further development?

**Richard Ballantyne:** Thank you, Chair. First of all, it will not surprise you to know that as a national ports association we are very excited and interested in these proposals. It is fair to say that we have been pushing for some similar changes to UK ports policy for a number of years, so we are delighted to see the vision being taken forward in the way it has.

When we got the consultation, the main thing that we were slightly miffed at is the number 10—the arbitrary figure of 10 freeports. You might find that is a recurring theme that I come back to. If we park that for a minute—and we will come back to that later—and we think about competition and regional displacement and so on, I think the consultation and your question about the proposals is pretty comprehensive. It is not perhaps quite complete but it is a very good overview. It is not just the original concept of a traditional freeports, which is around customs easements and tariff suspension and so on. This is much broader. This is to do with planning, enterprise stimulus and other things to attract growth investment to regional coastal areas.

The one big area we see as missing is marine planning. There is quite a lot about landside planning, which is all very welcome and looks very positive and hopefully will be rolled out further than just the freeports, but marine planning in the last decade or so has become increasingly challenging for ports and harbours of all types and size in all parts of the UK. Mr Chairman, you will know the Stornoway Port Authority very well.

**Chair:** I do.

**Richard Ballantyne:** It has to deal with similar challenges, just as larger ports, international cargo handling ports up and down the country have to. Therefore, we would appreciate the freeports vision—notwithstanding that limitation of 10—perhaps embracing some of the planning frustrations in the marine environment.

Q83 **Chair:** You will probably know Alex MacLeod at the Port Authority quite well. How do you see this freeports proposal being different to the situation that led to the demise or the wilting on the vine of the freeports in 2012?

**Richard Ballantyne:** Yes, that is a good question. The previous freeports were more around the customs easements, VAT and taxation and so on. This proposal now—subject to what the Government decide to do following their consultation—is looking at a much broader suite of business and regulatory easements that would effectively create zones of development, investment, enterprise and growth, hopefully. We are looking at planning easements—that is one I have already mentioned—but also at enterprise stimulus, so lower business rates for start-ups, plugging them into local and regional transport plans, and also things like taxation rules, looking at capital allowances so that we can stimulate and encourage investment in infrastructure. It is a lot broader than just the traditional customs freeports that we had previously.



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Q84 **Chair:** Thank you very much. Kevin Bentley, do you see any areas that require further development or any areas of concern?

**Councillor Bentley:** Rather like Richard, in local government we welcome freeports because they can be a stimulus to economic growth as well. Of course, it is important that we in local government are equal partners in this, because we are on the ground working with our ports authorities.

Regulatory services are supplied now by local government trading standards or environmental health officers. We need to make sure that those standards are maintained and our staff either need to be increased or be heavily involved in any work that is going on in freeports and around regeneration as well. Freeports could offer a very good stimulus for regeneration in many of our areas. It is critically important that local government is involved in that and it should not be seen as something being done to an area. While we understand the pace and importance of this, local government is a critical partner in many things and in this it is very important.

We would like to make sure we are involved and those port authorities are involved along with their local councils at either tiers or unitary level, depending on where they are, and also making sure that planning regulations—as you heard before from Richard, but ours are slightly different. There is the impact on the environment. While it is good that freeports are being established, what is the onward effect of that? Can the road networks cope, those that local governments are involved in and responsible for?

Therefore, we need a much wider conversation around this. This is not to be destructive. It is meant to be constructive because we want them to be successful. We want them to work very well, but it is something that should not happen around us. It should have a “with us”, and that is taking quite a lead in that as well. I would also echo what Richard said. Why just 10? Other ports are available.

**Chair:** Thank you. Andrew Carter, you have been waiting patiently there.

**Andrew Carter:** As the other witnesses have said, there seems to be a comprehensive element to it. I would home in and focus on the questions around local impact, particularly the regeneration aspects that are aspired to through the scheme. We will probably get into that in a bit more detail. If we are to make good on some of those aspirations and objectives, I think the questions and issues associated with the skills of the locality and the degree to which they match and meet what is required in those freeports will be particularly important. While this is alluded to in the consultation, a much greater focus and emphasis on those kinds of issues will need to be given to get anywhere near some of those objectives and aspirations

**Chair:** Thank you very much. Now turning to Craig Williams, I am sure



he is ready with his microphone.

- Q85 **Craig Williams:** I wonder if we could do the reverse order, so if we start with Andrew. The UK Major Ports Group has said that the bidding process must be fair, transparent and evidence based. We would all say that and expect it, but could you drill into how you want the Government to ensure that or what you will be looking for to evidence that process?

**Andrew Carter:** To be honest with you, Mr Williams, that is not an area that I am spending a lot of time thinking about. You might have done a disservice in going in reverse order. Other than the points that you make, I think being very clear about what it is trying to achieve and the realism associated with that achievement. We can come on to that, particularly if we start talking about the impact of enterprise zones in reality rather than in rhetorical terms.

I think it is a reality about what they are trying to achieve and I suppose the trade-offs that they are willing or prepared to make. For example, there is likely to be a trade-off—we do not know how significant it is—between the local regeneration effects that you may be looking for, the levelling-up effects that you may be looking for and the trade maximisation or growth maximisation. I am not saying they are mutually exclusive but we would expect to be alive to some of those sorts of issues when we are making decisions. You would want the process to be rehearsing and sharing those and providing that so we can understand how we come to those kinds of decisions. That is my observation on that but it is not an area that we spend an awful lot of time looking at.

- Q86 **Craig Williams:** What kind of flexibility would you be looking for between the type of freeport or even the geography of region/nation?

**Andrew Carter:** Again, is 10 the right number? I don't know. I do not think every port is the right answer, and I can understand why those in the industry would want that to be the case. There will be some need for selection. If you are weighted towards this as a mechanism for local regeneration, I would expect to see some geographical weight or some geographical criteria that say, "I am preferencing places in X and Y rather than in A or B". That is the kind of thing that I would want to see. I would want to see that at the outset rather than having to try to work that out once I have seen the decisions that have been made, which is occasionally what we see happen. We look at the results and then we try to back work out what the Government were trying to achieve. The more we can be explicit at the outset, the better it is that we can be transparent and then inform some of the decisions that have already been touched on.

- Q87 **Craig Williams:** You mentioned the weighting. What kind of criteria? If you were starting now, what kind of weighting would you be doing to evaluate the freeports within the criteria?

**Andrew Carter:** You are definitely at the boundaries of my area. I tread very carefully, not least because it is on record. I would be thinking about



the degree to which, for example, there is an aspiration for these places to be more than simply ports—we have heard that already—with innovation and high-skilled growth. For example, I would be looking for some criteria that allow me to understand which of the places already have some of those attributes that we can build on. We know from the evidence that in the absence of the assets there already they are very difficult to build from scratch. That would be one area. If that is a true aspiration that would lead you to think about certain criteria in and around existing assets, existing strengths, and existing networks in the innovation type spaces that I would be looking for.

Then again, because I am primarily interested in the context of the region and the local growth issues, I would be looking for some sort of commentary in the submissions about how the locality will benefit through, for example, apprenticeship programmes and skills development programmes that are very particularly targeted at the local communities that they are in, rather than essentially be places where, as growth occurs, it is taken by outsiders. That is inevitably going to happen, but we can make more interventions that limit the degree to which the benefits accrue to those that are not currently there, although we probably will see some composition change as a result of that. I am not going to go any further on that, Mr Williams, so please do not press me again.

Q88 **Craig Williams:** Don't say we didn't ask. Kevin?

**Councillor Bentley:** Picking up on that last point, I don't think it needs to be inevitable that other people come in. We have great opportunities with skills and young people, and older people come to that, looking for new careers. What we must do is work not just with the local authorities but with the local colleges on what skills will be required. That is something where the local workforce can very quickly be part of the regeneration.

I will come back to my point. In my experience a lot of ports—I haven't been to all of them but I have been to a lot of them—function very well. It is what happens outside the port gates that becomes important. On the infrastructure, there is no point in bringing all this cargo in if it cannot move anywhere. Working with Highways England and working with the local authority, do we need to enhance any of that infrastructure? Hopefully, a lot of it will go on trains but what is the knock-on effect on the train services for passengers?

That conversation is a wider conversation than just the freeport itself, but it is very important that that involves all of us across the piece and certainly local government. I run highways in Essex and I would expect to have that conversation if it involved ports in my area—not just my county but my area, whether it is Felixstowe or DP World or Harwich, and my counterparts around the country are in the same place. They are all going to use our roads. It is how that will function and making sure the cargo can get through securely.



**Richard Ballantyne:** At the risk of trying to squirm out of the question, as a national representative it is quite difficult to talk about a bidding process that may benefit one of my members over others. Other than saying that it should just be for seaports and we can ignore airports and so on, I cannot really do that. It is more a question for the Government, and those tasked with regional and economic development and investment, because they are probably better placed to decide that.

The problem with having 10 is that you increase the stakes somewhat. Coming back to your original point about the actual bidding process, it absolutely has to be fair. We have to do away with politics, unfortunately. We have to park any potential allegiances that politicians have to certain regions, which may be difficult for some to swallow. Also, let's not be limiting ourselves by looking at various areas without imagination. You need to think about how we link up to other regions digitally as well as physically. You need to look at what land availability is at the port but also in close proximity, not necessarily owned by the port or part of the port estate. Sorry if I cannot give you a direct answer but I would say it has to be fair.

One little final point is that with 10 you will pick winners, and that means there will be losers of course. The process has to be watertight because you may find one or two regions, operators and politicians in areas, may look to challenge Government after the event to make sure that they have had a fair hearing.

Q89 **Craig Williams:** I am going to push back a little bit on the criteria and you want the process to be fair. If you were setting the criteria, what do you expect from that? If you were the Government right now, what criteria would you want?

**Richard Ballantyne:** There were some statements made previously about the north of England particularly needing to benefit. There will be some very deserving locations and suitable points where we could look at freeports but we would not want to just limit it there. There is deprivation across the country, whether north or south, in all parts of the UK so I would not limit it there.

Also, politics comes in somewhat when you think about the four nations of the UK and potentially that 10. You quickly use up that 10 if you go round the coast and you think that, politically, there will be at least one in Wales, one in Northern Ireland, maybe more, and the same for Scotland, and then airports and seaports. There is a long queue, so it has to be fair. Therefore, we cannot just limit it based on a geographical description. The deprivation, the need, the infrastructure, the land will all have to be thrown into the mix.

Q90 **Chair:** If the UK Government follow a low-tariff policy, will this make freeports more or less likely to succeed or more difficult? There must be some sort of thought with the tariff background and the freeports that will be operating it. Freeports tend to operate well where there are tariff



walls to get around and meet.

**Richard Ballantyne:** If we had a free trade deal with the EU or with other countries, I would say that the customs element of a freeport would be less beneficial but not completely unusable. There is a lot of bureaucracy around customs as well. You can suspend various other payments and paperwork processes, so they certainly would still be beneficial.

Coming back to the earlier points, this is a package that isn't just customs related. It relates to planning easements, enterprise zone stimulus, possible grants for skills, capital allowance and so on. That full package would be largely unaffected by a future trade deal.

Q91 **Martin Vickers:** Richard mentioned the links between seaports and airports and so on. Do you think the criteria should look more widely than just based on the seaports and at the links that they have with rail hubs, regional airports and the like?

**Richard Ballantyne:** Hi, Martin. Thank you. I agree absolutely, but to be fair to Government, although they have not nailed their colours to the mast yet, I think they have indicated this in the rather large consultation document that they had opened for the first part of this year. Effectively, they have not ruled out those links. I think it has yet to be agreed whether you need some kind of physical boundary, because a red line on a map may or may not be practical or workable. Virtually, this is another thing that I suppose we can say we have moved on from the previous freeports model.

We have technological advances, inventory advances, digital possibilities and capabilities, where you could link up sites to the ports and the airport locations. Subject to the Government's bidding process, I think there will be some joint bids between seaports and airports within the same region because there are a lot of complementary attributes there. There is a lot in common with a regional development strategy.

Q92 **Chair:** Andrew Carter, do you want to come in on that? I see you have your hand up.

**Andrew Carter:** Very briefly, Chair. Ultimately, what we need to think about in a sense is the danger. What we are claiming for these sorts of areas we should claim for pretty much the whole of the country. Therefore, the whole of the country should be a freeport as defined in some way, in the sense of the way that we define it. By definition, these are area-based type interventions. We have to think of them in that way.

Boundaries will need to be set to a degree and there will need to be some selection and prioritisation, whether it is 10 or 20 or five or one. Otherwise we are in danger, particularly if we start to say that it is not really the port bit that we are interested in. It is all the innovation and we want these places to be high knowledge, business dynamic places. If you go to every place in the country they will tell you that they want exactly



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the same sorts of ambitions and aspirations, whether they have a port or not. The more you move away from the centrality of the port as a thing or the airport as a thing, in a sense the less you become distinguished from other parts of the country and the more difficult it becomes to understand what the policy actually is.

**Q93 Chair:** Are some people looking for this not so much for the freeport idea but just as an idea of leveraging cash and assistance into the local area? Would you say that, Andrew?

**Andrew Carter:** If you hold the port element constant, most places in the country would say to you that they are looking for extra investment for their place. They are looking for extra infrastructure investment to open up transport, roads or rail. They want to create conditions where they can attract more high-skilled businesses and be innovation hotbeds. Many places up and down the country, large, small, coastal, inland and so on, will talk to you about a similar thing. The question then becomes: what are we actually talking about in relation to freeports if we are not really talking about the port? Once you introduce the port element then you have to be mindful that that in itself creates a set of parameters about what can or cannot be achieved.

**Q94 Chair:** Investment-starved areas that are basically looking at the only chance of getting a carrot from the Government will sing the song of freeports just to get what they have particularly needed for a couple of decades perhaps?

**Andrew Carter:** I cannot comment on the individual motivations of individual places but I would suspect that there is an element of cash is on the table, cash is in short supply from other places, "This might be an avenue by which I could explore getting more cash into my place", which, by the way, is entirely rational from every particular place's point of view.

**Chair:** Absolutely, and a freeport is neither here nor there maybe.

**Q95 Paul Girvan:** This is to the whole panel, but I will ask Kevin to kick off. In your view, can freeports fulfil the Government's objectives to become national hubs for global trade and investment across the UK?

**Councillor Bentley:** I would say yes, because anything is possible, isn't it? What is important is that it is national, global and local because a lot of the supply of workforce skills, and also getting goods to and from somewhere, will come through the local area. It is critically important that the local area needs to benefit through the regeneration in respect of that and, of course, be global players themselves in that. Parts of the UK and parts of England, Wales, Northern Ireland and Scotland can also play a part in that success, so, yes, absolutely they can be global players in this.

Again, we will come back to the number—and I know Richard mentioned that—why 10? I don't know. I think it is more. We must not forget the secondary ports that have been announced. There will be the freeports,



the main ports and the secondary ports. We should spend some time thinking about that because if our ports become amazingly busy, for whatever reason, and we need to revert to the secondary ports, we must not find ourselves caught out by the fact that they are not geared up and need help on infrastructure and skills as well.

**Richard Ballantyne:** The one thing that the ports industry in the UK is fairly unique for is it is independent of Government and financially independent. It is not used to any interventions, typically. It is used to doing its own thing, attracting investment, either from investors or using its own capital, and the drive will be very much around port-related commodities activities and not just trade. Trade is very important, absolutely. In our international gateways, 95% of our trade is brought in and departs the country by sea, so it is essential.

It is broader than that. We have lots of people supporting the offshore oil and gas and renewable energy industries. There is leisure and tourism. Hopefully, once we get through coronavirus, we will get back to things like ferry and cruise travel being abundant and so on. Therefore, it is more than just trade but, absolutely, I think freeports can help the Government realise their vision.

I come back to the 10 again. Why limit your ambition? It is probably fair to say the Government may be a bit nervous of loss of revenue through having a traditional customs-related freeport where they will lose the tariff income it generates. That is not one of the fundamental points of the latest freeports proposal that most UK ports are interested in—particularly the planning easements, whether that is landside or hopefully some marine support. Another thing is plugging into local and national transport strategies and perhaps also some taxation benefits—short term at least—on things like business rates. I do not think that will have the impact that the Government are potentially so nervous about, so on the 10 we would say, “Why limit your ambition? Let’s go for more”.

**Andrew Carter:** I don’t really have an answer to that question, not least because I don’t know where our ports currently rank in the global system. My sense is that would be my starting point, then questions about: how significant are the constraints on our existing ports to allow them to do more than they are currently doing, and how does that weigh in to what is going on across the globe in other systems where ports of different types are also thinking about how they can expand as well?

Q96 **Paul Girvan:** Thanks for your answers so far. Everybody says all politics is local and that is very much the case. How can the Government ensure that the benefits of increased trade and investment are spread evenly, including among areas that are not chosen for freeports?

**Councillor Bentley:** Economic recovery is hugely important, especially right now, but it is very important that we have a good global economy. That should not disenfranchise any parts of the United Kingdom. It should not disenfranchise the ability for economies to grow, and everyone should



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benefit from them. They may be in a certain place and that is important. We have discussed that, but what is important is how that wealth then spreads out. That is why I think it is hugely important that with the way councils operate, especially through the subregional transport boards that we have—and I chair one of them, Transport East, and we have discussed this very subject—that all parts of the UK benefit from this, and it is very important that we can all get a share of what comes through the freeports.

I do not think we should concentrate just on the geography. While clearly they are in one place, it is about how that wealth is then spread around and dispersed as well. That will come through cargo being moved around, the skills that are required and the training process. It is about looking at it pan-United Kingdom, while filling in these 10 areas, but then of course the other ports we are operating and secondary ports as well. It is about having a continuing conversation about this. I do not think it is one consultation and then it is over. It is about development of these ports in the future and how they will benefit not just their local communities but also the wider community regionally.

**Richard Ballantyne:** Going back to the point I made about competition, it is quite important to understand that we need to allow the non-managed port sector to continue. Although it is regulated, of course, it is non-strategically managed, in that ports can make their own investment decisions, subject to market conditions and lenders and so on. That has helped the industry with competition. It has also helped customers and shipping companies coming through. That competition has kept prices low.

We have lots of ports in the UK, lots of cargo-handling ports and others, unlike other areas around the world where perhaps you get more concentrated port activities. For example, in Europe you have Rotterdam. It is a big hub of activity there and great for them, but if you were to draw away investment and business opportunities from certain regions into one clustered organisation in the UK you would quickly find some regional division. Keeping the competition element is absolutely essential. That is why broadening it out to more than just the 10 would be helpful.

That said, if the Government were absolutely wedded to that number 10, we could definitely look at broadening out some of the benefits that are highlighted in the recent consultation process, such as the planning easements. I will give you an example of things like the permitted development rights where a port authority has the planning authority to build certain structures up to a certain threshold, which is defined in law. They enable ports to act in a very agile and responsive way. For example, if there was a new offshore renewables development coming up, we would want UK ports to be best placed to respond to an offshore energy developer's aims to anchor a lot of the activity in the UK.



It is not just about competing in the UK. We are competing against European ports internationally, so we want to make sure things like offshore renewables are all centred in the UK and not necessarily in Scandinavia or continental Europe.

**Andrew Carter:** I am going to assume that you are not meaning benefits spread equally, for example, through the tax system, so that if someone does better it pays more revenue in and, therefore, we have more money in theory to redistribute as we saw fit. I assume that you are not asking that question, so my response would be there isn't any sense. By the very design of the scheme, where you are selecting particular places you are trying to differentiate between one place and another. Otherwise the system does not work. It has to work by saying, "In this place you get X but if you are not in this place you don't get X". You have to set up that uneven playing field otherwise what is the purpose of the intervention? I think the idea that the benefits then magically ripple out broadly is not proven.

We did the work looking at the enterprise zones. Yes, they are different, but there are lots and lots of similarities and the scale of effects was nowhere near what we were told they would be in the Government figures at the outset. Less than a third of the jobs promised have been created, and then a third of those jobs came from within the patch of the enterprise zone itself, jobs hopping from one part of the subregion into the enterprise zone itself. The worry—and this is the downside with any area-based intervention—is that they create boundaries where firms and/or workers are hopping from one place to another to take advantage of whatever opportunities are on offer there.

It is an obvious truth that some of our poorest communities are port communities, not because they have ports—and there is a question about why the mechanism that we think may work is not currently working. That is for sure and there is an effect. Port places are not poor because they have ports but they are poor, nevertheless. The assumption that it will ripple out or the benefits will be more widely felt unfortunately is not forthcoming at all in the evidence, not only from this country but internationally.

That is why we have to tread very carefully with the size and scale of the types of interventions that we are proposing. Once you get to the point where you are not really proposing significant differences between place X and place Y, you are into a flat level playing field and we are back to where I was earlier on, which is: apply these things everywhere. Not that I would do that, but apply these things to every place.

Q97 **Matt Western:** I know, Richard, you wanted to come in on that. I think I saw your hand come up on that previous point. Perhaps you can add in your comments to what I am about to concentrate on, which is job creation and following up on the points that Andrew Carter was just making.



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We have had previous meetings in this inquiry and you hear numbers being quoted—some pretty big telephone numbers—but from other accounts the numbers might be more like 1930s telephone numbers, considerably smaller. The nub of my question is: what is realistic in these proposals? Richard, to start with you as you wanted to raise a point a moment ago.

**Richard Ballantyne:** Unfortunately I do not have a figure on potential. There have been various studies done both regionally and nationally, where I am sure the Committee could seek some more detailed evidence on this.

What I was going to say when I come back to Andrew's point previously—which is still relevant to your question, Mr Western—is that we are not talking about limiting to just one region or competing within the UK. We are competing against countries and ports outside the UK. We want to get that business and it could be international business, offshore energy and so on. Therefore, we want to have a better offer to make sure that our port regions—in my case—are well prepared so that it is not just about competing intra-UK with regions.

Q98 **Matt Western:** There are comments about where the value might be in these port opportunities. There is a question about where the high-value jobs might come from and what opportunities there are in trade in services. Could you elaborate on those?

**Richard Ballantyne:** If you look at the ports industry in the UK in recent generations—and coming back to the previous point about port regions being poor—a lot of the activity and trade around and going through our ports is actually going through them. Our ports are quite often gateways to trade and not necessarily the big manufacturing hubs like you get in places like Rotterdam where you have onsite added-value processes in connection to the port. Quite often our goods are coming in—and we are an import driven economy—and they are being transported to distribution centres, manufacturing facilities, shops and so on.

The point about having a zone around a port where you can create a more business-friendly environment is about encouraging the growth of new manufacturing opportunities or added value processes, which we have not already had. If you can create that stimulus we are attracting new things in particular. I am not talking about displacement from, for example, the Midlands or somewhere. This is about new investment and opportunities. In the post-Brexit era there will be changes to freight flows and to our trade. I would argue that the Government are looking at ways that makes us the most attractive for inward investment and for new developments and activity, quite often in deprived areas.

Q99 **Matt Western:** How would you stop displacement, because isn't that what would happen?

**Richard Ballantyne:** If you don't have the cap of 10 that is a starting point, you are not creating an exclusive area that other parts of the UK



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would be automatically aware of. We are talking very much about new investment here. There may be some relocation of facilities that are coming to the end of life for their plant or equipment and so on but, broadly speaking, we are looking at new investment. It would be difficult to see major manufacturing hubs up sticks and relocate to the coast if they are, say, in the Midlands because that would be hugely expensive for them to do, but I think you would have to ask that sector.

Q100 **Matt Western:** Kevin, can I come to you?

**Councillor Bentley:** Yes. On displacement, I mentioned earlier that is if you see them just in geographic isolation. The argument starts to change if you work on more of a pan-regional basis. The subregional transport boards, for instance, and combined authorities are where you start to see the value of those invested in part of that economy, not just the immediate economy, but I think you can stop the displacement. I just want to introduce—

**Matt Western:** Sorry, Kevin, it is a very poor line, certainly for me. I did not quite hear what you just said.

**Councillor Bentley:** I will repeat it then. I mentioned earlier that displacement happens if they are just seen geographically as opportunities where they are. If you operate on a more pan-regional basis, with subregional transport boards but also with combined authorities and other local authorities in those areas, there are global pan-regional economies, just from the local point of view. Clearly, there is an international global element to this, but from the local point of view that is where I think you can start to see some benefits and not have that displacement.

Q101 **Matt Western:** It would not just be sheds with high-value luxury items being stored or anything like that?

**Councillor Bentley:** No. Well, I don't think it needs to be that. I think it is about onward cargo and where it goes and how that helps and feeds into the local supply chain and the economy.

If I can speak quickly on one element. Something that we have not talked about but which the LGA has done a huge amount of work on is the green energy economy that I think will really take off, not just in the UK but around the world. Certainly, we are a factor in that. We can operate through the ports on that as well, so not just wind farm technology but also solar technology. This will really take off and there is an opportunity for our ports here and an opportunity for—*[Inaudible]*—there as well.

**Andrew Carter:** A couple of thoughts. One way to think about it is to minimise displacement from within the UK, and you cannot eradicate it, so anybody who tells you you can is being slightly less than honest. By definition, there will have to be an element of displacement in the very functioning and style design of the scheme. As Richard said, to minimise



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it you have to be very focused and clear on the degree to which you can identify new rather than existing. Let's imagine our ports here are essentially taking market share from ports elsewhere in the world. It would be additional to this country but a loss to those countries, so you minimise displacement there.

The enterprise zone analysis work that we and others have done gives us some rule of thumb on the numbers. We know that a rule of thumb among appraisers of bids around jobs—particularly employment growth—is that we automatically discount about 40% of the number that is given to us and we know that that is essentially optimism bias that is put into those kinds of bids. You work from a basis that whatever the number is given to you, 40% reduction probably gets you somewhere towards some sense of the up above. That is the first thing in the way that I would work, and lots of other appraisers and evaluators do something very similar.

When we look at the job numbers for the enterprise zones, the more recent ones—from 2011 through to 2017 when we did the analysis—they were promised to make 54,000 new jobs, not just any job. The actual number was 17,000. That is a significant reduction. Some of those were temporary in the public sector. In the private sector that is 13,000 jobs, give or take.

About a third of those jobs were people displacement, either from actually within the very locality in which the enterprise zone was set or pretty much close to it. Another third were existing firms somewhere else in the country establishing new branches in the enterprise zone. We do not know whether that is genuinely new or whether they are taking advantage of that. That leaves you, give or take, with about 30% of that quite reduced number. That is genuinely additional to the scheme itself and it gets distributed across different enterprise zones.

I am not saying that would happen for freeports. I have no idea, but that would be my starting basis in just thinking about the magnitude and type of activity. Of course, opportunities for global expansion, new technology and new industries, all of that is unknown but it is unknown to everybody, so there will be opportunities there. That is about the best I can offer you about the evidence on these kinds of things. Remember that enterprise zones were offering tax incentives, the ability to borrow over the longer term. They were wrapping in planning reforms and capital allowances—many of the things that we talked about that we would want the freeports to do, beyond the tariff and customs, are in the enterprise zone model already.

**Chair:** Well, there you go. I was just saying that Mark Menzies is standing by and his microphone is soon to be unmuted and, there you go, I was hoisted high on my own petard there. Mark.

**Mark Menzies:** Thank you, Chairman. You on mute is one of the few times you talk a lot of sense.



**Chair:** Thank you, Mr Menzies.

Q102 **Mark Menzies:** This question is to everyone, but I will start off with Andrew Carter. Do you agree that freeports can become hotbeds for innovation and, if so, what do you think is the best way to achieve that?

**Andrew Carter:** I am not going to say they cannot be hotbeds of innovation, but they are not hotbeds for innovation currently in the way that we may want them to be. Therefore, we have to ask the question why? When we think about the factors that drive innovation, particularly the location decisions that innovation firms make, they are looking for two things. There is a longer list, but two things tell us an awful lot. One is to be in close proximity to other innovation firms. Innovation firms go where other innovation firms are already. That creates a very problematic situation. If you do not have innovation firms it is difficult to get innovation firms; if you have some you can build on them.

That is the first question. They go where innovation firms are already located and, unsurprisingly, when you look at the second factor, they go there in part so they can borrow from and interact with and learn from and trade with other innovation firms. But also it is because of where innovation workers are—that is workers with the requisite skills to feed the innovation firm's needs where they currently are in expansion.

There is a cumulative process to those two things. My question then is, if we want our ports to be innovation hotbeds we need to think very carefully about both of those aspects. In a sense, can we create scale effect, where innovation firms en masse are located in that particular locality and innovation workers are interested in going into those areas? That may well be possible, but it seems to me that part of the reason that many of our port areas and their port towns struggle is the absence of both of those attributes. They lack high-skilled workers and they lack high-skilled firms and, therefore, innovation firms and innovation workers are going elsewhere.

Q103 **Mark Menzies:** Would a link to a university, for example, have a role to play?

**Andrew Carter:** Yes. You have to think about how you can artificially almost induce the connection to the innovation effect in the absence of it literally being there in that locality. I will give an example. I can send a link to the Committee. We looked at the Advanced Manufacturing Research Centre in the Sheffield city region. It is a small facility and it is genuinely world class. It does not do production, or very much. It is all in the testing, the piloting, the genuine R&D end of the manufacturing process. One of the attributes that has made that place a success—albeit, a very small success within the Sheffield city region—is a very close relationship with the University of Sheffield, and it has been driven by the university pretty much from the outset. It has been physically located there, but it has also borrowed from the university's quite significant assets in this field. It has been able to borrow and draw in the R&D



aspects of Boeing and McLaren. In the same way that the Sheffield city region is not bestowed with great pools of high-skilled labour and high-skilled innovation firms—it was many years ago but not so much now—you have to induce that.

My final point on that, when we did the study again—and this is important to remember—while the AMRC is kind of a jewel in the crown, it is primarily around innovation and productivity and new material, new wealth. That is the contribution it is making. The employment is 500 jobs, 600 jobs. It is not a vast employer of people in the patch, even though it has a fantastic apprenticeship programme that draws in local people and allows them to develop careers. Thinking about the locality benefits versus the very big benefits, the national benefits, it is really quite important that you think about these sorts of things, particularly in the innovation sphere. Sorry, long answer.

Q104 **Mark Menzies:** No, that is brilliant, Andrew. Thank you. Kevin, over to you.

**Councillor Bentley:** I think there is a golden opportunity where this can exactly happen. We know that sectors cluster. Imagine if you had key manufacturers. I mentioned the green energy jobs, for instance. You put that together with not just universities, which is important, but also strategically placed colleges that could build campuses at these locations as well. That is a golden opportunity to bring in skills right on the doorstep of where they are required. Then you attract other people in, so the enterprise zone incentives go with that as well. I think that is a really big golden opportunity.

The key to all of that is planning. Providing that planning is properly devolved to the areas that know the area best—that is your local authorities, and I will keep mentioning it because that is where I am from—I think you can start regenerating areas at will. If you do that, it will start to ripple out. We have seen that across the piece with current enterprises. There is no reason it should not happen around freeports. That brings in the pan-regional element and that can then start spreading the wealth. There is a real opportunity if we free up the freeports led by local people, local businesses and local politicians.

Q105 **Mark Menzies:** That is great. Richard?

**Richard Ballantyne:** Yes, I agree very much. One thing I would highlight on specific examples is the marine area and maritime. There is a huge amount of innovation and move forward, whether it is renewable energy generation or autonomous shipping, digitalisation of ports or even block chain in the logistics chain. There is a lot going on. There are innovation hubs. There is a new innovation hub at the Port of Tyne, which I think will feature if they bid for freeport status.

Something that builds on what my colleagues were saying is that if you can give some start-up benefits, such as lower business rates and



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planning easements and so on, you are reducing the risks that investors and others have to take when you are developing your new start-up, invariably in the national sphere. That all fits very nicely with the freeport model. I think Andrew made a very good point. You have to balance that. You have to make sure that traditional cargo activities and other things are also encouraged to flourish.

Unlike certain other areas of the business and trade community, ports do not move unless there is some huge generational economic change. Ports are there. You can trust that they are in the same place and they have a vested interest in their community as a big infrastructure hub, usually indirect and direct employment. They have a focal point that I think means they would be interested in working with educational institutions and others to look at skills and jobs and so on.

**Q106 Mark Menzies:** Richard, in order to give a freeport the best chance of becoming a hotbed for innovation, is there an argument for saying that the actual freeport itself is the land and so on, so that is your primary site but linked to it is maybe an airport That has a freeport element, a freeport dimension to it. That is perhaps for your just in time, very high value-added product that can come in. It is under the same umbrella as the seaport/freeport where maybe the value-added, innovation, manufacturing or whatever takes place. Also linked to it would be the university and then maybe again separate to that could be a school centre and so on.

Actually, what we are talking about is something that is much more than just a bit of land with a fence round it and a sign up that says “freeport”. This is something that is multi-site, potentially, but if you bring all those aspects together you are really starting to give something that has the impetus to become a game changer in the economics of this. What are your thoughts?

**Richard Ballantyne:** That is certainly the vision we have. Andrew has made some very sensible question-mark points about that kind of vision and whether or not it will actually achieve that. I think that with the right parameters you are at least giving the ports, the regions and the people an opportunity to see whether they can make that succeed.

It is fair to say that ports on their own, without all this stimulus, have previously done a good steady job of investing lots of money, private money, into infrastructure, employing people, keeping the country fed through normal times, including pandemics and so on. Imagine what they can do if you were to perhaps unshackle them slightly further from regulation and you provide some stimulus to support them, their tenants and other people who want to come in and innovate and grow and develop.

**Q107 Mark Menzies:** That is good—thanks. Andrew, this question is specifically to you and it is on that theme. Does there need to be alignment between potential freeport locations and locations with the



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potential to become growth centres and the areas identified by the Centre for Cities for the Government's innovation objective to succeed?

**Andrew Carter:** We need to think about how that works in practice, but in some respects different types of firms are already doing this. We use this example a lot, and it is not to make pejorative points but just to illustrate how we think about different things. Nissan makes its cars—or puts them together at least—in Sunderland but it designs them in Cranfield and London. Why? Well, historically it was given money to go to Sunderland but that is not the point. In Sunderland, it needs lots of land and relatively cheap labour and it gets that. What it needs to design in the R&D function is very highly qualified, highly innovative individuals who are not present in Sunderland in very great numbers but are plentiful in places like Cranfield and London.

Therefore, distribution, even within industries, is something that we should be very mindful of. Yes, we do think about the agglomerative effects from proximity, but all the evidence tells us agglomeration effects for manufacturing firms are massively lower than they are for services firms. Manufacturing firms get very few additional gains from being in close proximity to another manufacturing firm—the evidence is pretty clear on that—whereas services industries and sectors benefit massively from being in close proximity to others. I don't want to come across as being these are all "bah humbug", but we need to be mindful of and at least understand how these sorts of systems currently work and not lose sight of the benefits that some places have.

As an aside, for example—I have not looked at the numbers on this—given the activities that are going on in port industries, we need to be mindful about that, but this applies not just to ports. It applies more generally. We have a business rate system, for example, that penalises investment in plant and machinery. Plant and machinery is rateable valued by the valuation office. It actually retards investment in those kinds of industries. I would assume—I don't know—that a lot of the activities in ports are capital and machine intensive, so rates of investment in those localities will be lower.

We have also had a programme—maybe not deliberately—where capital allowances have shrunk over time relative to other opportunities. I would think very carefully. If you are looking to induce more investment in areas that have more of these types of firms, I would be thinking about those kinds of interventions. They will benefit ports, not because we target ports. It is just that ports have more of these capital-intensive firms that take advantage. Anyway, enough from me. I can see the Chair trying to wind me up, which is always good practice, Chair.

**Mark Menzies:** I normally wind the Chair up, Mr Carter, so don't you worry.

**Chair:** And very successfully.

**Mark Menzies:** Great. That is wonderful. Thanks very much.



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Q108 **Chair:** Thank you very much, Mr Menzies, for those fantastic questions, numerous fantastic questions.

I will turn to Councillor Bentley now. The Government planning—and it is a huge area—on the interaction with freeports, do you think that will increase international trade, and is it going to displace it? There is a tension there, of course, with the environment too. How do you see that as a councillor?

**Councillor Bentley:** It is very important that that is devolved properly and not just held centrally, because people who live in places know their places the best.

The environment is an important question. I mentioned it right at the very start. It is the knock-on effect past the port gates we have to think about and what that does to the environment. Does everything have to come by lorry? Can we do a lot more by train? We need to invest in our rail services for that, indeed we should, or the kind of lorries we will have in the future when we transport things around. Clearly, everything has to have a climate change ruler run through it—well, I think it does anyway—and that is very important. We must not lose sight of the fact that by gaining in one area we lose in another, and quite dramatically lose in another if we are not careful.

That is why I think the planning has to be done regionally and locally and given the freedoms to do that. I talked about the education abilities before, what we have done with enterprise zones thus far, what we can do with freeports. I think it is very important. There is a challenge, but I think freedoms should be allowed here. That will allow those areas to compete globally.

Q109 **Chair:** There are tensions—and basically you come down to them, perhaps, in your biases or your own particular needs—between environmental impact assessments, between birds and habitat regulations, between numerous things that are happening around the waterways, conservation and environmental designations that can be around as well. Then you have the tension that a freeport is there primarily to be an economic driver.

I will move to Richard after I hear your view on this, Kevin. The meshing of all those things is a difficult call, because the birds and habitat people, as I know living in a rural area, can have an effect on windfarms and what have you that are usually wanted by people locally. Where do you see the balance falling, from your own particular standpoint?

**Councillor Bentley:** You are right; it is difficult but not impossible. We have built ports, and very super ports as well, in the UK.

Q110 **Chair:** Can we do them quickly, though, with all those considerations?

**Councillor Bentley:** Exactly, and of course we have had to work with environmental people and naturalists, and it is very important that we do that as well. That is where the partnership work comes in. The best



people who know that, of course, are the people on the ground locally making that happen.

None of this is impossible. It is how we do it and running that climate change ruler over it, bearing in mind we need ports. We have been a trading nation for many centuries, haven't we? It is how that is done and how that is managed, what the legislation is that allows that to happen. It is equally important that all sectors are a part of that conversation and come up with a solution. I am a great believer that if you put enough experts around the table you will get a solution. If you just stand there shouting at each other, you will not. That is why it needs to be controlled locally.

Q111 **Matt Western:** Richard, to pick up on the point about permitted development rights, which we understand will be offered to all ports, what would be the specific advantages in planning? What will the advantages be for freeports in this new era of permitted development?

**Richard Ballantyne:** Permitted development, as I said earlier, gives port authorities and others the ability to move forward with developments at a far quicker pace than in normal arrangements. Notwithstanding Kevin's excellent planning colleagues who will want to facilitate planning applications as quickly as they possibly can, there have been some delays, I would probably say more in the marine environment than landside. Permitted development rights would give you the ability to respond quickly. If you are trying to attract overseas inward investors, they understand things like planning processes and permitted development at a very international level and they see that as being very helpful for guaranteeing their investment so the development can come on.

Q112 **Matt Western:** Doesn't that mean that basically local communities will not have any say about what gets built on their quayside or in their port and what their portscape looks like?

**Richard Ballantyne:** We have permitted development rights as is at the moment. We have had them for many years and it has not led to particularly huge conflicts. There is local consultation. There are thresholds, of course. We are not talking about super projects being built here.

One or two of the things we are proposing bring the ports in line with airport operators, who have a marginally more flexible arrangement, and also things like conservation zones, which the Chair mentioned, and marine protection and environmental conservation, of course. I would argue that it is very important we are not talking about ripping up environmental rules here. We are working within the habitats regulations, but I think as a country our strategic view of where we put these designated sites perhaps has not been as joined up with our economic strategy as it could have been. A lot of my members, about 70% of UK ports, have a conservation zone within them that triggers things like



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additional assessments, impact assessments, monitoring and so on that can delay and add cost to the development.

Moving forward with those kinds of designations, we need to be proper in thinking about where they should go. We have lots of marine areas, lots of coastline. There is lots of room, lots of habitats. I would argue that there is room for everything.

Q113 **Matt Western:** There has been a lot of talk about renewable energy investment and so on, which of course would be terrific and some of us have been talking about it for many years. But we are trying to get investment and we want to compete with Scandinavia or certainly European ports and so on. Are there any freeports in Scandinavia?

**Richard Ballantyne:** Not that I am aware of, particularly not new ones anyway. There may be some legacy freeports that we have seen throughout the EU. I think there is still a handful. There are quite a few sites in places like Riga and the Czech Republic but not necessarily directly in Scandinavia.

Q114 **Chair:** Andrew Carter, can I question the environmental impacts, if any, that the Government's proposal for freeports might have and how the Government could and should manage the clashes that will likely be happening? It depends where you are standing in many ways. If you have a pressing need to develop a freeport, you might have a particular environmental view, and if you have a pressing need not to, you might have another environmental view. Is it a resources question?

**Andrew Carter:** You certainly need the resources in order to consider the different aspects, but both Kevin and Richard covered the democratic element to it that is important in the sense that we need that degree of legitimacy, not just for ports but for schemes that are done, particularly if there is localised impact. As Richard also said, we need to think about the trade-off. That is really where we are. We are trying to trade off the costs and benefits from doing environmental on the one hand and growth and development on the other hand. That is the case not just in a freeport context but more generally across the piece.

I will say nothing more than we need to be as clear as we can be about what we think the costs and the benefits are, that better information and better understanding hopefully leads to better decisions and all the players can better understand the trade-offs that may well be required, irrespective of where they come to the decision. In some respects, part of the frustration or the disappointment you see in localities is that, for example, the benefits that have been promised to them do not materialise but they suffer some of the costs that were also set out. I suggest that we need to be a bit more open and mindful about that kind of conversation.

Q115 **Chair:** Thank you very much. We are coming to the end of the first panel and moving to the second panel. We have had quite an extensive time



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there. I thank those on the panel, Richard, Kevin and Andrew, for your time. Probably our paths will cross again at some other time. I have a feeling that we certainly will with Kevin at least, and Richard too. We might see you in Stornoway. That would be excellent.

**Richard Ballantyne:** I look forward to it. Alex's leg is now better. He broke his ankle and he has now recovered.

**Chair:** I did not know that. I hope it was not some event watching football. We have rival views on football teams, myself and Alex. Thank you very much for being here this afternoon.

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