



Response to Freeport Consultation from the Solent Local Enterprise Partnership



Key messages

This document is the [Solent Local Enterprise Partnership's](#) response to the Government's consultation on Freeports. Detailed responses to the consultations questions are provided in the document but key messages are summarised below.

Our response has been informed through discussions with our Freeport Task and Finish Group, which has met five times since October 2019. The membership of this Group is provided in annexe A.

Freeports, if done right, can drive growth in trade, investment and productivity throughout the UK, and support the levelling-up agenda.

Freeports can offer UK exporters competitive advantages in supplying international markets and attracting international investment dependent on trade connections. Free Zones across the globe provide illustrative examples of how trade-focussed regimes can attract significant investment to create clusters of employment, productivity and innovation.

At this point, Freeports present an attractive vehicle to support many of the UK's high profile strategic objectives including: preparing a Global Britain to continue its role as a leader in trade and investment; facilitating a transition to a net zero economy in the UK as well as at global scale through the development and export of key technologies for low carbon societies; and helping UK communities recover and respond to significant impacts from the Covid-19 pandemic and resulting economic crisis. Together with UK spending announcements and policy targets, the right Freeport models delivered at the right places throughout the country can jumpstart the UK economy.

The Solent is primed and ready to help tackle the nationwide levelling-up agenda; play an increasingly influential role in establishing new trading relationships in a post-Brexit era both in terms of direct export potential and facilitating trade flows through our ports for other parts of the country; and supporting the Government's wider ambition for levelling-up prosperity and opportunity across the UK.

Reflecting this, economic activity in the Solent has large 'multiplier' effects, both for the local economy and the national economy. For every £1 of additional investment spending the Solent region, it is estimated that UK GDP increases by between £2.35 and £3.15. These multiplier effects are substantially larger than the average for the UK as a whole – by a factor of between 1.4 and 1.9. This underlines the critical role that the region plays in supporting other parts of the country, such as the North and Midlands, which depend on the trade flows which pass through the Solent and the sectors we facilitate.

Freeports can play an important role in the renaissance of coastal communities, support economic recovery, and levelling-up.

The LEP is supportive of the Government's levelling up agenda. The Solent has economic challenges more akin to a northern conurbation than those expected to be found in the south of England. The Solent's productivity is below the national average, and some 9% below the average for the south east.

Whilst this disparity has been understood for some time, the COVID-19 pandemic has exposed the frailties of the Solent economy and those of other coastal communities more generally. A recent study by the IFS¹ identifies areas of the Solent as being the most exposed to the economic impacts of COVID-19 in the UK.

¹ <https://www.ifs.org.uk/publications/14888>

Indeed the economic impact of COVID-19 is not conforming to traditional and simplistic north / south impacts.

Freeports provide an important policy lever to ensure that 'left behind' economies (such as the Solent) are not left behind once more. There is a fantastic opportunity here. Coastal communities can be at the heart of massive new growth opportunities: increased global trade through our ports, new green maritime technologies, moving freight off the road and rail network to coastal and inland shipping, advanced manufacturing, modern shipbuilding and by harnessing the local innovation ecosystem to ensure maritime-led hotbeds of innovation and decarbonisation.

A key priority of the LEP's Solent 2050 economic strategy is for the Solent to be the UK's capital of coastal renaissance, harnessing new technologies and approaches to revitalise coastal communities and ensure growth is inclusive. To realise this ambition we want to secure a renaissance of our existing coastal communities so that they are better positioned to confront the challenges of tomorrow and promote inclusive growth. In tandem, we want to pioneer the next generation of coastal-urban living by adopting innovative practices and smart technologies in terms of improved transport and digital connectivity, and coastal living.

Freeports should build on existing Port Economic Partnerships.

The Department for Transport (DfT), in partnership with ABP's Port of Southampton, launched the UK's first Port Economic Partnership (PEP) in September 2019 as an innovative initiative to create stronger links between ports and Government, to maximise long-term trade and economic growth.

As part of its strategy, 'Maritime 2050 – Navigating the Future', launched in January 2019, the Government outlined the creation of Port Economic Partnerships as one way of creating a strong business environment for ports to thrive, in turn, boosting trade and driving the national economy.

Areas that the Partnership is focussing on include leveraging the maximum benefit from public and private sector investment and ensuring that planning processes are as efficient as possible. It is anticipated that this will better facilitate the port's investment in new freight-handling facilities and other infrastructure needed to grow trading volumes and maintain the UK's position as a leading maritime nation. The Partnership will focus on ensuring that public and private sector organisations at local, regional and national levels, work together to enable improved links with our global trading partners, ready for a post-Brexit world where the resilience of our trading hubs is more critical than ever before.

There is strong alignment between the Port Economic Partnership and Freeport policy agendas and opportunities to grow Freeports from existing strong partnerships working.

The most attractive offers will combine fiscal relief for investors and exporters with agile planning regimes and coordinated infrastructure programmes.

In order to deliver transformative impacts, Freeports must create a bold and novel business environment in the UK. Fiscal relief such as capital allowances (for investors), tariff relief (for logistics and value-added manufacturers) will be significant considerations for individual businesses. However, planning policies that allow for medium to long-term expansion within Freeport sites will also be an attractive incentive for critical manufacturing sectors. Transport linkages to support Freeport activity directly and to accommodate additional traffic in congested areas surrounding Freeport sites will also be critical to supporting Freeport business activities.

Challenges to successful Freeport implementation exist and Government is best placed to coordinate national solutions.

The UK Freeport model, as envisioned in the Government consultation would face barriers to success under existing structures. These include 1) complex planning structures, 2) incompatible customs systems, 3) competition between sites. Government can address these barriers by providing specific Freeport planning authorities, a standard set of requirements for Freeport customs and limiting designation of Freeports throughout the UK to areas with high potential for substantial impact.

Successful Freeports will require coordination and regional organisations such as Local Enterprise Partnerships are best placed to provide this role.

Given the complexity of planning and customs processes in UK Freeports with links to manufacturing sites, coordinating public and private actors at a regional level will sit with a Freeport operator. Existing regional organisations such as LEPs and combined authorities are well placed to coordinate governments and private sector actors in line with regional economic development strategies.

A focus on trade and investment should be the primary consideration for Freeports, with a strong focus on regeneration and innovation impacts following Covid-19.

International experience shows that economic zones such as Freeports can easily fail by attempting to accomplish too many objectives. In the UK, Freeports should first be deployed for what they have been successful at delivering in other areas – promoting trade and attracting investment. The first wave of Freeports designated should correspond to areas that have been affected by the Covid-19 pandemic and that can quickly deliver economic impact to support their recovery once afforded Freeport status. Freeports can complement other programmes such as enterprise zones and local infrastructure funds to deliver a joined-up programme of support to areas in need.

To support critical supply chains, the implementation of Freeports throughout the UK should allow for phasing and multiple sites within a Freeport.

Freeports are a long-term economic development policy and will deliver impacts over an extended period of development. To accommodate for this trajectory, the Government's Freeport designation process should 1) allow for phasing in of additional sites as they become viable for inclusion in Freeport activities and 2) seek to capture regional supply chain sites through the delivery of 'virtual free zone' structures.

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1 Customs

1.1 Declarations

1.1.1 Q1: To what extent do you agree/disagree that the reduced declaration requirements for moving goods into a Freeport represent a useful simplification of the administration of customs processes? Please explain your answer.

- *Somewhat agree*
- It is the Solent LEP's view that reduced declaration requirements could lower the administrative burden and costs faced by businesses within Freeports and improve overall access to ease of doing business, often seen as the UK's most attractive offer to serious international investors. Streamlined customs procedures could also help mitigate against additional costs under a no-deal Brexit scenario. A 2019 report by the HMRC found that the administrative burden from additional declarations required under a no-deal Brexit scenario would cost UK businesses £7.5 billion a year². We believe that if Freeport declaration procedures come with stricter data requirements or high technology costs, this could create new administrative burdens and reduce the overall attractiveness of the incentive.
- The Solent LEP recommends that a national Freeports customs reporting system (e.g. a set of UK standards for Port Community Systems used in UK Freeports) be used as a tool to deliver potential benefits while managing risks around data and technology costs across a broader portfolio.

1.1.2 Q2: Please suggest any ways in which you think the administration of customs processes could be simplified further in Freeports.

- We believe that utilizing technology in the declarations process could help further reduce the documentation requirements through online pre-declarations and other measures, reducing time and errors associated with physical paper. A set of UK standards for Port Community Systems used in Freeports that meets the transparency needs of HMRC and is operable with existing Community System Provider technology could enable a streamlined customs experience from the customer side while meeting Government needs for information and tracking.
- Customs facilitation guidance recommends a range of additional activities that can be undertaken in a Freeport, which can be monitored using technology. Standard policies in Freeport internationally allow for packaging, repackaging, processing, manufacturing, consumption, and movement within Freeports, subject to national regulation, without the payment of duties (subject to national legislation) until goods enter the domestic market³. No goods declaration is needed in Freeports, and goods can be moved to another Freeport subject to applicable rules. Given the complexities of tracking Freeport movements in a system with multiple sites (either nationally or within a single virtual Free Zone) we believe that technological solutions to ensure compliance must be considered.
- Existing customs regimes including Inward Processing Relief (IPR) and Authorised Economic Operator (AEO) programmes are used within the EU for approved processes and companies⁴, but represent a financial and administrative burden. Inward processing requires companies to provide a guarantee for customs debts, which can represent a financial burden for smaller companies. AEOs are recognised by EU customs administrations for simplified customs and security procedures after receiving approval. If approved for AEO status, the requirement of a customs bond is waived, but the

²HMRC (2019) Impact assessment for the movement of goods if the UK leaves the EU without a deal, [third edition](#)

³WCO (2008) Customs in the 21st Century: Enhancing Growth and Development through Trade Facilitation and Border Security

⁴European Commission (2019) Guarantees for potential or existing customs debts –Title III UCC.

process is burdensome and likely to be cost prohibitive for smaller traders. We believe Freeports could use similar processes to reduce the financial burden on companies for trade facilitation mechanisms while also providing support for the approval process.

- International standards to secure transport when moving goods across boundaries can inform the processes used to transport goods between Freeport sites in a virtual Free Zone model. The international customs transit system, TIR, has five principles: the use of secure vehicles, an international guarantee chain, the use of a TIR carnet, mutual recognition of customs controls, and controlled access to use the system. TIR rules are implemented for transport across boundaries using approved vehicles and routes, as well as time limits for transport. Goods are sealed in compartments in approved vehicles and a pre-declaration is used to facilitate an assessment by the customs authority on the need for inspection based on risk.
- Technologies currently in use in the shipping and logistics sectors provide options for tracking the movement of goods within a virtual free zone. RFID technology can track goods remotely at a relatively low-cost, providing real time location data on shipments and inventory. Companies such as Walmart and TESCO have implemented RFID technology throughout their supply chains to automate their logistics management and improve efficiency. RFID technology could be used in a virtual free zone model to provide up-to-date information on the movement of goods and track shipments between free zone sites. When linked to CCTV feeds, ANPR can also provide real time location updates on shipments and ensure that vehicles remain on approved routes. On the border between Norway and Sweden, the use of ANPR technology in addition to mobile customs units has reduced the need for physical boundaries⁵. Additional higher cost alternatives include GPS tracking through cellular and satellite networks.
- In South Korea, the Korean Customs Service (KCS) has developed an electronic customs software, UNI-PASS, to manage customs administration and clearance. The system is also used to track and secure bonded transport between the country's 13 Free Trade Zones and 8 Free Economic Zones. The Cargo Management System on UNI-PASS is connected to shipping companies, warehouses, other bonded transport companies, and the relevant government agencies⁶. The system assigns tracking numbers to all shipments in and out of Free Zones and allows operators to upload all required documentation into an e-manifest. Bonded transport between Free Zones is then tracked on the system in real time using cellular networks, automatically updating to reflect the transfer of goods between entities upon digital confirmation of receipt. By allowing for paperless and automatic customs procedures and expanding data availability, the system has reduced transport times, improved efficiency, and expanded the KCS's monitoring and tracking capabilities⁷.

1.2 Freeport operators and Freeport Businesses

1.2.1 Q3: If you are a potential Freeport operator, will you be able to adapt current processes you have to allow goods to be moved into a Freeport? Please explain your answer.

- Not applicable

1.2.2 Q4: Please provide any feedback you have on the requirement for perimeter fences.

- Not applicable

⁵ EU Parliament (2017) Smart Border 2.0 Avoiding a hard border on the island of Ireland for Customs control and the free movement of persons.

⁶ Korean Customs Service (n.d.) Transshipment in Korea: Customs Perspective. Accessed at: https://www.unescap.org/sites/default/files/Korea_Customs%20Perspective.pdf

⁷ Inter-American Development Bank (2015) Analysis of Experiences in Trade and Investment between LAC and Korea: Lessons Learned in Development. Discussion Paper N° IDB-DP-399.

1.2.3 Q5: Please highlight any alternative ways you think security could be maintained without a perimeter fence

- Technology could be used to maintain security on Freeport sites without a perimeter fence. For example, radio frequency identification (RFID) technology can track goods remotely at a relatively low-cost, providing real time location data on shipments and inventory. Companies such as Walmart and Tesco have implemented RFID technology throughout their supply chains to automate their logistics management and improve security. RFID technology could be used in a Freeport to provide up-to-date information on the movement of goods and track shipments. When linked to CCTV feeds, ANPR can also provide real time location updates on shipments. On the border in Norway, ANPR has been used alongside mobile customs units and pre-arrival customs declarations to reduce the need for physical border checks⁸. The Solent LEP believes that such technologies could provide transparent reporting and communication from Freeport sites without placing an undue burden on companies located within them.

1.2.4 Q6: In your view, is the proposed split in responsibility between Freeport operators and Freeport businesses correct or incorrect? Please explain your answer

- *Correct*
- The Solent LEP believes that Freeport *site* operators should be able to secure goods entering and exiting their sites, but this can be done at the container/facility level as discussed in previous question responses. Both site operators and businesses will need access to the national Freeport PCS in order to update and verify information related to their transport of goods.
- Under the virtual Free Zone model, a set of free zone sites would be overseen by a coordinating governing body, e.g. the relevant LEP or Mayoral Combined Authority.

1.3 Goods already in the UK

1.3.1 Q7: How important is it for your business to be able to bring goods into the Freeport from the UK, whether the goods are in free circulation or under another customs procedure? Please explain your answer.

- In a virtual Free Zone model, where manufacturing facilities are included as site in a multi-site zone, importation of input goods will be a key requirement. This allowance will be particularly important for industries where the UK is competing with EU countries to attract (or retain) investment.
- In the Solent, this is particularly important as the major national industries using the region's ports are deeply integrated with global and European supply chains. Imported inputs include composites for offshore wind blades and automobile parts.

1.4 Location of Freeports

1.4.1 Q8: What do you see as the advantages and/or disadvantages of an inland Freeport site compared to a Freeport site which is adjacent to a port?

- It is the Solent LEP's view that Freeports in the UK should be allowed to include multiple inland and waterside sites within a region. This Freeport model, which includes at least one port as well as non-port sites such as key manufacturing sites, can be referred to as a virtual Freeport or virtual Free Zone. By covering key sites within a larger area, a virtual Free Zone can better target export supply chains, supporting smaller firms and major manufacturing sites that are not contiguous to a port. Given that

⁸ European Parliament (2017) Smart Border 2.0: Avoiding a hard border on the island of Ireland for Customs control and the free movement of persons [https://www.europarl.europa.eu/RegData/etudes/STUD/2017/596828/IPOL_STU\(2017\)596828_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2017/596828/IPOL_STU(2017)596828_EN.pdf)

land availability adjacent to ports may be limited, including inland sites would expand the diversity of sites available within a region, giving more options to investors and linking regional supply chain inputs, thereby increasing the attractiveness and effectiveness of Freeport incentives. Multiple sites would also provide an opportunity to deploy innovative customs procedures and technologies to track the secure movement of goods between sites.

- A multi-site Freeport model with inland sites linked to key ports is an ambitious delivery channel for urgently needed economic support in maritime-based communities around the UK. Given the significant economic impacts of the Covid-19 pandemic on coastal communities in particular, Freeports should be delivered with an aim to support ambitious and impactful economic development strategies in key economic sites around the UK. Coastal communities around the UK, including the Isle of Wight and areas of Southampton are particularly vulnerable in both short-term and long-term impacts of Covid.⁹ At a regional level, the pandemic has caused a 21% contraction in the Solent economy and recovery in the maritime sector (which makes up £5.8bn in output for the region, or 20% of total GVA) will be a key part of the region's way back to normal.
- There are several international examples of successful Free Zones that include multiple sites. In the United States, Free Trade Zones are linked to 'subzones'- manufacturing or other key industrial sites within 60 miles of the port of entry. Subzones allow companies to take advantage of the benefits of Free Trade Zones without having to physically relocate within the main zone. Free Trade Zones in the United States employ nearly 450,000 workers¹⁰. In Morocco, the Tangier Med Zones links 4 separate Free Trade Zones to the main port by secure rail and road transport. Each zone is focused on a particular sector, allowing for specialized infrastructure that meets the needs of investors. As of 2019, there were more than 700 companies located within the Zones with a combined annual turnover of over €5 billion¹¹. The Shanghai Free Trade Zone in China encompasses 4 different sites, including 2 ports and an airport. The sites span 120 square kilometres and host more than 50,000 companies¹².
- The Solent LEP believes that these international examples demonstrate several key benefits of Freeport with multiple sites. The main benefit of virtual Freeports is that they ensure that Freeport encompass the sites that would benefit most from incentives, regardless of whether those sites are located adjacent to a port. Including inland sites would also better capture inland supply chains, maximizing benefits for import/export-oriented activities and further increasing the attractiveness of incentives to potential investors. For example, automotive manufacturers in the West Midlands and Oxfordshire first import component parts from Europe through the Port of Southampton before assembling complete vehicles for export back through Southampton to Asian markets. Including inland sites in a virtual Free Zone would better capture the full extent of this supply chain and therefore enhance the incentives offered to potential investors. **Initial modelling of the impacts from potential Freeport sites in the Solent suggests that including inland sites relevant to regional supply chains could increase economic impacts of a Freeport by as much as 40%.**¹³
- Another key benefit is the flexibility that virtual Free Zones offer managers to add additional sites after the initial Freeport is established. The phasing of Freeport site selection keeps initial costs low while technology, governance, and impacts are tested, and provides scope for greater returns in the medium term through expansion into areas allocated for industrial growth.

⁹ Davenport et al. (2020) The Geography of the Covid-19 Crisis in England. Institute for Fiscal Studies. Accessed at: <https://www.ifs.org.uk/publications/14888>

¹⁰ Congressional Research Service (2019) U.S. Foreign-Trade Zones: Background and Issues for Congress. Accessed at: <https://fas.org/sfp/crs/misc/R42686.pdf>

¹¹ Saleh, Heba (2016) Morocco's Tanger-Med container port provides bridge to Europe. Financial Times. Accessed at: <https://www.ft.com/content/59139520-cb3f-11e5-a8ef-ea66e967dd44>

¹² Jaye, Nathan (2018) The Shanghai Free Trade Zone Continues Its Growth. CFA Institute. Accessed at: <https://www.cfainstitute.org/research/cfa-magazine/2018/the-shanghai-free-trade-zone-continues-its-growth>

¹³ Vivid Economics (2020) for the Solent LEP

- The first phase should focus on the mitigation aspects of the Freeport, mitigating short-term additional costs to large exporting firms, for example in the automotive sector, related to the UK leaving the EU. In this initial phase, sites closely associated with key internationally orientated transport hubs will benefit most from Freeport designation. The use of a phased approach also allows the broader impacts of investment growth to be felt before committing to large outlays in infrastructure investments.
- Subsequent phases, allocated through an additional bid to Government, or alternatively initiated by an amendment application to the national Freeport/Free Zones regulator, should focus on unlocking additional investments in key strategic economic development sites related to an existing Freeport.
- There are several risks associated with virtual Free Zones. Administratively, a virtual Free Zone may be more difficult to set up and manage, as the wider set of sites creates potential for competing views and incentives between site operators. However, with each site being managed by a site-specific operator, the Freeport governing board could focus on bigger picture management issues. There is also risk associated with the transport of goods between non-contiguous Free Zone sites, but we believe that existing technologies can ensure secure transport between sites and minimize this risk. **Therefore, the Solent LEP recommends that Freeports in the UK be allowed to include multiple sites (both ports and non-ports) and be designated through a phased approach to maximise benefits to the operators and the wider economy and allow for the development of competitive investment sites over time.**

1.5 Excluded goods and excise goods

1.5.1 Q9: If you are considering becoming a Freeport operator, how attractive would the proposed customs design be to your business? Please explain your answer.

- Not applicable

1.5.2 Q10: If you are considering becoming a Freeport business and would like to store imported goods or manufacture products using imported goods in the UK, how attractive would the proposed customs design be to your business? Please explain your answer.

- Not applicable

1.5.3 Q11: To what extent would the suspension of import VAT be of value to your business? Please explain your answer.

- In the abstract, VAT suspension is a cash flow rather than financial benefit. However, as Covid-19 has shown, cash flow is a significant concern for businesses operating in maritime economies such as the Solent. This issue is especially true for high growth-potential businesses operating in innovation-rich areas such as many of those in the maritime sector.
- As such, suspension of import VAT in Freeports will contribute to an attractive element of a larger 'business-friendly' offer to firms considering a range of international sites for operation and may provide much needed stimulus in the short-term for maritime businesses that have been hit especially hard by the economic crisis (e.g. cruise and ferry businesses).

1.5.4 Q12: How important would it be for your business to be able to buy and sell goods within Freeports? Please explain your answer.

- Not applicable

- *Under a virtual Free Zone model in which manufacturing sites are included as sites in a Free Zone, it could be prohibitively costly to separate and secure facilities processing goods meant for export from those bound for the domestic market (and therefore serving as a point of sale). The technology tracking systems discussed above represent potentially lower costs means of implementing the Freeport model in these facilities.*

1.6 Trade Remedies and Countermeasures

1.6.1 Q13: To what extent do you agree or disagree that trade remedies or countermeasures should be applied to goods exiting Freeports, whether or not they are processed in the Freeports? Please explain your answer.

- *Agree*
- Trade remedies and countermeasures protect domestic manufacturers and producers by ensuring that imported goods do not undercut their competitiveness through dumping, subsidising, or other unfair practices. To maximize the benefits of Freeports to the UK's national economy, the Solent LEP recommends that such remedies and countermeasures be applied to any goods exiting Freeports to be sold into the domestic (UK) market regardless of if they were processed in a Freeport. We believe that this would ensure that Freeports aren't used as a means to subvert UK tariff policy and that domestic manufacturers and producers remain protected.

1.6.2 Q14: To what extent do you agree or disagree that trade remedies or countermeasures should be applied to goods exiting Freeports, whether they are destined for consumption in the UK or exported to foreign markets? Please explain your answer.

- *Strongly disagree*
- **Trade remedies and countermeasures should be applied to any goods entering the domestic economy for final consumption, but not to goods bound for foreign markets.** This would protect UK manufacturers from unfair competition or dumping of goods from other markets while allowing the UK ports and logistics sector to compete internationally. Given that goods within Freeports exist outside of the UK customs territory, the UK indeed may not have the power to apply countermeasures to goods that are re-exported to foreign markets without leaving Freeport boundaries.

1.7 General Questions

1.7.1 Q15: In your view how does this Freeport design compare to existing customs special procedures, such as customs warehousing or inward processing?

- It is the Solent LEP's view that Freeport incentives related to tariff exemption do not offer a significant financial advantage compared to existing IPR procedures, assuming current tariff levels. A recent study by the UK Trade Policy Observatory (2019) on the additionality of Freeports to existing customs special procedures concluded that the benefits would be limited. The study found that for products with relatively low tariffs (e.g. 3%), the average benefits of tariff deferral would be 0.04% of the value of imported goods¹⁴. However, Freeports could reduce administrative burden and costs associated with customs procedures and extending them to cover VAT on imported goods may offer more significant short-term cash flow benefits.

¹⁴ Serwicka, I., & Holmes, P. (2019). WHAT IS THE EXTRA MILEAGE IN THE REINTRODUCTION OF 'FREE ZONES' IN THE UK? Retrieved from <http://blogs.sussex.ac.uk/uktpo/publications/what-is-the-extra-mileage-in-the-reintroduction-of-free-zones-in-the-uk/>

1.7.2 Q16: Please suggest any ways in which this customs design could be improved. For instance, could technology be used to streamline the requirements?

- Under current policy, Inward Processing Relief (IPR) does not extend to imported capital equipment as it is not directly re-exported. We believe that duty exemptions on capital equipment could promote capital investment in Freeports. These savings could be more pronounced given the magnitude of initial capital investment required in Freeport sites, but current tariffs on machinery are low (between 1% and 3% in the EU)¹⁵.
- Additionally, we recommend that customs procedures be streamlined through the integration of pre-declaration forms into PCSs adhering to a UK standard for Freeports with technologies such as blockchain, GPS, automatic number plate recognition, or smart databases to minimize the resources and time required for goods to clear customs while maintaining security.

1.7.3 Q17: Please provide any other feedback you have relating to this customs design

- Not applicable

¹⁵ World Trade Organization. (2017). Tariffs and imports: Summary and duty ranges - European Union

2 Tax

2.1.1 Q18: In your view, do the specific tax incentives provided in existing English Enterprise Zones (Business Rates discount and Enhanced Capital Allowances) encourage increased business activity and employment in England? Please explain your answer, and support your response with evidence where possible.

- According to government evaluations of Enterprise Zones, between April 2012 and December 2016, the 48 existing Enterprise Zones have supported 877 new businesses, incentivised £3.5 billion in private sector investment and attracted 38,000 jobs¹⁶.
- However, according to the several other evaluations, including a report by the Centre for Cities in 2019¹⁷ Enterprise Zones have a mixed record of success across the UK:
 - by 2017, the total new jobs were only around 25% of early estimates;
 - at least one third of jobs have been created as a result of displacement; and,
 - the majority of those jobs created have been in low skilled occupations.
- This relatively modest picture masks areas of significant success, such as that seen in from the Solent Enterprise Zone, which was developed in a focussed manner and supported with enabling infrastructure to transform a disused, ex-MOD brownfield site, into one of the Souths leading centres for aviation, advanced manufacturing and innovation.¹⁸ The Solent Enterprise Zone has led to 750 onsite jobs, 200 new homes, establishment of a commercial airport with 30,000 annual movements, and support to 1,000 FE learners and apprenticeships each year. A new business park is now being developed onsite and impacts are expected to continue to accumulate. However, there are a number of relevant lessons that can be taken away from the broader EZ programme and the roll out of the Solent EZ in particular:
 - The Solent EZ faced a lengthy ramp up in development due to the absence of Local Development Orders in place from the two planning authorities with jurisdiction over the zone. Once the planning process was navigated, expected results were achieved, but these were not delivered in time to be captured in the Centre for Cities review. As discussed below, the use of LDOs for Freeports may mitigate risks of delays due to planning processes.
 - Once fully developed, the Solent EZ demonstrates that ambitious incentives, including material tax and business rate relief combined with high class facilities and access infrastructure, can be effective at attracting high value investment to develop the innovative clusters that were the aim of the EZ policy. This experience shows the importance of ambition in the incentives offered for similar policies and provide evidence that infrastructure can be effective at attracting investment to the sites.
 - Overall, businesses found that the separate tax regime created for enterprise zones was difficult to navigate but once understood were effective at de-risking investments that may not have gone forward. This point underscores the importance of ‘soft infrastructure’ supports such as the Solent Growth Hub that can help to overcome these learning curves.

¹⁶ HM Government (2018) EZ Data Release 11.04.2018 (October to December 2016). Accessed at: <https://enterprisezones.communities.gov.uk/ez-data-release-april-2018-t-b-c/>

¹⁷ Centre for Cities. 2019. Have Enterprise Zones delivered the jobs they promised. Available from: <https://www.centreforcities.org/publication/in-the-zone-have-enterprise-zones-delivered-the-jobs-they-promised/>

¹⁸ <https://solentlep.org.uk/what-we-do/solent-enterprise-zone/>

- These findings suggest that the existing incentives (largely tax) have been fit for purpose and successful at developing dynamic business clusters where EZs have been delivered with focus, purpose and distinctiveness.

2.1.2 Q19: How could the following policies be used to encourage employment and investment in business, infrastructure and innovation in a Freeport or surrounding area? Please explain your answer, and support your response with evidence where possible.

- Although the UK is in the top 10 countries for doing business, recent reports by the World Bank and World Economic Forum highlight opportunities to reform the fiscal and regulatory environment and reduce the costs of doing business. Taxes are a major concern, with tax procedures being the biggest issue raised by UK businesses and the level of taxes being the third most pressing issue. A ranking of the overall tax rate placed UK 41st, behind several EU, OECD and Middle Eastern countries. Uncertainty arising from the UK's withdrawal from the EU has contributed to political instability – ranked the second biggest barrier for businesses. It is the Solent LEP's view that these challenges have resulted in low levels of investment in the UK.
- We believe that the tax incentives set out in the Government's Freeports Consultation would reduce the costs of doing business in the UK, thereby improving the business environment for existing businesses and attracting further domestic and foreign investment to Freeport sites.
- Evidence suggests that the effects of Freeports varies across countries, but case studies of Freeport impacts suggest that Freeports are often associated with foreign direct investment in specific regions, Freeport-based businesses are often net exporters (contributing to export growth strategies), and that Freeport-based firms perform better than non-Freeport-based firms¹⁹.
- Notable examples of Freeports attracting foreign investment include Turkey's Free Zones (offering income tax, corporate tax, and stamp duties and fees exemptions), which are responsible for 5% of the country's trade flows and attracted \$1.3 billion in foreign investment from 1988 to 2011. Dubai's Jebel Ali Free Zone (offering income and corporate tax exemptions) has become a hub for regional businesses and is responsible for nearly a third of the Emirate's GDP²⁰. Examples of high-exporting Freeports include Korea's Export Processing Zones (offering up to 7 years of tax exemptions), which reported growth in net exports of over 60% in 2000, through developing backward linkages with local firms²¹. US Free Trade Zones (with tax exemptions varying by state) have been associated with a 0.2 percentage point increase in annual employment growth, a 0.4 percentage point increase in annual wage growth and a 0.3 percentage point increase in annual GVA growth in communities surrounding the Free Trade Zones²². It is our view that impacts of Freeports on employment and achieving spill overs in the larger region are inconclusive and depend on local policies and business environment of the economies where zones are based.

2.1.3 Q20: Is there any evidence to suggest that changes in these tax policies would be the deciding factor in investment decisions? Please explain your answer.

- Yes
- Economic theory says that average and marginal effective tax rates, more than the statutory tax rate, are what drive firm investment decisions. These effective tax rates take into account the various taxes, deductions, exemptions and credits that are offered in any given location at any level of investment, including the statutory tax rate, and is therefore more easily comparable across countries and localities. This theory has been validated by studies of real-world investment decisions which

¹⁹ Laan Bouma-Doff, W. va. der. (2005). De buurt als belemmering?

²⁰ Gunson, C. (n.d.). Case Study: The Dubai Free Zones.

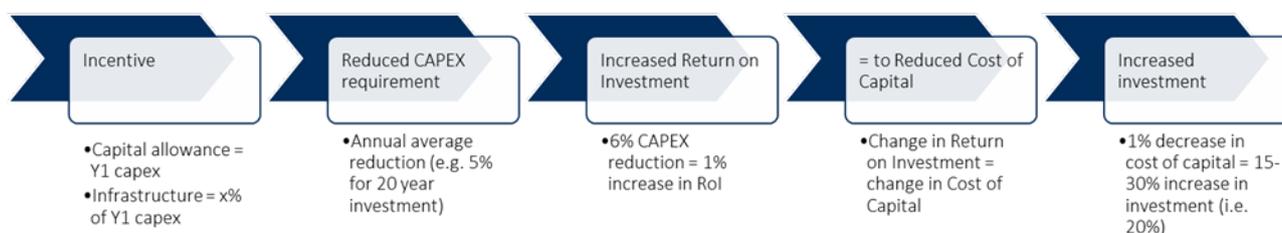
²¹ Schrank, A. (2001). Export processing zones: Free market islands or bridges to structural transformation? *Development Policy Review*, 19(2), 223–242. <https://doi.org/10.1111/1467-7679.00132>

²² The Trade Partnership. (2019). The U . S . Foreign-Trade Zones Program : Economic Benefits to American Communities.

suggest that for places with otherwise similar business environments, tax policy is a significant determining factor for firms when choosing where to locate their investments. An analysis of Italian tax rates and long-term investment decisions found that tax rate policy had a significant and positive effect on investment, both in terms of the longer-term equilibrium and short-term dynamics²³. Other studies on investment decision-making across EU countries have found that while tax rate policy does play an important role in the investment decision-making process, it is considered among other factors such as infrastructure, available labour, quality of local services, and other regulations^{24,25}. While the specific taxes mentioned above may not make a material difference in investment decisions, any combination of tax policies that increases return on investment over an investor's hurdle rate have potential to attract additional investment.

- **Previous analysis has demonstrated a relationship between tax rates and investment in the UK.** Through historical analysis of UK tax policies and corresponding levels of investment, Wallis (2016)²⁶ finds a positive relationship between internal rates of return linked to tax rates and investment levels. This logic is demonstrated in the figure below.

Figure: Logic flow of investment incentive impacts on investment



Source: Vivid Economics based on Wallis (2016)²⁷

2.1.4 Q21: In your view, are there any particular tax policies that you think could increase the risk of tax avoidance or tax evasion activity being routed through a Freeport? Please provide details. If your answer is yes, please suggest ways in which the Government could deter or prevent the tax avoidance or evasion risk you have identified.

- Yes
- It is the view of the Solent LEP that any exemption or relaxation of taxes will result in increased risk. This risk stems from goods that are benefitting from Freeport incentives but may be traded outside the allowed routes for the respective Freeport (e.g. sold into the domestic economy). We believe that the deployment of a national PCS which HMRC is able to monitor and audit will partially mitigate these increased risks.

2.1.5 Q22: In your view, would any of the potential tax policies set out in this document unnecessarily increase the administrative burden of business activity in the Freeport? Please explain your answer. If your answer is yes, please explain which of the tax policies could be modified to reduce administrative requirements and how they could be modified.

- Not applicable

²³ Bonucchi, M., Ferrari, M., Tomasini, S., & Tsenova, T. (2015). Tax policy, investment decisions and economic growth. *Revue de l'OFCE*, (5), 225-262.

²⁴ Martin, A. (2009). The impact of taxation on the investment localization decision in the context of globalization. *Analele Stiintifice ale Universitatii "Alexandru Ioan Cuza" din Iasi-Stiinte Economice*, 56, 133-142.

²⁵ Wheeler, D., & Mody, A. (1992). International investment location decisions: The case of US firms. *Journal of international economics*, 33(1-2), 57-76.

²⁶ Wallis, G. 2016. "Tax incentives and investment in the UK" *Oxford Economic Papers* (68: 2: 465-483)

²⁷ Wallis, G. 2016. "Tax incentives and investment in the UK" *Oxford Economic Papers* (68: 2: 465-483)

2.1.6 Q23: Please provide any other feedback you have relating to tax incentives for Freeports.

- In order to attract additional investors from outside the UK, the Solent LEP believes that UK Freeports must offer a compelling and internationally competitive mix of trade-focused incentives and regulatory support to businesses. We believe that Freeports do not offer a significant financial advantage compared to existing IPR procedures. Therefore, while the tax incentives in the Government's consultation would provide reduced administrative costs and more significant short-term cash flow benefits, we recommend that the Government consider adding exemptions for capital equipment and capital allowances to its Freeport policy.
- Exemptions on duties on capital equipment can promote capital investments in Freeports. We believe that these savings could be more pronounced given the magnitude of initial capital investment required. Grants to Freeport investors for capital allowances could have similar (and more direct) benefits. In the recently concluded Regional Growth Fund, grants accounted for around 30% of capital expenditure. In other regions of the UK, RGF-style funding has been estimated to be in the range of £5 million (the average grant award) to £18.5 million (the maximum under EU state aid rules) for the typical investor. In addition to the cash value, grants are attractive to investors in that they transfer risk to government, reducing the initial investment that requires a return.
- Through three rounds of funding the Solent Growth Deal, Government has invested £183 m in the region, which has been successfully managed by the Solent LEP to invest in projects throughout the region with potential to create 6,500 jobs, build 12,000 homes and attract £600 m in additional investment in the area.²⁸ To build on this success, the Freeport incentives should include coordinated access to funding vehicles such as the £5 bn build fund and the £900m Getting Building Funds announced by the Prime Minister earlier this year. **The Solent LEP's view is that the most ambitious incentives packages could also include broader tax exemptions and access to Government funding vehicles to support human and physical capital investments including transport infrastructure in coordination with regional development strategies.**

²⁸ <https://solentlep.org.uk/what-we-do/solent-growth-deal/solent-growth-deal/>

3 Planning

3.1 Permitted Development Rights

3.1.1 Q24: Do you agree or disagree that the permitted development rights for airports and sea ports should be brought into closer alignment by allowing the use of buildings on ports for purposes connected with the operation of the port? Please explain your answer.

- *Agree*
- In order to incentivise value added activities (which in turn support UK employment and GVA) connected to the transport of goods through Freeports, the Solent LEP recommends that the Permitted Development Rights (PDR) in seaports be expanded to include operations, assembly and manufacturing.
- At present, lengthy planning processes can slow time-sensitive development in the Solent. We believe that delegated planning restrictions of land and marine waters around port (and more broadly Freeport) infrastructure would enable businesses to implement development plans while preserving the environmental quality of the region's natural assets.
- Expanding PDR for ports to include assembly and manufacturing could enable expansion in key national industry activities. For example, a Solent Freeport that allowed assembly and finishing of larger wind blades could support manufacturing activity in the offshore wind sector that would otherwise relocate to Europe.
- However, we believe that extending the PDR of seaports alone will not improve the planning environment enough to act as an incentive to potential investors. While the expansion of PDR would simplify development processes on seaport land, it would not allow for greater freedoms or coordination in the higher-level planning required to ensure Freeport success. Additionally, existing environmental regulations along much of the UK coastline supersede PDRs, further limiting their additional value as an incentive.
- Even considering the timeline required for proper environmental impact assessment, prior permission for the use of certain areas for port-related development would provide greater certainty and confidence amongst investors considering locating in a Freeport once environmental mitigation measures have been implemented.
- By housing planning permission in the same authority responsible for coordinating activities in and around the Freeport, the transaction costs of getting various parties together to consider planning applications could be greatly reduced.

3.2 Zonal Planning

3.2.1 Q25: Are there suitable incentives in place that encourage the use of Local Development Orders by local authorities to support faster development? Please explain your answer. If your answer is 'no', what more could be done to encourage their use?

- The use of Local Development Orders (LDOs) in Freeports is also welcomed, as they establish a clear framework for development, giving certainty to applicants, businesses and communities. However, the process for securing an LDO is often time intensive and requires skills that many Councils do not possess. LDOs also require secure the support of a wide range of stakeholders. This application process is therefore considered to be excessive and more costly than a comparable outline planning application.

- The LDO process could be improved by ensuring that Orders are delivered within a pre-determined time frame and that the relevant authority has the necessary skills and resources available to carry them out. Options for ensuring a standard level of service for Freeport site development proposals include: 1) establishment of service level agreements between relevant local government authorities committing to a reasonable decision period for various approvals relevant for a given site and 2) the establishment of a special Virtual Planning Authority that is facilitated by a coordinating institution with the cooperation of relevant local authorities.

3.3 National Policy Statement for Ports (NPSP)

3.3.1 Q26: Would it be appropriate or inappropriate to consider amending the National Policy Statement for Ports to allow for changes to planning process(es) for significant port development? If your answer is 'appropriate', what specific element(s) of the process or document could this focus on, and what potential benefits could this unlock?

- The role of a National Policy Statement (NPS) is to establish a 'national need case' for a given sector, making it easier for Nationally Significant Infrastructure Projects (NSIP) to be granted development consent and providing a significant degree of policy certainty.
- The key areas in which the NPSP could be strengthened:
 - Reinforce the emphasis for decisions on location and growth to be made on the basis of commercial factors within in globally competitive environment;
 - Strengthen policy recognition for the role the port hinterland plays in keeping individual ports and the port industries competitive in a global marketplace. This should be drafted in a way that incentivises DCO applications to incorporate complementary 'associated development' as part of any application and allows Freeports to operate as envisaged;
 - Incorporate guidance for Local Planning Authorities on how they should account for national need, principles of operational flexibility and inclusion of port hinterlands in Development Plans. This approach should be complementary to paragraph 5 of the National Planning Policy Framework, which states that NPSs may be a material consideration in preparing development plans and determining planning applications;
 - Stronger emphasis on the significance of operational flexibility in unlocking the potential economic benefits as set out below.
- The Solent LEP's view is that ports do not operate alone, but rather depend on hard and soft infrastructure in and around the areas in which they operate. **We therefore recommend that the NPSP be amended to better include the importance of these associated developments and account for the promotion of enabling infrastructure outside of the alteration of port-specific facilities.**
- The National Policy Statement for Ports is also likely to require significant and timely consultation to amend and therefore amending the NPSP should not be viewed as a necessary condition for designating Freeports in the UK.

3.4 Additional planning freedoms

3.4.1 Q27: Please tell us about any additional planning freedoms related to planning powers and/or increasing the efficiency and effectiveness of planning that you think could be used to support development in Freeports.

- The lifespan of planning consent is a potential limiting factor for Freeport development. The ability to provide planning permissions for extended periods of time (subject to periodic review) ensures

investor certainty and provides greater flexibility for Freeport authorities. We therefore recommend that planning controls be simplified as part of the Freeports application process. There are a number of relevant scenarios for planning in Freeports.

- 1) Where a single local authority would have jurisdiction for all areas of a potential Freeport and agrees to include Freeport development in its local plan, no special planning regimes are required
- 2) Similarly, where LAs agree to provide LDOs for Freeport development in the Freeport proposal, planning should be straightforward and the granting of an LDO will offer investors certainty

Where multiple local authorities have jurisdiction over a Freeport area (as in the Solent) or where local authorities cannot provide assurances as to the development of a Freeport, other options should be considered in the national Freeports policy. These include:

- 3) Extending permitted development rights in seaports and Freeports to include manufacturing, operations and research and development
 - 4) Including Freeport development and relevant infrastructure in the National Policy Statement to allow for application of Development Consent Order from the National Planning Inspectorate
 - 6) Grant Freeport operator planning authority as a Development Corporation would be planning authority
- Given the Prime Minister's 30 June announcements related to the UK planning regime, the Government's efforts to streamline and simplify planning processes for strategic development should be applied to Freeport sites and enabling infrastructure necessary to ensure their success. In particular, planning processes in and around ports should be aligned to national planning processes in place for strategic infrastructure processes, with standard timelines and thresholds in place to reduce delays associated with the planning process while guaranteeing a robust approach to environmental protection.
 - For example, sites along the Southampton Waterside have been identified as a key development opportunity in the Solent, with potential to attract £3,800 m in investment while providing 4,000 new homes and strengthening on the UK's most strategic trading ports.²⁹ Individual sites have development master plans (e.g. for ports), which are integrated in the Waterside Strategy, but these documents are not given equal footing with local development plans under existing planning rules. Freeport designation with streamlined planning processes could deliver this development potential in the region. **With a significant level of projected investment and opportunity to accelerate development in Freeports, it is the view of the Solent LEP that Freeports should be considered amongst the significant infrastructure projects that are prioritised in the Government's Policy Paper and resulting reforms.**

3.5 Regulatory impacts

3.5.1 Q28: Please provide any comments you have on the regulatory impact of the planning measures set out in this consultation. For example, do you have any information on the costs and benefits to business of these measures?

- Overall, we believe that the planning measures laid out in the Government's consultation will:

²⁹ The Waterside Partnership (2019) An Invitation to Government

- increase certainty for investors
- lower costs for business by reducing time spent on planning applications - also reducing the lag between tenants on Freeport sites
- raise the competitiveness of the UK at attracting investment to Freeport locations such as the Solent, bringing greater economic growth to the region and the UK more broadly

4 Regeneration

4.1 Infrastructure

4.1.1 Q29: What infrastructure could encourage increased business activity in a Freeport? Please support your response with evidence where possible.

- The Solent is the most urbanised area in England, south of London. As a coastal region with 340 miles of coastline, three islands and three peninsulas, moving about is a challenge. Overlaid on this complex physical and socio-economic geography is the role the Solent plays in international movements of both people and freight through its ports. This places a unique set of infrastructure stresses on the Solent that other conurbations do not experience.
- The Port of Southampton is located in a thriving regional city centre. This is unusual for a port of this scale of importance, and presents access challenges with competing demands for road space. Technology is used to manage freight movements into the container port, which is located close to the M271, but access to cruise terminals conflicts with access to the city centre, and with many occasions when five cruise ships turn around (disembarking and embarking passengers) the highway network comes under significant stress. With cruise ships getting bigger, cruise holidays becoming more popular, and container ships accommodating an increasing amount of cargo, this pressure will increase. Technology has a key role to play, but so will new infrastructure to ensure the port can continue to grow and respond to industry demands.
- As the second most densely populated city in the UK, and the UK's only island city, Portsmouth has significant access challenges, with just three access roads in / out of the city. The potential for enhanced processing requirements post the transition period, could result in traffic blocking back on to the highway. In response mitigation measures have been put in place. The Port has ambitious growth plans in relation to the mid-cruise market, which will require new Terminal space and quay-side infrastructure.
- Significant opportunities exist along the western coast of Southampton Water (known locally as the Waterside). The Waterside is effectively a peninsula, bound on the east by Southampton Water, to the south by the Solent waterway, and to the west by the outstanding New Forest National Park. Access is provided through the A326, which connects the Waterside to the M27 and the wider Strategic Road Network. The A326 is a dual carriageway to Hounsdown, reducing to single carriage way before it reaches the Solent Gateway Port at Marchwood, the ExxonMobil petro-chemical complex, and Fawley Waterside. Upgrading the A326 would transform connectivity.
- Whilst the Waterside has a rail line that extends to the ExxonMobil site, it is not used for passenger services, resulting in the A326 being the only means of access for residents and businesses, and peak movements are exceptionally high, journey times slow and air quality poor.
- A Freeport extending to this area will provide new work opportunities to reduce the need to travel out of the area for work, reduce stresses on transport infrastructure, and improve air quality.
- There are also opportunities to explore innovative water taxi movements utilising Southampton Water to transport people.
- International Freeport offers sometimes include subsidised (or even rent free) premises or state-funded superstructure. A survey of inward investors into UK Enterprise Zones in the 1990s found that an attractive physical environment, the availability of land, premises and good infrastructure were

key factors in their location decision and contributed to subsequent growth³⁰. Allowing for expedited planning increases the value of available land to investors, tightening cash flow on capital expenditures and reducing administrative costs.

- We believe that the UK's Freeport offer can be enhanced with local coordination of infrastructure and utilities to meet investor needs. For example, where local authorities are key stakeholders or even owners of airports, rail lines and road spurs in the vicinity of a Freeport, these assets can be optimised to support Freeport business through end to-end customs tracking, engagement of Freeport investors in route planning and extension of services to include Freeport access.
- Freeports offer a significant opportunity to foster and catalyse regional innovation hubs (as with maritime decarbonisation technologies in the Solent). In order to create an innovation-friendly business environment, digital infrastructure will be key for any Freeport site. This includes both physical infrastructure connectivity (e.g. fibre networks, 5G coverage) but also access to soft infrastructure focussed on the digital economy including knowledge sharing, networks of practitioners/researchers/catapults and industry resources (such as access to DIT specialists). Site-specific digital infrastructure will enhance the attractiveness of Freeports to target investors. For example, the planned Fawley Waterside development envisions a bottom-up 'smart city' that is built on a digital technology foundation. Including the dockside commercial district of this city in a Freeport designation with appropriate ICT infrastructure in place unlocks significant opportunities to attract investment in maritime technologies.
- Freeports also present an appealing use case for net zero infrastructure in transport, energy and port operations. The Port of Southampton's forthcoming shore-based power facilities³¹ reflect just one way in which infrastructure can be used reduce the emissions from existing industries likely to benefit from Freeport designation, which could be further supported through the establishment of a Green Maritime Fund, delivered through Freeports.³² Through investment in these technologies, as well as new propulsion technologies, Freeports can drive forward exportable technologies to support the global energy transition. Freeport designation can safeguard and enhance investment plans at the Fawley Refinery site on the Southampton Water which is poised to become a global leader in hydrogen products and form one of the UK's first net zero industrial clusters.

4.1.2 Q30: What infrastructure could support wider regeneration opportunities and promote job creation in the areas around a Freeport?

- The Solent economy has pockets of deprivation in the 10% most deprived areas of England. These are predominantly in the cities of Portsmouth and Southampton, but significant pockets also exist on the Isle of Wight, the Waterside, Gosport, and, in particular, Havant. In the Portsmouth urban area, the major concentrations of deprivation can be seen east of Portsmouth Naval Base and docks, as well as within Cosham, Havant and Gosport town centres. These areas typically have a significant proportion of LSOAs falling within the top 10% most deprived in England. The most deprived parts of the Southampton urban area are located north of the Port of Southampton, east of the city centre and in Weston. These areas have a significant proportion of LSOAs falling within the 10% most deprived in England.
- Whilst in the south east, the Solent exhibits economic characteristics that are more akin to those of a northern conurbation with significant socio-economic challenges, low productivity, and workforce lacking in high level skills.

³⁰ Potter, J., & Moore, B. (2000). UK Enterprise Zones and the Attraction of Inward Investment. *Urban Studies*, 37(8), 1279–1311.

³¹ <https://www.bbc.com/news/uk-england-hampshire-50562113>

³² https://mcusercontent.com/9fa5533f9884aad39ffc18f0e/files/0e485bd6-d294-410d-879c-78c483ab760b/BPA_Shore_Power_Paper_May_2020.pdf

- The development and improvement of transport links, for both people and goods has potential to deliver significant benefits to areas of the Solent that are deprived.
- Furthermore, Freeport-related infrastructure enabling key industries such as the offshore wind and maritime manufacturing throughout the region will support regeneration efforts in the region's most deprived communities, which are also facing significant levels of vulnerability from the Covid-19 pandemic.³³
- The work-from-home revolution spurred by the Covid-19 lockdown has highlighted the opportunity to connect the workforce from their homes. Digitally-connected communities like those supported by a Solent Freeport (e.g. Fawley Waterside) will provide technology-enabled residential areas fit for purpose in the current work environment.
- As a tool to accelerate and safeguard investment in key strategic sectors, Freeports offer an opportunity to create the type of jobs required by the future economy in the UK, and to encourage those jobs around strategic port infrastructure in traditionally deprived areas.

4.1.3 Q31: Please provide any additional feedback you have on the issue of infrastructure for Freeports not specifically addressed by any of the questions in this section.

- The anticipated increase in traffic related to potential Freeport sites would bring additional strain on local transportation infrastructure in the Solent, particularly major roadways and rail lines surrounding the port areas. The A326 would be a significant transit corridor for goods being transported between Freeport sites and requires additional Government investment to ensure the road has the capacity for additional growth. The Solent LEP therefore recommends that the Government align Freeport designation with funding for infrastructure improvements and expansion in the region.
- The Solent LEP has already invested £5.7 m in the southern junctions of the A326 to connect the new Fawley Waterside development with the City of Southampton and key employment sites, including the region's ports. Further investment in this transport link will complement development plans throughout the region while further unlocking strategic sites around the Southampton Water.
- Industry-specific infrastructure investments, for example to support the offshore wind industry's transition to super-sized blade production are also key to safeguarding existing core industries in the region that closely align with the UK's Industrial Strategy and Clean Growth missions.

4.2 Business support

4.2.1 Q32: What dedicated trade and investment support, advice and guidance would best enable your business to take advantage of the opportunities Freeports would create?

- The Solent LEP believes that the soft infrastructure incentives offered through Freeports can be effective in reducing barriers to investment through the provision of information and reduction of approval timelines. Perceptions of bureaucratic hurdles as a barrier to doing business in the UK persist³⁴.
- A 'one-stop shop' for UK Freeports is a key benefit to help investors access information required to invest and navigate the regulatory landscape specific to Freeports and, for foreign investors, the UK. Successful Freeports (including Jurong Island in Singapore and Jebel Ali Free Zone in Dubai) offer one-stop shops that serve as account managers for Freeport businesses, providing information on regulatory developments, linking investors to domestic supply chain businesses and supporting bids

³³ Daveport et al. (2020) *The geography of the COVID-19 crisis in England*. The Institute for Fiscal Studies.

³⁴ Schwab, K. (2018). *The Global Competitiveness Report 2018*. World Economic Forum Reports 2018. <https://doi.org/10.1007/978-92-95044-73-9>

for expansion to home offices around the world, including expediting visas for employees. For investors considering entry into Freeports, one-stop shops provide an essential contact point to answer questions and build a business case for investment. At present, the various incentives available to investors are dispersed amongst different programmes and funds, administered by different authorities and awarding authorities.

- The Solent LEP has an existing one-stop shop for business services in the region in the Solent LEP Growth Hub,³⁵ which consolidates relevant information and services for businesses operating or looking to expand to the region. The Growth Hub was quickly repurposed to consolidate Coronavirus information and services for the region's businesses during the pandemic. In order to encourage high growth in Freeports, designations should consider where these crucial business supports have been successfully implemented and encourage existing best practices to be built upon to support Freeport businesses.
- Automatic concessions for firms operating Freeport sites can minimise administrative costs faced by investors. Businesses report significant costs and frustration in accessing current customs-related incentives in the UK, including inward processing relief. In line with self-assessments and automatic exemptions offered in Freeport regimes in Europe and the United States, UK Freeports should offer automatic concessions from duties, excise and VAT on any imported goods, and simplified customs declarations and filings required by UK customs authorities. Our view is that together with reduced filing requirements, VAT exemptions can also improve the cash flow for a typical investor.
- The Solent LEP believes that devolving planning and development powers, either to Freeport governing bodies or (where they are in place) regional authorities, can allow for the development of investor relevant zones and regional infrastructure that meets investors' stringent requirements. Inward investors in the UK's Enterprise Zones cite relaxed planning controls and procedures and faster property development as important to the growth of their company. Devolution of internal planning approvals, basic infrastructure development, and utilities such as energy generation and distribution, water and waste treatment to the zone manager, as currently offered in some regional Growth Deals, will create a competitive environment for capital investment in UK Freeports and should be considered in any offer. We believe that by lowering production costs and shortening infrastructure development times, devolved planning permissions can improve the productivity of businesses operating in UK Freeports and the attractiveness of the UK to foreign investors.
- It is our view that a designated coordinating authority for Freeports and their tenants to central government is important to ensure coordination and cohesion between Freeports throughout the UK. Our view is that an independent (from sector ministries or sectors) Freeport regulator with a national portfolio is important to provide expert review of Freeport operations and incentives and to coordinate cross-government efforts to improve the business environment for investors. This regulator should coordinate inputs and requests across relevant ministries to support Freeport development, including managing the necessary regulatory processes for establishing and operating Freeports in the UK, approving and developing new Freeports, Freeport buildout and evaluating the Freeport policy at regular points in time. In contrast to a national regulator, individual Freeport-specific operators can be public (for example, an Urban Development Corporation) or private, but should report to the national regulator. Freeport regulators in both Dubai and Singapore often delegate specific port operations to a subsidiary or contracted firm. We believe operators should have responsibility for servicing investors in their respective zone, providing a one-stop shop service and raising issues and concerns from investors to the national regulator. Internationally, where Freeport regulators sit within government, vary across examples, including within ministries for trade and industry (Singapore, Korea) or directly reporting to the prime minister (as in Jebel Ali, Jordan, Macedonia).

³⁵ <https://solentlep.org.uk/business-support-and-funding/solent-growth-hub/>

- The Solent LEP believes that Freeports can attract investors to the UK by signalling a competitive business environment by leveraging the global Freeport brand. In appraising different investment locations, investors will review the incentives offered by different countries. Although it is not a substitute for a fiscal and financial package that meaningfully impacts the expected returns on investment, the very fact that the UK has a Freeport policy may be enough to attract significant interest and enquiries. It is a signal of intent and has a positive marketing value. Several international case studies have shown that Freeports can attract significant investment into their host region, including in Singapore, Turkey and Dubai.
- We recommend that the marketing of UK Freeports should replicate international best practice. This includes investment in client relationship management systems, dedicated account managers with sectoral expertise, who can identify potential international investors and ‘hand-hold’ them through administrative procedures. We believe that DIT should play a key role, for example by establishing a regional presence in the Freeport. It should promote the Freeport offer, creating a distinctive brand which draws upon the UK is GREAT campaign.

4.3 Skills

4.3.1 Q33: Working with Mayoral Combined Authorities, Combined Authorities and Local Enterprise Partnerships (which will be informed by their newly established Skills Advisory Panels), how might a Freeport contribute to the skills offer in your area?

- In our opinion, options to consider might include direct grants or tax allowances for human capital development for businesses associated with a Freeport to develop a skilled workforce in and around the Solent. Through HMG’s targeted funding improvements in Freeport areas, the status could have a positive impact on the labour market in the Solent. Further skills-related investments such as an Institute of Technology based in the Solent would complement the impact of productivity in the region from a Freeport.
- The Freeport agenda can play a strong role in delivering the Chancellor's three point plan for jobs - to protect, support, and create jobs announced on the 8th July 2020, through a number of innovative and locally-focussed approaches. This could include creating new jobs through the inward investment that Freeport status would facilitate and through the pioneering of new approaches to decarbonisation, through the role of technology in improving the productivity of port-regions and their supply-chains, and through harnessing the innovation assets in the maritime domain, including National Oceanography Centre (NOC), Southampton Marine and Maritime Institute, Warsash School of Maritime Science and Engineering working with major industry leaders such as ExxonMobil and smaller rapidly growing maritime businesses such as Ocean Infinity.
- Specifically, Freeports could building on initiatives such as the Kickstart Scheme, extending it beyond the proposed six month period in Freeport designations. This would support young people through directly paying Freeport employers to create new jobs for 16-24 year olds at risk of long term unemployment and will ensure that the issue of replacement demand impacting the Solent's Maritime and Advanced Manufacturing sectors, as evidenced in our recently published [Local Skills and Labour Market Analysis](#) , can be mitigated.
- The Solent LEP area already benefits from two Careers Hubs, working with the Careers and Enterprise Company, with one focussed on supporting young people to secure jobs in the maritime sector, and the other focussed on the visitor economy (closely linked to our maritime sector). An enhancement to this could see a Careers Hub focussed on pathways to careers in businesses located within the Freeport, assisting both the talent pipeline, but also providing the critical pathway that school leavers are expected to see complicated by the impact of the COVID-19 pandemic on recruitment and the competitiveness of the labour market in an area where attainment is already below the national average.

4.3.2 Q34: How could employers involved in Freeport applications demonstrate their commitment to engagement with, and support for, local FE and skills providers?

- The Solent LEP has established strong partnerships between local industry and skills development in the region. In particular, the LEP's [Skills Advisory Panel](#) has been formed to bring together industry and skills sector stakeholders to provide strategic leadership for the local skills ecosystem, in line with Department for Education guidance. As such, the LEP is well placed to continue to support these partnerships in its role as coordinating authority for a Freeport in the Solent.
- Freeport businesses could be incentivised to provide traineeships for young people, building on the sector-based work academy placements in England in order to provide vocational training and guaranteed interviews for more people, helping them gain the skills needed for the jobs available in their local area.
- The LEP is already working with the areas three Universities and employers to develop proposals for an Institute of Technology aimed at providing technical skills pathways in maritime, advanced manufacturing and technology. This would be embedded within the Freeport to ensure that Freeport employers take a leading role in governance, curriculum design and to harness the working environment opportunities they can provide to bring learning to life.

4.4 Housing

4.4.1 Q35: What are the main housing needs of the local economies which surround ports (suitable for Freeport status), both now and in the future?

- In the Solent region, planned housing development in the Totton and Waterside subarea would be supported by transport infrastructure delivered to support a Freeport around Southampton Water, including improvements to A326. In addition, the Fawley Waterside development includes a planned 1,500 housing units at its Intelligent Merchant City site along the Southampton Water.

4.4.2 Q36: How can local areas align their housing interventions with the wider regeneration agenda to make Freeports a success?

- The Solent has a chronic housing shortage. Whilst house prices in the Solent are below the South East average in absolute terms, they are above the average for England as a whole. Combined with only average median wages, this means housing affordability is a challenge; the ratio of median house price to median wage is 8.7 in the Solent, compared to 8.0 for England as a whole.
- It will be important that housing comes forward for to meet not only current demands but to also satisfy the new employment opportunities that a Freeport would create. In order support decarbonisation and well-being it will be important to incentivise sustainable communities where a mix of new housing is available close to Freeport employment to reduce the need to travel.

4.4.3 Q37: What role could zonal planning, including the use of Local Development Orders, play in delivering the wider regeneration of local areas around Freeports?

- As discussed in our responses to questions 24 – 28, applying LDOs and similar policies to streamline and align essential infrastructure for Freeport operations will have wider impacts in supporting regeneration efforts throughout the region. For example, funding and planning support for key transport connections for Freeport sites in the Solent will improve connectivity in the region, including by unlocking priority development sites including Fawley Waterside, supporting employment and economic activity in a key area for regeneration in the region. Indirectly, any wider infrastructure investments that support increased investment in Freeport sites will have a significant impact by providing jobs and supporting local supply chains.

5 Innovation

5.1 Challenge-based initiatives

5.1.1 Q38: What specific operational barriers to efficiency exist in ports that could be addressed through the development of innovative technology and processes?

- Congestion in and around ports limits the flow of goods and can leave ports operating below capacity. Innovations in developing ‘smart ports’- ports which integrate innovative technologies to improve the efficiency and sustainability of ports- could help solve congestion issues by allowing port operators to be better connected to vessels and more efficiently manage port traffic. For example, innovations in deep learning could be used alongside big data to allow ports to create predictive, prescriptive systems that improve decision-making. Innovations related to Blockchain and the Internet of Things could also improve congestion challenges by automating contracting and cargo management and reducing the turn-around time for vessels in the port.
- As ports become more connected and continue to digitalise, sharing large amounts of data, cybersecurity also needs to be improved. Innovations in cybersecurity and network management and integration would allow ports to capitalize on efficiency gains from data sharing, while ensuring maximum data security. Energy efficiency of port operations is another key area for innovation. Innovations in dockside electricity supply and renewable energy (especially marine renewables) would help to overcome this barrier and reduce ports’ energy usage and carbon footprints. Overcoming these barriers would also yield co-benefits, for example, improved air quality or reduced road congestion in the areas around ports.
- As noted in our response to the questions on Infrastructure (Q29 and Q30) technology can play a key role in improving productivity and managing access to Freeports. Full fibre should be a key part of infrastructure mix to allow Freeports to reach their potential and pioneers new ways of doing things.

5.1.2 Q39: What specific aspects of customs administration present barriers to business efficiency? How could the development of innovative technology and processes be used to address these, and maintain a secure environment?

- A UK standard for Port Community Systems for Freeports could link stages across supply chains operating under Freeport rules. This would mitigate additional complexities in the customs system that might arise from parallel customs regimes.

5.2 Freeports and academic collaboration

5.2.1 Q40: How can ports collaborate with public agencies - including universities and other academic institutions, businesses, and local government - to develop and adopt new technologies?

- The Solent LEP believes that by collaborating with public agencies, ports can benefit from knowledge-sharing, research, and agglomeration effects. For example, ports can work with researchers or businesses to help them identify and solve their problems and to innovate new technologies to improve their efficiency and sustainability.
- For example, the Solent is home to world-class universities and institutes, such as the *Southampton Marine and Maritime Institute* at the University of Southampton and the *National Oceanography Centre*, whose research focuses on innovation in marine energy, maritime decarbonisation, and marine robotics and automation. A Freeport in the Solent can facilitate innovations in science and technologies for the whole of the maritime industry that could be used to improve safety and reduce emissions at ports across the UK. Linking Freeport infrastructure and development to relevant

regional initiatives such as the Fawley Waterside and development of innovative institutions in collaboration with e.g. the National Composites Centre could further compound the innovation impacts of development related to Freeports in the UK. These innovations are likely to result in benefits to existing industries and new developments including the offshore wind and logistics industries.

- The *Maritime UK* initiative provides a useful framework for collaboration between innovative maritime businesses, academic researchers and port operators. The Maritime UK cluster in the Solent has been involved in developing a proposition for a Solent Freeport and the MUK Solent Shadow Board has been regularly updated and engaged in the LEP's planning around a potential Freeport in the region. This demonstrates the significant potential gains for alignment between MUK clusters and Freeports throughout the UK.
- The existing innovation assets in maritime communities such as the Solent and existing coordination structures such as MUK clusters suggest that there is significantly opportunity for collaboration between innovation institutions in Freeports and, in particular, Freeports can provide incubators and testing grounds for existing technologies including low carbon energy supply and efficient maritime vehicles. For example, the Solent offers a potentially unique test case for Freeport-driven collaboration around innovation in the maritime industry.
 - The Solent has three Universities - Southampton, Portsmouth and Solent. Each have significant specialisms in marine and maritime. The University of Southampton is home to the Southampton Marine and Maritime Institute (SMMI), which constitutes world class, authoritative, independent expertise, spanning both the marine and maritime sectors. SMMI is a unique, internationally recognised centre of excellence for research, innovation and education, with work spanning both the natural ocean environment (marine) and human use of the sea (maritime). The University is also home to the Wolfson Unit, which enables industry to benefit from the facilities, academic excellence and research activities at the University, and is world renowned for ship model testing, sailing yacht performance and ship design software.
 - The UK has a long tradition as an ocean science pioneer with world leading capabilities, and the National Oceanography Centre (NOC) in Southampton is one of the world's top oceanographic institutions, providing the UK with the national capability needed to be a top global player and to lead and participate in international collaborations. The NOC undertakes world leading research in large scale oceanography and ocean measurement technology innovation. It works with Government and business to turn great science and technology into advice and applications. The NOC supports the UK science community based in universities and smaller research institutes with scientific facilities, research infrastructure and irreplaceable data assets - enabling the UK to harness the full power and diversity of its scientific talent in ocean science.
 - Southampton is home to young innovative businesses operating in the maritime space, including Ecosubsea,³⁶ Rad Propulsion³⁷ and Ocean Infinity.³⁸ These companies, along with many others in the region are world-leading in their advanced manufacturing and development of maritime technologies.
 - Linked to the expertise that resides at NOC, the Solent is undoubtedly at the forefront of pioneering marine autonomy and robotics, with companies such as Armada (Ocean Infinity) L3 Technologies and Saab SeaEye world-leaders in their respective fields. As the maritime world moves towards autonomy, the Solent will see the wide-scale adoption of autonomous

³⁶ <https://www.ecosubsea.com/>

³⁷ <https://www.radpropulsion.com/>

³⁸ <https://oceaninfinity.com/>

operation. From academia, to specialist SMEs, to Port Authorities, companies across the Solent will need to test, teach and develop specialist autonomous systems.

5.3 Regulatory sandboxes

5.3.1 Q41: How could challenge-based initiatives and innovative procurement opportunities help ports and local partners work together to innovate?

- Innovation in marine energy, maritime decarbonisation, and marine robotics and automation are all strengths in the region. These could be complemented by a Freeport that improves connectivity, promotes export activity and strengthens the ecosystem for these industries.
- In delivering a Freeport policy in the UK, the Government should consider the launch of one or more pilot Freeports to provide a proof of concept for the policy, test initial aspects considered in this consultation and make a head start on signalling to the broader global investment community that the UK is ready to innovate in order to stay competitive for international businesses.

5.4 Data availability and usability

5.4.1 Q42: What obstacles are there to greater data availability in the customs and transport sectors?

- Data latency is a key technical obstacle to data availability in the transport sector. In order to make use of data for port operations and logistics, it is critical that data is collected and shared in real time. This can be difficult to manage across different vessel operators with different systems for sharing and managing their data. Coordinating data collection across different operators also creates challenges with data connectivity. With data coming from different sources and in different formats, it can be difficult to integrate and automate data analysis. The transport sector in particular uses a wide variety of data platforms, meaning that there is no standard system for data management. Data quality is also a key obstacle to data availability, as it is critical that the data being collected is both accurate and relevant.
- There are also non-technical obstacles to data availability, namely challenges related to the willingness of companies to share data in a transparent way. Innovations related to cybersecurity may help overcome this obstacle, by ensuring that data transfer and storage is secure.

5.4.2 Q43: What opportunities are there for data generated within Freeports to support innovation by businesses and innovation stakeholders? What changes would be needed to facilitate this?

- The Solent LEP believes that a shared standard for UK Freeport PCSs would generate useful data for study of efficiency in the UK's logistics sector. Once proper access protocols are in place, this data could be shared with technology developers and in the model of Transport for London's transport data programmes.

5.5 Contribution to the decarbonisation agenda

5.5.1 Q44: How could regulatory flexibility within Freeports help businesses to trial and implement new products and processes?

- It is the view of the Solent LEP that the incentives and regulatory flexibility within Freeports can create a powerful innovation ecosystem in and around Freeports that supports the decarbonisation of ports across the UK. Research and Development grants can help companies in Freeports invest in the development of decarbonisation technologies such as marine energy, hydrogen injection, and transition fuels (e.g. LNG). R&D grants can also help companies invest in developing technologies that improve their energy efficiency, furthering the decarbonisation agenda. In addition to R&D grants, the tax credits offered by Freeports and cost savings from simplified customs procedures would

expand the capital available for companies to invest in developing and trialling these new technologies.

- Given the major maritime assets at the University of Southampton and National Oceanography Centre, a Freeport in the Solent presents an opportunity to leverage these assets along with the significant levels of public and private investment in Freeport development to develop testbeds for maritime technology. This could be supported through coordinated regulatory and funding actions through a satellite catapult, specialised development zones (e.g. Future Mobility/Transport Zones) and specific policies to encourage collaboration between Freeport businesses and innovation assets.
- Expanded planning Freedoms would also help with the development of decarbonisation technologies by reducing the time it takes to receive planning permissions, allowing companies to more quickly deploy and test new technologies.

5.5.2 Q45: How could Freeports be used to test new ideas and support business and industry to decarbonise in line with the UK's Net Zero target?

- The UK's Clean Growth Strategy predicts that the UK low carbon economy could grow by an estimated 11% per year between 2015 and 2030 – and deliver up to £170 billion of export sales of goods and services by 2030. However, the Solent LEP believes that a key barrier to this growth is the high risk and uncertainty faced by investors aiming to develop advanced manufacturing of the technologies required for the low carbon transition. We believe that a Freeport which provides significant financial support to investors can help mitigate these risks, whilst creating regional clusters that can help diffusion of knowledge and skills.
- In the Solent, turbine manufacturing by MHI Vestas contributes to a cluster of knowledge and innovation in the region on offshore wind technology. MHI Vestas employs 1200 of the 2000 jobs in the offshore wind industry in the Solent and is a key contributor to the UK's low-carbon manufacturing sector. However, their operations in the UK are at significant risk of being relocated offshore due to potential tariff increases as a result of Brexit. Freeport incentives, particularly inward processing relief for blades being exported to EU markets, would help enable MHI Vestas' operations to remain in the Solent and continue contributing to growth in the UK's green economy.
- The Fawley Refinery is a key centre of innovation and development in for the UK's energy sector and more broadly for the global energy trade. Through Freeport policies designed to encourage additional investments such as the planned Fawley Strategy (FAST) project to increase ultralow-sulphur diesel by nearly 45% will remain in the UK and contribute to its energy transition. Potential future investments at this site that could be supported by Freeport designation include development of hydrogen economy technologies and one of the world's first net zero industrial clusters.

5.5.3 Q46: Please provide any additional feedback you have on the issue of innovation in Freeport policy not specifically addressed by any of the questions in this section.

- The Solent is already a world-leading innovation hub and is proudly home to a broad array of advanced manufacturers spanning tech, defence, maritime transport and deep sea exploration sectors, amongst many others. Planned developments include Fawley Waterside, the Southampton Airport Manufacturing Park, the Maritime Enterprise Zone and a long list of innovative and transformative expansions from the region's businesses, including key links to global automobile and clean energy supply chains. The establishment of Freeports in the UK, and specifically a Freeport in the Solent, will send a powerful signal to potential investors in these businesses and untold others that the UK is committed to developing a competitive business environment that builds on its existing strengths.

- Given the strong branding and enabling environment impacts of a robust Freeport policy, we expect businesses located within and outside of Freeport sites to benefit from renewed interest in the UK, the Solent and the strong trade links and skills base currently on offer in the region.
- Without this positive signal, looming uncertainty around the UK's future trading relationships and the lingering impacts of the Covid-19 pandemic risk dampening investment plans throughout the region.

6 Additional policy considerations

6.1 Preventing illicit activities

6.1.1 Q47: In your view, what is the level of risk of illicit activity in Freeports? Please explain your answer.

- *Low*
- It is the view of the Solent LEP that while there is a risk of illicit activity in Freeports, that risk in the UK is low. Reports such as the Financial Actions Task Force's (FATF) report on money laundering in Free Trade Zones have found that the incentives and simplified procedures offered in Free Trade Zones can attract illicit activities such as money laundering, smuggling, and fraud³⁹. This risk is especially pronounced in countries where overall monitoring and enforcement of port activities, such as regular auditing, is low. However, in countries with strong monitoring and prevention measures in place, this risk is significantly smaller. In the UK, there are already strong measures in place to monitor and prevent illicit activities and, as such, the risk of activities such as money laundering and terrorist financing is one of the lowest in the world^{40,41}.

6.1.2 Q48: What additional measures should be implemented to mitigate such activities?

- n/a

6.1.3 Q49: Please provide any other comments you have on the issue of preventing illicit activity within Freeports.

- n/a

6.2 Business impacts

6.2.1 Q50: Please provide any comments on the impact on businesses of the measures set out in this consultation. Please provide any information on the costs and benefits to businesses of these measures.

- It is the Solent LEP's view that the simplified customs procedures and changes in tax policy offered in this consultation would significantly reduce the administrative burdens of businesses operating within Freeports and open financial capital for further investment. We believe that expanded planning freedoms and special development rights would also greatly reduce administrative costs and burden for businesses operating within Freeports by significantly reducing development timelines. There is a risk that the increases security requirements of Freeport sites would impose a financial cost to Freeport businesses. However, we believe that these costs can be avoided by taking advantage of technological solutions where possible.
- Through initial modelling of the impacts from a future Freeport in the Solent,⁴² we anticipate that the gross benefits of a Freeport could include as much as GBP300 m in annual GVA contributions in the region and over 15,000 jobs in the region.⁴³

³⁹ Financial Action Task Force (2010) Money Laundering vulnerabilities of Free Trade Zones. Accessed at: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf>

⁴⁰ Financial Action Task Force (2018) Anti-money laundering and counter-terrorist financing measures. United Kingdom Mutual Evaluation Report. Accessed at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf>

⁴¹ Basel Institute on Governance (2019) Basel AML Index 2019. Accessed at: <https://www.baselgovernance.org/sites/default/files/2019-08/Basel%20AML%20Index%202019.pdf>

⁴² Vivid Economics (2020) for the Solent LEP

⁴³ After 20 years of Freeport-related investments. Note – these outputs are gross values, without any additional assumptions applied. Across a range of additional scenarios, annual GVA contributions would fluctuate from GBP 20 – 200 m in the region.

6.3 Equality impacts

6.3.1 Q51: Please provide any views about the implications of our proposals on people with protected characteristics as defined in section 149 of the Equality Act 2010. Please provide any evidence you have to support your views. Is there anything that could be done to mitigate any impact identified?

- Where they result in significant local economic impacts, we expect Freeports to have a positive effect on equality and diversity in the UK. For example, in the Solent, communities surrounding proposed Freeport sites and their supporting supply chains have wage levels below the national average and in places have above average rates of unemployment (not considering Covid-related impacts). As indicated in an IFS study⁴⁴ of Covid-related vulnerability, impacts from the pandemic are acutely felt in coastal communities where Freeports are likely to be designated, including communities throughout the Solent.
- Through local stimulus, Freeports also offer significant opportunities to empower and support ethnically diverse communities as are present in Southampton. If quickly deployed in areas ready for development, Freeports provide an inclusive and equitable recovery tool for communities severely affected by the pandemic and resulting economic crisis.
- Appropriate training and skills initiatives that are fully inclusive will ensure that those communities - including many that are amongst the most deprived in England - will have new opportunities to secure training and employment in Freeport activities.

6.3.2 Q52: If you are a business owner, what actions would you take if a Freeport was established in your local area? Please explain your answer.

- n/a

6.3.3 Q53: In your view, what is the level of risk of economic displacement? What should the Government do to mitigate these risks? Please explain your answer.

- *Medium overall, but potentially lower in some areas (including the Solent)*
- Benchmark deadweight and displacement rates are not widely available, but the limited evidence suggests displacement effects could be up to 50%. However, the Solent LEP believes that these risks can be largely mitigated through careful incentive design and appraisal of applicants.
- An evaluation of Enterprise Zones set up in the UK in the 1980s and 1990s estimated that of 126,000 jobs, 58,000 were additional, suggesting a displacement effect of around 54%⁴⁵. Subsequent surveys of businesses located in the Enterprise Zones found that 13% of employment was at firms reportedly not influenced by the designation of the zone, with another 19% of employment at firms already located within the zone⁴⁶. Importantly, however, this research did not distinguish between new investments (including branches and subsidiaries) by companies located outside of the zone and relocated activity. It did, however, reveal that 56% of businesses located in the Enterprise Zones considered that the benefits – particularly business rates relief and capital allowances - had had a positive impact on the scale, quality or timing of their investment.
- In light of the Government's levelling up agenda, the risk of national displacement outside of areas that have traditionally received high levels of public investment are likely to be low. Given its relative proximity to London and the South East, the Solent is often overlooked as an opportunity to balance investment across the UK, but in practice the region is often skipped over for London/Northern

⁴⁴ Davenport et al. (2020) The Geography of the Covid-19 Crisis in England. Institute for Fiscal Studies. Accessed at: <https://www.ifs.org.uk/publications/14888>

⁴⁵ Ward, M. (2016). Enterprise Zones.

⁴⁶ Potter, J., & Moore, B. (2000). UK Enterprise Zones and the Attraction of Inward Investment. *Urban Studies*, 37(8), 1279–1311.

Powerhouse. Further, the region has significant specialised infrastructure and strategic manufacturing activities that are unlikely to be replicated elsewhere in the UK. As Freeport designation is expected to safeguard and enhance these existing industries, we anticipate a low risk of national displacement from a Freeport in the Solent.

- Additionally, impacts from Covid-19 (which are especially significant for coastal communities and businesses in the Solent) create a significantly different baseline for evaluation of displacement after the spring of 2020. In a post-Covid economy, high levels of unemployment and investor uncertainty translate to a strong justification for Government intervention to help communities recover quickly and completely.
- As discussed in our response to Question 18, the Solent's experience with enterprise zones is exceptional to the national performance and we have found that through a focussed and distinctive approach to development, these policies can be effective in attracting dynamic businesses to the region. Based on this experience, and the relatively minimal level of overlap between Freeports and other Government spending in the Solent, it is our view that the risks of economic displacement from a Freeport in the Solent are low.
- We recognise that displacement may be a more significant risk in other parts of the UK, particularly those that have been received significant support for development similar to that which would be unlocked through a Freeport. In addition to applying selection criteria to control for these risks at the level of Central Government, Freeport incentives can be designed intelligently to reduce risks of local displacement.
- It is the Solent LEP's view that a Freeport with generic benefits that benefit all businesses, regardless of sector (such as a reduction in the headline rate of corporation tax), may attract investment that would have proceeded anyway, and therefore create a higher risk of deadweight. It is important to note that there is a trade-off between attracting investment and the risk of displacement, as a more generous package of incentives is more likely to attract investment which may otherwise have gone abroad or not gone ahead at all, but also investment which may have otherwise gone ahead elsewhere in the UK. The Solent LEP therefore recommends that the Government target benefits specifically to businesses which may otherwise choose not to invest, or to invest outside of the UK, by prioritising specific sectors, using transparent and robust approval criteria (e.g. alignment with net zero or industrial strategy agendas), and requiring businesses to demonstrate why they need to locate in the Freeport. Similar measures have been used by other Government investment programs. For example, the Regional Growth Fund required businesses to demonstrate that projects would not go ahead without public support, reducing deadweight and displacement risks, and ensuring jobs created were additional.

6.4 Environmental impacts

6.4.1 Q54: Please provide any comments on any potential environmental impacts which may arise as a result of the considerations in this consultation.

- By serving as a testing ground for innovative net zero technologies, Freeports offer an opportunity to contribute to air quality improvements around ports. This is a particular concern in Southampton, where congested highways in the city centre and western approach to the city have created significant air quality issues. The implementation of shore power and cleaner propulsion technologies in Freeports would complement the significant air quality issues primarily caused by highway traffic.
- Freeports can also fast-track growth in key environmental technologies such as those produced around the Solent (e.g. hydrogen-based products at Fawley Refinery, offshore wind turbine blades on the Isle of Wight and cleaner maritime technologies throughout the region). By encouraging more

ambitious and accelerated investment in these sectors, Freeports can facilitate the development of net zero clusters to help the UK progress against its net zero ambition.

6.5 Other impacts

6.5.1 Q55: Please provide any other feedback on the impacts of the development of Freeports in the UK not specifically addressed by any of the questions in this section.

- In addition to impacts on the local region, the Solent LEP believes that areas that are highly connected to national supply chains and cross-region export-related production should be evaluated based on their impacts across all regions. For example, the automotive sector is active in regions across the UK. There may be significant impacts from linking Freeport sites where automobiles are transported (e.g. Port of Southampton) to where they are manufactured (Coventry/Cowley). While these sites sit in separate LEPs/MCAs, an institutional relationship through either bilateral agreement or a national network of Freeports could amplify the benefits from a Freeport at either or both ends of the supply chain through shared customs management systems facilitating trade-related incentives.

7 Allocation and governance of Freeports in England

7.1 Port modality

7.1.1 Q56: What factors do we need to consider to support different port modes becoming Freeports?

- It is the Solent LEP's view that Freeports in the UK would require three levels of governance: the site operators who own and manage the land and are responsible for the day-to-day administration of the site, including supporting Freeport businesses with complying with customs and other regulatory issues; the Freeport governing body who provides public sector oversight for a port or set of sites in a virtual Free Zone; the national regulator which has responsibility for designating Freeports and creating the rules within which the national system operates.
- We believe that to support different port modes becoming Freeports, the Government should consider the challenges of integrating different port modes under a single Freeport governing body. Key to the Freeport offer is the ability to execute the planning permission process. This is an inherent role of local government which we believe would not be appropriate to cede, for example, to a private port operator. However, given the regional nature of UK ports, permissions may be needed from multiple local authorities. In the Solent, the waterfront is split across 7 local authorities that the Freeport governing body would need to coordinate between. We therefore recommend that, in areas where a regional authority or LEP can house a governing body to coordinate these governance issues, this model should be pursued. This coordinating authority could take the form of a Freeport governing body, with representation from constituent local authorities.

7.1.2 Q57: Do you agree or disagree that a Freeport could include multiple ports? Please explain your answer.

- *Agree*
- It is the Solent LEP's view that including multiple ports within a Freeport would increase its potential impacts (e.g. by up to 40% in the Solent). We believe that including multiple ports would enhance a Freeport's attractiveness to investors by expanding options and land availability within the Freeport and would result in synergies and agglomeration effects between the ports, further reducing costs of trade. There is a risk that including multiple ports with potentially competing interests could cause issues in Freeport governance. However, we believe that these risks could be mitigated prior to Freeport selection by requiring bids to be coordinated by regional authorities such as LEPs. There are also concerns about who would hold liability when transporting goods between Freeport sites in bonded transport.
- It is our view that a phased Freeport model could offer additional benefits when including multiple ports. The first phase should focus on key export-oriented ports that would benefit most from Freeport designation and economic activity sites throughout the region that fit a similar profile. Subsequent phases should include ports and economic activity sites with medium-term development plans allocated for industrial growth. The Solent LEP recommends that the Government consider the expansion potential of these sites designated for medium-term development in initial Freeport applications.

7.1.3 Q58: What factors do we need to consider in order to support applications from multiple ports?

- Freeports with multiple sites may require greater governance capacity to oversee the various site operators. To maximize the benefits of Freeport status, the Solent LEP recommends that the Government grant capacity funding to Freeport governance bodies, ensuring they have the adequate resources to develop and govern Freeports.

- Planning processes become more complicated with multiple sites in a Freeport, as these sites are more likely to fall across multiple designations. Therefore, Government should empower Freeport governance bodies with authority to facilitate planning processes in coordination with the relevant local authorities e.g. through a virtual planning authority as discussed in our response to Question 25.
- There is also a risk that implementing infrastructure incentives in a Freeport with different sites spread across a region could put additional pressures on hard infrastructure. In the Solent, the A326 would be a significant transit corridor for goods being transported between Freeport sites and would require additional Government investment to ensure the road has the capacity for additional growth. The Solent LEP therefore recommends that the Government include funding for infrastructure improvements and expansion in its Freeport policy.

7.2 Objectives and criteria of competitive bidding

7.2.1 Q59: In your view, how appropriate are the proposed criteria for assessing how potential Freeport applications can meet the stated policy objectives? Please explain your answer

- The foremost criteria for assessing Freeport applications should be the potential economic impacts, including the extent to which a Freeport would support expanded trade and investment in key strategic sectors for the UK. These impacts should be assessed against a baseline that considers both risks from trade uncertainty and impacts from Covid-19. Also important are the feasibility considerations for delivering a Freeport in a timely manner – those applications that can demonstrate strong governance mechanisms and credible delivery of impacts within the desired timeframe of the policy.
- The focus on supporting regeneration impacts through a Freeport policy is absolutely right, especially given the significant economic disruptions experienced due to the global Covid-19 pandemic. In order to reflect the Government's levelling up agenda, we support the consideration of resilience and vulnerability to Covid-19 disruptions in the site selection criteria for Freeports. Government should be sure to take a wide view of regeneration impacts and consider how the levelling up agenda can be applied to regions across the country that experience inequities in funding as well as outcomes. The strong potential for Freeports to unlock significant investment in communities hardest hit by the pandemic should be a strong consideration in selecting sites.
- It is our view that Freeports will be most effective by bringing greater attention (and investment) to existing innovation-focussed activities. Given the impact channels of Freeport incentives and the timeframe for innovative companies to reach the scale required to directly benefit from these incentives, Freeports can mostly immediately support innovation activities by signalling an improved and renewed operating environment for business in the UK. Where existing innovation hubs can benefit from shared infrastructure and improved clustering that Freeport will offer, these areas should be strongly considered for Freeport designation.

7.2.2 Q60: Please suggest any other criteria that we could use to effectively assess potential Freeport applications.

- In addition to impacts on the local region, the Solent LEP recommends that the Government include in its criteria connections to the national supply chain and cross-region exports to account for linkages that would bring spill-over benefits to other regions of the UK. In the case of the Solent, there is a significant cross-regional supply chain linked to automotive manufacturing in the Midlands and Oxfordshire. A Freeport in the Solent would benefit this supply chain and create positive impacts outside of the Solent area. We believe these cross-regional impacts should be recognised in the Government's criteria.

7.3 Public and private partnerships

7.3.1 Q61: What are the advantages and/or disadvantages of asking Mayoral Combined Authorities/Combined Authorities where they exist, or Local Enterprise Partnerships and upper tier local authorities where they do not, to lead on submitting applications?

- Asking combined authorities and/or LEPs to lead the submission of Freeport applications makes certain that there is broad buy-in and coordination of all key actors within a region, ensuring minimal opposition and smooth governance. LEPs and MCAs are positioned to coordinate across three core functions closely related to Freeport objectives: 1) distributing public funding, 2) convening public and private partners, and 3) advocating for their economies. Given this close alignment, where LEPs have been successful at coordinating funding, strategy and investment, they should be considered as a governing body for Freeports.
- In the Solent, the LEP has been effective at developing regional economic development strategy, delivering Government funding aligned with this strategy including through development of the Solent Enterprise Zone and related innovation-focused activities. The LEP has established a Freeport Task and Finish Group since October of last year, which has been engaged in the development of a Freeport concept for the Solent and includes active representation from a broad set of public and private stakeholders in the region.

7.3.2 Q62: What are the advantages and/or disadvantages of asking MCAs/CAs where they exist, and LEPs where they do not, to support a single application in their local area? In what circumstances should this be flexed to allow for more than one application?

- Given the central role of LEPs/MCAs to coordinate relevant actors in their region and align efforts with economic development strategies, we encourage that all applications be submitted by the relevant LEP/MCA. This would ensure the proper coordination and socialisation required for a Freeport to break ground quickly once designated, rather than risk further delays from coordination amongst relevant stakeholders.

7.3.3 Q63: What are the advantages and/or disadvantages of enabling ports to submit applications for Freeport status directly to central government?

- Where ports submit an application in coordination with the local LEP or MCA, the direct submission can allow for the application of sensitive/proprietary information and expertise to make the strongest case for a given site. However, if these applications are not coordinated with the regional governing body's efforts, they risk creating confusion and unhelpful competition.

7.3.4 Q64: Please outline the most effective models for partnership between private, public sector and local economic partners to design and submit applications.

- We recommend that Government state a preference for applications to come from LEPs or MCAs/CAs or at least to be explicitly supported by these organisations. Where multiple applications are submitted for an area, we recommend a negotiation phase facilitated by Government to agree on a final proposal.

7.3.5 Q65: Please provide any other comments you have on the allocation of Freeports not specifically addressed by any of the questions in this section.

- To maximize the benefits of Freeport status, the Solent LEP recommends that the Government grant capacity funding to Freeport governance bodies (e.g. LEPs), ensuring they have the adequate resources to develop and govern Freeports.

7.4 Measuring impact

7.4.1 Q66: How can the Government best monitor and evaluate Freeports?

- Freeports can be monitored and evaluated through both hard and soft data analysis. Quantitative data analysis can provide insights into the economic and regenerative impacts of Freeports. Data collected from within Freeport sites, such as investment, annual turnover, employment statistics, and trade volumes, should be combined with data from areas around Freeport sites, such as indirect employment statistics and regional economic statistics, to assess Freeports against intended outcomes. The Solent LEP believes that a key benefit of Freeports will be the spill-over benefits for cross-regional supply-chains and that growth in these supply chains should therefore also be used to evaluate Freeport impacts. This quantitative-based evaluation of Freeport should be complemented with qualitative data from stakeholders and regional governing bodies to evaluate Freeport impacts on harder-to-measure outcomes such as innovation.

7.4.2 Q67: Are there ways that we could ensure a counterfactual impact evaluation is feasible and deliverable for all Freeport areas? Please explain your answer.

- We recommend that the government conduct a thorough baseline data collection of new and existing data from all Ports prior to the initiation of Freeport status to ensure the necessary data exists to conduct a counterfactual impact evaluation. We also recommend that the Government invest in comprehensive analysis to better understand the impacts of Freeports once operational. This could involve collaboration between academia and Government to differentiate between additionality and displacement effects. The Government should also make available its Freeport data to allow for increased academic research on Freeports and to further knowledge sharing on Special Economic Zones globally.

7.4.3 Q68: For the Freeport model described in this consultation, what might be an appropriate time period for incentives to initially operate for to give certainty to investors and businesses and provide an opportunity for the Government to evaluate their effectiveness? If you think the appropriate period could differ for different incentives within the Freeports model, then specify a different time period for each incentive.

- It is the Solent LEP's view that the strength of Freeport incentives will be greater the longer that they are offered for. The longer incentives are offered for, the larger the overall cost savings to businesses and the greater certainty potential Freeport investors have, making them more likely to invest.
- In Canada, Free Trade Zones offer incentives such as duty deferral for a period of only four years. In the United States and other countries, these incentives are offered indefinitely, resulting in a substantially larger incentive to businesses and potential investors to locate in Free Zones. This difference in time scales is cited as one of the key reasons for the lack of success of Canadian FTZs compared to FTZs in similar countries⁴⁷.
- However, we believe that it is also important that the Government be able to review and evaluate the success of Freeport incentives. The UK Government's Green Book on appraisal and evaluation recommends that future benefits be discounted at a rate of 3.5%. With this discount rate, any benefits occurring after 25 years are negligible in present value terms. The Solent LEP therefore recommends that Freeport incentives be initially offered for a period of 25 years, the time period in which the Government can then evaluate their effectiveness.

⁴⁷ Sousa, K. (2018) A Tale of Two FTZs: Reforming Canada's FreeTrade Zone Program. Accessed at: <https://scholar.uwindsor.ca/cgi/viewcontent.cgi?article=1045&context=major-papers>

