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Welsh Affairs Committee

Freeports and Wales

Second Report of Session 2019–21

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to the report*

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Welsh Affairs Committee

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Summary

In February 2020, the UK Government launched a consultation on its proposals to establish up to ten freeports across the UK. Freeports are designated areas where goods can be imported from outside the UK without paying customs duties (duties would apply when the goods leave the freeport and enter the domestic market) and are designed to attract businesses which import, process and then export goods.

Our report, which represents our submission to the UK Government's consultation has sought to examine the arguments for, and against, freeports, the possible sites in Wales which would lend themselves to freeport status and the issues that the UK Government will need to work through if it wishes to proceed with establishing freeports in the UK.

Arguments for and against introducing freeports to Wales

There are competing arguments about the potential economic benefits of freeports. However, we note that the major Welsh ports have, in their written evidence to our inquiry, responded positively to the proposals.

Based on the balance of the evidence we have received, our report suggests that freeports could play an important role in stimulating economic development and regeneration, but that they are not, in themselves, a silver bullet. Instead, they need to fit alongside other policy measures to boost productivity and economic growth, especially if we are to avoid freeports becoming an activity in economic displacement.

We also argue that, if freeports are to make a lasting contribution to 'levelling up' the poorest regions and nations, freeport bids should be assessed for the additional economic and social gains envisaged for the communities nearby.

Accordingly, our report recommends that the UK Government should set out in greater detail its assessments of the economic potential of freeports and how it intends to use freeports as one tool among a broader set of policies to promote economic and regional development and to 'level up' the regions and nations of the UK. The Government should also detail the lessons it has learnt from the experience of enterprise zones, and from the previous incarnation of freeports from 1984 until 2012.

Freeport locations in Wales

A number of sites in Wales could be considered as locations for freeports, including seaports, airports and rail terminals. We have not sought to argue in favour of any specific Welsh location, or locations, as potential freeports.

However, if freeports are to be introduced in Wales, then it will entail close working between the UK and Welsh Governments. As our report notes, much of port policy and connected policy areas is devolved, or sees responsibility shared between the two Governments.

We make the following recommendations on possible freeports in Wales:

- The UK Government must not allow the complexities created by the devolution settlement to disadvantage the bids submitted by Welsh ports. For its part, the

Welsh Government should recognise the potential opportunities provided by the Freeports concept and work constructively with the Welsh ports to deliver outstanding bids to the UK Government.

- The UK Government must neither artificially cap the number of potential Freeports in Wales, nor create a ‘Welsh Freeport’ purely for optical or political purposes. All bids should be assessed on their merits even if that results in no Freeports, or several, being awarded to Wales.

Issues for consideration going forward

The final section of our report looks at a number of issues which require further consideration by the UK Government:

- Bidding process and governance: our report calls for greater clarity about how the bidding process will work and the governance structures that will be required for freeports. We recommend that if the UK Government proceeds with freeports after the consultation exercise then it should, as a priority, publish these details and explain what role bodies such as city regions and enterprise zones could expect to play
- Infrastructure, customs and planning implications: we observe that the establishment of freeports will have implications for port infrastructure and for customs, and planning, processes. We recommend that, ahead of any bidding process, clarity is provided as to the customs processes, and infrastructure, that will be required at freeport locations.

Freeports could offer benefits to the Welsh, and broader UK, economy, but they are not an economic panacea. As our report makes clear, if freeports are to be implemented effectively then they should form one of a broader number of measures to ‘level up’ the UK economy.

1 Introduction

The UK Government's freeports consultation

1. The UK Government, in its 2019 Manifesto, committed to creating “up to ten” freeports with the aim of ensuring that new freeports benefit all four nations of the UK and some of the most deprived communities by “levelling up the nation”. The Manifesto stated that a number of locations across the UK could be “successful innovative hubs for global trade” as the UK Government seek opportunities post-Brexit.¹

2. Freeports had also been discussed by the UK Government during the previous Parliament.² The Rt Hon Liz Truss MP, Secretary of State for International Trade, highlighted freeports as one of her top three priorities. According to Ms Truss:

Freedoms transformed London's Docklands in the 1980s, and freeports will do the same for towns and cities across the UK. They will onshore enterprise and manufacturing as the gateway to our future prosperity, creating thousands of jobs.³

3. The UK Government launched a Freeports Advisory Panel, which will include ministers and experts, and in February 2020 announced a 10-week consultation on freeports. The Government has the following objectives for freeports:

- establish Freeports as national hubs for global trade and investment across the UK: intensify the economic impact of our ports by enhancing trade and investment and generating increased economic activity across the UK
- promote regeneration and job creation: create high-skilled jobs in ports and the areas around them, prioritising some of our most deprived communities to level up the UK economy
- create hotbeds for innovation: create dynamic environments, capitalising on new ideas and fostering the conditions that will attract new businesses, investors and innovations.⁴

4. The consultation stated that the UK Government are working with the devolved administrations to develop proposals to create freeports in Scotland, Wales and Northern Ireland, as well as those in England. There have been no freeports in the UK since 2012 (although one exists on the Isle of Man, which is a UK Crown-dependent territory). The UK Government has said that it hopes to establish up to 10 freeports which would have “different customs rules to the rest of the country, that are innovative hubs, [would] boost global trade, attract inward investment, and increase productivity”.⁵

1 [The Conservative and Unionist Party Manifesto 2019](#), p 57 & 44

2 [The Prime Minister, in his first speech in the office](#), stated: “as we prepare for a post-Brexit future it is time we looked not at the risks but at the opportunities that are upon us so let us begin work now to create freeports that will drive growth and thousands of high-skilled jobs in left behind areas” (24 July 2019).

3 City AM, [Freeports: Government plans tax-free hubs aimed at boosting trade post-Brexit](#), 1 August 2019

4 UK Government, [Freeports consultation](#), 10 February 2020, p 10

5 UK Government, [Freeports consultation](#), 10 February 2020, p 9

5. During the 2019 Conservative leadership campaign, Boris Johnson referred to the following locations as potential sites for freeports: Liverpool, Teesport, Bristol, Grimsby, Hull and Belfast.⁶ The UK Government has made a commitment to announcing locations this year to enable the first freeport to be opened in 2021.

Ports in Wales

Ports and the devolution boundary

6. As a result of the Wales Act 2017, most powers in relation to the regulation and supervision of ports and harbours in Wales, with the exception of reserved trust ports, are devolved to the Welsh Government and National Assembly for Wales.⁷ Milford Haven is the only reserved trust port in Wales and responsibility for regulation and supervision of that port is therefore reserved to the UK Government and Parliament.⁸

7. In terms of related issues such as transport connections to ports and the planning system, there is a complex web of devolved and reserved competence. Responsibility for the railways in Wales is shared between the UK and Welsh Governments: legislative competence in relation to both British rail infrastructure and franchising are reserved to Westminster, but the procurement and management of the Wales and Borders franchise was devolved to Welsh Ministers in 2018.

8. The road transport policy field also sees a blend of devolved and reserved competence: the Welsh Government has responsibility for all trunk roads in Wales, but local authorities have responsibility for non-trunk roads in Wales and road traffic offences, driver licensing, exemptions from speed limits, vehicle insurance and vehicle registration are reserved to Westminster.

9. Finally, in terms of the planning process, most functions in the planning Acts have been devolved to the Welsh Ministers and the responsibility for port development has also been devolved, with the exception of reserved trust ports (Milford Haven).

The state of the port sector in Wales

10. The three most important ports in Wales are Milford Haven, Port Talbot and Holyhead, which have specialised shipping needs. Milford Haven, the UK's largest energy port and Wales's largest port by volume of trade, handles mainly crude oil, oil products and liquefied natural gas; Port Talbot imports iron ore and coal mostly for the adjacent steelworks; and Holyhead, the UK's second busiest ferry port after Dover, is the main port for freight and sea passenger transport with the Irish Republic. The other major ports include Fishguard, Swansea, Cardiff, and Newport, and there are also a number of minor ports in Wales: Barry, Mostyn, Neath, Llanddulas, Port Penrhyn and Burry Port.⁹ The map below shows the locations of the major ports in Wales:¹⁰

6 Financial Times, [Experts sceptical on Johnson's plans for regional freeports](#), 5 July 2019

7 [Wales Act 2017](#), s.29, 32

8 [HCWS639](#)

9 Welsh Government, [Sea transport 2018](#), 27 November 2019

10 Welsh Government, [Sea transport 2018](#), 27 November 2019

Map: Major sea ports locations in Wales, 2018



11. Freight traffic at Welsh ports declined by 4.8 per cent in 2018 to 49.2 million tonnes (Mt). This is the lowest level since comparable records began in 1976. Traffic at major ports in Wales includes 84% of foreign traffic, with 60.1% being foreign imports. Most foreign imports and exports comprise bulk products such as crude oil, oil products, liquefied gas and ores.¹¹

12. The importance of ports to the Welsh economy was underlined in a 2017 report by the National Assembly's External Affairs and Additional Legislation Committee, [Inquiry into the implications of Brexit for Welsh ports](#). According to the Committee's report, a 2011 Welsh Government commissioned study found that Welsh ports "directly supported 18,400 jobs", while a 2017 study funded by Associated British Ports found that their five South Wales ports "contributed £1.4 billion a year to the UK economy, including nearly £1 billion within Wales, and supported 15,000 Welsh jobs". As the Committee notes, that three of the Welsh Government's eight Enterprise Zones (Anglesey, Haven Waterway, and Port Talbot Waterfront) contain ports is a reflection of their economic significance to Wales.¹²

11 Welsh Government, [Sea transport 2018](#), 27 November 2019

12 National Assembly for Wales External Affairs and Additional Legislation Committee, [Inquiry into the implications of Brexit for Welsh ports](#), August 2017, p.10; Associated British Ports, [Ports take centre stage in South Wales economy](#), 1 November 2017

What is a freeport?

13. There is no fixed definition of a freeport, and its form can vary between different countries. According to a House of Commons Library paper:

Freeports are designated areas where goods can be imported from outside the UK without paying customs duties. Customs duty becomes payable only when the goods, possibly after processing, enter the domestic market. Other incentives on tax, planning and reduced red tape may also be available.

While being within a country's geographical borders, freeports are effectively outside a country's customs borders. Goods imported into a freeport are generally exempt from customs duties until they leave the freeport and enter the domestic market. No duty is payable if they are re-exported.¹³

14. The UK Government's consultation on freeports adopted the following definition:

Freeports are secure customs zones located at ports where business can be carried out inside a country's land border, but where different customs rules apply. They can reduce administrative burdens and tariff controls, provide relief from duties and import taxes, and ease tax and planning regulations.¹⁴

15. In an article on free zones, published on 7 October 2018, Professor Catherine Barnard and Emilija Leinarte, academics from Cambridge University, explained that there are three main categories of free zones:

free trade zones (FTZ), which provide for a duty-free area for the purpose of warehousing and distribution for re-exports;

export processing zones (EPZ), which offer incentives for manufacturing and related activities to be processed in the free zone (mainly for export of goods with value added);

special economic zones (SEZ), which are designed to promote foreign direct investments in defined areas.¹⁵

16. In an explainer article on freeports and free zones, the Institute for Government drew attention to the main differences between freeports and free zones or enterprise zones:

Freeports are similar to free zones, or 'enterprise zones', which are designated areas subject to a broad array of special regulatory requirements, tax breaks and government support. The difference is that a freeport is designed to specifically encourage businesses that import, process and then re-export goods, rather than more general business support or regeneration objectives.¹⁶

13 House of Commons Library, [Freeports](#), 21 February 2020, p 3

14 UK Government, [Freeports consultation](#), 10 February 2020, p 9

15 The UK in a Changing Europe, [Free zones](#), 7 October 2018

16 Institute for Government, [Trade: freeports and free zones](#), 10 February 2020

Our inquiry

17. In light of the UK Government's freeports consultation, we decided to hold a one-off oral evidence session to examine the arguments for and against introducing freeports to Wales. However, as the session was postponed due to the Covid-19 situation, we accepted written evidence from proposed witnesses. We received evidence from trade and economic experts, port operators and port associations and a think tank.

18. We have sought carefully to weigh up the arguments for and against introducing freeports to Wales. This report will therefore start by looking at the main arguments we heard for the establishment of freeports in Wales. It will then consider the main arguments we heard against creating freeports in Wales. We will also examine the potential operation of freeports and possible locations in Wales, as well as the issues for the UK Government to consider if it chooses to take forward freeports as official policy. This report is the Committee's submission to the UK Government's consultation.

2 Arguments for and against introducing freeports to Wales

Arguments for introducing freeports to Wales

19. We received evidence that drew attention to the potential benefits of freeports and the establishment of one in Wales. These benefits included the economic stimulation that could arise from freeports, such as increased employment and economic investment.

Economic growth through increased employment and investment opportunities

20. The Milford Haven Port Authority stated that freeports may have “several direct and indirect benefits” that could stimulate local, regional and national economic development, leading to job creation, investment and reducing regional inequalities.¹⁷ Associated British Ports, a port owner and operator with a network of ports in the UK, also stated that freeports could create “new high-skilled jobs” and could encourage growth in “concentrated business clusters”.¹⁸ Professor Andrew Potter, Chair in Logistics and Transport at Cardiff University, agreed that increased manufacturing and processing activity could create additional jobs.¹⁹

21. Stena Line Ports Ltd, the operators of Holyhead and Fishguard ports, suggested that freeport status could grow and develop a port by attracting a more “diverse international customer base” as well as international import or export operators that would facilitate investments. They also indicated that freeport status could enable it to provide services and berthing facilities that would attract a wider range of vessels types and increase passenger cruise traffic. They added:

In addition, such status would also increase the attractiveness for businesses within the port limits, particularly marine connected business as well as providing a more economical place for business that sectors such as those in the sustainability space require to develop their business. There is also of course little doubt that any new business attracted to a future Holyhead Port Freeport Area would also bring benefit to the existing ferry businesses.²⁰

22. Professor Potter also suggested that the customs and tax benefits afforded by freeports could be attractive to businesses, especially “improving cash flow by delaying the payment of duties (or even avoiding these if the goods are exported rather than entering the UK)”. He referred to the example of those who deal with seasonal goods, who may be able to stockpile items within the Freeport before peak demand.²¹

17 Port of Milford Haven (FRE0006)

18 Associated British Ports (FRE0002)

19 Professor Andrew Potter (FRE0003)

20 Stena Line Ports Limited (FRE0005)

21 Professor Andrew Potter (FRE0003)

Attracting funding for infrastructure and innovation

23. The Milford Haven Port Authority suggested that freeports could “serve as a vehicle for galvanising HM Government funding for infrastructure and innovation grants” and claimed that freeports would “be able to act in a coordinated manner in obtaining accelerated planning permissions, bidding for innovation, and overall supporting emerging businesses end-to-end”.²²

24. Stena Line Ports Ltd indicated that any “increased traffic” as a result of freeport status would create “greater prosperity for the region through direct and indirect employment; it would add value to the Port, the locality, the North Wales region and UK economy”.²³

25. The British Ports Association, who represent a 100 members across the UK, also welcomed the measures proposed in the UK Government’s consultation document:

The customs elements of freeports do not traditionally benefit gateway ports, such as Ferry ports - where freight typically enters and leaves immediately. However, certainly for ferry ports and other types of port, planning incentives and other business easements suggested to be included would be very helpful in helping those operators expand and develop.²⁴

Increased industrial activity

26. Associated British Ports felt that freeports could reinvigorate the South Wales industrial base due to “excellent links” to “key manufacturing zones” such as the West Midlands through the M5 and M4 corridors. They also stated that freeports could support heavy industry such as the steel industry by creating a “local source of demand for their products” and inland manufacturing sectors such as the automotive sector.²⁵ They added that marine access could encourage global trade with markets such as North America, Ireland and Iberia.

Arguments against the introduction of freeports to Wales

27. However, we also received evidence that questioned the purported benefits of freeports and suggested that there could be disadvantages to their establishment. Some of the main concerns expressed to us included the extent of any economic benefits, the impact on customs infrastructure and the impact of freeports on the competitiveness of the port sector more generally.

Extent of economic benefits

28. We heard concerns about the actual benefits that freeports could bring. For instance, Professor Winters suggested that “the only concessions a Freeport offers its firms are on customs duties in terms of simplified procedures, deferral of duty on goods imported into the zone and then transferred to the rest of the UK, and freedom from duties for goods imported into and then re-exported from the zone”. He explained that the Government was also considering “coupling these [concessions] with policies such as tax concessions

22 Port of Milford Haven (FRE0006)

23 Stena Line Ports Limited (FRE0005)

24 British Ports Association (FRE0004)

25 Associated British Ports (FRE0002)

equivalent or similar to those provided to Enterprise Zones, of which the UK already has 61, eight of which are in Wales, and also relaxations of planning regulations”.²⁶ According to Professor Winters, the tariff concession arising from freeports would be of minimal value and “do little to encourage economic activity within the freeport” in light of the UK Government’s intention to agree a zero-tariff trade agreement with the EU. Such a deal would, if agreed, and when coupled with the Continuity Trade Agreements already signed with third countries, set tariffs to zero on more than half of UK imports.²⁷

Job creation, skills and displacement

29. In its written evidence, the Centre for Cities expressed scepticism about the UK Government’s “wildly optimistic job creation predictions” in the freeports initiative. They pointed to an estimate from HM Treasury in 2011 that enterprise zones would create 54,000 private jobs by 2015, but only 13,500 of these had been created between 2012 and 2017.²⁸

30. Concerns were also raised about the skill level and nature of jobs created. The Centre for Cities, for example, suggested that 95% of the jobs created by enterprise zones were lower skilled.²⁹ Similarly, Professor Potter claimed that the majority of jobs would be manual labour rather than highly skilled jobs, mainly due to the nature of movement and processing goods rather than product development.³⁰

31. The risk of economic and employment displacement was raised in a number of submissions to the Committee. The Centre for Cities indicated that freeports could encourage businesses to move from their primary location to capitalise on the benefits that these zones offer. Their research suggests that at least one third of the jobs created in enterprise zones in 2017 were relocated from elsewhere. Associated British Ports agreed that freeports may encourage businesses to move from inland locations to ports, and Professor Potter referred to the risk that any new jobs in the locality of a freeport may be displaced. Professor Winters also felt that some geographical areas may be unfairly advantaged:

Even if firms do not get up and move with the introduction of a Freeport, as the economy evolves, if an enterprise zone is effective, firms outside it will be less competitive in local labour markets than firms inside, and in an economy with relatively full employment (to which the UK will, we hope, soon return), they are almost bound to decline in relative size.³¹

The impact on competition

32. We heard concerns about the potential impact of establishing a limited number of freeports on the competitiveness of the port sector more generally. For instance, the British Ports Association disagreed with the Government’s proposal of having ten freeports, suggesting that this figure represented “an arbitrary and unnecessary cap on the ambition

26 Professor L Alan Winters (FRE0001)

27 Professor L Alan Winters (FRE0001)

28 Centre for Cities (FRE0007)

29 Centre for Cities (FRE0007)

30 Professor Potter (FRE0003)

31 Professor L Alan Winters (FRE0001)

of the ports sector, in Wales and the whole of the UK”. They expressed concern that this could impact regional competition, and could see some ports prioritised at the expense of others, including in Wales.³²

33. Stena Line Ports Ltd were also keen to ensure that Welsh ports are not disadvantaged by nearby English ports, highlighting the danger that businesses that might have located to Holyhead could move elsewhere, for example to Liverpool.³³

34. Associated British Ports expressed concern, in their written evidence, about the “disruption of natural competition” within the market and that an unfair bidding process could distort the market. One suggestion put forward by Associated British Ports was that the benefits of freeports to the local Welsh economy as well as the broader UK economy should be included in any bidding process and assessment.³⁴

The need for additional infrastructure and customs processes

35. Milford Haven Port Authority warned that a freeport status would require “some additional customs infrastructure,” stating that there is currently “limited customs capacity to check on foreign marine vehicles”.³⁵ Stena Line Port Ltd reiterated concerns about the implications of additional checks that may arise from the UK’s withdrawal from the EU and expressed their firm belief that “customs controls for both Brexit and any potential ‘Freeport’ checks should as far as possible be handled digitally with physical intervention kept to a minimum”.³⁶

36. Professor Winters also raised concerns about customs processes at freeports:

[...] import procedures may be simplified, but they will not be abolished and any good leaving the Freeport for the rest of the UK would have to complete regular procedures at that stage. Moreover, whereas a good entering the UK from outside faces one set of formalities, a good entering via a freeport would face two—i.e. on both entry to and exit from the Freeport.³⁷

37. Professor Potter’s evidence highlighted some of the infrastructure implications that would arise from freeports. According to Professor Potter, “there would be a need for high speed broadband connections, both through wired and mobile technology”. These connections would be needed at the port, but also “potentially along key corridors too”. In addition, “inland transport by both road and rail links would need to be considered” for the movement of goods, although the extent of any additional road and rail links would “depend upon the nature of products being handled at the Freeport”.³⁸ He also raised concerns about transparency due to the position of several goods outside the customs and tax rules of countries. As an example, he warned that “extremely high value articles” may be stored in freeports to avoid import duties or to evade tax in selling them.

32 British Ports Association (FRE0004)

33 Stena Line Ports Limited (FRE0005)

34 Associated British Ports (FRE0002)

35 Port of Milford Haven (FRE0006)

36 Stena Line Ports Limited (FRE0005)

37 Professor L Alan Winters (FRE0001)

38 Professor Andrew Potter (FRE0003)

The global experience

38. We heard that a number of successful freeports across the world could be used as case studies for a successful freeport model in Wales. The Port of Milford Haven referred to the creation of Special Economic Zones (SEZs) in Poland in 1994, aimed at tackling rural unemployment and attracting foreign direct investment via major corporate tax relief. It is estimated that SEZs had generated over EUR20 billion of investments and created over 186,000 jobs by 2012.³⁹

39. The port also outlined other successful case studies where benefits of Free Zones can be seen in the “right environments” such as Dubai’s Jebel Ali Free Zone as a hub for regional businesses. They also referred to Tanger Med Free Zone in Morocco as an example of “best practice in terms of investment impact” that has a “broadly similar sector mix” to the port in southwest Wales.⁴⁰

40. Associated British Ports felt that the US model of freeports/zones where ports of entry are connected to other inland zones with manufacturing activity could be relevant in Wales. According to Associated British Ports, such a model could help “cement cross-border ties to areas such as the West Midlands that are served by Welsh Ports. It may also facilitate the effective creation of free trade corridors from east coast ports to those ports that serve destinations in Ireland”.⁴¹

41. However, Professor Winters cautioned against the assertion that the US model stimulates economic activity within their zones, stating that this is mostly due to “tariff inversion” that is not used in Europe. Professor Winters elaborated:

In the USA several sectors, but most notably vehicles, pay higher tariffs on their imported inputs than they pay on the finished product. Hence producers can reduce their liability to tariffs by locating in a freeport so that the inputs pay no tariff on entry and, as part of the final product, pay the lower rate on exit into the US economy. That is, freeports in the USA are essentially import processing zones. Similar opportunities are not available in significant quantities in the UK. It is possible that there is scope to import these into the Welsh ports from the Republic of Ireland, which might offer some return from establishing a Freeport in those ports, but overall the trade that could be so created is probably rather small, and the tariff-savings even smaller.

Overall, Professor Winters suggests “that the trade benefits to the UK of freeports, strictly interpreted, are small” and could “fail to have desirable, or even detectable, effects on UK international trade”.⁴²

39 Port of Milford Haven (FRE0006)

40 Port of Milford Haven (FRE0006)

41 Associated British Ports (FRE0002)

42 Professor L Alan Winters (FRE0001)

Conclusions

42. **The current UK Government consultation on freeports, and the strong interest being shown by Welsh ports in pursuing freeport status, make this an important moment to recognise the positive role played by ports in terms of trade, inward investment and job creation in Wales.**
43. **While there are competing arguments about the potential economic benefits of freeports, the major Welsh ports have responded positively to the consultation and have set out different proposals for how freeport status could enhance their operations and boost their contribution to the Welsh and UK economy.**
44. **Freeports could play an important role in stimulating economic development and regeneration and potentially offer much-needed opportunities for supply chains and manufacturing in Wales following the UK's withdrawal from the European Union.**
45. **Freeports are not, in themselves, a silver bullet for economic regeneration and development. Freeports need to fit alongside other policy measures to boost productivity and stimulate economic growth - particularly if the problems of economic displacement activity are to be avoided.**
46. **The nature of ports means that the economic gains that accrue from their activities are often felt nationally while port communities themselves remain among the poorest parts of the country. If freeports are to make a lasting contribution to 'levelling up' the poorest regions and nations, freeport bids should be assessed for the additional economic and social gains envisaged for the communities nearby.**
47. ***The UK Government should set out in greater detail its assessments of the economic potential of freeports and how it intends to use freeports as one tool among a broader set of policies to promote economic and regional development and to 'level up' the regions and nations of the UK. The Government should also detail the lessons it has learnt from the experience of enterprise zones, and from the previous incarnation of freeports from 1984 until 2012.***

3 Freeport locations in Wales

48. In their written evidence, Associated British Ports summarised some of the key variables that would determine the potential success of a site as a freeport:

Marine facilities allowing global trade with corresponding strong intra-UK connectivity;

Proximity to large centres of population with the ability to train and sustain the workforce required within the freeport;

Availability of industrially zoned land to build facilities;

Excellent hinterland connectivity; and

Potential impact on the broader freeport area in reducing unemployment, raising local GVA and addressing long-term structural issues in the local economy.⁴³

49. The evidence we received suggested that a number of sites in Wales could be considered as locations for freeports. Milford Haven Port Authority suggested that a “limited number of high-quality zones is most effective”, based on the international experience of freeports, and recommended that only one or two sites should be considered in Wales.⁴⁴ Associated British Ports added that creating a single entity with multiple facilities would “maximise benefits and flexibility to the Welsh economy”.⁴⁵

50. Professor Potter⁴⁶ believed that a number of terminals could be considered as potential sites for freeports in Wales, including seaports, airports such as Cardiff Airport and St Athan as part of a wider Enterprise Zone, as well as rail terminals. The merits and constraints of some sites, based on the evidence we receive, are considered below.

Holyhead

51. Stena Line Ports Ltd said that their current business case for developing Holyhead is based on increasing berthing capacity for larger cruise vessels, and that freeport status could attract investment. The port has already submitted applications to expand the land used for storage, space and new berths, and that this “quay side space” could be suitable for some freeport work. However, the port also highlighted the need to work with industrial areas in close proximity:

It should however be highlighted that this additional reclaimed valuable quay wall space may not be enough to carry out significant ‘Freeport’ work so therefore we suggest that thought be given to granting industrial areas close to the port a ‘Free Trade’ status which in turn would complement a Ports ‘Freeport’ status. The underutilised Parc Cybi Industrial Site located approximately one mile from the Port of Holyhead might well be a perfect example of this.⁴⁷

43 Associated British Ports (FRE0002)

44 Port of Milford Haven (FRE0006)

45 Associated British Ports (FRE0002)

46 Professor Potter (FRE0003)

47 Stena Line Ports Limited (FRE0005)

52. Professor Potter outlined the main rationale for a freeport at Holyhead port based on its connection with the Republic of Ireland:

Once the transition agreement expires, then there will be significant import/export activities through the port. Freeport status may assist in smoothing the flow of goods to and from the port by allowing goods to remain in storage until required. For land bridge flows to the rest of the EU, Freeport status may facilitate a smoother transfer through the UK, as well as potentially supporting modal shift to rail, either within the UK or through the Channel Tunnel.⁴⁸

Milford Haven

53. Milford Haven Port Authority have declared their interest in bidding for freeport status, and believed that there will be “wider national growth benefits that Wales will experience”. The Port made the case for being designated as a freeport:

The Port of Milford Haven is well placed in relation to the Atlantic basin and its international energy markets. It is also in close proximity to abundant renewable energy resource. Therefore, a freeport that focuses on the existing energy, emerging renewables and the hydrogen sector would promote local economic development and nation-wide innovation and decarbonisation. The existing resources, infrastructure and skills at the Port, along with a cluster of niche energy companies and momentum gained from projects like Pembroke Dock Marine would also ensure low risk of displacement from other regions.⁴⁹

54. Professor Potter described the model for Milford Haven that would be in line with the criteria set out in the UK Government consultation, with freeport status a means to “support value adding industries in the port industry”. He added:

There would likely be products there both for the UK market and for export without crossing the UK duty border. Beyond this, some opportunities for Irish freight flows may exist, although the volume of traffic is significantly lower than Holyhead.⁵⁰

55. Milford Haven Port Authority also outlined constraints that would need to be addressed in gaining freeport status. The Port raised concerns about land availability in terms of disparity and scale compared to other potential freeport sites, and indicated that they could create a virtual freeport that uses technology to monitor shipments and connecting several sites of economic activity.⁵¹

48 Professor Andrew Potter (FRE0003)

49 Port of Milford Haven (FRE0006)

50 Professor Andrew Potter (FRE0003)

51 Port of Milford Haven (FRE0006)

56. The Port also highlighted their capacity to develop maritime infrastructure, especially the need to adapt and expand facilities to suit particular cargoes that would require consent. At present, consent is a lengthy process and “at odds with market and investment decisions,” and therefore any developments would require change in planning processes to be accelerated.⁵²

57. The Port also raised concerns about the impact of developing a freeport on landscape, seascape and biodiversity, as raised by the Pembrokeshire Coast National Authority. The Port stress that drawing land and marine boundaries with planning and development consents would be “critical” to the Port’s success.⁵³

South-East Wales

58. Professor Potter outlined an opportunity for a “multimodal Freeport model” which could combine the seaports of Newport, Cardiff and/or Barry with Cardiff airport and Wentloog rail terminal:

Such multi-terminal schemes are being considered by the UK Government although governance and coordination may be more challenging. Looking more widely, there could even be an opportunity for including ports around Bristol. While this would be a large area geographically, the various terminals do complement each other. For example, the Bristol area lacks a container road/rail terminal.⁵⁴

Freeports and Devolution

59. As discussed in paras. 6–9, ports policy (including development consents) is generally, with the exception of reserved trust ports, devolved to the Welsh Government, while responsibility for associated issues such as road and rail planning and connectivity is shared between the UK and Welsh Government.

60. In his written evidence, Professor Potter emphasised the importance of working across governments to ensure the successful establishment of freeports, including areas such as taxation, customs, transport and planning, economic development and trade. He also stressed the need for alignment in appraising freeport initiatives, considering the differences in planning processes and regional development between England and Wales. He recommended that the two Governments should engage in “timely communication and trust,” ensuring transparency during the process.⁵⁵ Associated British Ports agreed that policies such as planning should be aligned between England and Wales to ensure that Welsh ports are not disadvantaged, thus encouraging them to operate on a “level playing field” and ensure widespread economic growth.⁵⁶

61. Given that Ports policy in Wales is generally devolved to the Welsh Government, and so are the policy areas that support Ports activity such as road, rail and land use planning, implementing freeports successfully in Wales will require close cooperation with the Welsh Government.

52 Port of Milford Haven (FRE0006)

53 Port of Milford Haven (FRE0006)

54 Professor Andrew Potter (FRE0003)

55 Professor Andrew Potter (FRE0003)

56 Associated British Ports (FRE0002)

62. The UK Government must not allow the complexities created by the devolution settlement to disadvantage the bids submitted by Welsh ports. For its part, the Welsh Government should recognise the potential opportunities provided by the freeports concept and work constructively with the Welsh ports to deliver outstanding bids to the UK Government.

63. The UK Government must neither artificially cap the number of potential freeports in Wales, nor create a 'Welsh freeport' purely for optical or political purposes. All bids should be assessed on their merits even if that results in no freeports, or several, being awarded to Wales.

4 Issues for consideration going forward

64. This chapter highlights a number of issues, based on the evidence we have received, which the UK Government should take into consideration as part of the freeport consultation process. It concludes with some general observations on freeports and questions which the Government needs to answer if freeports are to be established in the UK.

Bidding process and governance

65. Professor Potter suggested that bids for freeports would require a “consortium-based approach (either formal or informal) and incorporating public and private sector bodies”. A similar view was expressed by Associated British Ports which advocated the benefit of grouping ports together in “logical groupings that support particular trades or industries,” which may operate across boundaries between different regions in the UK. They added:

We would recommend that the bidding process seeks to encourage supply chain solutions and adopts a definition of ports that recognises the scope for multiple individual terminals to be grouped together.⁵⁷

66. Professor Potter also recommended that local public sector bodies should work with ports on developing their plans. According to Professor Potter, this would “avoid any potential conflict of interest (either perceived or actual) when discussing Freeport appraisal with the UK Government”. He suggested that “Public sector bodies established to boost economic development in the areas around the ports would be natural partners”, for example the North Wales Economic Ambition Board (Holyhead), Haven Waterway Enterprise Zone (Milford Haven) or the Cardiff City Region (South East Wales).⁵⁸

67. However, Milford Haven Port Authority suggested that a ‘Special Purpose Vehicle’ (SPV) may need to be created, given the absence of Local Enterprise Partnerships (LEPs) that are prevalent in England:

An SPV would be a separate legal entity holding legal, planning and regulatory powers, often called a Free Zone Authority internationally.

68. Milford Haven Port Authority also raised questions about the governance structure of a potential freeport in Wales. They recommended that governance must be led by the private sector with local councils supporting the bid as key stakeholders to ensure that freeports achieve their objectives in a “sustainable and timely manner”. They added:

Each approved Freeport will require an appropriate governance structure that sets out, amongst other things, how the Freeport is managed, and its benefits monitored. Whilst the detail would come later, we would expect at a high level the benefits to be documented and assessed in a benefits realisation plan.⁵⁹

57 Associated British Ports (FRE0002)

58 Professor Andrew Potter (FRE0003)

59 Port of Milford Haven (FRE0006)

69. There needs to be greater clarity about how the bidding process for freeport status will work, including whether consortium bids are to be encouraged and what role public sector bodies could or should play in the process. There also needs to be clarity about the governance structures that will be required for freeports, and where public bodies will fit into these structures.

70. *If the UK Government chooses to proceed with freeports after the consultation process then it should, as a priority, publish details on the bidding process that it intends to adopt. The UK Government should consider using the bidding process to encourage bids by consortiums (including multiple terminals) and should explain what role bodies such as city regions or enterprise zones could expect to play. The bidding process should also provide clarity about the governance structures that would be expected for freeports and could, for example, include an illustrative example of such a structure.*

Infrastructure, customs and planning implications

71. As mentioned in para. 37, Professor Potter stressed, in his written evidence, the need for infrastructure to develop a freeport, both to ensure the flow of information and goods.⁶⁰

72. The British Ports Association indicated that some Welsh ports are situated within surrounding available land that was previously used for industrial purposes, which could be used as a “useful tool in stimulating economic growth and investment”. They welcomed the UK Government’s intention to create a “bespoke model” which would include “multiple customs zones located within or away from a port, to maximise flexibility for port operators and businesses,” as specified within the consultation. The Association called for “innovative models” such as “virtual Freeport corridors” linking the port to land in close proximity.⁶¹ Stena Line Ports Ltd, in their written evidence, also called for any customs checks and processes arising from freeports to be digital in nature.⁶²

73. The British Ports Association⁶³ also voiced their support for potential changes to the planning process as part of the establishment of freeports. Such changes would, according to the British Ports Association, entail:

speeding up the process and granting of planning permissions for appropriate forms of development, ensuring that the marine and terrestrial planning systems relating to ports are closely co-ordinated and providing for the faster delivery of marine licences, and reducing delays arising from environmental legislation such as the Habitats Directive and environmental impact assessments.

74. **The establishment of freeports is likely to have implications for port infrastructure and for customs, and planning, processes. Ahead of any bidding process, it is important that clarity is provided as to the customs processes that will be required at freeports, as well as the infrastructure implications. The UK Government should also work with the devolved administrations, local government and key stakeholders in the freight, ports and airports sector to discuss what changes would be required to planning processes to accommodate the establishment of freeports.**

60 Professor Andrew Potter (FRE0003)

61 British Ports Association (FRE0004)

62 Stena Line Ports Limited (FRE0005)

63 British Ports Association (FRE0004)

Concluding observations

75. Freeports could offer benefits to the Welsh, and broader UK, economy, but it is clear that they are not an economic panacea. If implemented effectively they could form one of a broader number of measures to 'level up' the UK economy.

76. If the UK Government is committed to establishing freeports across the UK then there remain questions that need to be answered. These questions include:

- How will the UK Government work with the Welsh Government and other devolved administrations in ensuring that freeports can be successfully established and integrated in the local, as well as national, economy?
- What role should consortiums and public sector bodies play in the bidding process and delivery of freeports?
- What additional hard and technological infrastructure will be required as a result of freeports?
- What additional customs arrangements will need to be in place at freeports?
- How will the UK Government ensure that any jobs or economic growth generated by freeports is new and not the result of economic displacement from other locations in the UK?
- Are there other policies that could be pursued which would deliver more meaningful economic development for regions across the UK?

Conclusions and recommendations

Arguments for and against introducing freeports to Wales

1. The current UK Government consultation on freeports, and the strong interest being shown by Welsh ports in pursuing freeport status, make this an important moment to recognise the positive role played by ports in terms of trade, inward investment and job creation in Wales. (Paragraph 42)
2. While there are competing arguments about the potential economic benefits of freeports, the major Welsh ports have responded positively to the consultation and have set out different proposals for how Freeport status could enhance their operations and boost their contribution to the Welsh and UK economy. (Paragraph 43)
3. Freeports could play an important role in stimulating economic development and regeneration and potentially offer much-needed opportunities for supply chains and manufacturing in Wales following the UK's withdrawal from the European Union. (Paragraph 44)
4. Freeports are not, in themselves, a silver bullet for economic regeneration and development. Freeports need to fit alongside other policy measures to boost productivity and stimulate economic growth - particularly if the problems of economic displacement activity are to be avoided. (Paragraph 45)
5. The nature of ports means that the economic gains that accrue from their activities are often felt nationally while port communities themselves remain among the poorest parts of the country. If freeports are to make a lasting contribution to 'levelling up' the poorest regions and nations, freeport bids should be assessed for the additional economic and social gains envisaged for the communities nearby. (Paragraph 46)
6. *The UK Government should set out in greater detail its assessments of the economic potential of freeports and how it intends to use freeports as one tool among a broader set of policies to promote economic and regional development and to 'level up' the regions and nations of the UK. The Government should also detail the lessons it has learnt from the experience of enterprise zones, and from the previous incarnation of freeports from 1984 until 2012.* (Paragraph 47)

Freeport locations in Wales

7. Given that Ports policy in Wales is generally devolved to the Welsh Government, and so are the policy areas that support Ports activity such as road, rail and land use planning, implementing freeports successfully in Wales will require close cooperation with the Welsh Government. (Paragraph 61)
8. *The UK Government must not allow the complexities created by the devolution settlement to disadvantage the bids submitted by Welsh ports. For its part, the Welsh Government should recognise the potential opportunities provided by the freeports concept and work constructively with the Welsh ports to deliver outstanding bids to the UK Government.* (Paragraph 62)

9. *The UK Government must neither artificially cap the number of potential freeports in Wales, nor create a ‘Welsh freeport’ purely for optical or political purposes. All bids should be assessed on their merits even if that results in no freeports, or several, being awarded to Wales.* (Paragraph 63)

Issues for consideration going forward

10. There needs to be greater clarity about how the bidding process for freeport status will work, including whether consortium bids are to be encouraged and what role public sector bodies could or should play in the process. There also needs to be clarity about the governance structures that will be required for freeports, and where public bodies will fit into these structures. (Paragraph 69)
11. *If the UK Government chooses to proceed with freeports after the consultation process then it should, as a priority, publish details on the bidding process that it intends to adopt. The UK Government should consider using the bidding process to encourage bids by consortiums (including multiple terminals) and should explain what role bodies such as city regions or enterprise zones could expect to play. The bidding process should also provide clarity about the governance structures that would be expected for freeports and could, for example, include an illustrative example of such a structure.* (Paragraph 70)
12. The establishment of freeports is likely to have implications for port infrastructure and for customs, and planning, processes. *Ahead of any bidding process, it is important that clarity is provided as to the customs processes that will be required at freeports, as well as the infrastructure implications. The UK Government should also work with the devolved administrations, local government and key stakeholders in the freight, ports and airports sector to discuss what changes would be required to planning processes to accommodate the establishment of freeports.* (Paragraph 74)
13. Freeports could offer benefits to the Welsh, and broader UK, economy, but it is clear that they are not an economic panacea. If implemented effectively they could form one of a broader number of measures to ‘level up’ the UK economy. (Paragraph 75)
14. If the UK Government is committed to establishing freeports across the UK then there remain questions that need to be answered. These questions include:
- How will the UK Government work with the Welsh Government and other devolved administrations in ensuring that freeports can be successfully established and integrated in the local, as well as national, economy?
 - What role should consortiums and public sector bodies play in the bidding process and delivery of freeports?
 - What additional hard and technological infrastructure will be required as a result of freeports?
 - What additional customs arrangements will need to be in place at freeports?

- How will the UK Government ensure that any jobs or economic growth generated by freeports is new and not the result of economic displacement from other locations in the UK?
- Are there other policies that could be pursued which would deliver more meaningful economic development for regions across the UK? (Paragraph 76)

Formal minutes

Tuesday 5 May 2020

Members present:

Rt Hon Stephen Crabb, in the Chair

Simon Baynes Robin Millar

Virginia Crosbie Rob Roberts

Geraint Davies Beth Winter

Ben Lake

Draft Report (*Freeports and Wales*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Thursday 7 May 10.00am.]

Written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

- 1 Professor L Alan Winters (FRE0001)
- 2 Associated British Ports (FRE0002)
- 3 Professor Andrew Potter (Deputy Head of Section (Learning and Teaching) at Cardiff Business School) (FRE0003)
- 4 British Ports Association (FRE0004)
- 5 Stena Line Ports (FRE0005)
- 6 Port of Milford Haven (FRE0006)
- 7 Centre for Cities (FRE0007)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2019–21

First Report	Pre-appointment hearing with the Government's preferred candidate for the Chair of S4C	HC 89
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