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FREEPORTS: WILL THEY HELP COMMODITIES BUSINESSES?

The UK's new Freeports will present some opportunities for commodities businesses, for example in the Tees Valley chemical industry. However, there are important limitations to this.

Introduction

Previously in our series, we have introduced¹ the new Freeports, looked at the how the customs regime will operate,² assessed the recently published International Trade Committee Report on UK Freeports³ and considered the impact of Freeports on the UK offshore wind sector.⁴

In this article, we turn our attention to the commodities sector. We will explore the extent of the opportunities that the proposed UK Freeports present for businesses operating in the commodities industry, using chemicals businesses located in and around Teesside as an example.

Location location location

The UK Government defines Freeports as "secure customs zones located at ports where business can be carried out inside a country's land border, but where different customs rules apply".⁵ It has produced a helpful map identifying the precise boundaries of each of the proposed UK Freeports as well as the customs, tax and seed capital sites in each zone.⁶ The potential benefit of these zones to commodities businesses will depend on their location, capabilities and the infrastructure at or near the relevant ports.

Notable locations in the list of new Freeport zones from a commodities perspective include:

- **Humber and Solent:** these include Immingham and Southampton, key UK ports for liquid bulk cargoes.⁷ Included in the wider Freeport zones are some of the UK's largest oil refineries, including the Humber, Lindsey and Fawley refineries.
- **Thames:** this includes Tilbury port, one of the UK's largest terminals for the import and export of grain.
- **Liverpool City Region:** Liverpool Port handles a diverse range of cargoes and is one of the UK's best-equipped and connected ports.⁸
- **Teesside:** Teesport is a key port for access to Tees Valley, home to the largest chemical complex in the UK and the second largest in Europe in terms of manufacturing capacity.⁹

A notable absentee from the list is Milford Haven, the UK's largest energy port, which serves a number of refineries in the region as well as South Hook LNG and Dragon LNG terminals.¹⁰

¹ <https://www.hfw.com/downloads/003042-HFW-Freeports-Series-Freeports-Back-in-Business-May-2021.pdf>

² <https://www.hfw.com/downloads/003062-HFW-Freeports-Series-Know-Your-Customs-May-2021.pdf>

³ <https://www.hfw.com/downloads/003077-HFW-Freeports-Series-The-International-Trade-Committee-Report-On-UK-Freeports-A-Reality-Check.pdf>

⁴ <https://www.hfw.com/downloads/003094-HFW-Freeports-Will-Freeports-drive-the-UK-governments-green-industrial-revolution-and-boost-yet-further-growth-in-UK-offshore-wind.pdf>

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878352/Freeports_Consultation_Extension.pdf

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/990321/Freeport_Location_Maps.pdf

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/908558/port-freight-statistics-2019.pdf

⁸ <https://www.peelports.com/port-locations/liverpool>

⁹ <https://www.teesinvest.com/opportunities/chemical-process/>

¹⁰ <https://www.mhpa.co.uk/the-port/>

What is the key benefit for commodities businesses?

The key benefit of the proposed Freeports for all businesses is the creation of a more favourable customs regime, as discussed in our earlier article.¹¹ Commodities businesses are no different and will benefit where commodities can be brought into a Freeport for further processing, manufacture or assembly with lower duty and paperwork costs.

Case study: chemicals businesses at Teesside

By way of example, the Freeport at Teesside is likely to be of particular interest to businesses operating in the chemicals industry. Tees Valley produces around 30% of the UK's chemical output and is home to some of the world's biggest chemical manufacturers. More than 1,400 companies in Tees Valley are directly involved in chemicals and process industry.¹²

Take the fictional company "Teesside Chemicals Ltd" (TCL) as an example. TCL is a petrochemicals company manufacturing products such as ethylene, propylene and butadiene, the building blocks for many everyday materials and plastics. It has manufacturing, storage and logistics facilities spread over multiple sites in the proposed Freeport zone. Its Teesport operations are responsible for the import and export of all its feedstock and products via jetties on the river Tees. TCL may now be able to import goods into the area without being subject to tariffs and import procedures and use them to manufacture products which it can then re-export.

What are the limitations?

Our previous article on the new customs regime¹³ highlights some important practical limitations to the potential benefits of the proposed customs rules. In addition, Brexit has had an impact on the benefits that Freeports can offer to commodities businesses in general and chemicals businesses in particular.

First, under the Trade and Cooperation Agreement reached between the UK and EU in December 2020, no tariffs or quotas will be applied to trade in goods (including chemicals) that comply with the appropriate rules of origin. This somewhat blunts the key potential benefit of the favourable regimes under the proposed UK Freeports, which will offer no comparative advantage in respect of tariffs and quotas when it comes to qualifying trade with the EU.

This is of particular relevance to the UK chemicals industry, given that the majority of UK trade in chemicals is with the EU. 57% of chemical exports in 2019 went to EU Member states, and 73% of chemical imports came from the EU.¹⁴

One of the potential benefits of the Freeports is that of simplified customs procedures for bringing goods into the UK. However, UK chemicals businesses (among others) will have to offset any benefits gained from this simplification against the increased administrative burden arising out of new checks and procedures in place for post-Brexit trade with the EU.

Further, chemicals businesses which bring goods into UK Freeports will have to bear in mind their potential obligations under the new 'UK REACH' regime. This is a separate regulatory framework for the UK market akin to the EU's REACH¹⁵ regime. Under UK REACH, substances brought into the UK will generally need to have a UK REACH registration. There is a 'free zone' exemption. However, even if customs zones in UK Freeports constitute such free zones, an important limitation is that as soon as the relevant goods undergo any treatment or processing, this exemption would fall away.

Given that one of the main attractions of UK Freeport customs sites is the ability to process goods whilst escaping the usual customs obligations and administrative burdens, it must be borne in mind that UK REACH obligations may nevertheless arise.

Conclusion

UK Freeports could offer some welcome benefits to commodities and chemicals businesses, including those trading out of, for example, Immingham, Southampton, Tilbury, Liverpool and Teesport. However, on closer examination, the extent of these benefits may be more limited than first appears.

Stay tuned for the next article in our Freeports series, which will focus on the impact of UK Freeports on the aerospace sector.

¹¹ <https://www.hfw.com/downloads/003062-HFW-Freeports-Series-Know-Your-Customs-May-2021.pdf>

¹² <https://www.teesinvest.com/opportunities/chemical-process/>

¹³ <https://www.hfw.com/downloads/003062-HFW-Freeports-Series-Know-Your-Customs-May-2021.pdf>

¹⁴ <https://commonslibrary.parliament.uk/research-briefings/cbp-8403/>

¹⁵ Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC

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