



AVIATION | JUNE 2021

FREEPORTS: CAN THE AVIATION SECTOR TAKE ADVANTAGE OF THE FREEPORT SCHEME?

As part of the UK government's ambition to "level up" economic opportunities across the country, in November 2020 the Government published its bidding prospectus seeking applications for the designation of Freeports in England, which aim to increase growth and investment through favourable trade and customs rules.

In previous articles in our series on the UK's new Freeports, we have addressed the potential benefits that Freeports offer for UK regions post-Brexit in the Shipping, Construction, Commodities and Logistics sectors.

In this article, we consider how the aviation sector has sought to take advantage of the new Freeport scheme and whether Freeport status might help an industry still reeling from the effects of COVID-19.

What are Freeports?

- Special economic zones usually located within or around shipping ports or airports.
- Within these special economic zones, different rules apply in relation to tax, customs and building and business rates with the view to encourage and sustain economic activity.
- The rules applying to Freeports mean that goods arriving into that port from abroad are not subject to tax charges that are normally paid to the Government when cargo arrives in a country (on the condition that those goods stay within the port and are then sent directly overseas again without being transported internally within the country of initial arrival).

What are the key benefits of Freeports for the aviation sector?

The potential benefits that Freeport status can bring to a region are clear. Freeports will typically benefit from increased through-trade, and associated increases in domestic and international investment, resulting from beneficial tax reliefs, customs and planning rules and increased government backing.

Given such benefits, it is unsurprising that a number of UK airports, which play a key role in the UK's international and domestic trade, but which have been hit hard by COVID, submitted bids to obtain Freeport status, to tap into potential opportunities for increased through-trade, growth and investment that such status might bring.

Ten airports in England were involved in bids for Freeport status by the 5 February 2021 deadline (out of 18 bids received):

- Bournemouth Airport (as part of a bid with Poole Harbour and local councils);
- Carlisle Lake District Airport (as part of the "Heart of the UK" bid also involving Barrow Port and the Port of Workington);
- Doncaster Sheffield Airport (as part of South Yorkshire's Freeport bid);
- East Midlands Airport (as part of an East Midlands consortium bid);
- Gatwick Airport (as part of the Coast to Capital Local Enterprise Partnership bid);
- Heathrow Airport;
- Newcastle Airport (as part of the North East England Freeport bid);
- Teesside Airport (as part of a Teesside bid involving various sites);
- Liverpool John Lennon Airport (as part of the Liverpool City Region Freeport bid); and
- Southampton Airport (as part of the Solent region Freeport bid).

Following the closing of the bid process, the Government put submitted bids through an initial two-stage assessment process.

At the first stage (a basic pass/fail assessment) 4 bids, including that of Heathrow Airport, were rejected on the basis they had not sufficiently answered the prospectus questionnaire.

During the second "detailed assessment" phase, bids were awarded scores across a variety of criteria, with 13 of the 14 remaining bids being found to have met the threshold standard for Freeport status, with the Gatwick Airport bid being the only application not to do so, having secured "low" scores in 4 out of the 5 rating criteria.

This longlist of 13 candidate bids were then put to Government Ministers to reach a final decision on which bids would be accepted, taking account of factors including the geographic spread of the Freeports and the Government's primary focus on regeneration.

8 Freeports were subsequently created in the Chancellor's March 2021 budget. Of these, 4 include regional airports within the Freeport zone (East Midlands, Liverpool City, Teesside and Solent Freeports).

For these successful bidders (including the airports which sit within the new Freeports), there will be hopes that Freeport status will transform the regions' social and economic futures, and help undo some of the harm done by COVID-19. Derbyshire Council expect, for example, that the East Midlands Freeport will bring *"significant investment to develop and drive innovation, alternative energy sources and green technology supporting SME's and large regional employers, including Rolls-Royce, Toyota, and Alstom (formerly Bombardier)"*, whilst it is estimated that the Solent Freeport may bring 26,000 jobs and around £2 billion in new investment to the area over the next 25 years.

What next for Freeports in the aviation sector?

The extent to which Freeports drive benefits for the aviation sector will be very much a case of wait and see. Certainly for those airports within Freeport zones there should be benefits on the horizon. Some of the potential benefits to aviation might include the construction of new cargo logistic hubs at the airports within the Freeport zones. East Midlands Airport already has a significant cargo hub and plans are already being developed to roll out similar areas at the other airports.

It must be remembered, however, that the large majority of UK airports, which will not be affiliated with a Freeport, will not see such benefits. There are concerns that airports outside of Freeport zones may see a shift of business to Freeports, as customers and service providers seek out more favourable trade rules.

We hope you enjoyed our Freeports series.

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