

SUBMISSION TO FREEPORT CONSULTATION

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EXECUTIVE SUMMARY

Free Port Consultation

Our Freeport consultation document puts Freeports in their proper context. We think the Freeports project, if done right, could not only enhance the UK's economy, but could make a meaningful contribution to the global economy and leverage the UK's position once outside the EU.

After Covid-19, the world will need a burst of wealth creation and private sector economic growth. The longer the pause in the economy, the more vital this will become.

The UK's Freeports initiative is potentially a powerful tool in the revitalisation of the UK and global economy, post Covid-19. There will be renewed emphasis on ensuring the resilience of global supply chains, and the increasingly important role that global nodes will play in trade superhighways, as we will seek more and better information about supply chains. In addition, it is likely that regional supply chains will rise in importance as political pressures drive more onshoring. In both of these scenarios, Freeports have an important role to play.

But Freeports cannot be looked at in isolation. The UK will need to operate in four dimensions after the crisis. First, it must play a role in promoting better co-ordination and consistency between global institutions. Special Economic Zones could play an important role and need to be supported by the WTO, IMF, World Bank and World Customs Organisation as legitimate tools for economic growth. Second, the UK must promote international co-operation via maintenance of a liberal and open economic order. There will be increased pressure for autarkic and protectionist policy responses post Covid-19. Since the US is increasingly embracing such measures, the countries that promote such open policies grows thin. The UK will have to step up and maintaining open and competitive policies at home, including Freeports, is an important way of achieving this. Third, national level economic reform and the adoption of a pro-competitive regulatory reform set of policies will be important. Fourth, subnational policies such as Freeports, Free Trade Zones and special economic zones are critical to ensuring the delivery of national level reforms, as these can be tested in zones (especially where the zones can operate in different ways in a decentralised and more localised system). Freeports in this context can also contribute to all of these dimensions of needed policymaking. They can act as nodes on global trade superhighways in some cases and in

others they can be more regional nodes as inevitably some supply chains shorten and become more regional. Major trade superhighways are likely to require more focus in order to maintain resiliency, including greater use of technology to ensure visibility into supply chains where such global nodes become ever more important.

We have made a series of recommendations for Freeports which can be summarised as follows:

1. The importance of Freeports, Free Trade Zones and special economic zones to generate economic activity. Our experience is that far from distorting existing trade, SEZs of all kinds tend to attract investment and economic activity that would not have come to the country at all.
2. Free ports must have different customs regimes along the lines of Free Trade Zones so that they are not in the customs territory of the host country, and should have tax benefits, but these alone will not be enough to stimulate the kind of investments that are required to really drive growth in the UK economy. They will need to additionally have regulatory benefits (including but not limited to planning rules, making it easier to start and scale businesses etc). The different Freeports can trial these different regulatory systems.
3. There should be no upper limit to the number of Freeports there can be. Since they are designed to generate private sector economic activity, the government is not expected to “pay” for them. But there is no lower limit either. If a potential Freeport operator can satisfy the criteria for the Freeport itself, then it should be awarded Freeport benefits. In some developing countries, there are literally hundreds of Free Trade Zones.
4. The criteria should include:
 - a. Geographical location. Is the Freeport in a geo-economically important area. If the relevant Freeport simplifications and facilitations are granted, does the location of the Freeport lend itself to economic activity? Can it be envisaged that it would be a node either for global or regional supply chains?
 - b. Does the governance structure of the Freeport facilitate a single window in terms of accessing land for investors easily, and in dealing with different government departments for regulatory and other approvals?

- c. Would the immediate surroundings of the Freeport benefit from it (is it in a depressed area?).
5. We also point out that because of the unique trading relationship between NI, GB and the EU as a result of the NI Protocol and trading arrangements to ensure no hard border on the island of Ireland, there may be a specific reason to have one or two Freeports in NI. A Freeport that builds on a free trade zone, special economic zone and port area might solve some of the problems created on the NI-GB trade channel which would be very important for the UK to solve for domestic political and economic reasons. Ideally, a Freeport in the North West and one in the South East of Northern Ireland preferably with a trade corridor between them would help support as unfettered as possible access between NI and GB.
6. Free ports need not be the “invisible” zones that many policymakers fear. In fact, by using new innovations such as World Free Zones Organizations’ Safe Zone programme, and track and trace technology, as well as comprehensive inventory management, Freeports can actually enhance visibility into supply chains, and help increase their resilience. There is already today a new Freeports best practice paradigm based on compliance management operational, making modern Freeports transparent, safe and secure. UK Freeports should from the start take a lead in this development to make the UK Freeports dynamic engines of future trade and economy connected with similar high-quality Freeports worldwide

CUSTOMS

Declarations

Question 1: *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.*

Strongly Agree. This is an extremely useful simplification. There is an important cashflow benefit of using a Freeport or free trade zone. In fact, customs simplifications are at the core of what it is to be a Free Trade Zone. Most FTZs start with tariff and customs clearance benefits, add tax benefits and then add other regulatory benefits.

Question 2: *Please suggest any ways in which you think the administration of customs processes could be simplified further in Freeports.*

Effective customs and border security operations are essential to facilitate the legitimate movement of goods and people through the Freeports. In addition to the collection of revenues from duties and taxes, security operations ensure public health and safety is protected by managing illegal shipments such as drugs, weapons, contraband, etc. The challenge, however, is these operations can result in both delays in shipments and disruption to planned berthing schedules. The efficient integration of customs administration with port operations seeks to limit such disruption, increase port efficiency and encourage growth in trade without compromising security and revenue collections.

Ports themselves should be able to attain Authorised Economic Operator (AEO) status. Customs officials should then be able to rely on a set of customs simplifications such as Entry into Declarants Records. Free ports could also be used to trial other trusted trader schemes including significantly entry level programmes for smaller businesses, where they can use the AEO umbrella of the Freeport itself. We have suggested in the Alternative Arrangements Commission work (see generally at <https://www.prosperity-uk.com/aacabout/>) an entry level programme, called Inward Storage Relief which could be trialled in these zones.

We advocate a new generation of Freeports designed as Special Economic Zones with a range of integrated services built around an advanced customs core zone with maximum facilitation from a customs perspective while still meeting the compliance requirements for the highest level of best practice Freeports/freezones worldwide. World Free Zones Organization has developed a compliance programme (Safe Zone) supporting an international platinum level for highly compliant Freeports which generates maximum customs simplifications. There are already several Freeports meeting these requirements all over the world. The UK Freeports should aim to achieve and indeed exceed this top level of operation, setting a new Freeport++ standard to compete successfully on the global stage. These Freeports++ should in addition be connected as nodes and routers in a global trusted trade network combined by trade superhighways. This will create a new global Freeport paradigm that will become a transparent, compliant and efficient driver of the global economy and future supply chains and integrated value chains. This will be crucial after the current C19/coronavirus pandemic crisis.

Today's leading seaports view the integration of port operations with efficient customs administration as one of the major factors in enhancing their global competitive position.

Simplification of customs processes is ultimately a key lever in achieving efficiency improvements. These simplifications are supported, and in some cases, made possible by the application of new and emerging technologies. The ability to share relevant data electronically between the many actors, combined with the latest advances in detection technologies to scan containers on the move, means cargo is able to pass through ports with increasing efficiency without compromising safety and compliance.

Modern border management strategies focus on obtaining advanced notification of the arrival of goods and people. Access to this supply chain data enables risk assessments and customs checks to be performed at all points in their journey, not just when they physically arrive at the port. This 'multiple border strategy' provides access to a much richer pool of data to strengthen the compliance and risk assessment for each consignment. Freeports should seek to implement such modern best border management practices to simplify and streamline customs administration to maintain globally competitive and efficient services which promote growth in trade. For example, in addition to consignment information providing details on the nature of the goods, other factors such as manufacturer, shipping agents, carriers, consignees and consignors, embarkation and whole journey details can be obtained and mined to build a more robust risk profile. Those goods which are assessed as customs compliant and low risk will require less scrutiny in the port compared to those deemed higher risk. Port administration and border agencies are able to plan operations and allocate resources more efficiently, and consignees and shipping agents are kept informed with real time information on the status of their goods.

Many of the UK's deep seaports today operate an advanced notification process for containers arriving via long sea journeys. The container vessels transmit details of consignments at least 24 hours prior to arrival at the port, together with associated customs and security declarations, enabling electronic clearance of goods. The electronic clearance of goods from the airport and port is known as inventory linking. Inventory systems are provided to the port operator by commercial companies known as Community Systems Providers (CSPs). As well as fast and efficient customs clearance, inventory linking provides commercial benefits in reducing costs and speeding up the movement of goods through the port. For customs, it provides benefits in greater visibility for the control of goods and allows an electronic link to the

HMRC declaration system, saving administration costs for government departments. Freeport's should be encouraged to adopt an inventory linking capability to optimise customs administration and clearance processes.

FREPORT OPERATORS AND FREPORT BUSINESSES

Question 3: *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?*

Yes.

Question 3(i): *Please explain your answer.*

We collectively represent many ports and relevant authorities around the world. We are actively advising them to adopt the kinds of processes and administrative steps to enable them to allow goods to be moved to and through Freeports. Freeport operators will need the co-operation of customs officials in order to meaningfully change their processes. But, assuming they can demonstrate that the relevant security and safety considerations can be met, then HMRC should be able to accept new processes in the zone. In addition, we can activate an existing network of SEZs and Freeport business parks to contribute to cluster building at a UK Freeport by business activities, partnership agreements and the establishment of jointly controlled trade flows.

Question 4: *Please provide any feedback you have on the requirement for perimeter fences.*

Freeport operators will, like other major seaport operators, be responsible for the management and security of cargo in the form of containers and bulk goods unloaded from vessels, while they reside in the port zone. They will also be required to ensure the integrity of the customs border of a Freeport is secure and maintained, preventing the illegal movement of goods which have not been customs cleared across the border.

Perimeter fences are often seen as a pre-requirement for Freeports and Free Trade Zones and are considered as the first line of security. However, the level of protection provided by a physical fence depends on a number of variables, which should be considered for each facility, including the size and layout of the proposed Freeport and the level of security required. These criteria will determine requirements such as fence height, type of construction, nature of material and any specific security requirements which may need to be added.

An effective perimeter management system must go beyond just a perimeter fence and look at the integration of a more holistic range of modern security solutions. A perimeter security fence at best creates a 'temporary' physical barrier to the illicit movement of goods and people. Even the most robust fences can be breached given sufficient time by those with malicious intent and the right tools. When complemented with modern security surveillance solutions a perimeter fence can, however, buy more time for security teams to react and contain incidents.

Technologies such as smart CCTV and the electronic tagging of goods and assets are used in many ports today in conjunction with perimeter fences to provide enhanced surveillance capabilities. These technologies require 24/7 monitoring by security officers who can react rapidly to any alerts in order to contain any incidents.

When developing a perimeter management solution, each Freeport will have different attributes which should be considered to determine the correct nature of perimeter fence and indeed if a fence is an appropriate solution at all, for example:

- **Demarcation requirements:** To what degree is the need to identify and establish limits/boundaries of the Freeport? For example, does the Freeport have naturally open access from land which needs to be managed, as opposed to sea or air entry points? If demarcation is the key objective then higher security fencing solutions will not be required and qualities such as cost, durability and aesthetics will come to the fore. However, most Freeport security is likely to be a much bigger factor due to the need to protect the integrity of the customs border which exists around the port.
- **Deterrent qualities:** While major road routes into the Freeport can be managed with a check point and barrier installation, the wider entry points need to also be considered. The level of security requirements here may vary considerably, from deterring trespassers to preventing opportunist attacks.
- **Ability to delay:** The delay factor is usually considered one of the most important capabilities of a perimeter fence. No fence will keep out determined intruders indefinitely if they are given enough time, but the objective of the fence designer is to slow down unauthorised access for as long as possible. Depending on the level of delay required, factors may need to be introduced into the design of the fence, such as anti-climb properties.

- **Detection methods:** Critical to any higher security perimeter will be the detection measures in place allowing response to an attack. Prompt detection of attempts at unauthorised entry may be achieved by visual or electronic means and may require the use of equipment such as acoustic alarms, sensors of various kinds, lighting and/or CCTV cameras. With detection in mind, good through vision/visibility is another important factor that needs to be considered. A fencing system should not, at any angle, produce areas of blindness which would interfere with detection of unusual behaviour activity or unwanted visitors/intruders.
- **Discretion:** A number of Freeports may be designated in sensitive communities where a balance of security and discretion are required. The aesthetic quality of a high security fencing system is important and its visual impact on the surrounding environment should be taken into account. Unattractive and complex systems are often not welcomed and may be subject to rigorous resistance. It may also be argued that a highly visible security perimeter actually alerts potential intruders (especially opportunists) to the existence of a high-risk site or premises. It is a choice that the planner must make, after a considered risk assessment. A good quality risk assessment, if intelligence-led, not only helps you select the right type of fence, but it may also prove important in overcoming planning objections which do arise.

If a perimeter fence is considered appropriate, entry and exit procedures must be established to manage the legitimate movement of goods into and out of the port through official gateways. For example, port security must ensure cargo is collected, or delivered, by only the approved and agreed hauliers and freight forwarders. This is required to prevent a number of potential criminal activities including; theft of cargo from the port, movement of goods across the border (out of the port) before they are customs and security cleared, and reduces the risk of illegal goods entering the port.

Many ports have a formal security process to manage the entry and exit of freight vehicles. Typically, hauliers operating in the port will be required to register their drivers to port security and are then provided with smart passes. All collections and deliveries are scheduled in advance and the port allocates specific time slots for each collection or delivery. Each arrival is allocated an entry pin-code which the driver must submit in order to gain entry. Without the pin code, or outside of the agreed time slot, the vehicle cannot enter the port. CCTV monitors all entry, exit and journeys through the ports and checks are completed on all cargo to confirm they have been released by customs and border security agents.

Question 5: *Please highlight any alternative ways you think security could be maintained without a perimeter fence.*

In the event that the Freeport does not have a perimeter security fence, Freeport operators should require that businesses operating within the Freeport have adequate security for entry and access to the premises. These could make use of international standards and best practice on access (e.g. access controls as per ISO 27001). Freeport operators themselves (and potentially local regulation) should require that access is through selected gates only. Use can also be made of non-physical measures such as CCTV camera surveillance.

By using international standard security and compliance management programmes like World Customs Organizations (WCO) Revised Kyoto Convention (RKC) and SAFE Framework of Standards (including AEO) plus the World Free Zone Organizations (World FZO) Safe Zone programme, Freeports can demonstrate alternative cost efficient measures offering security, safety, transparency, governance and low risk. These programmes present alternative best practice measures to meet necessary levels of security, safety and compliance.

We have discussed the features of a perimeter fence in our response to Question 4, and included a view on the use of technology security solutions which combined with a suitable perimeter fence provides a strengthened security capability. In this section we will cover in more detail these technology security solutions but would advocate the appropriate security solution needs to be determined for each specific Freeport depending on its attributes and security requirements.

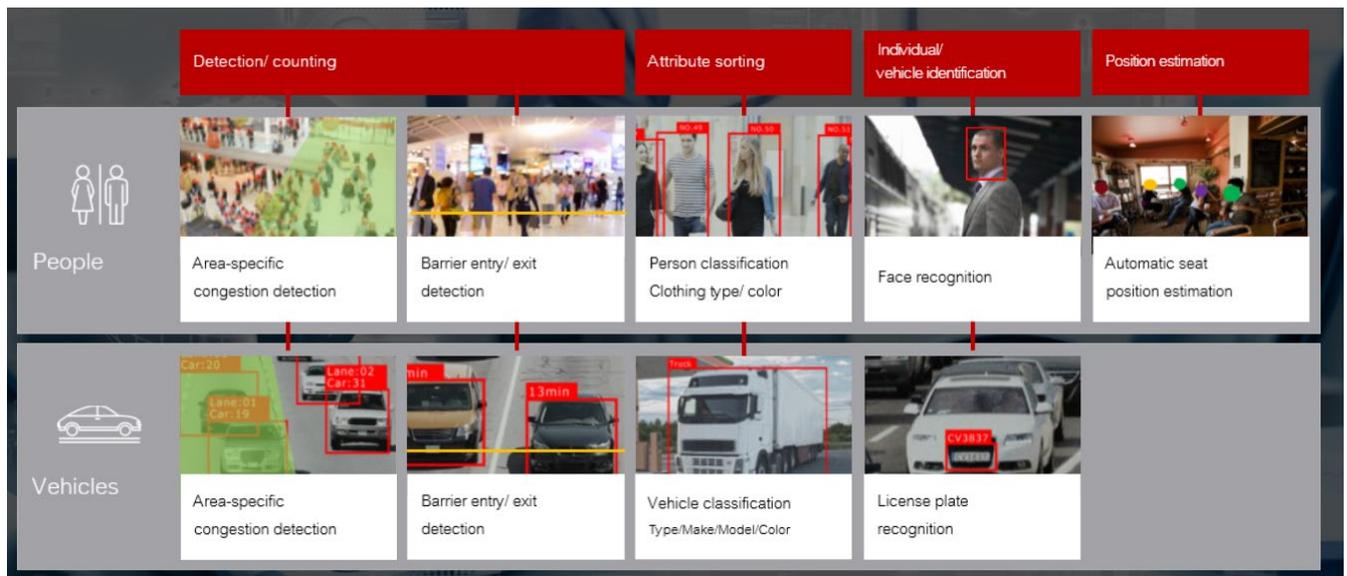
We have not commented on obvious security measures such as locked entry points to secure areas and the use of employee identity smart cards to control access to the Freeport and any specific controlled zones within the port.

Technology security solutions can be grouped into passive and active monitoring categories. Passive solutions require security personnel to check and monitor for incidents, for example simple CCTV monitoring. Active devices automatically detect and announce an incident by triggering an alarm to a central response function. The trend is naturally towards smarter technology solutions which are now able to monitor a huge array of sensors and even spot suspicious patterns from CCTV.

Smart CCTV solutions use advanced recognition software to recognise shapes, registration numbers and even individuals, combined with Artificial Intelligence

to identify suspicious behaviour or alert on simple operational warnings such as a build-up of traffic entering the port.

An example of this technology in use today is Fujitsu Greenages (<https://www.youtube.com/watch?v=6B2TCEGBiXI>). Identification software allows CCTV footage to be continually scanned in real time and relevant features to be identified. This includes attributes of people, and objects such as described in the graphic below.



In a Freeport this technology is capable of automatically recognising and identifying containers by their shape and unique registration number. Any suspicious movements or the container, or even gathering of people around it can be alerted to a central security control desk. All entry and exit into the Freeport is monitored by appropriately placed cameras, which can include infra-red for night-time and poor weather visibility. Greenages can learn to recognise unauthorised access and movements.

Traditional land-based CCTV is now extending into the air courtesy of the rapid developments in drone technology. An evolving marketplace now includes automated drone security solutions where programmable intelligent drone can cover predetermined areas and feed coverage back to central control systems. Smart analytics such as Fujitsu Greenages can once again use the feed from drones to automate security monitoring functions. One of the obvious limits of drone technology is their sensitivity to poor weather conditions, an important consideration in seaports where weather conditions can become extreme.

Items of particular value or risk can also be tagged with RFID tags. These tags contain a unique ID number which is read by a handheld device that can operate over a number of metres. Assets which are tagged in such a way can

be very quickly identified and counted by officers with handheld scanners. Typically, Freeport assets and equipment would be tagged with such readers.

Active security solutions should also be an important consideration for an overall Freeport security strategy. Typically, these are smart sensory devices which are securely connected to the port communications network. There are a wide range of such devices which offer the ability to detect changes in many measurements including location (GPS), movement, light, heat CO2, heartbeat and pressure. When they sense a change in their environment, they trigger an alarm to the central control facility. Typically used to secure entry and exit points, but they can also be integrated into containers to detect intrusion and potential theft.

Technology components to refer to in this section include geo-fencing, RFID tagging of valuable/at risk items, combined with IoT sensors to create virtual fences within the port. Also, many examples of smart CCTV which use advanced recognition software and AI to automate monitoring and alert on suspicious activity.

Question 6: *In your view, is the proposed split in responsibility between Freeport operators and Freeport businesses correct or incorrect?
Correct/Incorrect/Don't know*

Correct.

Question 6(i): *Please explain your answer.*

Freeport operators can be responsible for activities within the Freeport in relation to security and record keeping. Within this model, Freeport operators would need to conduct due diligence on tenants. There would need to be some certainty provided to Freeport operators on the enforceability of any sanctions with tenant non-compliance with a Freeport operator's record keeping and security requirements.

The OECD's Code of Conduct for Free Zones and the World Free Zone's Safe Zone programme provide an international standard for the obligations on Freeport operators and tenants. There is also a need for specific measures of compliance level maintenance of Freeport tenants and channels for self-assessment and self-control, like i.e. a whistle blower function etc.

In order to demonstrate compliance, Freeport operators in the UK should become Trusted Traders (TT)/Authorised Economic Operators (AEO) under an updated programme (see question 39). Freeports should also obtain the highest level of certification under the World Free Zone's SafeZone Programme

which provides an international standard for Freeport operations and includes the OECD's Code of Conduct for Free Zones.

GOODS ALREADY IN THE UK

Question 7: *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? Essential to my business/ Very important to my business/Moderately important to my business/Slightly important to my business/Not important to my business/Not applicable*

Essential.

Question 7(i): Please explain your answer.

We also collectively advise many multinational firms who are looking for precisely this type of opportunity. Being able to bring goods into a Freeport from free circulation in the UK (or under another regime) is an important feature that will allow the Freeport to integrate with the local and national economy. It will allow UK businesses to participate in the Freeport by virtue of being suppliers to businesses in the Freeport or being part of integrated supply chains, in particular for exports. This is also important to ensure that Freeports do not just become hubs for the import and export of goods but become accelerators that encourage innovation in the surrounding region and the UK economy. Dubai's use of Freeports to accelerate economic development shows that this is possible.

It is important that Freeport operators are able in to offer Freeport tenants flexibility to bring in goods with different customs status from all possible and use the specific advantages of the Freeport in a transparent and safe way. The Freeport should be established as a multi-way hub for enhanced value creation. UK products may be upgraded by international technology in the free zone, while still retaining UK origin designation. The allocation of not only logistics units, but also research and production centers within the free zone is essential, so, additional FDI can be generated by demonstrating a controlled, but guaranteed flow of goods, services and know-how also into and from the domestic economy. Such a system will ensure an optimised impact of the Freeport on future UK value chains and helps to maximise the benefit from post Brexit trade relations with the EU.

LOCATION OF FREEPORTS

Question 8: *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?*

To take full advantage of the Freeport/Free Trade Zone idea, a port is preferred. While Free Trade Zones can be located anywhere, locating them inside a port gives a number of added advantages.

- (a) Manufacturing can be located in a Freeport so that products being unloaded at the dock can immediately be part of a manufacturing or assembly process, enabling the manufacturer to take advantage of the Freeport.
- (b) These sorts of manufacturing operations and the financial and other services that develop around them naturally take place at transportation hubs (Singapore, Hong Kong, Dubai etc). There are very few examples of such things emerging in inland sites.
- (c) The UK is blessed with a large coastline and a number of ports and natural harbours. Some landlocked countries are less fortunate and we should take full advantage of this.
- (d) Ports with available and accessible land are also preferred.
- (e) Inland Freeports can however be designed and specialised around a specific theme, industry or production/service type using an existing infrastructure, competence cluster and/or knowledge facility.
- (f) There are successful examples around the world of inland Freeport establishments around larger airports or other logistic hubs. In these cases there are often plans to connect Freeports at the ports with inland Freeports offering different transport modes, with connected 'green corridors,' to offer multiple logistic options for Freeport tenants.

However, the hinterland connectivity of a port-based free trade zone is crucial. There is functional best practise of satellite free zones, connected to the port-based free zone and kept safe and bounded by using smart technology. In general, the main free trade zone should be in the port, but there should be an opportunity for expansion.

EXCLUDED GOODS AND EXCISE GOODS

Question 9: *If you are considering becoming a Freeport operator, how attractive would the proposed customs design be to your business? Very*

attractive to my business/Attractive to my business/Unattractive to my business/Very unattractive to my business/Not applicable

Very Attractive.

Questions 9(i): *Please explain your answer.*

In order to be attractive to both UK and international investors, UK Freeports should have modern best practice customs simplifications that enhance operation of the Freeport without adding risk to the UK or undermining the work of HMRC and other trade-related agencies. All simplified customs procedures offered in the international standards should be available for Freeports use despite being outside the customs territory, including entry simplifications, inward/outward processing, simplified re-exportation, simplifications of other procedures with economic impact etc making it possible to manufacture, process, assemble different type of goods in combination with logistics operations such as storing, repacking, or relabelling and storing of goods without time limitations. The key for successful modern Freeports of the new generation is to have multiple customs and trade options in combination with a range of additional service including i.e. Government services, legal services, banking and insurance services, logistic services, education/competence and capacity related services (i.e. recruitment) all in synergy and set-up to serve the Freeport/Freezone/Special Economic Zone.

Other important parameters include:

- a. A simplified Customs declaration system that is fully electronic for goods exiting the Freeport for export or arriving under a customs control regime (e.g. excisable goods). This should incorporate the re-use of data from port operator systems;
- b. The use of electronic Freeport Single Window systems with one-stop-shop-elements covering other regulatory agencies and port operations. This should include data sharing so that businesses in the Freeport have a 'once only' data entry requirement;
- c. Mutual recognition of TT/AEO in the free trade zone and encouragement of free trade zone businesses to become TT/AEOs;
- d. The establishment of a system of TT/AEO green corridors allowing movement between Freeports in the UK without the need to pay duties and taxes. This could be extended to Freeports outside the UK through Mutual Recognition Agreements;

- e. Application of modern technologies for Customs surveillance without disturbing the movement of cargo, e.g. use of automatic number plate recognition at entry/exit;
- f. Inspections away from the entry/exit of the free trade zone;
- g. Locations such as Northern Ireland should also allow for 'dual-facing' integration of Republic of Ireland and EU Customs. This will facilitate the development of broad regional benefits from a Freeport. This could involve integration of IE customs into a single window and a dual-facing regulatory environment.

The WTO Trade Facilitation Agreement outlines the important role that TT/AEO programmes have in modern customs practices and the WCO's SAFE Framework of Standards outlines a set of standards for implementation of TT/AEO programmes.

TT/AEO programmes provide a regulatory-based framework validating the compliance of a business. Requiring this certification for Freeports and for businesses operating within the Freeport will enhance operations and reduce risks within Freeports.

Safe Zone compliance model from World FZO and the Clean Zone initiative from OECD are other important parameters making it possible to offer maximum simplifications under a compliance framework.

Question 10: *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? Very attractive to my business/Attractive to my business/Unattractive to my business/Very unattractive to my business/Not applicable*

Very Attractive

Question 10(i): *Please explain your answer.*

In order to take advantage of the tariff benefits of a Free Trade Zone, manufacturers located in FTZs should be able to not pay tariffs on the inputs of products, and tariffs should only be required when the final assembled product enters the stream of commerce. This is doubly useful in Northern Ireland, where products produced in FTZs could through the combination of the FTZ and transit, pay no tariffs at all upon being exported into Ireland (provided the underlying inputs are substantially transformed into a new product in the FTZ) under the terms of the NI Protocol.

The different customs regime also allows a deferred payment of tariffs even for products that are stored and not transformed in the FTZ. This cashflow advantage could be significant for businesses, especially for smaller ports.

FTZs normally have tax benefits as well which would be helpful for manufacturers located in the zone.

Question 11: *To what extent would the suspension of import VAT be of value to your business? Very valuable to my business/Moderately valuable to my business/Not very valuable to my business/Not at all valuable to my business/Not applicable*

Very valuable

Question 11(i): *Please explain your answer.*

Suspension of import VAT would also be one of the tax advantages that occurs in most FTZs. Indeed, many FTZs suspend all applicable taxes, until the product has left the FTZ and entered the stream of commerce. These would be very important to both the port operators and their tenant companies.

Question 12: *How important would it be for your business to be able to buy and sell goods within Freeports? Essential to my business/Very important to my business/Moderately important to my business/ Slightly important to my business/Not important to my business/Not applicable*

Essential

Question 12(i): *Please explain your answer.*

We collectively represent many businesses who would be interested in setting up manufacturing bases in Freeports or Free Trade Zones so that they could assemble products and sell them all over the UK and elsewhere. The ability to bring products in for assembling into final products without incurring tariffs would be a powerful investment proposition for firms.

The buying and selling of goods is an important part of developing and economically vibrant. Changes of ownership and the processing of goods should be captured in the port operators' systems and be mandatory for tenants. This is a key contributor to ensuring that Freeports do not simply become import and export gateways but can become acceleration hubs for economic activity.

But the Freeport opportunity should not be limited only to goods, but should include technologies, intellectual property and other intangible goods and for technology-driven services. It is important to design the free zone as a full-scale ecosystem, not only as a place for logistics or assembly.

TRADE REMEDIES AND COUNTERMEASURES

QUESTION 13: *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? Strongly agree/Somewhat agree/Neither agree nor disagree/Somewhat disagree/Strongly disagree*

Neither agree or disagree.

Question 13(i): *Please explain your answer*

There are arguments that are persuasive on both sides. We believe that trade remedies and countermeasures should not be entirely disapplied in Freeports. We do not want Freeports to become zones of circumvention of trade remedy laws, or to create different economies in the Freeport versus the rest of the country. These zones should contribute to the net economy of the UK. And to the extent the whole of the UK should have a different approach to the use of trade remedies it must decide that on a UK wide basis. This said, goods that are manufactured in free zones and put on the market in other countries stand in a different category.

The advantages of duty payment deferral until the product exits the Freeport is a very important benefit of these zones. One way of dealing with this is to provide that firms operating in Freeports and importing products can post a bond or self assess if they are producing an overall product whose inputs would normally attract anti-dumping duties applied by the UK (based on prevailing rules of origin and so forth). In this case, if the product is combined with other products and sold in the UK, then it would be subject to appropriate AD duties. If on the other hand the product is destined for foreign markets it will not pay UK AD duties. The benefit of the Freeport, as compared to similar production outside a Freeport would then be that no duty or other tariff would be payable until goods entered the stream of commerce (wherever that might be). This is one of the major customs related benefits of the Freeport in any event, and this benefit must be retained.

Question 14: *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?
Strongly agree/Somewhat agree/Neither agree nor disagree/Somewhat
disagree/Strongly disagree*

Agree

Question 14(i): *Please explain your answer.*

The Zones should not be outside of AD/CVD and other trade remedy laws. However, there is a clear difference between goods intended for the domestic market and those intended for onward export. One of the great advantages of Freeports and Free Trade Zones is their ability to be used as a base for onward export and to take advantage of the fact that from a customs perspective they do not form part of the domestic customs territory which gives significant flexibility. For goods intended for onward export, the situation is different. There is no reason for goods intended for onward export to have AD duties applied to them. It will be up to the country of import to determine how they should be treated. In order for authorities to know which goods are going where, we advocate a system based on self-assessment where companies determine themselves which duties should be paid and when. For companies that are not AEO or cannot satisfy other compliance requirements, they could post a bond for the AD duty applicable which would be payable when the product enters the domestic stream of commerce, but we would want a Freeport system where as many companies as possible could self-assess.

Clearly firms that violate these rules would be subject to penalties and possible loss of AEO/trusted trader status or even loss of a licence to operate in the Freeport or Free Trade Zone.

GENERAL QUESTIONS

Question 15: *In your view how does this Freeport design compare to existing customs special procedures, such as customs warehousing or inward processing?*

The Freeport should go far beyond the basic customs warehouse or IPR approach. It should include a much fuller range of customs simplifications and facilitations. It should also include regulatory changes where possible, especially in areas like planning, and business formation so that the Freeports can be places where better regulatory frameworks can be tested and deployed.

Question 16: *Please suggest any ways in which this customs design could be improved. For example, could technology be used to streamline the requirements?*

A modern customs regime can be supplemented with technology. Modern customs practices can include:

- A simplified Customs declaration system (100% electronic) recognised by relevant Government bodies and agencies;
- A Freeport Single Window with one-stop-shop-elements covering customs and other regulatory agencies, port operations and UK/international requirements;
- World Free Zones Organization Safe Zone certification:
- World Customs Organization (WCO), SAFE Authorised Economic Operator (AEO) status;
- Mutual recognition of WCO Authorised Economic Operators in the Free Trade Zone and encouragement of Free Trade Zone businesses to become AEOs;
- OECD Freeport and Free Zones Code of Conduct compatibility (Clean Zones);
- Application of modern technologies for customs surveillance without disturbing the movement of cargo, e.g. use of automatic number plate recognition at entry/exit; and
- Any other needed inspections away from the entry/exit of the Free Trade Zone.

There are many other customs simplifications that should be provided for Freeports to make these facilities integrated but still flexible engines and hubs of a dynamic market, namely i.e.:

- no demands for formal customs/goods declarations by customs;
- Provision of financial security (bond) to customs is not required when goods are admitted into the zone, any additional bonds could be waived as a part of compliance records from a compliance management programme certification (World FZO Safe Zone, WCO AEO etc);
- Unlimited duration for goods to stay inside the zone;

- Allowing logistics operations, processing/manufacturing operations, storage, repacking, or re-labelling, companies may bring in external materials and manufacture products. Accordingly, the scope of duty/tax exemption inside FZs covers materials and capital goods (equipment) consumed inside the zone;
- Suspension of import duties and other indirect taxes on goods brought from abroad/domestic market into the zone, as long as the goods stay inside the zone. Suspension is typically based on provision of financial security (bond) to Customs, but could be waived under special circumstances and without the fact or intention of actual exportation abroad;
- Import duties and other indirect taxes on goods brought from abroad/domestic market are suspended if the goods are intended for manufacturing/processing and actual subsequent exportation of the processed goods (compensating products);

In addition, in relation to Freeports all customs procedures and simplified customs procedures should be possible, i.e. import/export, re-exportation, temporary admission, or transit.

Transit/Transshipment

Transit is an important customs procedure in relation to Freeports as enables goods to be moved under customs control without duties and taxes paid. Transit simplifications could be introduced for Freeports qualifying for compliance management programmes.

To allow businesses to have an integrated approach to Freeports in the UK where goods should be able to be transferred from one zone to another without having to pay duties and taxes. A way to handle this is to use the AEO/Trusted Trader instrument and World FZO Safe Zone status as enabler for green corridors between Freeports in the UK. These green corridors (trusted trade lanes) between Freeports/free zones can be monitored by intelligent technology solutions and software products existing on the market today.

Finally, normally customs procedures like customs warehousing, inward processing/outward processing procedures or processing under customs control are not regarded as being customs procedures 'outside the customs territory', however with a new generation of safe and transparent zones under strict governance there are ways where also these procedures could be included.

The compliance required to reach these higher levels of trustedness will be greatly assisted by technology. The ability of a potential AEO++ trader to prove to HMRC that they have full visibility into their supply chain through track and trace technologies will be critical to building up these levels of trust.

Question 17: *Please provide any other feedback you have relating to this customs design.*

N/A.

TAX

Question 18: *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? Yes/No/Don't know*

Yes.

Question 18(i): *Please explain your answer and support your response with evidence where possible.*

Tax incentives do contribute to economic activity in zones, but they are not the only tool at our disposal. The tax incentives in Enterprise Zones are quite limited, and most FTZs have much greater tax benefits than this (tax holidays etc). We would recommend these but would also note that tax incentives alone will not attract the level of foreign investment that these zones could attract. Experience shows that the level of service quality, the ease of doing business and the eased access to global markets will attract much more relevant FDI than financial incentives alone. 'Impact investments' into a free zone should take place because of long-term strategic considerations rather than being driven just by short-term cost reductions.

Question 19: *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.*

- Facilitative solutions on VAT and Excise Duties for goods within Freeports (UK Wide)
- Stamp Duty Land Tax (England and Northern Ireland)

- Research and Development (R&D) Tax Credits (UK Wide)
- Employer National Insurance Contributions (UK Wide)

Our answer addresses some, but not all of the taxes mentioned. We also consider other policies which could incentivise innovation.

VAT: Postponed accounting for VAT to be applied generally, plus specific VAT deferrals for businesses operating in the Freeport could be a significant cashflow benefit and would make those Freeports much more attractive from an investment perspective.

Excise Duties: Certainly deferral or suspension of excise duties would also have a cashflow-positive impact.

Stamp Duty Land Tax: This tax has proved to be a significant impediment to home buying and selling. Many have called for it to be abolished. It has a tendency to lock people into suboptimal living arrangements. It is not especially easy in a free trade zone which would have industrial applications, but it would be much more difficult to extend a lifting of stamp duty to an area close to the actual secured free trade zone or Freeport where residential accommodation existed for the workers in the Freeport.

Research and Development Tax Credit: Both the R&D tax credit and also laws like Bayh-Dole in the US which allow universities and some small contractors to benefit from patent protection for their inventions could go a long way to spurring innovation in the Freeports. We would for these reasons support both approaches which could be trialled in the Freeport.

Question 20: *Is there any evidence to suggest that changes in these tax policies would be the deciding factor in investment decisions? Yes/No/Don't know.*

Yes, but more is needed.

Question 20(i): *Please explain your answer.*

Our experience working on a number of FTZs and SEZs around the world is that rarely do tax decisions alone determine investment decisions, but rather the tax incentives on offer form part of a larger whole when investors consider where to place investments. There are, in the world, an emerging set of nodes in global supply chains. The competition for global capital and for key parts of global supply chains is becoming increasingly ferocious. After Covid-19, it is anticipated that there will be an even greater premium attached to making sure supply chains are robust, and properly designed SEZs will be part of that. The UK's Freeport programme enables the country to take advantage of the

opportunity to create entrepôts of better regulation, smoother trade and trade facilitation measures, and property rights protection to jump start the global economy.

On the other hand, FTZs and SEZs around the world that rely only tax incentives tend to be relatively sparsely populated (we have estimated a typical rate of 20-25% occupancy).

Question 21: *In your view, are there any particular tax policies that could increase the risk of tax avoidance or tax evasion activity being routed through a Freeport? Yes/No*

Yes

Question 21(i): *Please provide details.*

The World Free Zone Organisation has looked at this and identified the sorts of tax policies that generate economic activity without being centres of tax evasion.

There are a number of factors which include the encouragement through the use of taxation of certain types of production within the Freeport; a substantial misalignment of taxes within the Freeport with those of the rest of the UK or the surrounding region; a removal or relaxation of the requirement to keep records for the purposes of tax for individual businesses.

Question 21(ii): *If your answer is yes, then please suggest ways in which the Government could deter or prevent the tax avoidance or evasion risk you have identified.*

Businesses operating in Freeports should be required to keep detailed financial records and comply with all applicable UK and other relevant banking and financial laws. The Freeport should undertake due diligence on all companies established in the Freeport which will also provide a level of screening. Know your customer requirements and a high-level of transparency will be an important part of the operation of Freeports. These approaches would be required for many types of businesses that do not operate on Freeports and should also be required of Freeport operators and businesses operating in Freeports.

The use of TT/AEO certification for Freeports and businesses operating within Freeports will provide a regulatory-based framework to assess compliance with the above requirements (see also Questions 9 and 39). The World Free Zone Organisation currently has these standards for its Safe Zone members. Free

Zones in the UK should obtain the highest level of Safe Zone accreditation within two years of operation.

Question 22: *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? Yes/No/Don't know*

No

Question 22(i): *Please explain your answer.*

The purpose of these policies should be to lower the administrative burden of firms. Indeed any imposition of greater administrative burdens (above and beyond what would be applicable outside of the Freeport) should be avoided.

Question 22(ii): *If your answer is yes, then please explain which of the tax policies could be modified to reduce administrative requirements and how they could be modified.*

We have answered this in Question 19, above.

Question 23: *Please provide any other feedback you have relating to tax incentives for Freeports.*

The major point that HMG should bear in mind is that in the battle for global capital which will flow wherever it is welcome, tax incentives alone will not be enough to attract this capital. The UK's Freeports have an opportunity to be the global supply chains' critical nodes, but this will require the full gamut of tax incentives, trade facilitations, property rights protection and pro-competitive regulation. However this said, every FTZ/SEZ uses tax incentives and so for the UK offering to be globally competitive, it will need to be able to at least match these kinds of tax incentives which are available globally.

PLANNING

Permitted Development Rights

Question 24: *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? Agree/Disagree/Don't know*

Agree

Question 24(i): *Please explain your answer.*

The Freeport programme should be used to relax planning restrictions for ports. Everything should be done to allow for the natural development of Freeports as transportation and logistical hubs. Such infrastructure includes warehousing and logistics facilities, but over time other services provision such financial services (initially trade finance, but developing into other forms of finance), data centres to support increase use of data and the like.

Zonal planning

Question 25: *Are there suitable incentives in place that encourage the use of Local Development Orders by local authorities to support faster development? Yes/No/Don't know*

Don't know.

Question 25(i): *Please explain your answer.*

N/A

Question 25(ii): *If not, what more could be done to encourage their use?*

N/A

NATIONAL POLICY STATEMENT FOR PORTS (NPSP)

Question 26: *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? Appropriate/Inappropriate/Don't know*

Appropriate

Question 26(i): *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 National Policy Statement was published in 2012, under a Conservative-Liberal Democrat coalition government, while the UK was a member of the EU, and before Freeports were even envisaged as a policy possibility. Much has changed since 2012, and the Freeports agenda could be a core issue for ports. The Freeports agenda should also be properly and fully integrated into the overall customs and borders policy of the UK as a whole, as it is a significant weapon in the arsenal of customs and trade facilitation. It should similarly be part of the UK's offensive trade policy. As noted elsewhere, a Freeport

programme done right could lead to an increasing number of nodes for the global and regional supply chains emerging in the UK, making it much more of a trade entrepot. The Freeports idea should be at the heart of the National Policy Statement. Furthermore, some of the advantages that can be derived from Freeports in terms of their potential regulatory benefits should be recognised.

Question 26(ii): *If your answer is 'inappropriate', please explain why.*

ADDITIONAL PLANNING FREEDOMS

Question 27: *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.*

Planning has proved to be a big impediment to economic development in the UK as is generally well known. New planning modalities could be investigated such as the use of deemed permitting or the idea of a trusted developer. Under a deemed permitting model, planning permission would be deemed after a specific period, unless the relevant authority affirmatively denied permission.

REGULATORY IMPACTS

Question 28: *Please provide any feedback 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?*

We have developed an economic model which looks at the impact of regulatory freedoms in Special Economic Zones. Our work (see [here](#) as an example) suggests that optimisation across the three categories of liberalised trade, open and competitive markets, and property rights protection can generate significant economic growth. Within these categories, we have identified certain key drivers of economic growth. In the international trade space, trade facilitations and customs facilitations are crucially important. In the regulatory/competitive market space, we have identified labour market flexibility, planning, infrastructure, and pro-competitive fiscal and financial services regulation as key drivers of economic growth. Within the property rights space, protection of intellectual property rights is a key driver of economic growth. If these elements are optimised through a better regulatory framework in the zones, then the zones can generate significant economic activity by attracting key components of global supply chains.

The impact which you can be derived from the Freeport will depend on the precise regulatory framework in the Freeport itself. Our models suggest that there is an exponential relationship between economic activity generated and the boundary condition changes in the Freeport based on the agreed Regulatory Framework.

REGENERATION

Infrastructure

Question 29: *What infrastructure could encourage increased business activity in a Freeport? Please support your response with evidence where possible.*

The location of the Freeport and the infrastructure that connects it to the rest of the region is crucial. Not every location has the same geo-strategic benefits. In addition, lowering the costs of energy and other input costs in the zone will greatly assist the zone's capacity to act as an economic generator. Once the zone is acting in this way, business activity and job creation will follow.

The nominated UK Freeports are likely to include major ports which cover large areas and are organised into a range of specialist operational zones from berthing and crane operations to storage, road and rail facilities. An efficient customs and inspection capability requires border officers to be mobile, able to move freely and safely about the port to get to specific cargo and relevant locations. This requires mobile technology to support them by delivering information on the go and enable actions and information to be recorded real time. The use of GPS and geo-referencing capabilities of mobile devices will navigate border agents directly to the item of interest. Cameras attached to the devices allow border officers to record important information real-time which is automatically associated with their case reference.

The latest evolution of mobile network communications known as 5G will provide increased speed and data volume handling capabilities, providing real-time connectivity of all port based smart devices. As this technology is rolled out across the UK it is important to prioritise areas of commercial interest such as Freeports to become early adopters of this service.

Case Study on mobile services via 5G

Following deployment of the Nokia private wireless network, Zeebrugge will be able to track, analyse and manage connected devices across multiple port-based applications in real time. The end-to-end, high-performance 5G ready network will accelerate port innovation and

automation with deployment of IoT, autonomous vehicles, augmented reality and drones. Rick Goetinck, CEO, Port of Zeebrugge said: "Introduction of an advanced private wireless network will act as a beacon for our partners to develop and deliver new solutions right across the logistics value chain. Nokia, in close collaboration with local service provider Citymesh, has demonstrated outstanding 5G capabilities during platform deployment, making phase one a complete success."

An IT network for the Port must also be designed and developed with security as the primary feature. Freeports will be a tempting target for Cyber-crime, intent on general disruption as well as criminal gains.

The network will also support the real-time connectivity of all of the port smart devices which will continue to grow as this type of technology develops. In an extract from the UK government maritime 2050 vision paper <https://www.gov.uk/government/publications/maritime-2050-navigating-the-future>, the importance of IoT technology is firmly recognised;

"One such technology is the 'Internet of Things' (IoT) - the network of devices and vehicles which are embedded with sensors and software. In the port context, IoT refers to a system of sensor-equipped machinery (cranes, cargo handlers, vehicles, vessels, etc.) sharing information via internet connections. IoT technologies, in conjunction with other information-sharing technology such as shared data platforms or applications (in which all interested parties can track the movement of cargo in real-time), can synchronise processes within the port, reducing lorry and vessel waiting and cargo handling times and providing associated cost reductions and environmental benefits. "

We also need to look beyond the confines of the Freeport itself when considering its infrastructure needs. Smart vessels are rapidly developing and will become pervasive in 5 to 10 years' time. Freeports must be equipped to cope with their needs and demonstrate leadership in this field; smart ships exploit advanced navigation and communications technologies such as 5G, with on-board sensors and intelligent systems, using lightly manned semi-autonomous, and in time, unmanned and fully autonomous capabilities. They will operate seamlessly with digital, inter-connected ports and trading systems, which use autonomous vehicles and remotely operated loading/ unloading facilities to drive up efficiency and productivity.

Question 30: *What infrastructure could support wider regeneration opportunities and promote job creation in the areas around a Freeport?*

The Freeport operator should offer services in business support, data management and innovation management not only within the Freeport but also to the surrounding region and it should act as a regional management entity, in particular, in terms of hinterland logistics. The economic impact of the Freeport on its region can be measured on an annual basis and a joint growth plan with regional stakeholders should be set up. An optimised, interconnected system of hinterland transportation will be a core function of the Freeport, while the port operator may also become a major site developer at municipal or regional level. Additional service infrastructure within the Freeport, e.g. qualification centres or business development agencies shall be made available for stakeholders outside the port under certain framework conditions. General site infrastructure, such as waste treatment, fire brigades, maintenance functions etc could be shared with local communities and this way contribute to the modernization of public infrastructure, as being done by many industrial parks.

Question 31: *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.*

N/A

BUSINESS SUPPORT

Question 32: *What dedicated trade and investment support, advice and guidance would best enable your business to take advantage of the opportunities Freeports would create?*

The governance structure of the zone is very important. It will be crucial for the zone to have a single (and simple) governance structure, so investors and firms that are located there know there is a one stop shop for dealing with other governmental departments. We advise the creation of a Freeport Governance Authority for each Freeport that would be such a one-stop shop and point of contact for all investors and firms in the Freeport community. This would be the current governance authority if it is a unitary structure. Being able to offer investors and traders the opportunity to deal with one party for all their regulatory approvals and needs, where that one person must deal with a number of different agencies will make a substantial difference. Our productivity simulator (see above) does suggest that governance structure is a

disproportionate driver of economic growth. In addition, providing access to global markets and trade roads should be a proactive function of the port operator. The Freeport shall be a global marketplace and allow international window shopping of goods, technologies and innovations, including the provision of infrastructure such as exhibition space, test centres or living labs. By cooperation with corresponding business centres at other Freeports worldwide, the benefit for international trade can be huge.

SKILLS

Question 33: *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?*

A Freeport will enable new economic development. It will lead to good export-based jobs which typically generate more income for employees than purely domestic ones. The presence of universities and colleges could also be important in ensuring that they together with the businesses in the Freeports can work together to generate graduates suitable for the job opportunities which will arise from these programmes.

The Freeport should be an accelerator of new qualification profiles, a magnet of international talents and a balancing factor for the local labour market. Freeport management has to establish a qualification symbiosis with the local business and education community by setting-up a regional skills profile:

- a. What are the qualification profiles and related quantities demanded by the Freeport and its (future) tenants?
- b. Will the Freeport and local business jointly be able to generate a critical mass of demand for new job profiles?
- c. How can local education providers be supported and empowered to provide the qualification profiles needed?
- d. How can local competition for highly demanded qualification profiles be avoided – in particular by encouraging postgraduate qualification programs?
- e. How can the Freeport act as a living lab for new job profiles and working environments, which may be introduced by the broader business community at a later stage – e.g. via special internship programs?

- f. Is it feasible to set up joint recruiting platforms both at regional and international level?

These guiding questions should be addressed by a regional action plan, which will be a relevant site advantage for the Freeport's investment promotion as well.

Question 34: *How could employers involved in Freeport applications demonstrate their commitment to engagement with, and support for, local FE and skills providers?*

Freeports located in deprived areas will have an immediate impact on the skills base of the surrounding area. The attraction of foreign investors in a range of sectors, such as logistics, pharmaceutical and bioscience, as well as financial services, will require a skilled workforce and the development of institutions which are graduating such people. The Freeport itself shall introduce programs of dual vocational training (probably in cooperation with local education providers, if existing), which allow companies to participate, define relevant curricula and contribute by providing own trainee programs.

HOUSING

Question 35: *What are the main housing needs of the local economies which surround ports (suitable for Freeport status), both now and in the future?*

The workers who work in the Free Trade Zone/Freeport need to be housed, and development of housing needs to proceed at pace without development and planning restrictions if at all possible. By creating vibrant hubs of economic activity where people can live and work, the population can be moved out of urban centres.

Question 36: *How can local areas align their housing interventions with the wider regeneration agenda to make Freeports a success?*

A joint development plan should be set up together with municipal authorities, including the promotion of attractive business opportunities for residential developers. Planning should take into consideration not only housing, but – as important – long-term securing of personal mobility (roads and public transport) and the improvement and promotion of the port-based socio-economic ecosystem, considering a wide range of social infrastructure and its economic impact.

Question 37: *What role could zonal planning, including the use of Local Development Orders, play in delivering the wider regeneration of local areas around Freeports?*

LDOs are one way of using a streamlined process to facilitate development and planning. However, they are not the only way. We recommend identifying different ways to improving zoning, including trialling the idea of deemed permission, where planning permission is assumed for certain 'trusted developers' provided that appropriate paperwork is submitted, as opposed to waiting for planning permission to be granted. This could also be supplemented by an approach which shifts the burden of proof so that development should be allowed unless there is a good reason not to develop as opposed to saying that development is allowed only if affirmatively approved.

INNOVATION

Challenge-based initiatives

Question 38: *What specific operational barriers to efficiency exist in ports that could be addressed through the development of innovative technology and processes?*

The global supply chains, especially post-Covid-19 will need to be more resilient. The trend to establish nodes where economic activity can be enhanced will inevitably be accelerated. These nodes will be located in those places where it makes geo-strategic sense, but also where the host country is able to make these nodes attractors of capital, investment and the supply chain.

The UK's leading seaports invest heavily in technology to increase operational efficiency through automation in order to remain competitive in today's increasingly challenging markets. Much of this investment has been focused on the automation of specific operations such as; unmanned loading and unloading of cargo onto vessels, driverless automated tractors to move containers around the port, the use of AI to optimise the storage of containers in the port, and sensors to improve the safe docking of vessels. The picture below, for example, illustrates the application of AI technology to optimise the storage of containers in a port, a complex challenge when the volumes can exceed 40,000 in any one time.



Creating further efficiency gains on port operational functions are becoming increasingly hard to achieve. For example, there are physical limits to how fast an autonomous quay side crane can load and unload containers. What happens when these limits are reached? The next phase of port operational efficiency improvements requires an integration lens that includes the whole port and key stakeholders in the wider supply chain.

Today's global leading innovative ports are now seeking to achieve gains by improving the integration between each port operational function. Ensuring they are seamlessly connected reduces dead time and delays between operations and optimises the allocation of vital resources, both people and assets.

The port of Hamburg in Germany is a global leader in digital innovation programmes, providing insights into the role technology will play in the digital port of the future;

“Other ports are not sleeping,” stresses Dr. Sebastian Saxe, Chief Digital Officer of Hamburg Port Authority – HPA. In recent years, the speed of technological developments has continually increased and is still continuing to do so. “The shippers set the beat,” adds Wrage. Global trading groups like Amazon and Alibaba, “take a very close look at just what a port can, or cannot, do.” Being the international innovation hub for digital business transformation of logistics on land, at sea and in the air, Digital Hub Logistics Hamburg will add momentum to ‘Port 4.0’. CEO

Johannes Berg hopes that the next major impetus for innovation in logistics will come from Hamburg, with initiatives which include;

Artificial intelligence to optimise port traffic and reduce emissions - For Dr. Saxe digitalization is no topic for the world of tomorrow: Today the traffic in the port, whether on rail, water or road is digitally controlled. “These learning experiences are important for the whole city and applicable to the complex transport system,” says Saxe. In 2020 artificial intelligence will already be a major topic in channelling traffic. The ‘Green4Transport’ project should interact with intelligent traffic lights, guiding trucks across intersections in columns.

Connected network - The introduction of 5G in the port test area will facilitate the implementation of further visionary projects. This networking infrastructure is necessary to integrate programmes across all of the port players.

Unmanned aerial vehicles - Drones, or to give them their technical name, UAVs (unmanned aerial vehicles) are impossible to overlook in the port. HPA is already successfully using UAVs for surveying and inspecting buildings and quay-walls. For example, drones are being flown around the Köhlbrand bridge supports, checking for damage. Moving forward, it is also perfectly conceivable that underwater drones will monitor sedimentary deposits in the River Elbe, or automated drone systems used for maintenance or emergency management.

Collaboration and Digital integration - The port has reached a digitalisation level of 95 percent with the involvement of some 2,000 companies. All of the companies involved in the transport chain have been linked to the central IT platforms to integrate and accelerate processes.

The success of this integration strategy is demonstrated by the Hamburg Vessel Coordination Center - HVCC. Shipping companies, nautical HQs, competing terminals and, more recently, inland shipping all profit from the interface. HVCC consolidates the relevant data from the various players, interprets it, and compiles a forecast overview of vessels approaching the Port of Hamburg: This is then made available to all those involved. **Customs clearance is set in motion digitally while the container is still approaching Hamburg**, and ship clearance in the Port of Hamburg is now running even more seamlessly.

Further examples of port integration projects can be found in other leading ports around the world, including at Singapore Tuas Terminal mega port. They are creating a “digital twin” of the port, which provides a virtual replica of physical port systems to model and test operational efficiency. In addition to this, the digital twin will be able to simulate the ports ability to manage scenarios for possible disruptions to operations, including natural disasters and extreme weather. The \$18-million centre uses simulation analytics and artificial intelligence to optimise operations, such as how to move the most number of containers in the least amount of time.

A more local example is the Port of Rotterdam which will create a real-time digital twin of the port to track ship movements, infrastructure, weather, geographic and water data. The digital replica will help the port to improve efficiency and overall operation. The dimensions of the ports objects, such as quay walls or cranes, are laid down in a GIS system. The challenge is to integrate all sorts of dynamic data from sensors measuring factors such as weather, flow, visibility and wind into a generic platform. Using IoT technology the Port Authority can collect this data, process it and use it to model scenarios and seek operational improvements.

The Port of Rotterdam digital twin will also provide improved safety and operational efficiencies for ships entering the port. As ships enter the port they require a range of data from the depth and size of the ship, the depth of the fairway and the weather conditions on the route to the physical characteristics of the berth. The digital twin is able to provide accurate real-time information on these data points and also inform the vessel when the berth is released and it is safe to beginning docking.

Operational efficiency ultimately relies on access to accurate and real-time visibility of the cargo's entire journey for all goods in transit to the port. This visibility ensures border agencies and port operators are able to schedule their operations efficiently and are able to rapidly react to and manage any disruption. This requires advanced notification of any incidents or delays wherever they occur in the journey of each container heading for that port. This advanced notification enables plans and schedules to be amended to maintain optimum operational efficiency, and provides useful security and safety information to strengthen risk assessment capabilities.

Trade into and out of seaports are also affected by circumstances and incidents throughout what can be very long - over both distance and time - supply chains. Efficient operational management of the Freeports is also dependent on having greater visibility of the whole supply chain journey. Vessel arrival

times are today efficiently managed and orchestrated with the benefit of satellite and AIS (Automatic Identification System) which enable port operators to schedule berthing time slots accurately. However, what is more difficult to predict with certainty is the status of the cargo and crew. For example, imagine a customs campaign to check the seals on all transshipment containers that pass through an intermediary port on the way to their final destination in the UK. Any containers found to contain faulty or tampered seals may be held and as a result the shipment would face considerable delays. Knowledge of such 'global' interventions and similar incidents will greatly enhance the efficient operation and allocation of resources in the Freeports.

A number of global supply chain technology initiatives which promise access to accurate and real time information of the supply chain are rapidly gaining acceptability and adoption by the maritime industry and government bodies around the world. One such programme is known as 'TradeLens' [<https://www.tradelens.com/>]. TradeLens was launched in 2018 in an attempt make the global supply chain more transparent, collaborative and efficient. Since May 2019 it has accounted for more than half the global cargo traffic when MSC and CMA CGM, the second and fourth biggest container shipping lines in the world respectively, joined it. Freeports must be encouraged to join global supply chain technology schemes such as TradeLens, and through early adoption gain global competitive advantage.

Case Study - Indonesia & TradeLens

Indonesian customs signed up to TradeLens in February 2020, enabling them to receive shipping data as soon as containers leave the port of origin. This will give the Customs and Excise Department more time to prepare to receive shipments, thereby enabling more efficient and thorough fraud and forgery inspections as well as more consistent and transparent revenue collection processes. Agus Sudarmad, Director of Customs and Excise Information of the Directorate General of Custom and Excise Office, said: "The customs and excise department aims to leverage the blockchain solution to simplify the exchange of goods, automate documentation and increase co-operation and communication between counterparties. "TradeLens will help bring further visibility, predictability and security to us and will be a real asset for trade and transport facilitation, making Indonesia the preferred logistics and transport gateway in this region."

In addition to deep sea cargo vessels, Freeport's may also service short sea intra-UK and intra-EU maritime transport. These vessels may be

transporting deep sea containers which initially arrived into another major UK or EU seaports to Freeports which lack facilities for today's mega-vessels to berth, or perhaps are not on established deep sea trade routes. They may therefore contain a mix of non-UK cargo requiring additional customs and security administration, or intra-UK cargo not subject to such processes. The established CSP model for deep sea cargo would not necessarily be capable of providing advanced notification for these short sea 'feeder' vessel journeys. A more local notification system would be required. Such systems are beginning to emerge to address the EU exit challenges facing the UK - EU ferry ports, an example of which is being developed in the port of Zeebrugge.



In addition to the use of technology to optimise port operations and customs administration, technology also plays an important role in supporting a robust and efficient border security capability. For example, radiation detection equipment is widely established in leading ports to identify sources of natural or artificial radiation in cargo. Containers unloaded from arriving vessels are driven through scanners for automatic screening to detect the presence of radiation. Modern scanners can screen containers without the need for vehicles to stop, allowing for faster processing while maintaining high security integrity. Advancement in container scanning technology continues at pace and already offers secondary analysis of containers with mobile systems that can detect the precise radiation types and levels.

Gamma-ray scanners also play a crucial role in detecting suspect goods. Mobile vehicle and cargo inspection systems can capture an image of a container similar to a medical X-ray, enabling operators to identify suspect items. Such scanners have reached a level of sophistication enabling them to scan vehicles and sea containers for drugs, weapons or illegal currency with the aid of highly sophisticated gamma ray technology.

More advanced security surveillance techniques involve the use of submersible cameras to inspect ships and containers entering or berthed in ports. Coupled to density meters they can alert to the possibility of hidden compartments that may contain contraband, illegal goods or weapons.

In the future vessels will be increasingly autonomous, and the IoT digital twin data can also be used to control and safely manage these vessels. Other important applications, include predictive maintenance on valuable assets from sensors which detect wear or faults in their operation.

Question 39: *What specific aspects of customs administration present barriers to business efficiency?*

There are a range of different elements of customs administration that are barriers to business efficiency, these challenges includes administration (customs declarations, licensing, permits etc), bureaucracy (revenue collection, statistical collection etc), waiting time, non-agency co-ordination, limitation of procedures, lack of standardisation, technical requirements, time limits and other things – all impacting the speed, predictability and cost of the supply and value chain.

Free Trade Zones are by definition are located 'outside the customs territory'. This means that many of the tariff and non-tariff barriers mentioned above do not need to be in place. However, that in itself increases the risks for Government and business. This has in the past been one of the major challenges connected with the Freeport and free zone instrument. Today this can be solved. The idea is to replace some of the more traditional control and monitoring instruments with more efficient compliance management models. This has already started to happen and there are a number of Freeports and free zones of a new generation operational around the world. These Freeports and free zones constitutes a new paradigm with good governance, transparency, self-assessment and compliance framework - enabling best practice customs procedures and simplification to be connected seamlessly with activities within specifically certified Freeports and free zones.

Modern customs practices can include:

- A simplified customs declaration system (100% electronic) recognised by relevant Government bodies and agencies;
- A Freeport Single Window with one-stop-shop-elements covering customs and other regulatory agencies, port operations and UK/international requirements;

- World Free Zones Organization Safe Zone certification;
- World Customs Organization (WCO), SAFE Authorised Economic Operator status;
- Mutual recognition of WCO Authorised Economic Operators (AEO) in the free trade zone and encouragement of free trade zone businesses to become AEOs;
- OECD Freeport and Free Zones Code of Conduct compatibility (Clean Zones);
- Application of modern technologies for customs surveillance without disturbing the movement of cargo, e.g. use of automatic number plate recognition at entry/exit; and
- Any other needed inspections away from the entry/exit of the free trade zone.

There are many other customs simplifications that should be provided for Freeports to make these facilities integrated but still flexible engines and hubs of a dynamic market, namely:

- No demands for formal customs/goods declarations by customs;
- Provision of financial security (bond) to Customs is not required when goods are admitted into the zone, any additional bonds could be waived as a part of compliance records from a compliance management programme certification (World FZO Safe Zone, WCO AEO etc);
- Unlimited duration for goods to stay inside the zone;
- Allowing logistics operations, processing/manufacturing operations, storage, repacking, or re-labelling, companies may bring in external materials and manufacture products. Accordingly, the scope of duty/tax exemption inside FZs covers materials and capital goods (equipment) consumed inside the zone;
- Suspension of import duties and other indirect taxes on goods brought from abroad/domestic market into the zone, as long as the goods stay inside the zone. Suspension is typically based on provision of financial security (bond) to Customs, but could be waived under special circumstances and without the fact or intention of actual exportation abroad;

- Import duties and other indirect taxes on goods brought from abroad/domestic market are suspended if the goods are intended for manufacturing/processing and actual subsequent exportation of the processed goods (compensating products);

In addition, in relation to Freeports all customs procedures and simplified customs procedures should be possible, i.e; import/export, re-exportation, temporary admission or transit.

Transit is an important customs procedure in relation to Freeports as enables goods to be moved under customs control without duties and taxes paid. Transit simplifications could be introduced for Freeports qualifying for compliance management programmes.

To allow businesses to have an integrated approach to Freeports in the UK where goods should be able to be transferred from one zone to another without having to pay duties and taxes. A way to handle this is to use the AEO/Trusted Trader instrument and World FZO Safe Zone status as enabler for green corridors between Freeports in the UK. These green corridors (trusted trade lanes) between Freeports/free zones can be monitored by intelligent technology solutions and software products existing on the market today.

Finally, normally customs procedures like customs warehousing, inward processing/outward processing procedures or processing under customs control are not regarded as being customs procedures 'outside the Customs territory', however with a new generation of safe and transparent zones under strict governance there are ways where also these procedures could be included.

Question 39(i): *(Only if answered first question) How could the development of innovative technology and processes be used to address these, and maintain a secure environment?*

Current barriers include the low use of and low enrolment in Trusted Trader programmes, the continued use of manual customs procedures, a transactional approach to customs administration rather than an account management approach, the limited use of technology, and the lack of data sharing between border agencies and other customs administrations. Many of these barriers also increase the risks for illicit activity and tax avoidance.

Innovative technologies and processes can be used across a number of areas to reduce barriers:

- (a) The introduction of a multi-tier Trusted Trader maturity model based on fully digital processes, low thresholds, advanced automated monitoring and an updated benefit programme
- (b) The use of simplified and fully electronic customs procedures. This should involve more limited data sets for Freeports (aligned to the nature of the goods) and re-use of data from customs and Freeport operator systems
- (c) The use of pre-arrival information to ensure that both goods and transport (in particular vehicles) can move without having to stop. This can include the use of automatic number plate recognition or similar technologies.
- (d) The use of non-invasive technologies for the inspection of goods
- (e) The use of automation to create an integrated border management environment covering customs and other regulatory agencies.

There are also on the market available low cost software products and services to manage and monitor accredited supply chain stakeholders from both security and compliance perspectives. These should be used also for Freeports.

Freeports and academic collaboration

A robust trusted trader scheme supported by appropriate innovation in technology will significantly reduce customs administration overhead in the Freeport, leading to increased operational efficiency.

A registered trusted trader who is able to demonstrate compliance to a range of customs management criteria will benefit from less customs administration requirements in the port. Instead the customs administration and all compliance requirements are performed by the trusted trader as part of their standard operations. A range of technologies support this capability by providing real time auditable evidence of their transactions and compliance to required standards and processes.

Access to simplified customs procedures significantly reduces administration burdens on both trader and customs officers. With appropriate processes and IT systems self-assessment, where traders provide monthly submissions rather than declarations per transaction, become a real possibility.

The use of track and trace of technology on their cargo and vehicles from origin to destination can provide customs with real time evidence and information to support detailed audits of self-assessment submissions. Furthermore, their security capabilities can be significantly enhanced with the use of tamper proof smart seals for all cargo in transit. Such cargo may be

more trusted and therefore subject to less frequent inspection or interventions on arrival at the Freeport.

We have also included information on the use of smart cargo and container scanning equipment in our reply to question 38. This technology provides the ability to rapidly scan containers and vehicles entering the Freeport, reducing the need for physical inspections and maintaining a high flow of traffic.

Question 40: *How can ports collaborate with public agencies - including universities and other academic institutions, businesses, and local governments - to develop and adopt new technologies?*

Collaboration between Freeports and universities/colleges and other institutions will be critical. Freeports should attract academic collaboration in the following sectors:

- (a) High Tech/AI;
- (b) Customs and trade facilitation;
- (c) Financial Services, especially trade finance;
- (d) Customs and trade facilitation: Collaboration with the International Network of Customs Universities can also enhance the development of Freeports with modern and low-risk practices, including the use of technology in collaboration with HMRC. Academic collaboration can include not only drawing on the knowledge provided through the network and specific institutions (e.g. the Centre for Customs and Excise Studies). The development of academic customs practices at UK universities should also be encouraged to provide;
- (e) In addition, there are private sector providers of knowledge and expertise, such as the UK Customs Academy, that can assist in developing innovative thinking in the use of technology and other areas of Freeport operation;
- (f) Modern special economic zones have as an added value a deep cooperation with the academic research world. This fosters innovation in use of modern technology and innovation, but also in relation to a wide range of other areas like access to academic networks and an educated workforce;
- (g) ICT;
- (h) Maritime technologies, blue biotech;

- (i) Use of geodata, smart logistics.

Freeports should aim to become knowledge hubs by attracting and applying key technologies for the facilitation of global trade flows. They should install a “Freeport campus”, working together with a few universities to run Competence Centres for technology transfer related to globalization and maritime operations. The joint Competence Centre of Port of Trieste, Italy, and Technische Universität München, Germany, could be considered as a blueprint. For the Freeports, universities and other research and technology centres can play a crucial role as providers of qualification services, operators of laboratories, testing facilities and business incubators as well as coordinators of port-related research programs. Institutionalised partnership agreements with universities shall be set up at the very beginning of port operations in order to create a joint resource pool and promotion strategy.

REGULATORY SANDBOXES

Question 41: *How could challenge-based initiatives and innovative procurement opportunities help ports and local partners work together to innovate?*

The port operator shall collect “challenge statements” from the Freeport’s tenants and become a fast track to applying new technologies in logistics, production and procurement. Rather than being just an import-export hub, the Freeport should become a hub for the import, development and export of knowledge and technologies, supported by strong branding, its own innovation unit (Competence Centre) and global visibility. The Freeport should offer business accelerators for start-ups and their own incentive program, as the port operator itself will benefit from innovative solutions and should become a major client of new technologies. Solution scouting, technology procurement and open innovation initiative will become a vital part of the Freeport’s offer towards its tenants.

DATA AVAILABILITY AND USABILITY

Question 42: *What obstacles are there to greater data availability in the customs and transport sectors?*

Amongst the obstacles to data availability within customs is a lack of understanding that the data can be of wider use in understanding trade. The view that data sharing should be limited to statistical trade information only

and that other data should not be made available can stand in the way of developing innovative insights and approaches.

This is an area where there are major changes happening worldwide. The traditional challenges have been that there have been low quality of trade data through the supply chain. The source data is not utilised throughout the supply and value chains. There are also several different information and data streams. There is one stream used for the commercial transaction and then there is a data stream for trade information produced for various stakeholders including Government, like customs declarations and other type of data submission to official institutions. The last years' there have been a trend of data protection making access to nominal commercial data more difficult, however different voluntary compliance management models have increased access to trade data by agreements. There are a number of international pioneer projects making commercial accurate source data available for the entire value chain, including Government agencies, using new security exchange technologies like Blockchain etc. The experience so far is that voluntary submission of additional data for risk purposes is a successful way forward to get early secured trade data to for use for intelligence and risk assessment making the processes more efficient, safe and facilitated for all stakeholders.

The ability to successful share data requires setting common standards, clarity on ownership of data and a willingness for all actors, including competitors, to share data for an overall greater benefit.

Today's global supply chain is fragmented across a large number of diverse stakeholders. Each of them is specialists in their own fields constantly looking to improve and optimise their part of the supply chain in order to remain competitive. Within this context there are a number of challenging factors which frustrate efforts which seek to share data in order to better integrate and optimise the global supply. These challenges can be categorised into the areas highlighted in the sections below;

Legal - Legislation which seeks to protect competition in the global supply chain can also restrict the sharing of information between for example competing shipping lines.

Case Study - Tradelens Maersk and IBM's major blockchain initiative, has taken another major step towards its goal of revolutionising the global supply chain after the US Federal Maritime Commission (FMC) amended its regulations relating to cooperation between carriers. Container shipping lines had previously been prohibited from working together on certain matters without

the scrutiny of the FMC. However, under 'The TradeLens Agreement', which was published on 23 December 2019 and will come into effect on 5 February 2020, those laws will be relaxed. The document reads: "The purpose of this Agreement is to authorise the parties to cooperate with respect to the provision of data to a blockchain-enabled, global trade digitised solution that will enable shippers, authorities and other stakeholders to exchange information on supply chain events and documents". Furthermore, it goes on to say TradeLens will provide "application programming interfaces for the publication of and subscription to event data describing the physical progress of cargo through the supply chain and associated milestones."

Competitive - Many aspects of the global supply chain exist as saturated markets where supply outstrips demand, with low margins and therefore players are sensitive to the sharing of data which might provide others with competitive advantage, for example, prices, shipping volumes, trade routes etc.

Standards - The sharing of data on in a global context requires agreed to common standards on all data sets. While it is arguable these standards do exist, perhaps in a number of forms, the key challenge is ensuring adherence to these standards. However, the industry trend is towards the continued development of common data models, enabling improved electronic integration and automation.

There are three main standard models with most of the industry using the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), together with World Customs Organisation (WCO) data models. The third is the International Standards organisation (ISO) which has multiple sets of internationally recognised data standards. In 2019 the International Maritime Organisation (IMO) agreed a reference data model with the WCO, UN/CEFACT and ISO to standardise the exchange of information on shipping arriving and departing ports. This data model supports the mandatory sharing of information on vessels, cargo and persons on board, enabling software developers to design systems which provide the electronic transmission of data required for the arrival, stay and departure of ship, persons and cargo to a port.

Security, ownership & privacy - Governments, business and citizens across the world are increasingly aware of the need to maintain high security standards for the use of data in technology. There are many examples of major business institutions succumbing to intrusion and loss of data to cyber-criminals, with the cost not just to business operations, but equally importantly to consumer

confidence in the brand. Global supply chain organisations will need the highest confidence in the security of any systems where their operational data is shared.

A further significant complication in sharing data is the question of ownership. Who owns the data once it is shared and what rights will they have on this data?

And linked to security and competitive sensitivity of sharing data is the requirement to maintain privacy and access rights to elements of that data. Who gets to see what information must be carefully designed into the system and continually managed.

However, these obstacles are not insurmountable and the trend in many applications of technology are undoubtedly towards greater sharing and integration of data. On a personal level, citizens are increasingly sharing personal data on social media sites and continuous contact with friends is already the norm. We share our location data to enjoy traffic reports from google maps. Sections of industry including major manufacturers are extending the visibility of their complex supply chains by sharing data on common platforms to improve resilience and operational efficiencies. The UK is in a better position here as it has left the EU and therefore could have the regulatory independence to deviate from regulatory barriers to data sharing such as GDPR. Such flexibility will help facilitate these programmes.

And trends in technology innovation are developing the functionality and services required to support this connected future, and provide confidence to citizens, businesses and governments in how we can safely and effectively share data. The critical features technology has to deliver are security and trust. Am I confident my data will not get stolen and can I trust the data which has been shared with me? One of the emerging technologies which seeks to address these two criteria is commonly known as Blockchain or the Distributed Ledger. It is this technology which underpins Tradelens, one of the most advanced global supply chain data sharing platforms. As part of the Freeport initiative, and in support of the UK's future global trade aspirations, the UK government must seek to become early adopters of this technology and lead in trialling its application to understand and better manage its promised benefits.

Question 43: *What opportunities are there for data generated within Freeports to support innovation by businesses and innovation stakeholders?*

The Freeport could operate its own data centre (as distinct from other data centres that may choose to locate in the Freeport), as global shipping routes

and global data routes are more or less the same. However, the Freeport will also be a relevant sensor for developments in globalisation – the closer the port operator interacts with its client and tenants, the more relevant its market intelligence will get. Freeports could become “living labs” for future trends of globalisation and global innovation by trialling new technologies and new innovations. Data generated by applying a “port 4.0” system will allow the port to offer a much more attractive service package, to support just-in-time supply and to optimise the use of its warehousing infrastructure.

Question 43(i): *(Only if answered first question) What changes would be needed to facilitate this?*

Freeport operators have to be allowed to represent the UK at international level as technology and investment scouts, working in close cooperation with the Department for International Trade and with Embassies. They should enter into special NDAs and service agreements with their tenants, partners and suppliers in order to become a reliable partner of business development. Data being used and processed within the Freeport has to be treated like goods and services and should be under the Freeport’s enforced IP protection regime.

CONTRIBUTION TO THE DECARBONISATION AGENDA

Question 44: *How could regulatory flexibility within Freeports help businesses to trial and implement new products and processes?*

Freeports shall strongly promote their function as test beds for new ideas and factories of the future under their own, innovation-friendly governance. This should in particular include the general “ease of doing business” level, access to financing, easier access to foreign markets (by special cooperation agreements with chosen SEZs etc.) and a maximised outsourcing of administrative and organisational tasks to the Freeport operator as a one-stop-shop.

Question 45: *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 Freeport could follow the “intelligent green” concept of becoming a zero-carbon port and taking carbon-saving measures which allow tenants to include carbon certificates into their investment case. Measures will include renewable energy supply, a high degree of energy efficiency, a “green IT system” and hosting research and innovation projects regarding alternative ship fuels.

UK domestic policy relating to emissions of green-house gases (GHGs) from the maritime sector is based around the Climate Change Act 2008. The government has committed to contribute to global emission reductions by reducing UK GHG emissions by at least 80% of 1990 levels by 2050. Measures to achieve these targets are set out in the DfT Maritime 2050 Navigating the Future report

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872194/Maritime_2050_Report.pdf, which points to four areas of focus;

- **Primary renewable energy sources**
The port of Rotterdam in the Netherlands, which is the largest port in Europe and one of the most significant logistics hubs in the world, shows how ports can reduce emissions. The port area has recently installed wind turbine capacity of 170 megawatts (MW), which represents around 10% of all the wind power in the Netherlands, and is working to expand this to 300 MW by 2020.
- **The Port of Seattle has agreed a 10-year supply contract for Renewable Natural Gas (RNG), a low-carbon natural gas alternative produced most often from landfill waste.** This enables the Port to heat 55 percent of the Seattle-Tacoma International Airport (SEA) terminal and to power 100% of its bus fleet, enabling it to reach its 50% port-wide carbon reduction goal. SEA will be the first airport in the country to utilise RNG for heating.
- **Encouraging the use of hybrid vessels**
Such vessels are particularly relevant in short sea crossings and for local feeder routes. Three hybrid roll-on/roll-off ferries are in operation in the Clyde and Hebrides Ferry Service. Each use a low-carbon hybrid system of traditional diesel power and electric lithium-ion battery power.
- **Liquefied Natural Gas (LNG) facilities**
An increasing number of modern vessels are being built to run on LNG sources such as Hydrogen which have low and even zero emissions. For example, the HySeas III project is the world's first zero-emission, sea-going hydrogen-fuelled car and passenger ferry and will operate in and around Orkney. By providing LNG bunkering facilities Freeport's will be able to accommodate the new generation of these low emission vessels.
- **Lower port emissions**
Setting targets for an annual reduction in the carbon foot print of the port ensures carbon emissions are monitored and actions taken to address areas of poor performance. For example, investment in modern port

infrastructure ensures the most energy efficient plant is used, such as quay side cranes.

In addition to infrastructure emissions, the port can also play a major role in the management of emissions from visiting vessels. Large sea vessels are a major contributor to CO2 emissions. Monitoring and optimising the performance of vessels in terms of speed, docking and any delay or wait times forms a key part of this strategy. Smart docking solutions are being trialled in ports around the world to ensure docking is optimised, reducing emissions as well as optimising operations. These solutions depend on the nature and location of the port, for example the Port of Hamburg is investing in IoT technology to monitor and optimise traffic travelling the 110km journey to and from the sea. Monitoring extended docking and anchorage times also has an impact on local environment.

Question 46: *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 Freeport should not follow a disconnected innovation policy, but should enter into “innovation acceleration programs” with all relevant stakeholders, including leading universities, technology providers, relevant businesses and the public sector. It should offer attractive packages as innovation providers’ “window to the world” and set up its own innovation campus, showcasing new technologies, services and qualification offers to domestic and international partners.

ADDITIONAL POLICY CONSIDERATIONS

Preventing illicit activity

Question 47: *In your view, what is the level of risk of illicit activity in Freeports? Very high/High/Medium/Low/Very low/None/Don't know*

Very low

Question 48: *What additional measures should be implemented to mitigate such activities?*

The answer “very low” in Question 47 is related only to the new modern paradigm of Freeports and freezones that have been developed and implemented over the last few years in line with the model we are proposing.

It is well known that some existing Freeports and freezones over the last decades have had significant integrity problems, making it possible to use the Freeport instrument for illegal activities. This has been well documented in numerous research reports from OECD, EU/EUIPO, UN, WIPO and WCO. There are more than four thousand Freeports, freezones and special economic zones worldwide today and the missing element have been a segmentation model to separate the compliant Freeports with high quality compliance and good governance from others. Today this problem is about to be solved since several new risk-based compliance instruments have been launched. World Free Zones Organization launched last year a specific instrument called Safe Zone, which is a qualification and certification process for its eleven hundred members to demonstrate good governance, transparency, compliance and low risk. There are already numerous Freeports and freezones that have been certified or are going through the process. OECD has through its Task Force on Countering Illicit Trade (TF-CIT) working on a similar risk based authorization process called Clean Zones and WCO has its SAFE Framework of Standards, AEO concept that includes all stakeholders of the international supply chain, also Freeports. This means not only that Government through its customs and border agencies have access to the low risk Freeports, but companies can select compliant Freeports for their location.

In addition to the measures outlined in the consultation document relating to record keeping and measures to deal with tax evasion (which can be related to money laundering) and know your customer procedures outlined in earlier answers, a number of other measures should be considered:

- (a) Allowing customs and other enforcement agencies to carry out ex-officio checks and to take appropriate action;
- (b) Based in risk management and assessment, empowering customs and other law enforcement authorities to examine merchandise on entry or at any time in a Freeport;
- (c) Maintenance of a permanent customs presence inside Freeports
- (d) Businesses operating within a Freeport are physically located within the Freeport;
- (e) A requirement for economic operators within a Freeport (and the Freeport itself) to notify customs or other authorities of any illegal activity;
- (f) The ability for customs or other law enforcement agencies to take legal action against economic operators in a Freeport;

- (g) Regular audits of the Freeport operators and economic operators in the Freeport;
- (h) An integrated governance structure for Freeports that includes law enforcement agencies and customs;
- (i) An 'electronic only' operating environment.

Question 49: *Please provide any other feedback you have on the issue of preventing illicit activity within Freeports.*

Freeports should be viewed as being outside the customs area of the UK for the purpose of duties, but not outside the law. With the establishment of an appropriate operating environment and laws, there should be no risk that a Freeport becomes attractive for organised crime. The benefits from being a Freeport and operating within a Freeport should be through streamlined processes and the development of business acceleration hub, not a relaxation of laws that apply to businesses.

Annex D, Chapter 2 of the World Customs Organization's Kyoto Convention on the Simplification and Harmonisation of Customs Procedures outlines a set of international standards for the operation of freezones and Freeports that are specifically designed to ensure that Freeports and tenants operate in a way that prevents illicit activity.

TT/AEO certification provides a method to validate compliance across a range of areas and the World Free Zone's Safe Zone programme and the OECD's Code of Conduct for Free Zones provide models for Freeport operators. As noted in Question 6, Freeport operators should obtain the highest level of SafeZone certification within two years of stating operation and also seek TT/AEO status under an updated TT/AEO programme (see question 39). Businesses operating within the Freeport should also obtain TT/AEO certification.

In relation to intellectual property crimes, customs and police should have the ability to act based on complaints of rights' owners as well as ex-officio where they suspect that there are IP violations

These measures, along with those outlined below in Questions 6, 9 and 39 reduce the addressed risks that businesses without a legitimate economic role do not become established and cannot operate within the Freeport.

BUSINESS IMPACTS

We have covered the topic of security in the Freeport in our response to questions 4 and 5.

In addition to our previous answers, the use of smart tags on relevant high value, dangerous, goods prone to smuggling etc, will enable them to be monitored continually. Alerts can be set on the tags to notify security centres of specific activity or changes in their environment. For example, a sudden change in temperature may indicate a door opening or removal from a container.

Smart tagging can also monitor the location and the duration of goods in the Freeport. This may be particularly relevant to tackle the storing of high value commodities such as art, which are being stored for no reason other than to avoid duties and taxes.

Question 50: *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.*

The economic impact of Freeports could be significant for the UK economy, but the quantum of this will depend on precisely how open they are and what the regulatory framework in them is. We have developed a Productivity Simulator which helps to measure the economic impact of trade, customs and regulatory improvements across the dimensions of open trade, competition and property rights protection in Special Economic Zones (see [here](#) and [here](#) for analysis of how the model works). Our preliminary review of the potential economic impact of Freeports that make improvements in the areas listed are significant. It is clear that resolving some of these trade and regulatory distortions can lead to significant economic gains for the country which outweigh the impact of at the border trade barriers (see [here](#) for an analysis of the comparison between at the border and behind the border issues).

In addition, as these nodes will become interconnected with other global nodes connected by trade superhighways, the opportunities for business that connect into this current are very significant.

It is important to note that the Freeports we conceive of in this consultation do not require financing from government (other than possibly short-term seed capital) but will be generators of economic activity in their own right.

EQUALITIES IMPACTS

Question 51: *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?*

Clearly Freeport operators would be subject to the terms of the Equality Act, 2010 and could be required to have diversity officers to ensure no discrimination against protected classes as set forth in the Act.

However, there is an additional way that discrimination can be avoided. First, generating economic activity creates jobs and lifts the poor out of poverty. Many in protected classes are poorer people who see the benefit of wealth creation first.

By locating Freeports in deprived areas such as Derry (Londonderry), the UK government can use Freeports as a tool to ensure poverty alleviation in deprived areas.

Generating economic growth in minority religious areas can also help protect the Belfast/Good Friday Agreement and the peace process in NI. A combined offering of Freeports in Foyle Port and Belfast for example would generate economic activity in both Catholic and Protestant areas, enabling prosperity to be a guarantor of peace.

Question 52: *If you are a business owner, what actions would you take if a Freeport was established in your local area? Please explain your answer.*

The main consideration should be whether the Freeport will provide concrete and short-term business advantages in supply, market access, risk reduction or eased and accelerated expansion opportunities. In return, the Freeport operator should have a very clear picture of the individual business interests of regional stakeholders (by cooperation with business networks, associations etc.) and proactively promote its service offers not only to future tenants, but also to regional business partners, that might wish to use the Freeport as a platform without planning particular investments into the free zone.

Question 53: *In your view, what is the level of risk of economic displacement? Very high/High/Medium/Low/Very low/None/Don't know*

Very Low.

Question 53(i): *What should the Government do to mitigate these risks? Please explain your answer.*

Generally, special zones and Free Trade Zones do not cause much internal displacement, as our experience suggests that they actually attract foreign investment and trade that would not have come to the country at all, but for the Free Trade Zone. But, the more the Freeport is reliant only on tax incentives and not on regulatory improvements, the more likely displacement is. One mitigation strategy is to locate Freeports in more deprived areas to offset their natural disadvantages. Another mitigation strategy is to site Freeports in naturally outward facing areas. For example, some port sites market themselves first to the wider world as opposed to domestically and these should be prioritised. For example, the North West of Northern Ireland markets itself as a gateway for the US, EU and GB, and therefore is more likely to attract investment from outside rather than displacement. The third mitigation strategy is to make sure that Freeports benefit from regulatory and customs regimes that attract long term investment and not speculative flows.

However, the Freeport and municipal authorities should avoid any competition in investment promotion, but rather establish a complementary investment attraction strategy, which ensures, that regional authorities benefit from investments into the free zone (in particular by additional business for the local supply and service sector), while the Freeport is a strong reference and competitive advantage for the region's general investment promotion campaigns. The co-operation between Port of Trieste, Italy, and Trieste Municipal Government is a best practice in this regard. Both the Freeport and regional authorities should set up a long-term strategic masterplan of maximising the impact of Foreign Direct Investments – in particular by offering regional expansion opportunities for free zone investors, which later on may expand into the UK's domestic market. The quality level of the Freeport's service infrastructure will be a deciding factor to ensure the attraction of additional target groups instead of initiating economic displacement.

It is also possible for the Freeport to agree with local government a percentage of the gains which accrue to the owner/operator in terms of increased value of the land of the Freeport itself. Resources could be directed towards Healthcare and Education in local communities. This is also a mitigant against the Freeport operating like a prosperous enclave in the middle of a deprived area and embedding the Freeport more effectively in the local community.

Question 54: *Please provide any other comments on any potential environmental impacts which may arise as a result of the considerations in this consultation.*

N/A

Question 55: *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.*

N/A

ALLOCATION AND GOVERNANCE OF FREEPORTS IN ENGLAND

Port Modality

Question 56: *What factors do we need to consider in order to support different port modes becoming Freeports?*

Key aspects are the (existing or potential) connectivity of the port, including hinterland connectivity, expansion opportunities (in particular in terms of industrial production supply and social infrastructure such as housing), the level of regional cooperation (public and private stakeholders) and the potential to create global visibility of the port site.

Question 57: *Do you agree or disagree that a Freeport could include multiple ports? Agree/Disagree/Don't know*

Agree

Question 57(i): *Please explain your answer.*

There may be some specific areas such as NI where the Freeport strategy could include both the North West (Foyle Port) and the South East (Belfast) with a trade corridor between them. This would assist in the economic development of Northern Ireland.

Question 58: *What factors do we need to consider in order to support applications from multiple ports?*

The key factor will be the logic behind the application. Are the port combinations mutually supportive or will they cannibalise from each other?

OBJECTIVES AND CRITERIA

Question 59: *In your view, how appropriate are the proposed criteria for assessing how potential Freeport applications can meet the stated policy objectives? Very appropriate/Fairly appropriate/Not very appropriate/Not at all appropriate/Don't know*

Fairly Appropriate

Question 59(i): *Please explain your answer.*

There is no need to have an upper limit on the number of Freeports. If a port satisfies the criteria it should benefit from the designation. By way of example, a small country like the Dominican Republic maintains over 200 Free Trade Zones, Colombia has almost 200. Regard should also be had whether the designation of Freeport status could lead to the zone becoming a global supply chain node in ways that would not occur without the designation and the benefits that come with it.

Question 60: *Please suggest any other criteria that we could use to effectively assess potential Freeport applications.*

The success of Freeports should be judged on the economic activity generated. That economic activity will result in job creation and opportunities for people.

PUBLIC AND PRIVATE SECTOR PARTNERSHIPS

Question 61: *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?*

We think the ports themselves should make their applications and it would certainly be useful to know that local authorities of whatever kind supported these applications. However, we do not think that applications should be made by or be led by local authorities or indeed anyone other than the port itself. HMG needs to maximise the openness of the competition so that the best possible Freeports are eventually selected.

Question 62: *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?*

We do not think this is necessary or a good policy choice. The goal of the programme should be to encourage entrepreneurial activity and entrepreneurial ports, as opposed to allowing local authorities to essentially determine who applies in a top down fashion. HMG should want as many applications as possible and criteria applied to ensure that the best possible range of Freeports are selected. The best group of potential Freeports will not be achieved if the competition is itself artificially limited by the Government.

Question 63: *What are the advantages and/or disadvantages of enabling ports to submit applications for Freeport status directly to central government?*

Ports should be able to submit applications directly to the government. It is the Ports themselves who have the best idea of who their clients are, what the projections are for foreign investment pipelines. Local authorities are not in a position to know this in real time, and it is important that we avoid a situation where ports are rewarded for their political relationships with local authorities as opposed to the quality of their applications.

Question 64: *Please outline the most effective models for partnership between private, public sector and local economic partners to design and submit applications.*

Since the UK has largely private ports, it will be important for port operators to retain control in Freeports and ensure that they are fully vested in the success of these projects. In cases where that is not the case, one can consider an SPV structure or public-private partnership. We would also recommend a public private partnership structure in the form of an SPV for the management of Freeports more generally, while preserving the maximum flexibility for the local operators of the Freeport.

Question 65: Please provide any other feedback you have on the allocation of Freeports not specifically addressed by any of the questions in this section.

N/A

MEASURING IMPACT

Question 66: *How can the Government best monitor and evaluate Freeports?*

We refer to the answer in Question 50. Properly run, Freeports can generate significant economic activity into the UK economy. They should be economic

engines in all corners of the country. We have described how an optimal trade, customs and regulatory environment can be expected to increase economic activity in a general sense. However, HMG should be wary of pursuing short term headlines (in terms of new investors) as indicators of long-term success. HMG should also not fall into the trap of focusing on foreign investors to the exclusion of local investment, particularly firms that are economically active in the Freeport which might not have even existed but for its appearance.

The government can compare projections of economic activity given by Freeports in their applications with the economic facts on the ground as they develop. The trade, customs and regulatory system inside Freeports is not set in stone and will be constantly evolving. It will be important for the Government to be responsive to the needs of Freeports, especially when Freeports seek trade, customs or regulatory changes, and can demonstrate to the government the economic rationale for making the ask. It will also be important for governments to provide Freeport authorities with single points of contact, so that investors and traders are able to expedite their interactions with central government. This can be done by setting up a public-private partnership for Freeports at central government level.

Question 67: *Are there ways that we could ensure a counterfactual impact evaluation is feasible and deliverable for all Freeport areas? Please explain your answer.*

It is impossible to plot an exact counterfactual. Projections about the economic activity that can be generated in Freeports for the overall UK economy is as much art as it is science. However, that said it is possible to plot the impact of historic economic growth in the region and extrapolate from that the likely economic growth going forward, without the Freeport and to calculate the difference between that and the economic facts on the ground.

Question 68: *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.*

Some incentives (usually tax incentives) would be impossible to apply to the country as a whole. These are generally the incentives which do not actually

attract the type of investment we should be seeking to attract. An extreme example of this was Costa Rica's 20 year tax holiday given to Intel to build a semi-conductor fabrication plant ("FAB") there. As soon as the tax holiday expired, Intel simply left the country, leaving the Costa Ricans with a significant budget deficit. The reality is that the sorts of regulatory and customs regime changes that will make the Freeport an attractive site for investment are the sort of things that need to be adopted (with some refinement) in the country as a whole, but are more easily and quickly done and trialled in the Freeport. If these are positive, there is no reason to time limit them. If the goal is to avoid negative behaviours, this is better achieved through other regulatory actions, such as framework agreements with the zone authorities. It is important that the Freeports attract long term investment and growth and not speculative activity.

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