



*Adam Smith Institute*

# **FREEPORTS**

Edited by Dr. Eamonn Butler &  
Dr. Madsen Pirie



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'To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.'

Adam Smith, *The Wealth of Nations*  
Vol. I, Book IV, Ch

## Introduction

**DR. EAMONN BUTLER**

*Dr. Eamonn Butler is Director of the Adam Smith Institute.*

The modern debate about freeports began in 1979 when discussion turned to the liberalisation of a number of trading conditions in the hope of encouraging new business formation. The original bold idea was, however, successively diluted until the enterprise zones which were eventually set up served more to relocate existing businesses than to give rise to new ones.

This disappointment prompted the Institute to begin research in greater depth on the true concept of freeports. Its initial research, including examples from all corners of the world, was published in 1981 as *A Proposal for the Establishment of Freeports in the United Kingdom*.

From there, a number of localities and groups took up the proposal, until it eventually surfaced in the 1983 Budget speech. The Chancellor's policy was to establish a few freeports in Britain on an experimental basis.

The comparative speed at which the proposal went from inception into official policy meant, however, that many of the essential details were still to be worked out. Because the shape of the customs concessions, working practices, business regulations, security measures, and location of freeport sites are obviously a crucial determinant in their success, the Adam Smith Institute decided to explore these issues by bringing together a number of experts at a one-day seminar in London. The papers here are based on those discussions.

Although representatives from a number of potential sites were present at these discussions, no endorsement of any particular site or sites is implied. But from our researches into freeports in other countries, it is clear that unless the eventual freeport proposal is a bold one, and unless its features are very carefully thought out in advance, it is very unlikely to be the success which it could so spectacularly become.

# Freeports: Their nature and success

DR. MADSEN PIRIE

*Dr. Madsen Pirie is President of the Adam Smith Institute. It was a report authored by him in 1981 which formulated the freeports proposal in its current form. That report looked in some detail at the operation of freeports in the rest of the world, and from it have been drawn some conclusions as to what elements a freeport must have in order to work, and what conditions are likely to make them succeed.*

It would be pleasant to say that I thought of the idea of the freeport: alas, the Phoenicians got there before me some 3,000 years ago. It seems to have been amongst the world's earliest discoveries. Following the discovery that cities generate wealth, came the discovery by governments that they could sit astride the trade routes into a city and tap a little of that wealth. Shortly thereafter came the discovery that the city could hope to win concessions which gave it exemption from the burdens of government; and then the benefits of this liberalisation became clear.

Yet freeports, since the cities of the Hanseatic League and mediaeval Europe, are very much part of the modern world. There are currently over 400 of them, and in 1981 they took roughly 10% of the world's trade. The forecast of the time was that by 1985 they would be taking 20% of the world's international trade. But today it seems more likely that the 20% figure will be passed next year. It is a very significant part of the world's economy for Britain to have no part in, and this is what inspired the original report.

## THE DEFINING CONDITIONS

**Duties.** We believe that there are four preconditions which define a freeport. The first and most obvious is that there should be *no duties or tariffs on goods coming in*; that is, that the freeport is technically treated for customs purposes as if it were foreign territory. It is an enclave attached to an airport or seaport which is regarded as 'abroad' for the purposes of goods received into it. If goods are re-processed and subsequently leave the freeport, they go abroad without having incurred duty at all. If they come into the host country (or in the case of a member of the EEC, into the Community) they do so at a rate

determined by the country's rules\*.

**Taxation.** The second precondition we take to define freeport is that *taxation must be lower within the freeport than it is outside*, at least in some respects. The obvious concession which the EEC rules allow is VAT, but there are no less than seven different taxes on business which are remitted in the Belgian Free Zones, even under current EEC regulations. There is much scope for remission of many of the taxes which inhibit business activity.

**Regulation.** Thirdly, there must be a *lower level of regulation* within the freeport. The conditions which normally apply to business setting up, from the planning permission required for its buildings to all kinds of licences and permits it requires, must be lower within the freeport than they are outside.

**Independence.** Fourthly, and finally, freeports must not be part of government; *they must be independently managed*, and must service themselves. The day-to-day operations would be conducted by a Freeport Authority, perhaps comprising users of the business and public representatives. Its management decisions could be largely outside the scope of political intervention.

#### **Importance of these conditions**

The importance of getting the right conditions is well illustrated by Hamburg, with its more liberal regulations, has for instance achieved far superior results to those achieved in Copenhagen and Stockholm. The American Foreign Trade Zones, of which there are now over 60, were not very successful until recently and have seen spectacular growth only since 1980 when the terms of reference were changed. Until 1980, manufactured goods had to pay tax on value added, which meant there was little to be gained by manufacturing in a freeport. This rule was repealed in 1980 by an Act of Congress, and since then many of the American Foreign Trade Zones have taken off spectacularly. Even so, they only account for 1% of America's foreign trade between them, and it is estimated that last year they generated a total of only 11,000 jobs in the United States. The situation is changing fast, and by 1985 it may be many times that figure.

\*In the growing area of high technology, for example, the EEC currently charges the full duty on components for goods assembled in its own free zones and entering from them; but it levies the (much lower) tariff on finished goods for articles manufactured abroad. It thus discriminates against its own freeports! Fortunately, however, EEC regulations are not immune to change.



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are already available if a business applies for special relief: but it takes much paperwork and up to eighteen months to have such applications considered. The freeport, by having the concessions automatically in operation, makes life much easier—especially for the small firm, which does not have the know-how or the manpower to plough through detailed paperwork.

Thirdly, putting all the concessions together means that *each business does not have to sort out every customs concession*. They occur all in one place as a general operating principle, and any business which goes there can take advantage of them.

Fourthly, an advantage of the duty-free area is that firms bringing material in pay *no duty on goods that are wasted or spoiled*. When a firm brings goods into the country in the normal way, any damaged in transit, or any parts of raw materials which are not used in the final product, have had duty paid on them unnecessarily. In a freeport, because duty is payable only on that which is used and re-exported from the freeport, wastage and spoilage are not dutiable.

Fifthly, there are advantages in *relabelling and packaging*. It means one can bring goods into the freeport which might not qualify for entry into Britain because of regulations demanding quality controls and labelling that are not complied with. The manufacturer brings them into the freeport, there does the packaging, labelling and sorting to re-export them in the form which is acceptable.

Sixthly, there are advantages for businesses which wish to *hold goods until the market changes* favourably, because they do not have to pay the duty on them until they are sold. This gives firms the advantage of holding them for several months—indeed, up to five years is the common limit in other freeports.

Next, and similarly, a firm by holding goods on which duty has not been paid, can hope to take advantage of *currency changes*, and bring the goods in to sell them at the most favourable point.

Eighthly, *the freeport generates additional employment* in two ways. One, by the processing and manufacturing that is done within it, which would otherwise be done abroad; the other, in servicing the freeport itself, its facilities, and its buildings.

Next, the freeport provides a *safe and protected environment*. It is monitored or policed in some way by customs authorities, whether by a ring-fence or by electronic means. It provides

particularly successful with pharmaceuticals, electronics, high technology, high cost industries.

**Perimeter.** Thirdly, every freeport must have a perimeter of some kind. Most people think in terms of barbed-wire fences and the like, but in the United States, freeports operate adequately with computerised records of goods. The perimeter does not have to be a physical one: it can be an area within which goods are monitored. It can be a line drawn on the ground with chalk; but the rules are that once goods are inside that area they must be monitored, policed, controlled and computer-recorded. In the United States Foreign Trade Zones it is not uncommon now for the basic customs work to be done by the freeport authority itself; they simply hand over the computer tape to the customs, who are effectively contracted out to the free zone authority the work of customs checking. In fact, the recent cutback in the U.S. customs budget has resulted in more customs control work being contracted wholesale to the zones themselves.

**Infrastructure.** The freeport must obviously have supporting facilities, transport, and housing for labour. A disused area a few miles from anywhere would not make a freeport without water, electricity, buildings, banks, houses, shops, schools, and other essentials.

**Lobbying.** Fifthly, the exemptions from duties and taxes require the site's sponsors to be prepared to lobby extensively. If we settle for only the most basic among the freeport provisions being considered by the government, it will not be successful. Sites have to lobby for the right to re-export to the EEC, paying the duty on finished goods.

There is no point, for example, in bringing in components for the computer trade which attract a tariff of 17% and manufacturing them into finished goods for the EEC, if you are competing with finished foreign goods which come in with a tariff at only 6%. The advantage of a freeport is that the duty would be waived. A business could manufacture finished goods and then send them out, opting to pay the duty on finished goods, namely the 6%, putting it at least on a par with foreign competitors. Unless that one concession is achieved, the freeport is going to have a very small role in the economic life of the nation.

There must also be some exemption from corporate taxation. This is done in many of the foreign trade zones and we must do it over here.

**Self-restraint.** Next, the surrounding locality should restrain itself to benefit only from the spending power generated by the freeport through its economic growth and through the services needed. It must take its reward through a trickle effect. If the surrounding locality tries to take its cut of the trade by levies or by business rates, then it will not be operating a successful freeport: it will be going against the principle of what the freeport stands for. Let the freeport generate its worth freely and let the trickle effect work—with jobs for people in the area, with the high spending power of people working in the freeport, and with orders for local firms for building and services. These are the way in which the locality should derive its benefit from the freeport, not by attempting to tax the activities taking place within it.

**Independent management.** Within the freeport, the management should be independent, although the community should be represented electorally through the local authority, and the business community should have its say.

Mechanisms should exist for having the demands of the freeport (e.g. planning requirements) met with the minimum of bureaucracy and delay.

#### SHAPING THE FREEPORTS PROPOSAL

It is plain, in looking at the freeports which do and do not work throughout the world, that their success will depend upon a series of new concessions.

Tax relief on investment is an obvious one, de-regulation, exemption from planning permission and restrictions, and, more controversially, exemptions from certain national regulations, such as the current 'protection of employment' rules. The Protection of Employment Act is a considerable inhibitor on new firms starting up in business, and it would be instructive to look at the effect of giving certain concessions within the freeports; the same can be said of the operation of minimum wage rules.

Distinguishing, all the way round the world, the successful freeports from the unsuccessful ones, we can see again and again that a successful, aggressive management board can make the vital difference; going out and selling the freeport concept in an aggressive way makes the difference between success and failure. Look at the American zones and sort out the good from the bad; it is very often simply marketing which has made the difference.



kind of business where eighteen months is effectively a whole generation! The idea of the freeport is that you create advance presumption of concessions within the area. Duties are not charged at all there until goods move out, and whatever you do with them there, and however long you keep them there, is your affair. If the customs authorities will set up such places, putting in all the existing regulations, they have gone a long way; but that is just an entrepot, a bonded warehouse. Among the advantages I listed were those dependent on manufacturing as well as tariff concessions.

**MR. DAVID FORD** (*Manchester City Council*): I can accept most of the conditions which you say are necessary, but the one I do not quite understand is the relaxation of planning controls. Could we have more detail on why you think this is absolutely necessary?

**DR. PIRIE**: The aim of exemption from planning controls and similar regulations is to cut out the paperwork, the delay, the need to comply with varying and often arbitrary local conditions. We all know that conditions which are deemed absolutely essential by one local authority are ignored totally by another. The delay which compliance with these rules can impose is enormous. We looked at a study by Slough Estates which examined the setting up of a factory of 50,000 sq. ft. to employ 150 persons, and reviewed how long it would take to get planning permission. In Belgium it was 7 weeks, in the USA, 5 weeks, in Canada, 4. In Britain the average time it took to get planning permission for that type of enterprise was over 8 *months*. The idea is to make for speed and responsiveness. So in the freeport, I would propose that any planning would be done by the freeport authority itself, rather than by local or national government.

## The Political Background

GRAHAM MATHER

*Graham Mather is Head of the Policy Unit of the Institute of Directors, and he was a member of the government Working Party which reported in preparation for the 1983 Budget announcement on freeports.*

There has almost been a classic *Yes, Minister* operation in the political developments we have seen so far regarding freeports. It has taken us over a year to get to where we are now, and the process has been interesting. But, in sketching out the political background, I should also like to look forward and to look at some of the criteria which will be applied to the potential freeport sites.

### A POLITICAL MONGREL

I would start the political history of freeports in Britain at 1979, the first year of office of the Conservative government, because that was the first point in the recent British political past at which there was serious interest in the freeport concept. Freeports and enterprise zones, which I shall refer to later, appeared at that time as part of a new wave of potential policies, when Professor Peter Hall from Reading University, in particular, began to look at Hong Kong and the success of some of the Far Eastern economies, to see what lessons could be learned for Britain. The two proposals he brought forward in parallel—an enterprise zone concept and a freeport concept—differ as they occur in their various forms around the world. Turning to freeports in particular, over in the Far East the range of benefits to freeport users is much wider than we can expect to see in Britain. It means not just that no customs duties or import quotas apply within the zones, but also no foreign exchange controls which would frequently otherwise apply. There is unlimited repatriation of profits, measures extending to anti-strike laws, and concessions permitting 100% foreign ownership where that would frequently be a difficulty.

It goes further, because you also find tax holidays, subsidised utilities and preferential credit arrangements: but I am certain that we will not see many of these features in the final freeport

concept as it emerges in Britain. Yet the bonfire of r  
which is implicit in the Far Eastern approach  
appealed to politicians here and especially to the Ch  
the Exchequer. My own view is that the reason  
enterprise zones, rather than freeports, as the fir  
Britain was because ministers had the mistaken  
freeports would fall foul of European Economic C  
regulations. I regret to say that they were encourag  
by some people who ought to have known better.

### The arguments raised

That leads me to look at the arguments which were  
the course of the last year against freeports in Britain  
argument, was that *EEC rules prohibited* the establish  
freeports in any understandable form. The second a  
was that there was *no demand* on the part of trade  
freeports in Britain. Then as a sort of variant, the a  
was put forward that *existing customs procedures were*  
*adequate* to meet any legitimate requirements of tr  
operators. And fourthly, there came the real Yes,  
argument, that if there was indeed a need for freeport  
could not be met in any other way, freeports would r  
large number of *additional Customs & Excise*  
administer them. It is another strand of official thinki  
there is a security problem, and that freeports, wit  
bonfire of controls would see 'red-light districts', dru  
enclave where the law cannot reach. These were the  
considerations that have been put into ministers' mind  
which go some way to explain their continuing doubts  
the concept, doubts which we have seen reappear re  
when the Economic Secretary to the Treasury, who pr  
over the Working Party, commented in the House of Com  
that many people had a strange idea that freeports were  
sort of exotic *Shangri-La* in which 'anything goes'.

The most convincing argument I have heard against  
approach is the historical one which goes back to the time  
duty-free shops at air and seaports were established  
customs authorities then threatened similar terrors if  
concept were to be let through: that all sorts of distortions  
economy would ensue and that it would be impossib  
control. As we know now, without duty-free shops, n  
airports would simply be unable to operate!

In time, we can expect those attitudes to change.  
opposition was overcome in the report of our Working Pa



and I think it owes a lot to the work of the Adam Smith Institute who have pioneered the intellectual battle, and also to the very strong demand which was demonstrated by potential freeport operators. That was demand not only from the public sector, not just in areas which might be thought to be economically depressed, but in a wide range of airports and seaports covering almost every possible economical criterion. That attitude was reflected in the Scottish Affairs Select Committee's report late last year which was looking specifically at Prestwick, but which seized the opportunity to look at the wider questions as well. It was following that report that our Working Party was set up with a number of officials—not just from Trade and the Treasury, but also from the Department of the Environment, the Scottish, Welsh and Northern Ireland Offices—as well as Customs & Excise themselves. Attending the first meeting of that Working Party, I was reminded of an assembly of lambs gathered together to discuss the merits of mint sauce! This slightly doubtful approach continued almost to the end and was overcome only by the fact that the press and a great number of potential operators could see major benefits in freeports.

#### THE ROLE OF THE WORKING PARTY

So what did we do on that Working Party? When we visited Continental freeport sites, and when we took evidence from a wide range of organisations, we found overwhelming interest, particularly because of the marketing advantages which freeports offer. Freeports have a certain magic about them, and they have a great additional marketing advantage to any other package of measures which can be brought together. Overseas businessmen understand what freeports are: they can grasp the concept even if they do not know precisely what pertains within each site, and the temptations to get in with investment for that reason are very great. No-one countered that argument.

The second main line of enquiry was of customs procedures in the U.K. Our visits to a number of sites showed us that there are two main problems. The first problem is that many of the measures which could be called analogous to freeport rules (that is, deferment of duty, special trans-shipment arrangements and inward processing relief) were not understood by businessmen, who could not plough through the mountains of paperwork to get the relief to which they might be entitled.

### **Customs paperwork—three feet high**

The next problem was a more deep-rooted one which has been considered by the NEDC, i.e., that British customs procedures are widely thought to be more cumbersome and more bureaucratic than those on the Continent, whether in free zones or not. An aspect of our Working Party's report which has not really been noticed is that one of the recommendations was for an enquiry into the defects of existing procedures, the same problem that Ford Motors pointed out to us when we visited their plant at Basildon. They showed us a pile of customs documentation required for that operation *three feet high*, compared it with the regime at Antwerp (where they have a central consolidation depot) where the paperwork was only three inches. That had a dramatic effect on the Working Party.

We are a little concerned at one aspect of this, however, namely that the enquiry into the defects of existing procedures is to be run by Customs & Excise itself! But it is nonetheless significant that the principle that simplified procedures are required is accepted.

### **Official alternatives**

Customs are now looking at another way of getting round the freeport idea. Their argument runs like this: if we have existing procedures which give some of the benefits of freeports, and we are being pressed to introduce a fully-fledged freeport concept, then why can we not instead simply bring together our existing reliefs, including the processing reliefs, bring them altogether on one site, and call it a freeport or a duty-free zone? All the procedures will continue to apply, all the customs officials will continue to enforce them, but the marketing problems will be overcome.

The Working Party did not accept that argument. They do not think that we could bring together existing procedures and call them a freeport when the EEC has set out a clear regime for freeports which is rather different. Nonetheless, I think it is important to bear this potential in mind. The number of freeport sites may be limited to two or three on an experimental basis, but some of those who do not achieve freeport status might well wish to consider having instead a duty-free zone which to bring together existing procedures. I believe it would be unfortunate if that concept were to be confused with the freeport concept, because they are different. But for operational purposes on the ground, it is useful to bear that option in mind.

## THE FUTURE SHAPE OF FREEPORTS

So what is then main recommendation of the Working Party and what can we expect to see in terms of British freeports?

It is a recommendation for a freeport of the classic type, best illustrated by that at Hamburg. Central to that, central to the EEC directives, central to the draft regulation which the EEC is now producing (which accepts freeports as here to stay) is the idea of a controlled perimeter. The freeport is going to be a clearly-defined zone and an enclosed zone, with the control which the EEC envisages being at the perimeter. To make that work it probably must be fenced. The alternative would be the Dutch system, which is fairly flexible and does not rely on enclosed zones but on administrative controls, but the enclosed, classical Hamburg style, is the way the draft regulation is heading at the moment.

I think this is the way the British freeports will develop, because given the doubts of some of the officials about the freeport concept itself, I doubt that they would do other than to fall in with the regulations the EEC proposes. That does not mean that there is no scope for expansion or negotiation of the detailed EEC regulations, but I think it does mean that we must expect to see freeports as they operate within the rest of the Community.

### **Public involvement**

Other aspects which are important include these: there was a rather opaque and mysterious phrase in the Working Party's report concerning government money and public financial involvement. What I think that means is simply this: it is very unlikely that Treasury funds are going to be allocated either for investment, for promotion or for the operation of freeport sites. That does not mean that the public sector will not be able to operate freeports—many airports and seaports are clearly within the public sector now, and I would expect the experiment to try to seek a balance—this does not stop local authorities forming a consortium with private sector operators, or sub-contracting the operation of a freeport to the private sector. But it does prevent depressed economic areas that do not have the funding to set up a freeport themselves going to ask central government for EFLs and cash limits to be increased or for specific grants or subsidies for freeport purposes.

### **Demonstrated demand**

What will determine the choice of site is, in the phrase of the Working Party's report, that there must be *demonstrated demand* and there must be *economic viability*. What do 'economic viability' mean? The Working Party, in that phrase, considered instead talking about regional policy because the Treasury people involved were extremely anxious to see freeports fall into the regional policy network, and did not want to see overt determination of freeport sites governed by questions of regional policy. So 'economic viability' is a code to indicate that the decisions about the choice of site are not going to be unduly influenced by regional lobbying.

Coming to 'demonstrated user demand', this is a little worrying to potential operators because we all know how difficult it would be to get any business to agree definitively on the establishment of a freeport, he will bring in all sorts of new business. That is not the way the commercial world operates. I think it is better to look at it in a political sense: are ministers and officials frightened about? They are frightened that if they designate freeports they will turn out to be weed-patches with a bit of business around them. Their concern is that there will be a failure to attract business and I think the user-demand test is simply this: they want to be able to convince themselves—not as economists and not in a marketing sense, but simply as civil servants eager to please—sure that the file looks right. They want to be sure that potential sites, before they were established, had sufficient local trade demand, people who would locate businesses in the zone, freight forwarders or transport companies, that they would ship more through, or at any event, a sufficient activity which would make the decision of a particular minister justifiable in retrospect. I think that should govern the activities of those areas seeking to gain freeport status at a particular airport or seaport.

### **Other concessions**

What is the future shape then going to be? We have looked at the EEC network and the likely regime under which freeports will operate. Which particular reliefs are we going to see in British freeports? The Community is perfectly happy to see the customs duties suspension and the VAT suspension which operate elsewhere, occur in British freeports. The Government might even be prepared to see, to a limited degree, certain

government aids, although those are increasingly under very close scrutiny. What they would not be eager to see is the obvious distortion of the domestic economy, or still worse, of the European economy. Anything which is likely to follow the enterprise zone pattern and cause relocation rather than new businesses, is likely to be ruled out.

### THE CHALLENGE

In conclusion, what then is the main challenge which we face as we approach the designation of these sites? We are approaching it fairly quickly and the procedure, I think, will be this. People who have made submissions already will be asked to re-submit them, starting with a completely fresh slate, in the context of guidelines from HM Customs & Excise on the criteria which will influence the decision. The legislation itself, in the Finance Bill, will be through in summer, and I would expect that for political reasons, ministers will be very eager to designate the sites fairly quickly, because a delay in designation would cast some doubt on the viability of the whole concept.

The most serious threats, in my view, are that overly-restrictive customs regulations could dramatically reduce the scope for increased trade and more jobs at the experimental freeports, and that there is a serious risk that the scope for significant improvement in our European trade share and employment which freeports can offer will be stultified if the freeports themselves were to become subjected to the close, detailed, bureaucratic controls which affect other Customs & Excise procedures. There are signs that Customs & Excise would like to turn British freeports into zones where the existing, very complex reliefs and special procedures are brought together in one location. That would be a far cry from the practice of successful freeports, whether at Hamburg, the Far East, or at Miami for example, where a great deal of the success of freeports is attributable to the complete withdrawal of customs authorities to the perimeter. Ministers now considering these guidelines would be well advised to bear in mind the need to avoid a repetition of some of the other business start-up schemes which have been launched with a great fanfare, only to find that the detailed technical regulations imposed by officials who are very doubtful about the whole concept are stultifying the economic benefits which they were designed to establish.

### **Prospects of success**

I believe that freeports have a far better prospect of success than enterprise zones. We in the Institute of Directors have found that businesses on the perimeter of enterprise zones have been seriously disadvantaged by the 10-year rate relief period granted to firms within the zone, and the statistics suggest that the chief beneficiaries of that concession have been property companies able to put rents up to compensate for the artificial disappearance of local rates. Nor do early statistics suggest that the cost per new job in enterprise zones is anything other than extremely high.

Freeports, on the other hand, do not distort local market conditions. The European experience shows that they bring about two sorts of significant new business: entrepot trade and processing industries. The impact on local businesses of the freeport is beneficial, for service sector industries, for freight forwarders, for transport and distribution companies. This is why it is all the more important that freeports are established from the beginning, the fullest freedom from the existing procedures. To have customs men checking goods on ships and aircraft, and seeking to apply modified versus present procedures, would wholly defeat the freeport purpose.

### **Importance of the issue**

The Institute of Directors does not generally concern itself in close detail with economic issues affecting companies as a whole. We concentrate on the interest of our members as individual company directors. We have become involved in this debate because of its general economic importance, because of the scope which freeports offer for a bigger share of European and world trade in Britain, and for breaking the monolithic bureaucratic procedures by setting companies free in the areas in which business hoped the Conservative government would do when elected to office in 1979, giving them opportunities in a less closed environment to get a better share of world business for British ports and seaports. That is the opportunity we are faced with. That is the challenge we have ahead, to make use of these advantages and to make a success of the freeport experiment.

### **Questions and Discussion**

**CHAIRMAN:** That was certainly an optimistic forecast from somebody in the know. But one of the questions which

people will be asking is whether the Working Party report is actually freely available, and how they can get a copy?

**MR. MATHER:** It is available, but not *freely* available. It costs £5 and is available from HM Customs & Excise. It is called *The Report of the Working Party on Freeports in the United Kingdom*.

**GORDON IRWIN** (*Belfast Harbour Commissioners*): What happens if the Labour Party take office at the next election, because they want to take us out of the EEC? And what about the attitude of the unions?

**MR. MATHER:** In its submission to the Working Party, the TUC addressed itself entirely to enterprise zones and hardly addressed itself to freeports at all. On the freeports issue, I think we will see a pragmatic approach from local people who will want to see new jobs, and I do not expect there to be a union-led political campaign against freeports.

Regarding the Labour Party and the EEC, I do do think that this is a critical determinant for freeports' success. Firstly, we have to get over the Labour Party's internal difficulties on the EEC. The Labour timetable for taking us out of the Common Market is unspecific and will probably remain so. Even taking the most potentially disastrous option of an early withdrawal in acrimonious circumstances, I think freeports can remain free-standing of the Community. The reason they are likely to follow the Community's shape is because we are a part of the Community's trading bloc, but they can operate perfectly well—some would say even better—with individual nation states operating in a highly competitive world scene. I do not think Britain's adherence to the EEC trading area is critical to freeports' success.

**MR. RALPH BRERETON** (*Edinburgh City Council*): Would the speaker like to amplify the point about there being permitted perhaps two or three sites in the UK?

**MR. MATHER:** When it looked on the Working Party as though freeports were going to be *in* rather than *out* (for reasons of external pressure rather than great conviction on the part of some of my colleagues), it was suggested that we might have *one*. It was pointed out that this would not make for a very sensible experiment, because the opportunities to apply very special rules to the one site were limited; because it could not be both a seaport and an airport; it could not be both in the

private and the public sectors at the same time; and it is very difficult to make any meaningful economic analysis of its results. That persuaded my colleagues to go for two. Frankly, I should have preferred to see a slightly higher number. I argued for four but had to compromise—and I think it is realistic to say that if we had more than three or four, we would be having more in Britain as an experiment than the rest of the Community has operating as fully-fledged freeports for themselves; so a balance had to be struck. The recommendation by the Working Party of two or three was accepted by the Government, although they have not specifically come up with numbers since then. I think one has to assume that two or three are the working total: I would expect it to be three rather than two. Political pressure might force it up to four, if they are faced with some very difficult questions between competing interests.

**MR. GEORGE KELLY** (*Central Regional Council*): Will the Committee address itself to the possibility of there being two classes of freeports, one for exports outside the EEC and one which might have broader terms of reference and less restrictive processes, and the other for service only within the EEC context?

**MR. MATHER:** We did consider those aspects, but at the time it was suggested that a formal distinction of that sort should not be made. If the determination of freeport sites is being made on a sensible economic basis, one would hope sites were chosen on a basis which would include scope for export processing industries as well as also for the entrepot trade, and make clear that the export processing covers both. As to the balance between home trade and export trade, it is important to note that the Commission's requirements assume that the purpose of freeports is to improve the Community's export share of world markets, and that any spin-off into the domestic economy is very secondary. They are prepared to accept export industries feeding back to a small degree into the British economy, depending on market conditions, but not as a general rule. It is allowed to happen, but they would not be happy with a situation in which, being allegedly designed to promote export processing, goods are fed straight back as a cheap way of getting into the domestic market.

**MR. E. S. P. EVANS** (*City Planning Officer, Liverpool City Council*): I am intrigued by Mr Mather's comments on enterprise zones *vis-à-vis* freeports. May we infer from his remarks that therefore enterprise zones are not necessarily a good basis on which to apply for freeport status?



**MR. MATHER:** It was suggested to the Working Party that a freeport could be grafted onto an existing enterprise zone, but the report of the Working Party suggests that this is unlikely to find favour because enterprise zones are seen to have a greater role in regeneration of depressed areas, whereas freeports are to boost the trade of the country as a whole, and may therefore be placed in already successful areas, unfortunate though that may be for some. An application from an enterprise zone, wishing to have a freeport to make it even more of an attraction to overseas visitors, is unlikely to succeed on those grounds alone. It would be judged on the viability questions which I referred to before.

## Setting up and Operating Freeports

KENNETH O'BRIEN, with comments by  
VINCENT DiPILATO

*Kenneth H. O'Brien is Chief Executive, Rush & Tompkins Group plc, which has an interest in the Delaware Valley Free Zone Authority, in the U.S.A.*

*Vincent DiPilato is Operations Manager of the Delaware Valley Free Zone.*

Rush and Tompkins is an international construction and property company. About 5 years ago we were invited to join with an American company to put together an Anglo-American-Canadian consortium which was to be a 50% partner (with the government of Costa Rica) in developing and operating an industrial and commercial complex on the east coast of Costa Rica, and which was intended to have freeport status. At that time, there were some doubts regarding the future of the Panama Canal and whether it would still be there. There was a proposal for a land bridge across the isthmus in Costa Rica, and this was tied to the freeport.

The doubts about the Panama Canal disappeared, and the Costa Rica government changed; the new government had different objectives, so the project was delayed, and because of the economic situation there now, I suspect it will never happen.

That was the beginning of my own involvement with freeports, and over the next year or so we spent a lot of time collecting information from around the world about customs-free zones. As the expectations in Costa Rica died, we were asked by the same American partner to bid for the right to develop and operate the Foreign Trade Zone in Philadelphia in Pennsylvania. We won that competition, and thus began what I can only describe as a 'love-hate relationship' with America and its customs regime.

### HISTORY OF AMERICAN FREEPORTS

A brief history of the foreign trade zones in the United States reveals that the differences are possibly as important as the similarities. The legislation goes back to the 1930s, and gave the right to every port of entry to have a foreign trade zone. A port of entry was any air or seaport with an international trade, and there could be hundreds of these. Apart from the customs-

free nature of the zones, federal grants for infrastructure be obtained. The grantee of the licence in every case has to be a public body—the local city council, the port authority and so on. In Philadelphia, the foreign trade zone franchise is held by the Port of Philadelphia, and they have appointed the Delaware Valley Foreign Trade Zone, of which we own a majority, as its operator.

### **Shortcomings of early free zones**

In the 1930s, the regulations permitted only storage and warehousing: there was no manufacturing permitted and so on. Dr. Pirie mentioned, this meant that the zones were little more than bonded areas. A number of zones were started in the 1930s—at least, the licences were granted—a great deal of federal money was spent on infrastructure, but little thought had been given to the suitability of the sites. It was rather a question of cities rushing in to get the licence, get the federal grant, build lots of new roads and sewers which might give general advantages to the community, and hope that some *might* find the site attractive as a freeport in due course. The zones were often run by a department of the local government and there was little or no commercial drive. They were looked upon rather like a mechanism for producing employment by getting new infrastructure, and as you would expect, they were less than successful.

### **Lessons for the UK**

The first lesson for the UK therefore must be one which is well known to a lot of you, and to me as a property developer, that with all commercial and industrial development there is only one factor that you have to consider and you can sum it up in three words—location, location, location. It is absolutely vital that the freeport is in an area which can take advantage of it. There is no point in letting it be decided because of political lobbying, vested interests, union pressure, local dereliction and high unemployment.

### **CHOOSING THE RIGHT CUSTOMS CONCESSIONS**

After the war, the US regulations were changed to allow manufacturing, assembly, and other procedures within the zone. Interest quickened then, and at this time my own company became involved. However, it still did not work because the regulations did not exclude from customs levy

value added in the zone (represented by the labour costs incurred in the zone). Three or four years ago this was put right. The change at that time coincided with the recession in the United States, so again, progress has been slow, but it is beginning to quicken; and we believe it is just about to take off in a big way.

The second lesson for UK is therefore that we have to get the conditions right from the start. This is even more important if we are going to have just three or four pilot schemes, because the success or failure of these will determine whether the government extends the idea later. I plead, and I have pleaded with the government Working Party, that *we must not compromise*. There is no point in having a half-way house just to see how it works. The experience in the United States shows that when the concept was not fully thought out, it took fifty years to put right. Now it has been thought out relatively well, and the free zones are beginning to work.

As you may know, the US customs regulations are both formidable and complex. When I first became involved with this idea, I believe there were 47,000 separate tariff categories. A year or so ago we were talking to a mushroom trader, and there were sixteen different tariff categories in US customs laws relating to mushrooms, depending on whether they were raw, or processed, or button, and so on. If you take an ordinary domestic sewing machine, the parts bear a completely different duty rate from the completed machine. The list is endless, the anomalies are legion, and therefore the advantages of a foreign trade zone in the United States lie essentially in the easement of these tariff categories. A manufacturer can import the parts or the part assemblies if these bear a higher duty than the finished product, assemble the completed product in the zone, and then import it into the domestic market and pay duty only at the lower of the two rates.

### **The importance of importing**

My own voice in the wilderness—together with that of the Adam Smith Institute—has pleaded that we should be able to import, with this concession, from a freeport into the EEC. In America they have recognised the importance of this, and foreign trade zones there are generally way stations for importing into the domestic market.

Of course, there are differences in opportunity. We have a relatively free market, and (with some notable exceptions) there is not the same possibility in the UK for taking

advantage of the different tariff levels. But there is a mystique in the freeport concept. You say the word, and people think 'Ah!'—not that anything goes, but there is scope for enterprise there. I do not think one should underestimate this. It is a marketing advantage of major worth.

### **Other advantages of freeports**

Neither should we underestimate the advantages which are *unconnected with straight tariff duties*: the secure guarded area means that insurance premiums for the tenants will be very much lower. There is a direct saving on carrying costs, because you can store your stocks. You can get—hopefully—simple customs documentation. You overcome quota restrictions which in the United States is a very important part of the advantage of foreign trade zones.

But returning to this mystique, there are a lot of benefits which are not directly financial. In a freeport, you will find a group of firms who are alike in their interests: exporters, importers, traders with high tariff duty to pay. They will all be concentrated in one area, which has never happened before in the UK. They will all have requirements for the same back-office services. They will not want to go to London to get the international financing sorted out if it can be done on the spot and it would pay the international financiers and the merchant bankers to have an office at the freeport sites. Export bonds and export credit insurance could be provided locally. Translation services, insurance, freighting, forwarding—this will be in the zone or near it. In Philadelphia we are anxious to put an office block in the zone purely to provide the services to the users. That is not what foreign trade zones and freeports were thought of as providing, but I think it will eventually be necessary.

Because the main reason for having a freeport in the UK is less tariff manipulation, they are really to be thought of as international trading parks of a group of firms who are carrying on an international business. The customs services have quite rightly raised the question of whether freeports are really necessary, because our trade is free and (in theory) the advantages can be obtained. Customs agencies in the United States argued this in exactly the same way; the regulations there are possibly even more complex, although the documentation in the UK may be greater in bulk. But the freeports are badly advertised and deter business because of

and it rents for a certain amount per square foot. The identical building inside the zone—same land costs, no cuts to anybody—will cost more, not to build or rent, but there must be a service charge or zone charge which has to go on top of the rent, incorporating charges for administration and security. So users must be shown that there will be some benefit to outweigh the costs. There is a balance here and you have to prove it to them.

### **Calculating costs and benefits for users**

In the US we have done this in the following way. We have commissioned two university professors who have prepared a mathematical model that can be applied to most if not all industries. Into this can be entered the details of the business of the company which is considering taking space in the freeport (These details can be extracted from the general financial and management information which most companies would have available.) We can do this, or the company can provide a printed copy themselves and keep their own financial information in confidence.

Having come to the total estimated saving that it is thought the business can make by moving into the zone, the annual saving is then divided by the floor space of the building which they intend to occupy, expressed in square feet. This figure can be likened to a negative rent. You then estimate the cost of moving into the zone from the premises already occupied, and it would be reasonable to spread that cost over a number of years. That annual figure is again divided by the floor space of the new building to arrive at a notional positive rent, that is the extra rent that the business will pay in the zone. You subtract that from the negative rent and you are left with a net figure, expressed as a rent, showing the saving made by going into a zone. People connected with property and occupation will see that that is analogous to a service charge which you would pay to a landlord, again expressed as a square foot charge.

That method of presenting a saving can be particularly useful when a company is coming out of old, inefficient accommodation, where the rent was very low. Why should a business move into the zone if it only pays \$1.50 for a beautiful antiquated 1840 building and the zone rent would be \$4 or \$5 on brand-new premises? Because the cost of moving into there is part of the positive rent, which the zone authority has to prove is outweighed by negative rent, the saving from being in the zone.

In the US, if rental is, say, \$5 per foot for a modern industrial building, the zone cost is likely to be around 50 cents a foot which is 10% on the rate; the negative rent, which is the saving from being in the zone expressed as a rent, can vary from \$2 or \$3 a foot to \$40 or \$50 a foot in very unusual cases. That is only possible because of the available tariff concessions in America. It would not be possible here, because as we have seen, there are not usually the same advantages or possibilities open. Therefore, I suggest that the fifth lesson for the UK is that our *extra zone costs must be kept to an absolute minimum* if the freeport is to be a success, and the positive rent which has to be deducted from the negative rent (the saving), is kept as low as possible so that the negative rent is as large as possible.

#### TOWARDS THE THIRD GENERATION FREEPORT

The President of my American company is Harry Cash. Before he came to my company, he was Operational President of the Miami zone, which has one million square feet of space already occupied; major expansion is underway. It is undoubtedly the most successful foreign trade zone in the United States, and certainly one of the three or four of that size of zone in the world. We like to think that it was a second-generation zone. The first-generation, pre-war zones were, as I described, poorly thought out. They were often initiated only to obtain federal grants. But Miami was conceived as a commercial operation. Mr. Cash's experience at Miami, however, taught him what was wrong about Miami, even though Miami itself was a commercial success. Therefore when he joined us, we set out to create the first of what we have called a *third generation* of foreign trade zones. It was quite a pioneering effort and it took us a lot of time. It has delayed the start of the development by two or three years, but we believe that at the end this will be justified.

#### **Thinking through the security issue**

What were the problems that were identified? We have heard a lot about ring-fences: let me put forward a proposition. If you put a ring-fence well outside the perimeters of the buildings themselves, with one entrance controlled by your own security guards and the customs authorities, then everyone has to go through that one security check, even your visitors, even the secretaries from the offices on the site who have no reason to go into customs controlled space at all. Every single car bringing someone to that site has to pass through the security check. If

the job is done properly, this means opening the boot and doing a thorough security check. Or at best, the car is parked outside the zone in a car-park and the passenger goes through the security check into the zone. Just think: a million square feet of zone-space, seventy acres of zone. To ask a businessman to leave his car at the gate and make for a building on the other side of the zone, in the pouring rain (or in Miami, at temperatures of 100°) perhaps carrying a heavy sample-case of something of this kind, is just not practicable. In Miami there is an internal bus service, three buses which go round and round the site 24 hours a day, an enormous cost. If we do that sort of thing in the UK, and we have not the ability to manipulate the tariff regulations much, then don't let us have freeports!

### **Firms need flexibility**

Take another problem about the perimeter. The occupation of a building by a particular company at one time might be quite right. Its negative rent for being in the zone may be enormous. But circumstances can change, markets change, tariff rates may change (in the UK and abroad), and quota levels may change. All those changes may be significant enough for the firm to be wrong to be located in the zone. The negative rent may be nil, or worse still, is positive. The firm then has a choice: it stays and loses money on extra costs, or makes an unwanted and expensive move. If these changes affect one person, it is not unlikely that they will affect several. The operator therefore could be faced with a number of voids all at once. Circumstances are such that it may be difficult to find others who would not be affected in the same way ready to rush in.

We have found that the fear of this happening—and it is a bigger fear in the United States than it is here—is a deterrent to a firm going into the zone in the first instance. The only alternative is to design a zone with flexibility, and this should be lesson number six for the UK: flexibility to reduce the operating costs and the inconveniences. Don't let us get mesmerised only by tariffs and concessions. *Convenience and inconvenience* is what matters to the people actually working in a freeport. We must make it easy for people to use the facility, or they will think the freeport more trouble than it is worth.

### **The problems**

Flexibility must reduce costs and inconvenience. The site must be arranged so that office staff *do not need* to go into the



customs-free zone; so that a casual visitor does not necessarily have to enter the zone, so he does not have to have his car searched, nor walk a mile in the rain. We must avoid the zone operator providing the expensive in-house transport I mentioned earlier. And we must have to have flexibility so that the *whole building* can be taken out of the secured customs area if a tenant's negative rent goes positive. When it is no longer sensible to be in the zone we do not want to have to make him move, but to take his building out of the zone.

We even have to have flexibility so that even *part* of one building is in the zone and part is outside, and that we can vary the parts of one building, when some major event happens and a business now needs more space for the actual zone operations and less for office, or vice versa. This is the flexibility that helps reduce costs.

### **The third-generation solution**

All these things are possible in my third-generation foreign trade zone. They are accepted by US Customs, and I do not think that US Customs are particularly easier than UK Customs & Excise.

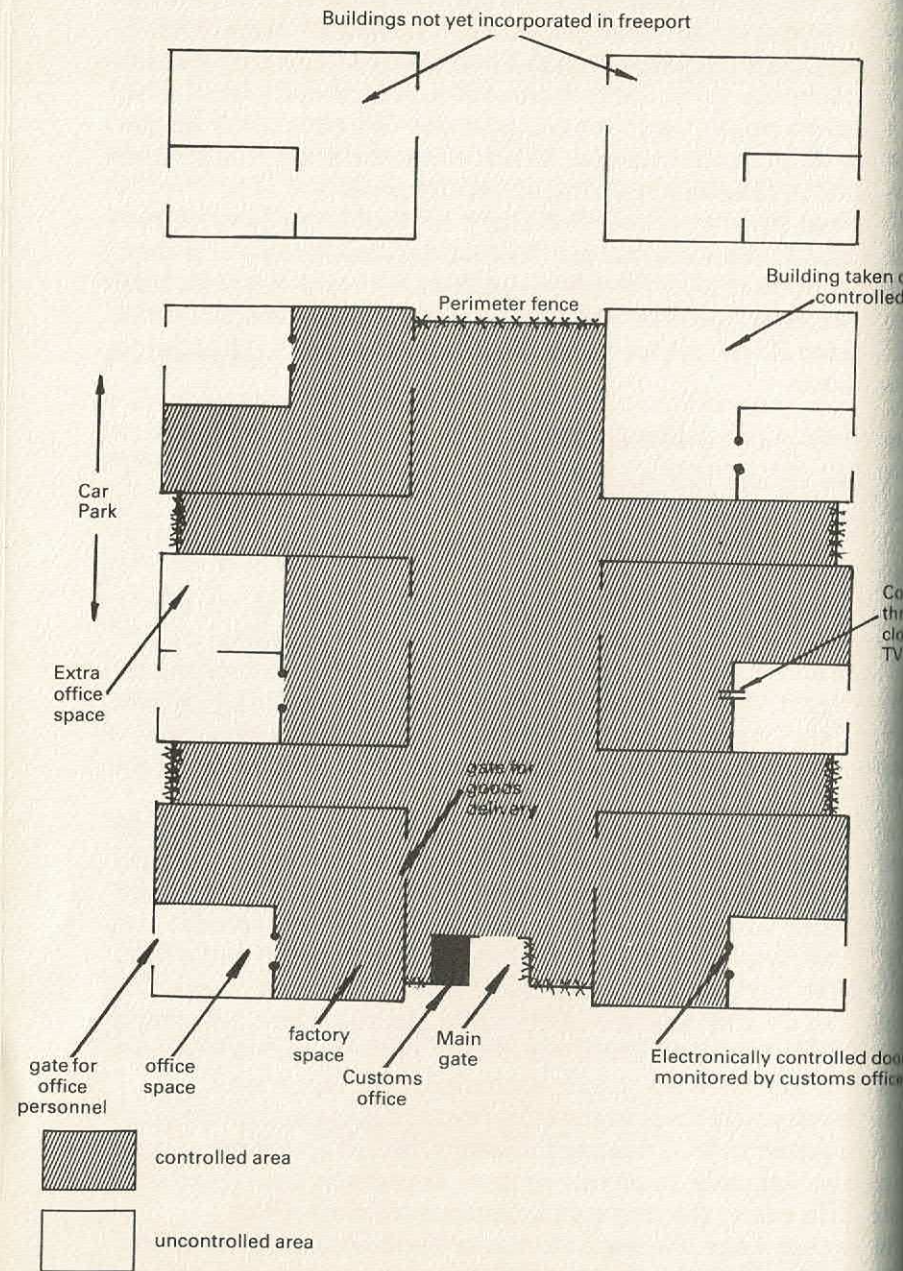
The concept of the ring-fence still exists, but it is infinitely variable in location. It is unnecessary to have a multiplicity of exit and entry points, each with a customs officer standing by with a gun and a sheaf of paperwork—something which worries the authorities themselves. In the third-generation freeport, there is only one entry and exit point into the customs controlled area.

Between the parts of each building, there can be sophisticated electronic controls to separate the controlled from uncontrolled areas, and even a wall between the office and the factory space. Thus, office workers can enter the building from outside, and only those possessing electronic identification could go on from the office part to the controlled part. This can easily be monitored by the customs officials by closed-circuit television and other direct monitoring systems. The diagrammatic sketch shows roughly how such a freeport might be designed.

These surveillance and control techniques might be complex: but it is preferable to having major inflexibility. It provides an infinitely variable customs control boundary, and therefore makes life easier for users and customs officials alike.

I hope that when the regulations are fixed for the UK freeports, that it is not the intention to lay down detailed ground rules of this kind. There should be guideline regulations only, and the

# Diagrammatic sketch of a third-generation freeport



methods of fencing and other details should be decided on the ground in negotiations between the operators and Customs & Excise. I hope we shall therefore end up with third-generation freeports rather than first-generation freeports.

### **The incubator for freeports**

We believe there is one over-riding requirement which is necessary very early in a development, namely the introduction of a public warehouse. This means that companies will be able to try out the benefits of zones without actually committing themselves to a building. It provides an incubator for small companies to start up in freeport conditions and then develop their business; companies can obtain the benefits of the freeport on a temporary basis.

The public warehouse provides the key to getting the freeport underway. In Philadelphia, our first building is a 40,000 square foot building which can be divided into 5,000 foot multiples and can even go down to 2,000 or 3,000 foot multiples with office accommodation. The idea is to bring the small person in, to provide the services for the freeport and then hopefully let it grow.

### **CONCLUSION**

We are of course considering introducing the freeports proposal in the UK, and not existing foreign trade zones in the USA, and the differences are as important as the similarities. I believe sincerely that the general concept which covers both these forms of customs-free zone has been developed more in the USA than in most other areas, and I hope that what we have learned we are trying to pass onto as many people as we can. If a town wants to have a freeport and enjoy the extra employment, but has no real advantages—forget it. Freeports will not work unless the conditions are right. And the most important condition is location.

### **Questions and Discussion**

**MR. P. SCOTT** (*Greater Manchester Council*): I seem to remember reading in one of the papers which the Institute published that there was a possibility of having associated areas to freeports. It seems to me very important that it does not have to be a single contiguous zone. Is this so?

**MR. VINCENT DIPILATO** (*Operations Manager, Philadelphia Free Zone*): The United States right now is

heading in that direction. The latest proposal by the city of Houston is to have the whole city as a foreign trade zone designating 28 controlled sites within the city.

But there are disadvantages to having foreign trade zones scattered all about which end up competing with one another. In the United States there are some areas with five or six foreign trade zones within a hundred miles—none of them doing well because they are competing against one another. We have been opposing that concept, arguing that to get one zone first, to make sure it is successful, and only then approach the next zone, is a more viable proposition.

**MR. O'BRIEN:** I think you could have two linked zones. I know from the speaker what they have in mind, and you could have two which are linked if there was a good reason for having a bit of a foreign trade zone in one place and another certain number of miles away, because of location near available employment or the availability of land or whatever. We have those 'non-contiguous sites'. For instance, you may find one at an airport and one at a nearby seaport.

**MR. HAROLD TUCKER** (*Manchester City Council*): I am interested in the 'contracting out' of buildings from zones. Is there a track record of failure, and if so, can we get some indication of what it is in Miami, or Philadelphia, or elsewhere?

**MR. DIPILATO:** I think it is more a fear of never going back. With the political changes in government, you never have a guarantee. They could kill the freeport programme next year, that is always a possibility. But as a matter of fact, the US free zone programme has been growing, and in the last ten years the volume of business has increased from \$10 million to \$1 billion, so it is not a real concern. But in the back of people's minds there lurks the fear that what the government creates, it can also abolish.

In the United States the tariff schedules, which are the duty rates, are reviewed four times a year; so what is dutiable this quarter may not be dutiable the next quarter or the next year, and that is the concern that we have to address realistically.

Flexibility is also needed because of many people being unwilling to go into a free zone due to a fear that the economic benefits will not materialise in the first place.

**CHAIRMAN:** It sounds like something that people ought to be pointing out at a national level: if we have freeports, then

have some stability in the customs regulations so that we can give them a fair test. Otherwise, people will be fearful that a sudden change will result in all their movement costs being wasted.

**MR. DAVID CLARK** (*Tyne & Wear Metropolitan County Council*): As we have some operational management with us, could we have some indication of the in-house staffing complement you have for an operation like this and the sort of mix of skills that you find necessary to operate?

**MR. DIPILATO**: There are basically two approaches; one is that the zone operator maintains inventory and has total control over the whole zone, in which case he needs a computer staff, probably a programmer, a data entry clerk, and general officer personnel. The second approach is to let the individual tenants in the control zone control their own operations by your guidelines: that is what we will be doing in Philadelphia. As long as they provide us with the necessary information at the end of the week, tell us what they have in their inventory, and give us copies of their printouts, I need a staff of only two people.

**MR. O'BRIEN**: When we were talking about zone costs earlier, I omitted to point out that if you were paying an extra 50 cents a foot on my example of \$5, part of that cost is the maintenance and estate cost that people would pay anyway. You must recognise that if you have got a secure area of whatever sort, you have to police the perimeter, cut the grass and do all the things that have to be done on an estate. It is more complicated in a freeport as it involves organising people through the security checks. It will probably be easier, in the British context, for the operator—the landlord—to do this, and then add the charge to the zone cost. You can imagine that customs control and security would be difficult if all the street-cleaners and other local services had to come in and out all the time.

**MR. PHILIP HAMER** (*Barrister, Humberside*): Who is the zone operator? Is it purely private enterprise, or is it a mix of private enterprise and city authorities?

**MR. DIPILATO**: The study done in USA shows that the private operator is more successful. There are only 14 out of 81 private operators in the United States.

finished item, often realising substantial savings in duties. Domestic importers also use the Zone for storage to make the best use of import quotas. By its nature, the Zone has a high level of security with full-time US Customs inspectors on site and specially trained security personnel controlling the movement of goods and people. Vehicles are restricted to trucks cleared by Customs and tenants and visitors are checked in and out. Support services provided by the Zone and other tenants make the Zone of particular value to small tenants. Services include customs brokers, freight forwarders, insurance agents and a bank, together with restaurants and a reception area where tenants can meet potential customers before taking them up escalators to the exhibition showrooms within the bonded area.

### **The host city**

Miami is relatively new as a centre for trade and has shown remarkable rates of growth. In 1964 the city might as well have been a landlocked town in America's Midwest. Today the port opened in that year, handles \$9 billion a year in foreign trade, is one of the biggest international sea ports, and is the world's largest cruise ship port. It is planned to double in size by 1986.

Only recently has Miami International Airport begun to handle transatlantic traffic. Today, it is the second busiest international airport in the US and the place where the air routes of North America, Europe and Latin America all converge. It handles 20 million passengers and about \$4 billion in foreign trade a year and its air traffic is growing at the rate of 20% a year. This part of Florida handles more than half of all US trade with the Caribbean, about 40% of US trade with Central America and a growing proportion of European and African trade.

Ten years ago tourism was still Miami's biggest industry. Today finance, banking and international trade account for two thirds of all income and jobs. Where in 1977 there were only 50 foreign banks in Miami, there are now more than 130, together with over 250 multi-national corporations with offices in the area.

### **THE WORK OF THE ZONE**

Writing about Miami in February 1983, *Esquire Magazine* described Miami Free Zone as a model of Miami itself: 'It is air conditioned and computerised—a fusion of foreign capital and American technology that produces nothing and yet

finished item, often realising substantial savings in duties. Domestic importers also use the Zone for storage to make the best use of import quotas. By its nature, the Zone has a high level of security with full-time US Customs inspectors on site and specially trained security personnel controlling the movement of goods and people. Vehicles are restricted to trucks cleared by Customs and tenants and visitors are checked in and out. Support services provided by the Zone and other tenants make the Zone of particular value to small tenants. Services include customs brokers, freight forwarders, insurance agents and a bank, together with restaurants and a reception area where tenants can meet potential customers before taking them up escalators to the exhibition showrooms within the bonded area.

### **The host city**

Miami is relatively new as a centre for trade and has shown remarkable rates of growth. In 1964 the city might as well have been a landlocked town in America's Midwest. Today the port, opened in that year, handles \$9 billion a year in foreign trade, is one of the biggest international sea ports, and is the world's largest cruise ship port. It is planned to double in size by 1986.

Only recently has Miami International Airport begun to handle transatlantic traffic. Today, it is the second busiest international airport in the US and the place where the air routes of North America, Europe and Latin America all converge. It handles 20 million passengers and about \$4 billion in foreign trade a year and its air traffic is growing at the rate of 20% a year. This part of Florida handles more than half of all US trade with the Caribbean, about 40% of US trade with Central America and a growing proportion of European and African trade.

Ten years ago tourism was still Miami's biggest industry. Today finance, banking and international trade account for two thirds of all income and jobs. Where in 1977 there were no foreign banks in Miami, there are now more than 130, together with over 250 multi-national corporations with offices in the area.

### **THE WORK OF THE ZONE**

Writing about Miami in February 1983, *Esquire* Magazine described Miami Free Zone as a model of Miami itself: 'It is all air conditioned and computerised—a fusion of foreign capital and American technology that produces nothing and yet

generates enormous wealth.' As the Free Zone President, German Leiva, explained to *Esquire*: 'The problem is not producing the goods, but is matching them up with the people who want them. Suppose a retailer in Peru wants 8,000 Swiss watches, or a Texas department store wants some French perfume, we punch out the right codes on the computer and it turns out that the Swiss watches closest to Peru are in Panama. We will telex them immediately; as for the perfume they want in Texas, we have it on our inventory here and can fly it to Dallas this afternoon.'

The Zone imports products from 60 different countries and exports to 45. One hundred and six firms operate from the Zone independently and 45 more operate from its public warehousing facility. The products handled range from industrial components and equipment, cars, computers and electronic equipment to perfume, watches, jewellery and oriental carpets. The top 5 countries sending goods to the Zone are the USA, Japan, Korea, Hong Kong and Italy, and the top 5 destinations are the USA, Venezuela, Mexico, Colombia and Panama.

Processing of goods is streamlined through the Zone by using customs agents based within it and claims to have quickly superseded older and less efficient methods of moving goods through bonded warehouses, the use of which aims at saving duty but does not respond to all the other requirements of international trading companies. Because of its location, many foreign firms conduct Latin American distribution operations within the Miami Free Zone, free of income taxes, customs duties and tariffs. Manufacturing and assembly operations may also enjoy substantial tax and customs duty benefits. The Zone, however, aims to do more by providing necessary back-up services for tenants and clients to help them in managing efficient distribution as well as manufacturing and assembly operations.

The introduction of a public warehouse freight station within the Zone was in response to this objective. The Zone's plans for a Sub-Zone taking the form of a 1,000-acre industrial park, is a next step. Here there will be scope for large scale manufacturing as well as differing degrees of assembly and the firms building or renting premises in the industrial park will have the choice of degree and type of customs zoning which suits their trade.



## Promotion

The Free Zone has been a major focus of promotional efforts by the Chamber of Commerce and has supported several successful international trade missions aimed at attracting foreign investment into South Florida. It is an example of the promotional potential of a well managed and marketed Free Zone or Freeport to bring the region in which it is placed to the attention of foreign and national investors. The tariff and related advantages of the Free Trade Zone are essential, but may be only the beginning of a project which produces an efficient magnet for international trade and, in turn, generates employment both in providing distribution services and in supporting and encouraging investment in assembly and manufacturing.

One can summarise what is needed to prepare a plan for a freeport along the following lines:

- Identification of Zone-specific advantages
- Identification of non-Zone-specific advantages
- Type of Zone utilisation expected
- Nature of product companies who can best take advantage of the Zone
- Identification of target markets

In addition, the MFZ Corporation has established an international marketing network covering both Europe and the Far East, with representatives in several countries.

## Impact

To give an idea of the impact of the Miami Zone while it was still under construction, I quote from an editorial in the business section of *The Miami News*:

“What’s a Duty Free Zone, what’s the rationale behind its establishment and how will it benefit Miami? As Miami Free Zone Corporation gets up a head of steam and becomes more than just a number in the telephone book with \$16 million in actual construction starting west of Miami International Airport, these questions keep popping up.

“Picture it as an American Embassy in a foreign country, surrounded by a fence and patrolled by Marines. Under international law, no-one in the country in which it sits can interfere with what goes on within its borders. Similarly, the Miami Free Zone will be fenced in and patrolled by customs agents. As long as goods brought in from outside the country remain inside, duties cannot legally be levied.

“Only when the merchandise is removed to ‘US territory’

for sale can customs be levied. If the goods are despatched outside the United States, no duty will be charged, and meanwhile the handling of such merchandise can be a handy tool in creating employment wherever Free Zones are located.

"Additionally, the Free Zone is expected to attract thousands of businessmen to Miami each year—businessmen who spend money in hotels, restaurants and shops and in that fashion create hundreds more jobs. . . .

"Basically, the Zone will be a trans-shipment point for imported goods and American as well as foreign companies can use it to good advantage. Say, for example, that Burdines [a department store] orders from one of the tenants a consignment of high priced suede coats. The same could be true of television sets, radios, hi-fi equipment and a myriad of other items manufactured abroad and sold in this country. Without a Duty Free Zone, Burdines would be forced to import the coats into the US, immediately pay duty on them and place them in inventory. But with the Zone, Burdines' importer would hold the coats and the department store would pay duty only when they were removed from the duty-free warehouse to the store. And, most important, the goods would be within miles of the end user and wouldn't need to be ordered from afar—a process that could take months.

"Companies dealing in merchandise destined from say, Europe or Asia to Latin America, would use the Free Zone as a staging area. Samples of their goods would be on display to buyers from abroad in the airy, spacious malls to be built above two warehouses four city blocks long, each containing 300,000 square feet of space.

"In that category are such companies as West Germany's FAG, the world's second largest ball bearing manufacturer, and France's L'Oreal-Lancôme, which ranks number 2 among the world's cosmetic manufacturers. Japanese and Korean companies also are bidding for space for similar reasons."

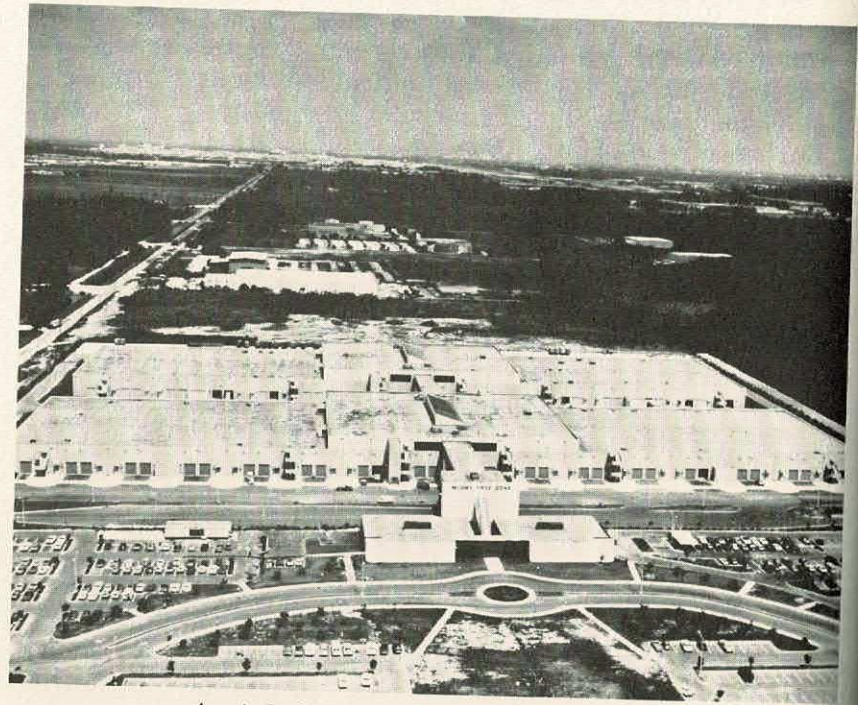
And that is how it has worked out.

#### TRADE PERFORMANCE

In its 1982 financial year the Miami Free Zone handled \$525 million of products including \$434 million on its in-Zone operation, and \$91 million in the first year of operation of the container freight station and public warehouse. By far the largest foreign importer into the Zone was Japan, with over

\$50 million worth of goods. Exports were led by Venezuela's \$35 million and for the first time goods were shipped to Nigeria, South Africa, Ethiopia and Zaire. One of the reasons that Japan is such a large participant is the favourable transport rate comparison between Miami Free Trade Zone as a distribution centre and the Panama Zone at Colón. It is less expensive to ocean freight Japanese goods to Miami and air freight on to Latin America, than to do the same via Panama. Goods may also be brought from Japan to the West Coast of the US by sea, trucked across the country to Miami where shipments from both the Orient and Europe can be consolidated for transmission to the Caribbean, Central and South America. By using Miami as a final collecting point a company may perform inspection, packaging, labelling, consolidation and re-exportation without incurring US import tariffs. The Zone provides the opportunity for a company to keep goods safely in the US and deliver overnight as needed to Latin America.

The Zone earns its income from the rents it charges to tenants and for the services which it provides. In addition to



*Aerial view of the Miami Free Zone*

complete public storage facilities, a computerised stock control system linked directly to the customs authorities, a less-than-container-load freight station and a complete distribution system, the Zone claims that: "What you don't find, we'll do our best to make available. We introduce new users to the Zone environment, participate in their development, and support their future growth plans."

Location is obviously of crucial importance to the success of a freeport. Both from the point of view of the markets it can attract and with regard to transport services. Although about 70% (by value) of the goods arriving at the Zone have come by sea, a similar proportion of re-exported goods go by air because of the goods' high value and need for rapid delivery, combined with the relative security advantages of air over sea cargo shipping.

# The Belgian Freeports Proposal

MICHAEL VAN NOTTEN

*Michael van Notten is Director of Institutum Europaeum, Brussels.*

I cannot be impartial, because I am the promoter of the Belgian Free Zone Act which got adopted a few months ago. We are now in the process of selecting sites.

I took up the whole thing from Sir Geoffrey Howe's original speech. I started by reading that speech in 1981 and asked myself why should we in Belgium not have the same thing that the British are going to do? I took the best parts of that speech and I started working on it, lobbying, writing about it, making speeches about it.

At first the politicians all rejected the idea. Then the enterprise zones came along in June 1981, and people began to get very interested. If they looked at your enterprise zones today, possibly they would never have adopted the Belgian Enterprise Zone Act. The Belgians thought they would be a major threat to the competitive position of Belgium, which at the moment they are not!

## EXAMPLES FROM ABROAD

Let us look at the European continental picture. Are you aware that the government of Turkey is putting together a package of freeports which are very radical in content—much more radical than you would ever dream it could be? They take their cues from Asia—from Korea, Sri Lanka, Taiwan—from the most successful free zones over there. Are you aware that in addition to Yugoslavia we have Hungary, a communist country, which has actually put together three free zones right now where they have abolished wage and price controls, co-determination within the company management, foreign exchange controls and all corporate taxes? So even in communist countries they want to have a little model of a capitalist society.

Tunisia has two small free trade zones and rumour has it that they are going to increase the freedom content of those. The French government, on the 23rd December 1982, registered their desire to make Marseilles into a freeport. It is not that they are ideologically in favour of freedom, but they

have 6,000 hectares of industrial land which nobody wants to invest in. Those few who have invested are pulling out of the industrial zone, so the Minister stated that they had to have a freeport to compete better with Antwerp and Rotterdam. That intent of the French government is now being paralleled in Bremen, and other cities in Europe.

## BELGIUM

In Belgium we have 15% unemployed and that figure is going to increase. I think we have 800,000 unemployed, but if you add all the civil servants to it, that makes almost two million people unemployed! So you have a tremendous problem finding productive work for people in Belgium, and a radical approach was needed.

### Features of the Belgian free zones

The first thing I did after I had drafted this particular law very sketchily, was to make sure it was not entrusted to the grey men, the civil servants who strike out everything which is controversial or risky, so that you end up with an ineffectual effort. We gave the project to outside lawyers; so the Belgian Law was drafted by outside lawyers who came up with a free zone which had the following features.

*Seven corporate taxes have been abolished* (rates and the corporate tax on profits being the most important, but also on the registration of shares). Three minor taxes and a withholding tax were also abolished. It is not just that we want lower taxes within zone and eventually outside it; we want to abolish the notion that people working in a corporation should have to suffer a double tax, first as individuals, and in addition as a corporation. There is a philosophy behind it. If you ask for freedom, do not ask for a little bit more freedom. Ask for principles of freedom.

### Easing the social security burden

We looked at the *clumsy social security system*. How unsocial it is, and how insecure it is! We tried to set up private social security within the zone, but at the last minute we lost, although we kept one little spot in it. This is that foreign companies, or companies moving into the Belgian free zones which employ foreign managers and foreign research personnel, are no longer subject to social security payments or benefits, and neither do they have to submit to certain

regulations on the labour market, such as redundancy payments.

Another aspect of these zones is that the *zone authority will be responsible for most government permits* that are needed. We hope that they will adopt for themselves a time-limit of, say, four weeks for making a decision on a particular permit when it is being requested. The free zone authority which we had in mind is a private enterprise, independent board. We wanted a small board which responds to the people in the zone, a board of shareholders with each company having one vote so they can fire the appointed board if need be. We got more or less what we wanted, but the board, which is appointed by the government, cannot be fired by the managers in the zone. However, the managers in the zone do control the purse strings of the board, because the board is not allowed to use any tax money whatsoever, except for a very small service charge levied within the zone. Almost everything else has to be financed by the businessmen within the zone.

#### THE MESSAGE FOR BRITAIN

In Britain it will be Customs & Excise who will decide how many zones there are and what the content of the zones will be. Dr. Pirie prefers to take a lesson from Asian, European and American models, but you are still at the situation where you do not know exactly what you will be getting. My suggestion is, as I have suggested in Holland, do not fall into the trap of itemising exactly what you want. Ask for freedom: that is much more powerful. Ask for a management board which respects freedom of contract; which respects the principle that taxes are never levied on production, but only on consumption. Point out that the labour market should be unfettered by government, that it should be free for labour and capital to barter on how to share the company revenue. There should be freedom from regulation. There should be freedom to use whatever currency suits you best.

And remember that if you want to experiment with a particular economic philosophy or policy, the experiment should not be *controlled* from the top, but should be *nourished* from the base.

#### Questions and Discussion

**CHAIRMAN:** Like all great inventions, we thought of this good idea and then somebody else is actually developing it. I

hope that we will do as Mr. van Notten suggests and re-import it. The immediate and obvious question is: what about all the supposed EEC regulations that say we cannot do what *is* being done in Belgium?

**MR. VAN NOTTEN:** There are two types of regulation. One is that the member states have given their sovereignty over customs regulations to the EEC Council. In the beginning of the Belgian enterprise zones we said they should be free of customs duty and VAT. The people at the EEC and the Belgian Government were obstructing the whole thing at one point, and we said that we cared so much for the other freedoms we have in our Act, that we would drop the whole customs issue if necessary!

The other point is that the EEC likes to ride on this tiger, and they have been citing one of the Articles of the Treaty: Article 92 is supposed to say that the EEC is empowered to refuse or to prohibit anything which has to do with distortion of competition. That is not what the law says, but that is how it is usually presented. What it says is that any government that subsidises or aids a particular company and thus distorts competition is subject to EEC sanction. Freedom has never been a subsidy, nor an aid. It is something entirely different, and these EEC civil servants ignored that point. I don't. They have no authority over the free zones.

**CHAIRMAN:** There is a vast difference over what is in the Treaty of Rome and many of the regulations, and I think the Treaty rather presumes the right to have such competition, whereas many of the regulations may not. However, they might change and I find it very encouraging that this movement is happening on the Continent. It indicates that the British advance towards freeports is just part of a long process which is getting support from elsewhere.



# The Attractions of Freeports to Businessmen

SIR CLIVE SINCLAIR

*Clive Sinclair is an inventor and manufacturer in electronics technology.*

I became interested in the concept of freeports in Britain following the initiative of the Adam Smith Institute, and I remain convinced that the right sort of freeport would give immense benefit to the country.

Of particular benefit to the manufacturer, of course, is that he can bring in goods duty free. Unfortunately, there remains the problem that whilst one might expect to be able to bring in components duty free, and pay duty only on the finished products, this apparently, under Common Market rules, is not the case. Even if we do have freeports, as the rules stand at the moment we will have to pay duty on the parts. Now in the case of the computer electronics business that I am in (and indeed the electronics business in general), the most important parts that are used are integrated circuits which carry a duty of 17%. The finished products vary, but they generally attract duty at roughly 6%. So if I make a personal computer in this country and have to import the semi-conductors the integrated circuits from outside of the Common Market, as I usually do, I pay 17% on most of my component costs, while my competitors abroad are only paying 6% or 7% on imports of the finished products. I am at a disadvantage on my own territory: and the duty that has been imposed by the bureaucrats in order to try to encourage the components industry within their tariff walls has done exactly the opposite!

So it is a very severe disincentive; and if the Common Market persists in this curious scheme, a freeport here will be at an enormous disadvantage compared with a freeport elsewhere, say Hong Kong, which would be a tragedy. I very much hope that the great efforts being put into this issue by the Adam Smith Institute and those who have followed in its wake, will be successful.

## **Other benefits of freeports**

But I would like to make one or two points about a freeport which are perhaps a little less obvious than the immediate advantages, and really are very much a part of why I would like

to see freeports happen here, perhaps even if we do not get the duty advantage (though I fear that without the duty advantage, they may not survive).

In particular, a freeport would attract like people. It is clearly going to be the younger companies who have not yet committed themselves, who are going to flock first to freeports. So there will probably be young electronics companies and others, and you will see a gathering of these in one area. This in turn will cause suppliers to set up in that area, and you will generally get the sort of virtuous circle that Hong Kong has achieved, where a low taxation, freeport environment has attracted efficient producers and in turn has attracted suppliers who know that the people they are selling to in Hong Kong are very keen buyers. So there is a sort of natural tendency to quote your lowest price in Hong Kong if you are a supplier of components. We know ourselves that when we look at component prices, we have to look especially at the prices in Hong Kong and Japan. We are often obliged to go through the circuitous route of importing from the Far East because Hong Kong is such an attractive market that people are prepared to sell at a much lower price.

In summary then, a freeport becomes a focus; it becomes a focus for capital, it becomes a focus for buyers who can go to one place instead of many in order to try to find the best buy, and it also becomes, as I've mentioned, a focus for suppliers.

### **Questions and Discussion**

**QUESTION:** You may well be able to get components much cheaper in Hong Kong, but is that because the wages are down so low that the people are starving?

**CLIVE SINCLAIR:** That is a very interesting point, and it happens to be totally wrong. I first went to Hong Kong seventeen years ago, and I went again two years ago. In the fifteen years between my first visit and my second, the wages in Hong Kong rose six times on average. That has not happened here!

I would like to make another point, because I was asked before lunch if there was not much point in producing electronic goods in the United Kingdom nowadays, when it is a labour-intensive process, and whether all this work will stay in the Far East. But what has happened is that automatic assembly has come in, and our computers of today are assembled by automatic assembly production equipment. The

labour employed is now mostly trained labour, for testing the products and finding out if any of the components have failed. The work that used to be done by long rows of people doing very boring tasks such as putting a few components into a board, has disappeared. But the volume of production has so risen, including that in some sub-contractors in Scotland, that the number of people employed has not declined.

**MICHAEL VAN NOTTEN:** My question is about customs duty. You said that if the freeport did not have this advantage it might still be worth having. Would it still be attractive to you?

**CLIVE SINCLAIR:** If the zone has no customs attractions, but still has major tax advantages, clearly that point has to be considered by a manufacturer, but it is not the essence of a freeport. That is making it something else, something other than a freeport. I believe that it is natural to have a freeport only where the components can be imported free of duty and sold with advantages as finished goods. That is the way that it ought to work, and clearly then there would be a profound attraction to businesses.

**CHAIRMAN:** The discussion with Graham Mather suggested that the government wants to make sure that the kind of businesses that are attracted to a freeport would be ones that would normally either not manufacture at all, or presently find advantage in manufacturing abroad. The government is likely to be very suspicious of any other tax advantages here that imply a simple shift of jobs from one prosperous sector of the country to a less prosperous one.

**QUESTION:** In view of the fact that Mr. Sinclair was referring to the differential on components, would not the simple way to solve this be tariff reform? These anomalies exist in the tariff regime, but if they were abolished, the potential advantages of freeports would in fact dissolve.

**CLIVE SINCLAIR:** Yes, the right thing to do is to correct the tariff anomaly. But we are nevertheless certainly going to end up with at least some components having less duty than the finished product; that's the natural state of affairs. And under that, the natural state of affairs, then I say that a freeport would be a considerable advantage.

**QUESTION:** Would you like to see tariff reform take the form of the duty on integrated circuits moving from 17% to 6%, or the tariff on finished products go from 6% to 17%?

**CLIVE SINCLAIR:** The British Microcomputers Manufacturers Association, which we don't belong to, wants the two tariffs switched over. I do not: I loathe anything like that because it disrupts trade. At the very least I would like the duty on components to come down to 6%, but what I would most like is all the duties removed entirely, because they do nothing but cost the consumer.

**QUESTION:** I would like Mr. Sinclair to give me his views as a very successful industrialist. Is Mr. Sinclair saying that if he would get a duty advantage, it would not matter where that free trade zone would be? Would he come to a depressed region such as the North East if there were a significant tariff advantage to assemble computers?

**CLIVE SINCLAIR:** It is not just the tariff advantages of a freeport, it is the sum of the advantages that I mentioned. Many of them are psychological, but nonetheless very important. I do not believe that a freeport has to be in any particular area, but of course there is little purpose in establishing a freeport in an area where there is total employment already. So I suppose the likelihood is that somewhere like Scotland or the North East would be chosen. I personally would like to see places made freeports that are attractive places to live, but where for one reason or another employment has declined, such as parts of the North East and Scotland. But I would not rule out areas with no apparent natural advantages.

**CHAIRMAN:** The lesson which has come from the American free zones is that most of the location decisions of business are not actually based on the tariffs and other advantages that are offered. That is astonishing, and it makes me conclude that in order to make freeports work, and particularly if we want to use them to generate employment in areas where there is large unemployment, we have to make them very attractive indeed. That is why the Adam Smith Institute find ourselves rather radical on this issue and are asking for considerable concessions in the hope that we will get at least some. But that being said, I think that again we need many different types of freeport, some in prosperous places and some in others, so that we can see how they work.

## The Potential Sites: Air and Sea Ports

A discussion with IAN SMILLIE and JOHN DANTER

*Ian Smillie is Director of Administration of Kyle and Carrick District Council, and has long advocated freeport status for Prestwick airport. John Danter, FRICS, is Associate Partner of Bidwells, and has a particular expertise on the Port of Felixstowe.*

**CHAIRMAN:** The two members of our panel do have vested interests, but there is nothing planned in that. We thought it would be useful to have speakers from both an airport and a seaport to tell us what facilities might be provided and what existing facilities could be accommodated for use in a freeport context.

**MR. SMILLIE:** I apologise in advance if I do, of necessity, talk about Prestwick Airport, because I have been involved in the campaign for Prestwick since its inception, and the only way in which I can illustrate the way we have approached it is to use it as an example. Our initial report about the possibility of a freeport was produced by Ayr County Council, in 1962. So we have been working at it for twenty years and it is not a new concept as far as we are concerned!

A subsequent report was produced for our council in 1979, and was produced by our planning department. We have pursued the idea vigorously since then, and have used consultants to produce detailed reports for us on the feasibility of the idea. We did this mainly because we thought that whilst one can be carried away by the euphoria of the idea, one should try to be objective. We were immensely gratified when the consultants produced a report which not only supported the idea, but supported the concept we had in mind.

### THE FACILITIES NEEDED

To turn to what we feel an airport must be able to offer, I have of necessity to talk about Prestwick, which is Scotland's transatlantic gateway, and we would see that as being an important factor. Crucially, it lies on the Western seaboard, not of Britain, but of Europe, and is a direct link to North America. Obviously if one is talking about an airport, one is aiming for the high-value, low-bulk type of commodity. We think we have the location advantage which Mr. O'Brien was

at great pains to emphasise is vitally important. Others with airports will have their own location advantages, but we have the blessing of the direct link to the USA.

For a freeport to work well, it would naturally be advantageous if the airport itself is fully equipped to international standard, both from a passenger and cargo point of view. It must be capable of taking the larger types of aircraft now in use.

### **The environment**

We think that environmentally, we have one of the best airports in Britain. It is not surrounded by residential housing, does not suffer from complaints of noise, pollution, or other things which tend to plague major airports. The cargo area at present is capable of handling 40,000 tons per year, and the terminal building can meet the needs of intercontinental aircraft, passengers and cargo. The aircraft parking area is large enough to cope with the type of passenger aircraft and cargo aircraft that would be involved if there was a major increase as a result of a freeport being set up in the immediate vicinity. In other words, the facilities currently exist; they would not have to be constructed.

All the aviation facilities that would be required already exist: aircraft maintenance facilities, aircraft service facilities, aircraft fuelling facilities.

The airport has good feeder links, it is at the centre of a very good road network. Railway facilities exist immediately beside the airport and that line is, in fact, about to be electrified. These good communication links are another important factor.

The land immediately adjoining our airport is owned by three public bodies who all agree that the land would be available for a freeport. It is industrially zoned and the major part of it is industrially serviced, at this time. There are some 300-400 acres of ground immediately available for development; quite a large part of it is already surrounded by a perimeter fence, if that is to be a requirement. An access road already exists and this connects with the existing trunk road system. In other words, all the necessary infrastructure services are in existence, and would not have to be produced.

A potential freeport site must think of the industrial user. The industrial services must be there; the road and transport links must be available. In addition, nearby docks facilities and adjacent harbours could be an advantage to any users of the freeport.

### **Labour and shopping**

Within the area there must be an existing pool of readily available, highly-skilled labour. We would envisage that an airport freeport would attract high technology industry, and it helps if there is a pool of such labour available. This is important: there would be no point in having a freeport if readily available labour were not present.

There must be a complete range of housing within the area, from council housing to executive housing. (This facility is one of the reasons why we have already been successful in attracting some high technology industries. The amenity is very high in the surrounding area, one of the most attractive parts of Scotland).

Shopping and education are factors to be taken into consideration by any prospective incoming industrialist, particularly in the high technology industries. Potential sites must think about back-up from universities and high technology educational facilities.

Mr. O'Brien's point was that location is vitally important. Apart from location, it is also vitally important that you have the facilities that industrialists are looking for. I think that anyone making a bid has to have them.

### **LOCAL EFFECTS**

We have also considered the effect the freeport would have locally, and it is our view that the economic benefits one could reasonably expect from a freeport would, in the immediately local scene, mean many additional jobs created initially in the construction phase (both in the industrial and commercial sector). There would be inter-firm trading on an increasing scale, and, as Mr. Sinclair pointed out this will attract yet more suppliers.

There would be improvements in the cost structure of the actual airport itself, because there would be a greater use of the airport, both, we would expect, from the passenger side and the cargo side. For the country as a whole, the construction benefits still apply; there would probably be an under-pinning of jobs elsewhere in the wider locality by the cost savings in duty-free storage and the fact that there would be a broader product base. This is especially true in depressed areas.

There would be an increased activity in new products for export, as import-export costs are reduced; and in the UK as a whole there would be import substitution by equipment manufacturers' increased use of sub-contractors in the

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There would be an increased activity in new products for export, as import-export costs are reduced; and in the UK as a whole there would be import substitution by equipment manufacturers' increased use of sub-contractors in the



freeports. This is what our research has tended to show, the lower product costs providing an improved world market share and greater competitiveness by the UK plants in attracting available production by the multinationals. This is particularly true in high technology industry where large amounts of work are sub-contracted. If that can be done on a more cost-effective basis, for example in the freeport, then a greater share of that work will be available locally.

**JOHN DANTER:** Ian Smillie has outlined for us the concept of a freeport established in the locality of an airport, and he described the advantages of such a site and the facilities which it could provide. In talking about seaports, I would not say that these have any advantage over airports, because I think the two are complementary. A seaport and airport can exist well together.

#### **The need to adjust quickly**

A seaport, by virtue of the many facilities it already has, is tailor-made to adapt to a freeport situation with the minimum delay. This speed of adaptation is vitally important. In his recent Budget statement, the Chancellor, by accepting the freeport concept, gave a great opportunity to the country to become involved in an economic sphere previously denied to it. It is therefore incumbent upon commercial and industrial companies to act as swiftly as possible to grasp the opportunity provided, and demonstrate their ability to exploit the concept successfully and to the full. There must be no long delay between the designation of an area as a freeport and the commencement of at least some of its activities. The designated operator must be able to take advantage of the momentum created by the political announcement: he wants to get on, market his freeport, and offer at least some of its facilities in the shortest space of time following designation. The faster it gets moving the more likely it is to achieve ultimate success.

#### **THE FACILITIES NEEDED**

The facilities I shall be mentioning are available at my own port, Felixstowe, and will be available at many ports; all ports will not have all the facilities, but all will have some, and will be able to take advantage of them. The first which springs to mind is *warehousing*. In many ports there is now a surplus of warehousing space either in unoccupied units, or units which are already occupied in the hands of warehouse operators, but

are under-utilised. Such accommodation could be operational under a freeport regime within weeks rather than months of legislation being enacted. In Hamburg, a lot of warehousing is used by third world countries, and even China, for storing and holding goods in Europe for a considerable time before distributing them inside the EEC. This is the sort of thing which a port could take advantage of immediately to use its surplus warehousing for that purpose, holding goods prior to distribution in the UK or Europe.

Together with warehouses go the experienced *warehouse managers*, eager to take advantage of the wider opportunities which a freeport will bring. They will be backed up by staff already skilled in the handling and storage of a variety of goods. In the longer term, unused warehouses of modern design could be modified to enable them to be put to light industrial use. We have already heard that industrial activity within a freeport is essential to its full success, so one could manufacture in warehouses that are not required for their original purpose. In the case of the older type of warehousing in less modern ports, these could be demolished and the sites redeveloped with new purpose-built industrial units.

### **Goods handling and communications**

Unlike an airport, a seaport specialises in the *handling of heavy bulk goods*. In its freeport capacity it will continue to deal with bulk cargo. It already has the equipment and a labour force trained and skilled in operating such machinery. It will not require initial heavy capital investment: the machinery and the manpower may both be used to the full, which may not have been the case prior to the freeport build-up. The type of equipment I have in mind is a wide range of fork-lift trucks, cranes, and containers, which are very expensive pieces of machinery to buy initially. Fork-lift trucks vary from 2 to 40 times in their lifting capacity; cranes of 40 times capacity handle containers on a quayside and in container storage parks; in addition fleets of purpose-built tractor units are available for freight movement between the quayside and storage areas, and eventually between the quayside and the freeport manufacturing areas which will develop. A port thrives on the large-scale movement of heavy bulk cargoes and it is hoped and assumed that a freeport will increase traffic volumes. It is naturally a great advantage if the equipment and the manpower to handle this increased volume is already there.

We were told earlier about the importance of the location of a freeport. A seaport has excellent *communications*. An ideal freeport must have them inward to the host country in which it is situated, and outward to the rest of the world from where it draws its trade. To state the obvious, the seaport already has its seaways of established worldwide routes and services. Over the years it will have developed road and rail networks to its hinterland, and thus the rapid movement of goods both into and out of the country is facilitated.

A number of ports already have 'freightliner' terminals. This is a British Rail trade name for a system designed to move containers by rail rather than by lorry. It enables the *loading of containers directly onto freight trains* within the port area; thus trains from major ports are linked to the national rail distribution system enabling the speedy transfer of goods from ports to inland industrial centres (or vice versa). A back-up to any port—or freeport—will be its comprehensive Telex system, and these are already in situ; any major port and some small ones thus have this contact with the rest of the world.

Most seaports already have their attendant firms of skilled and well-established *hauliers* capable of moving goods both into the country and out of the country using the modern roll-on, roll-off services which are available at a number of ports.

### **Management aids**

We live in the age of the computer. Considerable thought has been given in the port industry, and in discussions between ports and customs authorities, to the introduction of a system of *electronic data transfer* for current working with Customs & Excise. The information stored in this system allows the simple processing and movement of all goods entering or leaving a port. I understand that such a system is likely to be installed in one port later this year, and other ports may well follow suit. The introduction of a computerised system could reduce paperwork and simplify existing procedures and could be further modified to assist freeport control.

Although Mr. O'Brien has spoken of this earlier, I should like to take up the point of security. In the very sophisticated freeport that Mr. O'Brien is talking about, security becomes a major consideration. In my mind, and in the minds of our friends in HM Customs & Excise, security is also a major problem. A lot of ports are already geared to provide a good security system. Cargoes are increasingly being containerised and thus travel sealed and secure. Ports have their own

experienced police forces which could, if necessary, be expanded to meet additional security requirements. Equally, they have well-defined boundaries with limited access points, and this facilitates easy control of movement of people, goods and vehicles in and out of the port or freeport area.

The vital thing in a freeport is its *ability to expand*. Some seaports have a good supply of land adjoining the dock area, which is suitable for development of light industrial units and further expansion of its port facilities. Others have land which is derelict and can be re-developed to be used fully.

Within most major port organisations such as Felixstowe, and I suspect in some of the smaller ones also, there already exists an efficient *marketing capability* and public relations organisation with worldwide contacts. Thus, as soon as a port is designated as a freeport there is a ready-made organisation able to sell its services. I think that this is very important so that expert and professional teams can market the freeport properly.

There is an *industrial hinterland* behind many ports, where the older type of industry has disappeared and considerable unemployment now exists. There is therefore likely to be available adjoining a port or within easy reach a pool of skilled labour capable of being retrained to work in the industries which will be created within the freeport.

There is also an existing *management structure* already experienced in handling traffic of all types; of administering a large area of land, and this would be capable of immediately providing the nucleus on which a freeport authority can be built.

## CONCLUSION

In conclusion, seaports already have a number of facilities which a freeport will require to operate successfully. These are: land for development or re-development, existing warehouses, heavy-lift equipment, good communications, road haulage facilities, security, computer systems and other modern equipment, labour (both dock and industrial), marketing ability, and management.

Wherever a freeport is situated, we hope it will create advantages for the neighbourhood and for the country as a whole. I want to emphasise what other speakers have emphasised: that a freeport, wherever it is situated, is not in the business of achieving a relocation of internal industry. Its

job is to be efficient, to provide the facilities and environment which will attract industry from abroad, and will increase the net investment of the country. The Chancellor said in his 1983 Budget speech, that he wanted two or three locations as experimental freeports. I think that at least one should be a seaport, and I am quite happy for another one to be an airport. If a seaport is designated a freeport, and if it is worth its salt, it can rapidly exploit that status to the advantage of itself and the national economy as a whole.

### Questions and Discussion

**MR. D. FORD** (*Manchester City Council*): When we first received the papers for this seminar we were a little disturbed on the choice of speakers. However, may I thank the first speaker indeed, for making out what we consider the *minimum* case for Manchester as far as freeport status is concerned!

**MR. D. P. STANLEY** (*Manchester Airport Authority*): I have been beaten to it—I was going to ask for ten minutes reply time to give the case for Manchester! There is one very important point when you are talking about airports as freeports: you must have a thorough understanding of the air cargo industry. Freeports are all about the movement of goods. The air cargo industry is allied to the carrying of cargo in the holds of passenger aircraft; therefore, if there is no decent passenger route, just grafting a freeport onto an airport will not *generate* cargo routes. I would suggest that the best location for a freeport is near a major road transport interchange so that goods can be trucked to and from larger airports like Manchester.

I would also like to make the point that the de-regulation of passenger routes is vital for the success of a freeport. This should be integrated completely with the designation of freeports at airports.

Turning to job generation, I have seen various facts and figures quoted in America—and this should be emphasised—about the number of jobs around airports and freeports that have resulted from the designation. On the JFK study I have seen a figure as high as four jobs generated to each freeport job with JFK as a freeport, as opposed to the two jobs created off airport by one job on an ordinary airport. This is a terrific job generator and I think Adam Smith ought to be doing a lot more work on this.

Finally, looking at the list of participants today, I am very

surprised at the low turnout from companies. Is British industry simply uninterested?

**CHAIRMAN:** As far as business is concerned, many do not share Clive Sinclair's desire to stay with British suppliers as far as possible. They say, 'When we see freeports working, then we shall be interested. Until then, we will manufacture in Hong Kong where we get a much better deal than we could get in Britain at the moment.' There *is* an important selling job: it is not just a question of providing facilities. Even though there are powerful advantages, there are costs and disadvantages. You have to go out there and sell that freeport space and attract businesses to it.

**MR. O'BRIEN:** We have a problem of education. Freeports and foreign trade zones have been in the United States for fifty years, and half the people in American industry do not know what a foreign trade zone is and how to use it. I am sure that most of British industry does not either. A plea I made to the Working Party was that the government—and I don't know who else can do this, maybe the Adam Smith Institute—should provide an education programme to British industry and to the country as a whole on how freeports can be used.

**MR. A. J. JOHNSON** (*Tayside Regional Council*): I should like to ask Mr. Smillie if his confidence in the eventual designation of Prestwick as he sees it is based more on the presence of a significant political figure in his area rather than the supposed merits of the case which he outlined?

**MR. SMILLIE:** Obviously political clout is going to matter if at the end of the day any government has to make a political decision. I should like to think that we have done enough to justify selection in our own right. We have very carefully gone out of our way right from the beginning to involve outside authorities in the work that we have done, and we have been careful to make sure that the reports which we produce are such that they will stand up to independent scrutiny.

I agree entirely with what Mr. Stanley said about air cargo, and air cargo routes. I would also agree with the de-regulation point which he made.

To emphasise Major Danter's point, our research supports the view that there would be no mass jumping over the fence, which is the allegation that has been made about enterprise zones. The mass of evidence that we have obtained tends to indicate that freeport business would be either new inward

investment or it would be expansion. It would not be relocation of existing industry. Our indication is also that high technology and electronics were prime candidates. As far as our airport is concerned, that is almost inevitable; if it is related to an airport it must be concerned with high cost, low bulk transportation.

**MR. DANTER:** As far as political muscle is concerned, of course it helps. It is the duty of everyone who wants a freeport to make sure his own MP is properly briefed to ensure his political muscle that way. Equally, however big your political muscle, if your site does not have the advantages which are needed for a freeport, then it will not help you at all. I believe that we have a sensible government which is not going to put a freeport in a place which is unsuited to it.

**MR. D. P. STANLEY** (*Manchester Airport Authority*): Much traffic on scheduled and cargo-scheduled routes from the regional airports is grinding to a halt because of the problem of bi-lateral air service agreements between this country and others, which place great emphasis on maintaining a level of service from the South-Eastern airport system. We are having difficulty in breaking through to get more scheduled air services into Manchester Airport. Prestwick must have exactly the same problem to a much greater extent.

We do not see how, with a relatively small range of scheduled services, it is possible to support the freeport concept in the way in which it is being argued now, unless you can be reassured that you are actually going to get *more* services in. As long as those services are trapped in the problems of bi-lateral service agreements, we do not see how it is going to be realistic to expect much growth to occur at airports at all. We think that an important component of the airport freeport concept is some move towards the liberalisation of air services to the regional airports. It is *crucial*, to our minds, rather than something which is just important.

**MR. R. BRERETON** (*Edinburgh City Council*): We have heard that the successful site must have the right location, which seems to me to mean the right location on some international trade route. We have heard nothing about what this international trade route is going to be. Is it from Japan—electronics and motor cars into Europe? Is it from America? Is it the oil traffic going between the North Sea and the Middle East? What is this international trade and where is this trade route that we have to break into?

**MR. O'BRIEN:** To answer the question about what trade routes we are on, we think Philadelphia was a good spot because it lies on the turnpike from New York through Washington to Miami. It is within overnight trucking distance of 40% of the buying and spending power in the USA. But the zone is geared, essentially, to the *domestic market*, therefore the domestic market determines where it is. If, on the other hand, you are dealing with imports from South America, you go to Miami, because that is the great entrepot port between North and South America, and that is why it is a success.

So the answer to the question is that *somebody has to decide*, when they are looking at their freeport, what is the trade which is likely to go through our freeport? Where are materials coming from? What is their market? What are the goods that are going to be stored or manufactured here? You have to identify the market and then you must consider if this can be done better in a freeport.

It is likely to be successful, provided those goods and those markets and those materials are appropriate for a freeport. If they are completely free of duty, or if they are of very low value (so that insurance costs are low) then your case for a freeport becomes very marginal.

**MR. DANTER:** Major ports already have trade links with USA and third world countries and I believe that those ports will look to those markets to attract their freeport operators. They will not look to Europe because there is little advantage there. Major ports will look to capitalise on contacts already established, to bring in trade to their freeport.

**MR. ALAN TUPPEN** (*Leicestershire County Council*): I find myself carried along with the mood of optimism at the concept outlined this morning, but I cannot help feeling a little pessimistic, because as I understand it, the Chancellor stated that the freeports were to be designated on an experimental basis. I wonder just what 'experimental' means. Is there a time limit? If so, who does the evaluation of freeports at the end? Does it relate to some other criterion of success?

**CHAIRMAN:** We do not yet know what 'experimental' means exactly; we should know soon. I hope that it does not mean a short time period, because I do not think that will work at all. No business will carry large relocation costs without some assurance that freeports will continue for a long time.



**MR. JOHN ROBERTSON** (*Grimsby Borough Council*): Regarding the conditions inside freeports, any erosion of the powers of local government I certainly cannot go along with. I see this as a vehicle to protect the citizen. And on labour legislation: are we going to erode the advances which have been made by our workforces during the last 50 years? Will there be health and safety at work, employment protection and so forth in a freeport?

**MR. SMILLIE**: I think the question of suspension of regulations, and local government erosion is not the crucial point. The situation might be different where there are half-a-dozen different planning authorities to consult, or something of that nature. We are our own planning authority and we would be actively involved in any freeport that would be set up at Prestwick, so we would not envisage any planning difficulties. As to any other concessions operating in freeports, we have to wait and see.

**CHAIRMAN**: On the local government question, it is vitally important to have a direct link between the people who are operating in the freeport and the people who are making the planning decisions. If you can base the planning people in the freeport area and make it their responsibility to deal with planning instantly, then that could be a remarkable incentive.

**MR. E. W. OAKS** (*Port of London Authority*): A port in itself is an *interface*, and perhaps what we are talking about in freeports is bringing three or four interfaces together in one area. If we are making a freeport in an existing port, a lot of the business that port has already will not require freeport status. We do not want to turn that away.

Much of the advantage of a freeport lies with manufacturing and bringing together various skills, so we are talking about bringing together advantages which we have already in Britain and turning those advantages into commercial advantages in the larger market of the trading world. These things must be carefully considered to make sure that the interfaces which we are bringing together are not going to become rubbing faces.

**MR. DANTER**: I agree that one does not want to drive other custom away, but look at the much-maligned port of Hamburg again, where we have the two things living next door to each other, a freeport enclave neighbouring a perfectly normal port. This does not seem to limit the abilities of either part to trade

and operate satisfactorily: they may well help each other along. I agree that we must not create a freeport which would limit the commercial opportunities of a normal port.

**MR. SMILLIE:** As far as airports are concerned, we can only see it as something that will attract an increase in business, and is highly unlikely to have an adverse effect on any existing business. We are quite satisfied that if we can get the designation that we are seeking, it can do nothing but good. We know from our research that we can set it up and we can get business into it in a very short space of time.

**CHAIRMAN:** In conclusion I would like to say that we have covered an enormous amount of ground and have learned a great deal. We could learn even more if we had more time to discuss this important concept. Our proceedings demonstrate that there is a very great amount of interest in the freeports idea, and that there already exists, in Britain, a considerable fund of expertise on it. But they also suggest that getting the conditions right is essential, and that a half-hearted or uninformed effort to establish freeports is unlikely to work.

## Adam Smith Institute Freeports Seminar

### List of Participants

Mr Appleyard	Glanford
Gordon Bayley	Manchester Airport Authority
R M Beaumont	South Glamorgan
W J Berry	Gwent
H C Bishop	Massey Ferguson Ltd
M C M Boon	Great Yarmouth Port Commission
Miss Libby Bowring	Fitch & Co
R Brereton	Edinburgh
Rosemary Brown	<i>Mail on Sunday</i>
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Dr Eamonn Butler	Adam Smith Institute
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C R Buxton	Bidwells
Derek Cadwallader	Silentnight Export
Mr Clack	Cleethorpes
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## Freeports

Edited by Dr Eamonn Butler & Dr Madsen Pirie

With papers by:

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Michael van Notten \* Sir Clive Sinclair \* Ian Smillie \* Major J T  
Danter

The contributions in this volume form a comprehensive account of the proposals for freeports in the United Kingdom.

The idea of freeports is a bold one: cordoning off a piece of land with a perimeter fence and treating it as if it were a foreign country for customs purposes. Many freeport proponents also hold that other important concessions, such as tax allowances and easier employment and commercial regulations, should also apply within the freeport area. The objective: to bring to Britain manufacturers who are presently daunted by the complexity of customs paperwork, or who are the victims of anomalies in the tariff rates. At the moment there are about 400 freeports in the world, accounting for 10% of international trade. Britain is yet to set up its first.

This book looks at the nature of freeports around the world and attempts to discover which ones work, and why. The specific proposals ventured in Britain are described and reviewed. The business advantages of freeports are outlined.

Most importantly, practical evidence is cited from those who actually operate freeports: a hard body of opinion on how to organise freeports in Britain so that they can be the major successes and huge employers that they are in many other parts of the world.

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