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THE INTERNATIONAL TRADE COMMITTEE REPORT ON UK FREEPORTS: A REALITY CHECK

In April 2021, the House of Commons International Trade Committee, which oversees the operations of the Department of International Trade, published its Report on UK Freeports. The Report questions the potential effectiveness of new Freeports as a means of increasing trade and investment into the UK.

In our previous Freeports briefing, we examined the incentives and customs reliefs which will be available to companies operating with new Freeports.¹ We now turn our attention to the recently published International Trade Committee Report on UK Freeports (the Report),² which has been produced following an extensive inquiry into the implementation of the UK government's Freeports policy.

The Report adopts a cautious tone, with the House of Commons International Trade Committee (the Committee) tentatively commending the government's ambition to increase trade and investment through its policy to introduce at least ten new Freeports across the UK. Notwithstanding this endorsement, the Report expresses some scepticism in relation to whether the proposed Freeports will "drive enterprising growth in port cities and towns across the country as we turbo-charge trade across the world", as the government has claimed.³

Key findings of the Report

The key findings and recommendations of the Report can be summarised as follows:

- **Impact assessment and evaluation:** The Committee noted that the government has set out its objectives for Freeports, but that it has not specified in any particular detail the metrics that will be used to measure success against those objectives. The Report recommends that HM Treasury promptly publish an impact assessment for the policy, to include estimates for economic growth, increased trade and investment, and job creation, as well as an analysis of the impact on different sectors.
- **Design and implementation:** In November 2020, the government announced the creation of a new Office for Investment to drive foreign investment into the UK.⁴ In the Report, the Committee seeks further information from the Department for International Trade in relation to how the Office for Investment will be utilised to attract investment to Freeports. The Report also recommends that the government set out how it will ensure effective accountability and cross-departmental collaboration in the implementation of the Freeports policy. This recommendation follows disagreement between HM Treasury and the Department for International Trade about which department was best placed to give evidence to the Committee's inquiry, which the Committee was concerned suggests a lack of collaboration between government bodies.
- **Incentives and risks:** The Committee welcomed the policy's proposed package of incentives – such as tax reliefs and seed capital funding – that distinguish it from the traditional Freeports model, which focuses solely on tariffs. On the other hand, Freeports across the world have been associated with an elevated risk of illicit activities such as trade in counterfeit goods and tax evasion. The Report acknowledges that Freeport operators will be required to comply with the OECD's Code of Conduct for Clean Free Trade Zones, however it also notes that the risks associated with Freeports will require ongoing monitoring and enforcement, and encourages the government to set out how it will facilitate this.

¹ <https://www.hfw.com/Freeports-Know-Your-Customs-May-2021>

² <https://committees.parliament.uk/publications/5490/documents/54870/default/>.

³ <https://hansard.parliament.uk/Commons/2021-01-11/debates/AD141381-635D-41B0-A909-48EF10029CD/GlobalBritain>, at Column 72.

⁴ <https://www.gov.uk/government/news/new-office-for-investment-to-drive-foreign-investment-into-the-uk>.

- **Freeports in Scotland, Wales and Northern Ireland:** The government has said that it wants the whole of the UK to benefit from Freeports. The Committee expressed support for the government's intention to establish a Freeport in each of Scotland, Wales and Northern Ireland. However, the Report recommends that the government intensify its efforts to engage and share information with the devolved governments. Moreover, the Committee calls on the government to set out its view on how the Freeports model will need to be adapted in Northern Ireland to facilitate the UK's compliance with the terms of the Northern Ireland Protocol.
- **Governance:** Finally, the Report calls on the government to publish its proposals for the long-term oversight and governance of Freeports, in order to provide clarity to Freeport operators about who will oversee their operation and how this will be carried out.

What does the Report mean for the re-introduction of Freeports in the UK?

The Report does not pour cold water on the government's plans, so much as act as a useful reminder that the purported benefits of the government's Freeports policy – such as boosting trade, creating jobs and encouraging investment into the UK – are not to be taken for granted. The Report provides a timely reality check in asking the government to heed its recommendations and, in particular, conduct a thorough impact assessment for the policy, which would provide a set of objective criteria against which the future impact of new Freeports can be evaluated in years to come.

Finally, it is important to note that the Committee's inquiry focused on the implementation of the government's policy, rather than on its fundamental merits. As such, the potential users of Freeports can be confident that the re-introduction of Freeports in the UK will almost certainly go ahead. Whether the new Freeports ultimately achieve their objectives, as the Committee notes, remains to be seen.

Stay tuned for the next article in HFW's Freeports series, which will consider issues and opportunities arising for the construction industry.

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