



House of Commons
International Trade Committee

**UK Freeports:
Government Response
to the Committee's
Fourth Report of
Session 2019–21**

**Second Special Report of Session
2021–22**

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The International Trade Committee

The International Trade Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Trade and its associated public bodies.

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The current staff of the Committee are Jasaron Bajwa (Assistant Clerk), Eligio Cerval-Peña (Clerk), Matthew Chappell (Committee Operations Manager), Professor Tony Heron (POST Parliamentary Academic Fellow), Adam McGee (Media Officer), Saminah Turk (Committee Operations Officer), David Turner (Committee Specialist), Emily Unell (Second Clerk).

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Second Special Report

The International Trade Committee published its Fourth Report of Session 2019–21, [UK freeports](#) (HC 258), on 20 April 2021. The Government response was received on 18 June 2021 and is appended to this report.

In the Government Response, the Committee's conclusions and recommendations are shown in **bold** type, and the Government responses are shown in plain type.

Appendix: Government Response

1. **While we acknowledge the apologies from the Chief Secretary to the Treasury and Minister of State for Regional Growth and Local Government during their appearance before us, we find this episode of evident confusion and apparent unwillingness to appear before us extremely regrettable. Aside from hindering the important role Parliament plays in scrutinising the Government, this unwillingness caused substantial delay to our evidence-taking, and to the preparation of this Report.** (Paragraph 9)

The Government's Response:

- The Government fully supports the crucial role the Committee plays in scrutinising its work.
- The development of Freeports policy has been a very collaborative effort across numerous departments, so it was important that the right ministers were able to attend.
- As you note, both the Chief Secretary and Minister of State of Regional Growth and Local Growth have already offered their apologies for the delay involved.

2. **We do not consider this Report the conclusion of our work on freeports. We intend to continue to scrutinise the policy and to question ministers as freeports become operational.** (Paragraph 10)

3. **We commend the Government's ambition to increase trade and investment across the UK through its freeport policy. It remains to be seen how successful freeports will be at achieving this objective.** (Paragraph 22)

4. **We welcome the Government's clarity on its objectives for freeports and the related outcomes freeport operators must deliver against. Progress made toward meeting these objectives and outcomes must be measurable and monitored. We recommend that the Government, or the cross-Whitehall governance body, set out in further detail the metrics that will be used to measure success against these objectives and outcomes, and how it will report on progress made annually.** (Paragraph 23)

The Government's Response:

- The Government intends to publish its monitoring and evaluation (M&E) strategy for Freeports in due course. This will include further detail on the metrics that

will be used to measure success. We intend to provide an annual update to keep the Committee informed of the progress of Freeports with evidence from the M&E process.

5. Now that freeport locations in England have been announced, we recommend that HM Treasury promptly publish an impact assessment for the policy. This should include estimates for economic growth, increased trade and investment, and job creation, as well as an analysis of the impact on different sectors. Such an assessment would aid a full evaluation of the policy in due course. (Paragraph 24)

The Government's Response:

- Due to the site-specific nature of reliefs, it has not been appropriate to comment on estimates until successful Freeport locations had been announced.
- For example, the total annual cost of tax reliefs will depend on the exact location and size of the Freeport tax sites.
- Any modelling we have done to date has been to support policy development.
- The Government intends to publish costings of the Freeports programme at the next fiscal event, in line with conventional practice.

6. We recommend that the Government commission a full, independent evaluation of the implementation of the freeports policy, to take place within five years of the establishment of the first freeports. The findings of this evaluation should be published promptly. The evaluation should include: a review of the bidding process and suitability of locations chosen; an assessment of progress towards meeting the objectives and outcomes set out in the bidding prospectus; a measure of new economic activity and job creation generated by the policy; an assessment of the impact of the policy on different sectors; an assessment of what economic displacement, if any, has occurred due to the policy; and a value for money analysis including comparison with the findings of HM Treasury's impact assessments. Those carrying out the review should be engaged at an early stage to ensure the information collated by freeport governance bodies, local authorities and others is relevant to, and can support, this evaluation. (Paragraph 27)

The Government's Response:

- The Government agrees with the Committee's recommendation and fully intends to evaluate the impact of Freeports. Further information will be available in our M&E Strategy, which we will publish in due course.
- Our monitoring and evaluation of Freeports will include a combination of a Process, Impact and Value for Money Evaluation, and will be in line with key principles and practice from the Magenta Book 2020.

7. During our inquiry, we heard a range of views on whether the number of freeports to be established should be capped. We welcome the flexibility the Government has demonstrated on the final number of freeports. There were eight successful freeport

bids for England, and we assume that this means the total number of freeports in the UK will likely exceed ten, given the Government's intention that at least one freeport will be established in each of the devolved nations. (Paragraph 33)

8. Our evidence emphasised the importance of transparency in the bidding and allocation process. We welcome the publication of the decision-making note for bids in England. We recommend that the Ministry of Housing, Communities and Local Government establish a formal means to give feedback to unsuccessful bidders. (Paragraph 36)

The Government's Response:

- The Ministry of Housing, Communities and Local Government (MHCLG) published the English Freeports Selection Decision-Making Note shortly after the announcement of the successful locations (17th March), and all unsuccessful bidders were offered a feedback call in March with officials, to discuss the outcome of their bid in more detail. 8 out of 10 unsuccessful bidders took up this offer.

9. To succeed, the freeports policy will require extensive cross-departmental co-ordination. HM Treasury and the Ministry of Housing, Communities and Local Government have responsibility for the policy, while other departments will play a role in the operation and administration of freeports. We are concerned that, in light of the disagreement between HM Treasury and the Department for International Trade about which department was best-placed to give evidence to our inquiry, the necessary cross-departmental collaboration and clear accountability required to implement the policy is absent. We recommend that, in its response to this Report, the Government set out how it will ensure effective accountability and cross-departmental collaboration in the implementation of the freeports policy. We recommend that the Department for International Trade has oversight of the policy, and administration of freeports, to support businesses to grow internationally. (Paragraph 42)

The Government's Response:

- Since August 2019, responsibility for the development and oversight of Freeports policy has resided with Her Majesty's Treasury (HMT), with input from many Government departments.
- In May 2020, it was agreed that MHCLG would lead and take responsibility for domestic delivery due to the department's previous experience with Enterprise Zones and the Towns Fund. MHCLG was also recognised for their established relationships with local stakeholders, who are key to the successful delivery of the policy. MHCLG is working collaboratively and closely across government to support the successful delivery of the policy.
- The Department for International Trade (DIT) continues to play an important role in ensuring that Freeports become national hubs of global trade and investment and in the delivery of trade and investment support. The Department remains engaged and is working collaboratively with HMT, MHCLG and other government departments to support Freeports delivery and ensure their success.

- To facilitate cross-departmental collaboration, the MHCLG Delivery team has established a variety of cross government groups. These range from the Senior Civil Servant Strategy Board which is a mechanism for agreement across government and decision-making relating to the programme. There are cross government networks relating to delivery, security, and the regional teams. These meetings are all held at regular intervals with established Terms of Reference and strong participation from all departments.
- The Freeports Project Management Office has established regular status reporting from all departments managing a programme workstream and from Freeports themselves. This ensures consistent, current information is available about the status of the programme and has facilitated positive working relationships across government.
- Government accountability for the delivery of the policy resides in MHCLG, with Permanent Secretary Jeremy Pocklington as Accounting Officer and Director General Emran Mian as the Senior Responsible Officer for the Freeports Programme.

10. The objective to establish freeports as national hubs for global trade and investment across the UK is of particular interest to us. This objective, and the Department for International Trade's role in supporting businesses to grow internationally, means that it should have a central role in the development and implementation of the freeports policy, yet this appears to have diminished over time. (Paragraph 43)

11. We recommend that, in response to this Report, the Department for International Trade provide further information about how it will support the Government's objectives for freeports and set out its approach to freeports within its export and investment strategies. In addition, we would welcome clarity from the Department on how the new Office for Investment will be utilised to attract investment to freeports. We also recommend that the Department for International Trade set out how it will tailor its business support and trade promotion activities to the businesses located at freeports. (Paragraph 44)

The Government's Response:

- DIT will refresh the Export Strategy, aligning its support for exports to the broader trade and domestic policy, helping UK firms of all sizes to seize new market opportunities as economies continue to re-open and recover from the pandemic.
- As part of this broader trade and domestic policy, DIT will work with HM Revenue and Customs (HMRC) and others to better gather and handle trade data which will be crucial to analysing the success of Freeports against other key trading sites. Officials are also continuing to support the work of the 2025 UK Border Strategy where Freeports alongside other key initiatives like the Single Trade Window and Trusted Trader Schemes share an ambition for enhanced trade flow. As part of the strategy, DIT will work to ensure exporters are aware of the Freeport offer and how to utilise it through the department's extensive network and digital channels.

- Similarly, the Investment Strategy is a long-term process of change within DIT, seeking to radically transform the UK's investment offer and business environment, aligning with the priority themes of our global trade policy, the Plan for Growth, and the Integrated Review. Freeports will play a key role in enhancing trade and investment across the country and so form an active part of DIT's work.
- The Office for Investment have the remit to support the landing of high value and high impact investment opportunities across the country, including in Freeport locations. DIT and the Office for Investment will work to ensure investors are able to take full advantage of the tax measures, planning reforms and simplified customs procedures that will incentivise international investment into Freeport locations.
- DIT is committed to working with Freeport locations to develop effective and relevant trade and investment support, docking into relevant governance structures and approach MHCLG are taking to business case development. During the bidding process, Freeport locations provided brief outlines of what specific trade and investment support measures they feel would benefit a Freeport in their area. As Freeports move towards implementation, DIT will undertake clear and structured engagement with each Freeport location to develop a workable support offer that will drive positive trade and investment outcomes for each location. This will be an iterative process up to implementation of the Freeports, with DIT teams leading conversations on identifying key markets, developing each Freeport's trade and investment offer, and providing the support which will enable Freeports to achieve agreed goals.

12. The package of incentives associated with the UK freeports policy distinguishes it from the traditional freeports model and we welcome the range of measures the Government has committed to. Freeports focused solely on tariff benefits would be unlikely to be successful in the UK. (Paragraph 59)

13. Investment in freeports will also be critical to their success, particularly in the areas of infrastructure and connectivity. Increasing connectivity for both the freeport, and the wider area within which it is located, should be a key consideration in the allocation of seed capital funding. (Paragraph 60)

The Government's Response

- As set out in the Bidding Prospectus, the Government expects proposals to be focused primarily on land assembly, site remediation, and small-scale transport infrastructure to connect sites within the Freeport to each other, the travel to work area or other economic assets within the Outer Boundary. We will also consider proposals for spending seed capital on skills, digital and other infrastructure in exceptional circumstances.

14. It is not possible to eradicate fully the risk of economic displacement associated with freeports. To minimise it, the Government will need to be careful to distinguish between new economic activity and economic activity moving to a freeport from elsewhere. We recommend that the Government, or the cross-Whitehall governance

body, devise a framework for assessing economic activity occurring at freeports, distinguishing between that which is new and that which is relocated. This framework should be used by freeport governance bodies to collect relevant information on economic activity which can later be incorporated into an independent evaluation of the policy. (Paragraph 66)

The Government's Response:

- Freeports are designed to encourage new investment to create new businesses and new economic activity. Helping to create jobs in deprived communities across the country, rather than harmful displacement.
- For example, tax measures have been designed to encourage investment and new economic activity and we will ensure we have the power to prevent access to reliefs where businesses or operators are found to be abusing reliefs. For example, ER NICs relief can only be claimed for new employees, encouraging employers and businesses to grow and create new jobs, rather than relocate existing ones.
- When selecting Freeports we required bidders to explain how their choice of tax site locations minimise displacement of economic activity from wider local areas, especially other economically disadvantaged areas. Displacement will be assessed in greater detail as part of the formal tax site approval process.
- As outlined in the Bidding Prospectus we intend to monitor and evaluate the economic activity in Freeports to ensure good value for money.

15. **We note the security risks that accompany freeports. We welcome the steps the Government has taken so far to address these in its consultation and bidding prospectus. It is encouraging that freeport operators will be required to comply with the OECD's Code of Conduct for Clean Free Trade Zones and that the Government does not intend to authorise the use of freeports for high-value storage. Nonetheless, these risks will require ongoing monitoring and enforcement. We recommend that the Government set out how it will seek to do this in its response to this Report.** (Paragraph 70)

The Government's Response:

- As set out in the Bidding Prospectus, we must adhere to our international obligations including the commitment to the OECD Code of Conduct for Clean Free Trade Zones and the specific anti-illicit trade and security measures therein. We will maintain the current obligations set out in the UK's Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
- The Bidding Prospectus makes it clear that operators of Freeport customs sites will be responsible for security of the customs site. They will need to demonstrate this as part of the designation process and will require an internationally recognised customs qualification [AEO(S)]. Additionally, businesses operating in a Freeport customs site will need to be authorised by HMRC.

- Freeport customs site operators will be required to support HMG agencies like HMRC and Border Force in enforcing compliance. This will include providing the necessary infrastructure, both digital and physical, to ensure compliance functions could be carried out effectively.
- Similar to other customs procedures, HMRC and Boarder Force will be carrying out customs checks on goods to ensure compliance is met. These include targeted, inc. risk-based profiling, safety and security interventions including anti-smuggling controls for prohibitions and restrictions at the conventional feeder ports with additional HMRC driven Boarder Force supported fiscal interventions at both the conventional ports and the place of temporary storage directly associated with the Freeport customs site.
- The Government has also established the Freeports security sub board (FSSB) consisting of colleagues from Border Force, Home Office, HMRC, HMT, Police, Police Chiefs Port Association, Ministry of Justice and Cabinet Office. The FSSB will bring together departments and agencies at the national level/centrally and will feed into the SCS-level MHCLG-chaired Freeports Strategy Board. Individual Freeports will have their own boards, which we envisage local police and local Boarder Force Officers will attend. FSSB attendees are expected to provide a two-way link to local representatives in their respective departments. The FSSB will feed into Freeport Outline/Full Business Case requirements and assessments, and into advice for ministers on risks and mitigations.

16. Developments in the UK's subsidy control regime could impact the types of support available through the freeports policy and this will require ongoing monitoring. (Paragraph 73)

The Government's Response:

- The new domestic subsidy regime is being designed which will align with our international commitments, including the Trade Cooperation Agreement (TCA) with the EU.
- A consultation on this domestic regime concluded at the end of March, and legislation will be introduced to Parliament shortly to give the regime legal force.
- Article 366 of the TCA sets out certain principles on subsidies that the new domestic regime will respect.
- All aspects of the Freeports offer, including the package of tax reliefs, are expected to meet our domestic and international commitments on subsidies. We will continue to monitor progress on the domestic subsidy regime to ensure this remains the case.

17. We note the Government's assurances that the policy will maintain the UK's high labour and environmental standards. We ask that, in response to this Report, the Government set out in further detail how it will seek to monitor this. (Paragraph 76)

The Government's Response:

- The Government remains committed to ensuring its Freeport model maintains the UK's high standards with respect to security, safety, workers' rights, data protection, biosecurity, and the environment, while ensuring fair and open competition between businesses.
- Businesses operating in Freeports will therefore not be exempt from any of the relevant employment or environmental standards and legislation.
- Freeport bids had to outline how their proposals would ensure compliance with all applicable environmental standards and regulations. Businesses within Freeports will need to have the same licenses and permits for their operations that would be needed if they were operating outside of Freeports.
- The same planning permission requirements will apply to development, including particular environmental controls such as Environmental Impact Assessments. The Environment Agency and other environmental regulators will monitor and enforce the legal requirements protecting human health and the environment in the same way as for businesses operating outside Freeports, and there will be no dilution of the high standards that apply.
- The successful bidders are now working on establishing their Freeport Governance Bodies. Once set up, each Freeport Governance Body will then work with a representative of a HMG Freeport team to ensure the Freeport stays aligned with national policy with regard to employment and environmental standards and delivers on its monitoring and evaluation commitments, including collection of relevant data.

18. We support the Government's intention to establish a freeport in each of the devolved nations but acknowledge that this is a decision for each of the devolved governments. We are eager that the policy is implemented in a manner that brings increased trade and investment to all parts of the UK. (Paragraph 87)

19. We received concerning evidence from the devolved governments about the UK Government's engagement with them in the development of this policy and their access to the information underpinning the policy. While the development of the freeports policy in the devolved nations is ongoing, we recommend that ministers and officials intensify engagement and information sharing efforts to ensure that the devolved governments have access to all the information necessary when making policy decisions. (Paragraph 88)

The Government's Response:

- The UK Government wants to ensure that the whole of the UK can benefit, not just England. We remain committed to establishing at least one Freeport in Scotland, Wales and Northern Ireland as soon as possible.
- Whilst the reserved policy levers remain a matter for the UK Government, we respect the DAs have the flexibility to alter aspects of the model used by the UK Government where the policy are devolved.

- This is why UK Government officials have held extensive and regular discussions with officials from each of the devolved administrations. The UK Government has also shared extensive and sensitive policy documents with all of the devolved administrations throughout the process and in advance of any announcements.

20. We support the devolved governments' call for an appropriate funding allocation. It is important that freeports in the devolved nations are not disadvantaged due to the way in which funding is allocated. We call on HM Treasury to ensure that funding available to freeports in the devolved nations corresponds with awards in England. (Paragraph 89)

The Government's Response:

- Successful bidders in England will have the opportunity to access a share of Capital Seed Funding, subject to business cases being approved.
- The devolved administrations will receive Barnett in the usual way. It is for each devolved administration to decide how much seed funding to provide to a Freeport.
- The seed funding is only one part of the offer available to ports and businesses. There are a variety of benefits from Freeports, including on tax, customs, planning and innovation, many of these which will be delivered by the UK Government.

21. It is clear that the Northern Ireland Protocol will impact the terms on which a freeport can be established in Northern Ireland. The Government should set out, in its response to this Report, its view on how the freeports model will need to be adapted in Northern Ireland to comply with the terms of the Protocol. (Paragraph 92)

The Government's Response:

- The UK Government remains committed to establishing a Freeport in Northern Ireland (NI) as soon as possible.
- We are currently developing a Freeport model for NI and are actively engaging with the Northern Ireland Executive to ensure a NI Freeport both upholds our international legal obligations under the Northern Ireland Protocol and delivers for the ports, businesses and communities of Northern Ireland. We will not pre-empt the outcome of those discussions.

22. The freeports policy documents published to date do not clearly set out the Government's proposals for the long-term oversight and governance of freeports. We call on the Government to publish its proposals in this area following its review of the programme board so that there is transparency about the oversight of freeports. Further, this would provide clarity to freeport operators about who will oversee their operation and how this will be carried out. (Paragraph 98)

The Government's Response:

- The Freeports Delivery team is establishing strong reporting and relationship management structures with the Freeports. Each Freeport has a dedicated

Freeport Lead and Freeport Support role within the MHCLG Delivery team. MHCLG Permanent Secretary Jeremy Pocklington is the Accounting Officer and Director General Emran Mian is the Senior Responsible Officer for the delivery of the Freeports Programme.

- This structure will ensure consistent, regular interaction with Freeports for informal updates alongside a more formal, documented status update provided by the Freeports on their milestones, risks and key deliverables. The Freeport Leads will also maintain oversight of the interactions of OGDs with the Freeports. This reporting structure and relationship management approach will be maintained throughout the set up and implementation phases of Freeports.
- Once operational, Freeports will begin formal reporting, at least twice a year on inputs, outputs, and outcomes. This will bring a more analytical approach to the existing relationship management and programme reporting structure and provide oversight and annual assurance to the Government on Freeports operations.
- We will be setting out fully how we intend to do this through our M&E strategy.