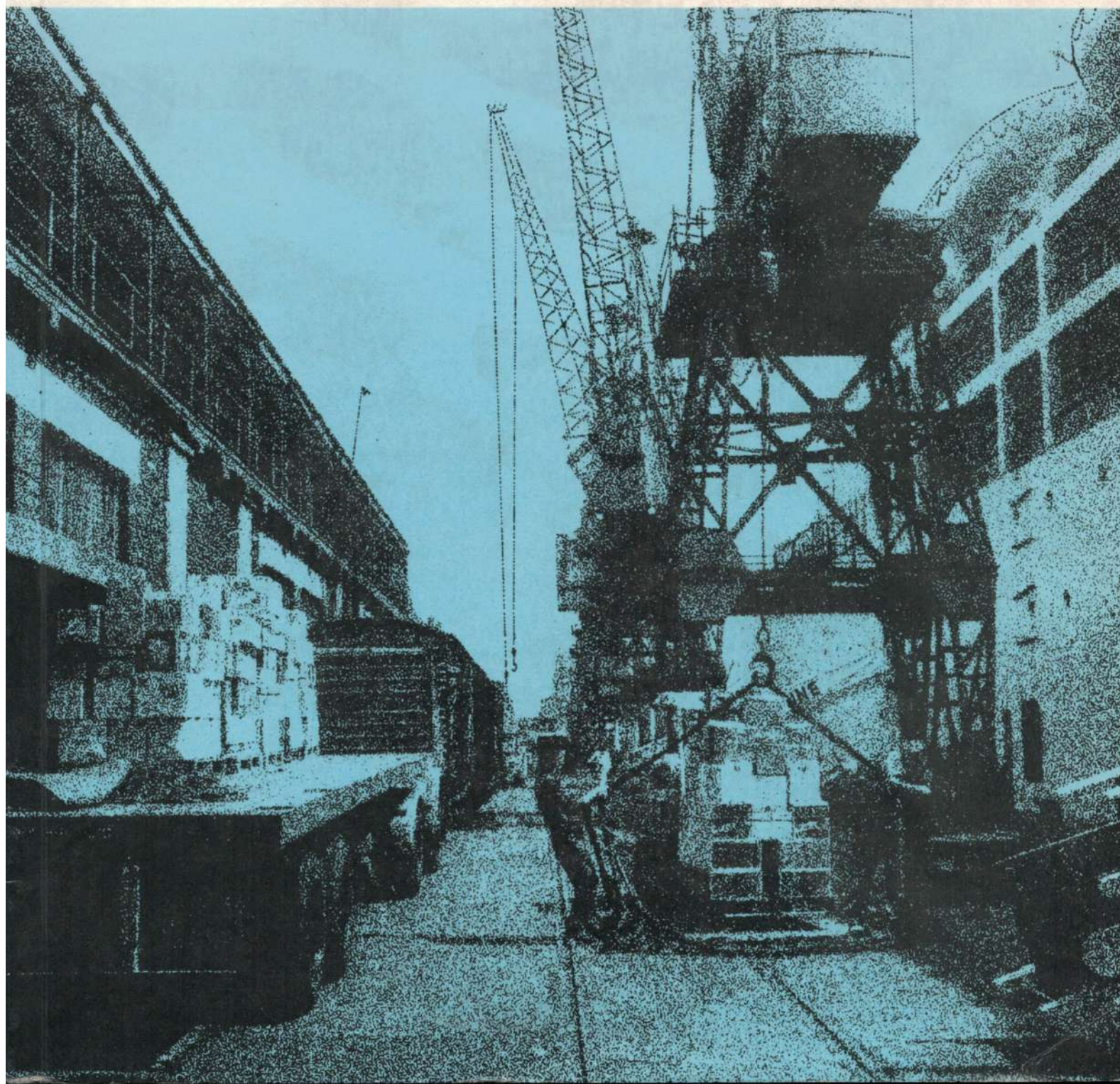


THE FREEPORT EXPERIMENT



Warwick Davies & Eamonn Butler



1. INTRODUCTION TO THEORY AND PRACTICE	1
2. GENERAL EXPERIENCE OF THE UK FREEPORTS	3
3. BELFAST NORTHWEST FREEPORT (BELFAST)	17
4. NEW MIDLANDS FREEPORT (BIRMINGHAM)	20
5. SOUTH WEST FREEPORT	23
6. LONDON FREEPORT	25
7. DUNDEE FREEPORT (DUNDEE AIRPORT)	28
8. CHESHAMPTON FREE TRADE ZONE	30
9. UTILIZING THE FREEPORT CONCEPT	32
10. GUIDELINES FOR NEW FREEPORT SITES	37

THE FREEPORT EXPERIMENT

By

Published by the Warwick Davies
(Research) Ltd, London SW and
The Adam Smith Institute Dr Eamonn Butler

All rights reserved. Apart from fair dealing for the purpose of private study, research, criticism, or review, no part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the publishers, ASI (Research) Ltd, PO Box 316, London SW1P 3DJ (01-222 4993).

The views expressed in this publication do not necessarily reflect those of the publisher or copyright owner. They have been selected for their independence and intellectual vigour and are presented as a contribution to public debate.

1986 0-900317-91-1

Printed in Great Britain by The Adam Smith Institute in Print, London EC1.

1986

CONTENTS

1.	FREEPORTS IN THEORY AND PRACTICE	1
2.	GENERAL EXPERIENCE OF THE UK FREEPORTS	3
3.	FREEPORT NORTHERN IRELAND (BELFAST)	17
4.	WEST MIDLANDS FREEPORT (BIRMINGHAM)	20
5.	CARDIFF FREEPORT	23
6.	LIVERPOOL FREEPORT	25
7.	FREEPORT SCOTLAND (PRESTWICK AIRPORT)	28
8.	SOUTHAMPTON FREE TRADE ZONE	30
9.	REVITALIZING THE FREEPORT CONCEPT	32
10.	PROPOSALS FOR NEW FREEPORT SITES	37

Adam Smith, The Wealth of Nations,
Book IV, Chapter III.

First published in the UK in 1986 by
ASI (Research) Ltd, London SW1P 3DJ
(c) Adam Smith Institute, 1986

All rights reserved. Apart from fair dealing for the purpose of private study, research, criticism, or review, no part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the publishers, ASI (Research) Ltd, PO Box 316, London SW1P 3DJ (01-222 4995).

The views expressed in this publication do not necessarily reflect those of the publisher or copyright owner. They have been selected for their independence and intellectual vigour and are presented as a contribution to public debate.

ISBN 0-906517-93-1

Printed in Great Britain by Communications in Print, London EC1.

Adam Smith, The Wealth of Nations,
Book IV, Chapter III.

I. FREEPORTS IN THEORY AND PRACTICE

Since our original report on the subject, A Proposal for the Establishment of Freeports in the United Kingdom (1981), six UK freeports have been created. Decision-makers at the highest levels have recognized the merits of the concept, and have sought to capture some of the considerable benefits generated by the many hundreds of freeports already operating round the world.

Although the general concept has achieved considerable success, however, the effort to translate it into policies that would guarantee the emergence of a series of vibrant, working UK freeports was an almost unrelieved failure. As the idea was processed through the long and cautious machinery of Whitehall, it soon began to change shape. Instead of sites being chosen for their ability to attract trade, they were chosen with an eye to helping areas of high unemployment, however unsuitable for freeport purposes they might be. Instead of deregulation that would attract foreign businesses and encourage new domestic start-ups, the freeports were made to labour under the same burden of regulation that depresses business creation and growth in the rest of the United Kingdom.

Those defending present practices cited European Community regulations that seemed to make even the central operating principle of freeports impracticable in the UK. Instead of a completely new tax and customs regime that would cut out the vast bulk of the official paperwork and would make UK freeports compete with any in the world, a few existing customs reliefs were simply concentrated in one spot, taxes remained unchanged, and paperwork stayed overpowering.

Freeports in practice

By the time the freeports concept emerged from the bureaucratic process, then, the fate of the sites designated on 2 February 1984 looked decidedly unpromising. There seemed little or no attractions left in them that would draw potential investors from other parts of the globe. Few of the six would be likely to prosper under so modest and unfavourable an arrangement, and some did not even have the benefit of a good location for today's pattern of international trade. To make any of them very successful, it seemed, would be an uphill fight.

Events have justified at least some of that pessimism. For example, it has taken a great deal of time to get the designated freeports off the ground. Of the six sites, only three had started to conduct any business at all within two years of being designated. Even those three are struggling under the unhelpful operational framework laid down nationally and two have suffered considerably under their own specifically local problems. Only Liverpool has enjoyed much success to date.

Perhaps the future will be brighter. The freeports in

Birmingham and Southampton, now beginning operations in a sizeable way, match Liverpool's enthusiasm and could well prove to be considerable successes before long. Nevertheless, almost all freeport operators argue that they could enjoy considerably more success in a more favourable operating environment -- one in which UK freeports could compete more equally with those in other parts of the world. The important question for public policy, then, is whether some further initiatives now could turn a patchy performance into an undisputed success.

Purpose of this study

If the freeport experiment does not yield an undisputed success, the ramifications will be wide. Some critics -- both those with ideological objections to freeports and those with a vested interest in preserving the prevailing regulations and bureaucratic procedures that apply in the United Kingdom -- will suggest that it is the concept itself that is faulty, and not the manner in which it has been executed. The very notion that entrepreneurship, trade, and prosperity can be assisted by a reduction in taxation and regulation will be under hard attack.

In reality, of course, that principle has not been refuted, for the UK freeport experiment hardly subjects it to a real test. The fact remains that freeports, when constituted under the conditions of lower taxation and reduced regulation, not only can, but do work in many different countries, rich and poor, east and west. There is no reason, other than poor implementation of the principle, why they should not work equally well in the United Kingdom. Indeed, most of the existing UK freeport operators are confident that a comparatively minor easing of the regulatory and tax regimes under which they must work would produce a very large increase in their marketability and eventual success.

This report seeks to describe the regulatory and tax structure under which the six UK freeports operate, and to trace the general progress that has been made. The experiences of each of the operators are described, in order that lessons can be drawn from the pattern of successes and failures that each has shared. Lastly, the report proposes reforms which might be introduced to increase the attractiveness and success of the existing freeports, and asks whether a 'second generation' of freeports, with slightly different constitutional structures, might be a useful experiment and a commercial success.

2. GENERAL EXPERIENCE OF THE UK FREEPORTS

To judge the performance of the UK freeports to date, our researchers spoke to each of the operators and visited five of the six designated sites. The results of this research, in terms of a picture of the operation, progress, and problems specific to each site, comprises the following six chapters. Our purpose here is to draw some general lessons from the exercise so far.

Two general features of the UK freeport experiment will be examined in this chapter. The first is the degree to which the legal framework within which the freeports are obliged to operate matches that originally proposed by the advocates of the idea on the basis of frameworks which work well abroad. The second is whether there are certain restrictions in that framework which give rise to complaints among all of the freeport operators, whatever their specifically local problems.

HAVE THE CONDITIONS FOR SUCCESS BEEN ACHIEVED?

For the first part of this investigation, a useful starting point is the 1983 volume Freeports, based on an Adam Smith Institute seminar that discussed the subject. It listed four conditions which characterize successful freeports throughout the world, and went on to discuss ten advantages that freeports must be able to advertise to potential users if they are likely to tempt businesses into them. With these conditions and advantages in mind, it is possible to examine how the reality of freeports in the UK compares with the concept as understood by its original proponents and the practice prevailing in other freeport sites throughout the world.

The defining characteristics

In Freeports, Dr Madsen Pirie identified four preconditions which define the freeport concept and typify successful examples. The first and most obvious is that there should be no duties or tariffs on goods coming in; that is, the freeport is treated for customs purposes as if it were foreign territory. The governments of many countries do indeed treat their freeports in this way, regarding each as an enclave attached to an airport or seaport which is regarded as 'abroad' for the purposes of goods received into it. If goods are processed inside it and subsequently leave, they can go abroad without having incurred any duty at all. Only if they come into the host country do they incur import duties in the normal way.

Secondly, taxation must be lower in the freeport than outside, at least in some respects. There are, for example, no less than seven different taxes on business which are remitted in the Belgian free zones, and the users of the freeport at Cadiz pay no Value Added Tax and other special taxes on their activities within it.

Thirdly, the original concept of freeports that was discussed in the early 1980s assumed that there must be a lower level of regulation within the freeport. This attracts foreign traders who might be unwilling or unable to cope with every aspect of domestic regulation, and encourages the formation of new businesses within the freeport zone. It also allows goods in transit to be worked on in the freeport without the necessity of every import coming up to domestic quality or packaging rules.

Fourthly, the review of successful and unsuccessful freeports round the world suggested strongly that freeports must be independently managed by an authority that is largely outside the scope of political manipulation.

The reality in the UK

How do the UK freeports match up to these conditions that define the original concept?

In general, the practical conditions which delimit the operation of freeports in the United Kingdom are far more conservative than those suggested by the economic theory of the world freeport phenomenon. Partly, this is due to the British acceptance of European Community regulations that were designed to prevent the unfair distortion of trade between member states through subsidies and other government actions (although the same regulations do not seem to inhibit other adventurous freeport experiments in other countries). Just as importantly, however, HM Customs & Excise has shown little enthusiasm for the freeport idea -- perhaps in the belief that their procedures are already efficient enough to encourage trade to the UK, or perhaps because of a resentment that politicians should be empowered to change the rules devised by experts. Whatever the reasons, the result is that the benefits actually available to freeport users in the UK zones are even more conservative in scope than the EC regulations allow.

But let us examine the four specific items that were originally thought essential to the idea.

Firstly, the tariff situation is far from satisfactory. The March 1969 European Community Directive on freeports makes their status clear: 'Free zones shall mean any territorial enclave set up for the purposes of deeming goods therein not to be in Community customs territory for the application of customs duties, agricultural levies, quantitative restrictions and all taxes or measures having equivalent effect.' UK freeports, however, are certainly not treated like foreign territory; and nor are their users exempt from the flurry of paperwork, duties, and taxation that applies in all import-export transactions. Firms which import goods for processing and subsequent re-export certainly do get help from the Inward Process Relief arrangements. However, these are nothing special to freeports. A firm's location in a freeport does not even give it automatic access to the scheme; each trader must apply individually for IPR

authorisation. The speed and smoothness with which the relief is granted seems also to depend heavily on the local Customs & Excise regime: some freeports regard the paperwork as a serious obstacle to traders, while others do not. And duties are still payable on imported machinery and some components used in manufacturing processes within the freeport.

Taxation is not lower within the UK freeports, placing them at a disadvantage with freeports in Europe and other parts of the world. For example, the fact that VAT continues to be levied on each transaction inside the freeports makes it impossible to attract the commodity-trading business found in Hamburg or in countries with no VAT or sales taxes. Land tax and corporation tax continue to make UK freeports unattractive relative to those in other countries.

Regulations have not been reduced to help the foreign traders who are not equipped to handle them or the potential domestic entrepreneurs who are daunted by them. Freeports do not even enjoy the 100% capital write-off allowance available in enterprise zones. Users face the same rigorous employment and other regulations that apply in the rest of the UK, once again making it cheaper and easier for many international traders to locate their workforce abroad.

The Management of the UK freeports is, however, generally independent. Most sites were proposed by local authorities, but private owners and managers form the main interests today. There nevertheless remain powerful political forces operating upon them, through the planning system, through the dock work labour scheme, and in other forms; so it could be said that managers actually enjoy much less freedom of action than envisaged in the original discussions of the freeport idea.

SOME MODEST ADVANTAGES

Bearing in mind the differences between the original concept of freeports and the conditions that actually prevail, do UK freeports boast enough advantages to make them successful?

In the attempt to answer this question, it is useful to check the advantages which actually pertain in UK freeports against the list set out in the 1983 book, Freeports. This list was distilled from a review of the conditions that prevail in those freeports throughout the world that have proved successful because of their ability to attract business, and consequently can provide a useful predictor of the outcome of the UK freeport experiment.

Cash flow

An important advantage offered to businesses by freeports all over the world is that of better cash flow. Traders are helped because they do not have to pay the normal duty on goods or components that come from abroad for processing or storage, and

when those goods are bought and sold during processing or storage, the normal sales or value added taxes are not levied. Some other countries treat their freeports as if they were completely outside the customs area: duty and taxes are paid only if and when the finished products are exported from the zone into the domestic economy. Indeed, in many cases, the traders are completely free from domestic customs-authority paperwork until their goods cross through the security fence and enter the home market.

In the United Kingdom, suspension of import duty on goods that are processed and subsequently exported has been available for some time in the form of inward processing relief, and freeports have contributed little to making life easier for traders in this respect. But UK freeports are certainly not equivalent to foreign territory for customs purposes; relief is not always available, and paperwork still imposes costs on traders and can still slow things down. Perhaps the most serious cash-flow problem is that of Value Added Tax, which still applies on all transactions within the UK freeport areas. Thus, firms have to pay the tax, even though it is refunded when their finished goods are eventually shipped out of the European Community. The fact that it can take many months for this reimbursement to be made generates a cash-flow problem that traders simply do not face when using a number of freeport facilities overseas.

Simplification of paperwork

When the freeport concept was first mooted, Customs & Excise spokesmen argued that it was not necessary because most of the reliefs envisaged for the freeports already existed in one form or another -- as IPR, for example. However, businesses objected that it could take as long as eighteen months to have applications for such reliefs considered, and that each concession required different and extensive paperwork to be gone through. Freeports, by having the concessions automatically in operation, were intended to make life easier, especially for small firms which lacked the specialist manpower to handle complicated paperwork.

Since the establishment of the freeports, some paperwork has been simplified and reduced, but for the most part, the number of documents that have to be presented to move goods and components into or out of the zone still compares unfavourably to that required in other countries and in foreign freeports. And remarkably, the paperwork within a freeport can actually be more costly and more complicated than that expected elsewhere in the United Kingdom. A trader who moves UK-produced goods into a freeport, and then back out into the general UK economy, faces two strata of documentation, with each import-export form costing some £30: yet the identical goods held in a UK bonded warehouse for identical purposes have no such requirement.

Collective processing

Another advantage attributed to freeports at their inception was that users would suffer less direct paperwork because concessions could be granted as a package to freeport operators, who would deal directly with customs documentation on behalf of all or a number of their tenants. Thus the freeport at Miami, for example, is bonded and has its own back-to-back arrangements with its tenants, saving them the burden of individual authorisation and making available a greater expertise to resolve problems than any single tenant may have.

These benefits are available to a limited degree in the UK freeports. Firstly, the operators can negotiate a simpler overall strategy for Customs & Excise to deal with the various businesses on the site. Secondly, the tenants (especially the smaller businesses among them) can rely on the operators' experience to help with difficulties in VAT or customs law or can use the operator's trained personnel to handle the entire process.

However, some freeport operators seem to be better than others when it comes to arranging simpler operating systems and helping to resolve difficulties. In addition, there are important gaps in the simplifications that the customs authorities will allow. For example, each freeport user must apply for IPR certification, although an automatic system managed by the freeport operators would seem easy enough to set up.

No duty on waste

Another advantage when an area is duty-free is that no duty is paid on goods that are wasted or spoiled. When a firm brings goods into a country in the normal way, any damaged in transit, or any parts of raw materials that are not used in the final product, have had duty paid on them unnecessarily.

In other countries, freeports have enjoyed a considerable advantage by using this principle. Once again, however, relief for accidental loss or destruction (and sometimes for deliberate destruction) is available generally in the United Kingdom, giving no advantage to the freeports. However, Customs & Excise officers must be convinced that the loss or destruction was unavoidable, or must sanction any deliberate destruction of goods, which certainly is a potential stumbling block that traders would not suffer in other world freeports.

Relabelling and packaging

Much of the business of many freeports throughout the world consists of repackaging or labelling goods that are bound for the domestic economy, or on to other countries. Thus, goods that are not packed or labelled in accordance with domestic regulations can be shipped to the freeport, processed there, and then moved into the country or abroad.

Thus far, the UK freeports seem to have had no difficulty in accepting goods that are not packed or labelled adequately for the domestic market, and traders can therefore use the freeport as a way-station in which packaging or labelling can be undertaken prior to import into the UK or export to other countries. This advantage, therefore, has been realized.

Holding goods

There are advantages for businesses which wish to hold goods until the market changes (particularly important in seasonal lines of business), because they do not have to pay customs duty 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.

Again, some of this advantage would be available in the UK even without the existence of freeports. However, the benefit is not as flexible or as generous as that available in other parts of the world. Products under inward processing relief must be exported within a period determined by the local Customs & Excise officer, and this can be short: the normal limit for goods liable to agricultural levies and other charges arising from the Common Agricultural Policy, for example, is only six months. The local officer sets the period for each import, and decides on any applications for its extension, so we again find local discretion prevailing where a general principle of complete freedom by traders would seem both desirable and easily practicable in UK freeports.

Currency changes

The same advantage of being able to hold goods applies when it is the exchange rate, rather than the market for the good in question, that is changing. Once again, this is partly realized in the UK generally, but the discretion of local officials prevails when a blanket permission for freeport users to hold goods as long as they choose would seem more appropriate.

Generation of employment

The initial advocates of freeports pointed to their employment-generating possibilities. Jobs would come not only from the processing and manufacturing done within the freeport (work which would otherwise be done abroad), but also from the need to build and service the freeport and provide technical and other services for its users. Hamburg's freeport was estimated to generate some 20,000 jobs directly, and another 40,000 indirectly.

Some of Hamburg's employment record may be due more to its development as a port than in any natural advantages of its freeport facility. But even there, the freeport operators regard European Community regulations as the main reason why manufacturing industry is now in decline. It is hardly likely, therefore, that in UK freeports, where less generous conditions

are available, employment on any such scale can be generated.

Furthermore, most UK freeports accept the necessity of computerised record-keeping, while Hamburg employs 1,300 clerical workers for the task. And UK freeports are small and are presently more attracted to storage and distribution uses, rather than manufacture, which again reduces their employment potential. Some jobs have certainly been generated: Liverpool, for instance, expects to be employing about 100 people directly by the end of 1986, perhaps 200 by the end of 1987.

Security

Because of the need to impose a secure customs perimeter, freeports throughout the world offer a safe and protected environment in which firms can derive benefits (such as lower insurance premiums on high-value stock) even if they are not taking advantage of any of the customs concessions. If they do take advantage of the customs rules, their insurance is lowered even more because it needs to cover only the duty-free value of the goods instead of the duty-paid value.

The provision of a safe and secure area in which to locate sensitive or high-value processing and stock has been a major advantage of the freeports, and Birmingham has made it a particular selling point. Willis Faber, the international firm of insurance broker, has estimated that insurance premiums for companies locating in the Liverpool freeport can be up to 60% lower than the national average. It is quite possible, then, that some of the UK freeports will attract users who prize the security benefits more than their freeport status.

Concentration of facilities

The success of manufacturing communities such as the Cambridge Science Park shows the advantage to certain kinds of business of having related businesses nearby: experts can be shared between different research teams or manufacturers, suppliers and buyers can trade with several firms in the same day, and the whole group acts as a magnet for new businesses seeking a suitable site. The same has happened with freeports in several parts of the world, with (in particular) firms engaged in import and export trades finding an advantage and reinforcement from close proximity.

However, it requires the site to reach a certain size before this phenomenon is likely to emerge, and there is little sign of it at present in the United Kingdom's freeports.

General conclusion

Of the original list of advantages that, according to the research, attracted businesses to overseas freeports and were similarly likely to attract businesses to freeports in the United Kingdom, the conclusion must be that most are realized, although in a very modest way.

Of the various customs reliefs available to help freeport users, nearly all were already available in any case. Certainly, the the designation of freeport sites has helped to bring them together and to eliminate some of the paperwork, and the expertise of experienced freeport operators has helped reduce some of the burden on traders. But there has been little new in the experiment that would give UK freeports a significant edge over their foreign counterparts. Indeed, Treasury officials originally argued against the establishment of freeports on the ground that it would give traders little relief that was not already available in one form or another.

Because of the modesty of the operating regime that was eventually adopted, the officials are partly right. But that fact suggests that the benefits available in UK freeports should be improved, rather than that the idea should be abandoned. The experiment has not been bold enough.

Many freeport operators have pointed out the deficiencies in the present regime, but skeptical officials have rarely been moved to ease the burden. Sometimes, the operators' enquiries on technical subjects have resulted in greater restriction rather than less -- a result which is plainly counter to the original concept of the freeport. It is worth looking at some of the main features which operators have found to be sapping the driving power of freeports in the United Kingdom.

THE MAIN PROBLEMS FACED BY THE UK FREEPORTS

Comparing the actual position in the United Kingdom with the advantages enjoyed by freeports in other countries and proposed at the outset as necessary to attract business to freeports, it is clear that the potential of our freeports is much inhibited by the manner in which the freeport concept has been translated into practice. The relative lack of cash flow advantages, the continuing burden of documentation, and the reluctance of national and local officials to encourage the experiment, have all removed much of their international appeal.

Freeport operators seem to share a fair measure of agreement on six, more specific, deficiencies that must be made good before the competitive edge of the UK freeports will assert itself.

Inward processing relief

Some freeports, such as Liverpool, experience little or no problem in the operation of inward processing relief, and have developed good computer systems to make it run smoothly. In others, however, the paperwork which is still required of traders is seen as a significant obstacle that could quite easily be removed entirely from UK freeports.

IPR amounts to the suspension or repayment of duty on goods which are imported for processing within the European Community and which are to be exported again thereafter. Since the goods

never appear on the domestic EC market, it is seen as wrong to charge import duties upon them, and hence the relief.

However, each trader is still required to seek authorisation individually. In a UK freeport, the operator's experience may help, but the paperwork remains an obstacle. Some operators have therefore suggested the establishment of an open general or blanket certification that could be given for freeports, a proposal which seems easily practicable and certainly beneficial.

Other freeports have recognized the importance of this point for their own success. Hamburg and Trieste, for example, do not require manufacturing operators to hold an IPR certificate for duty-free operations. The rules in the United Kingdom constitute a pointless barrier to the inclusion of ordinary manufacturers within the security perimeter of the site, and there is consequently a strong case making the system as least as liberal as that operating in other European Community freeports.

Undoubtedly, such an arrangement would help build up a manufacturing base, and therefore employment, within UK freeports, since traders would be able to import components, process them within the zone, and export them again without any paperwork being required at all. And if the finished goods were taken out of the zone for sale in the European Community economy, only then would documentation be required.

Goods manufactured in freeports

A related point is that manufacturers in the UK often face higher rates of duty on their components than those on finished products. Consequently, there is every pressure on them to manufacture abroad rather than in the United Kingdom.

A case in point is the European microchip industry, where high tariff rates on components have been agreed in the attempt to protect the Community's components industries. The effect is that manufacture of microelectronic products routinely takes place outside the Community, with finished products being brought in at the lower rate of duty which applies to them. Assembly and finishing jobs are lost to East Germany, Korea, and elsewhere.

Yet the freeport principle is ideally suited to relieving this kind of problem. In the United States, freeport users have the option of paying customs duty on either the imported components used in the manufacture or on the finished products that leave the freeport for the domestic economy. Thus, there is never an incentive to manufacture abroad because of differences in duty rates. If the job-creating potential of freeports in the United Kingdom is to be realized, this simple arrangement seems a very necessary step.

Excise bonds

Most freeport operators also want users to be able to store or

process goods subject to excise duties, such as alcoholic drinks and cigarettes, without having to apply for excise warehouse status in each case.

It is in fact remarkable that the UK freeport users, although they are subject to every excise duty constraint which applies elsewhere, should not be allowed to have excise duty bonding arrangements. This is once again an area in which collective processing through the medium of the freeport operators would seem to make such a concession straightforward and deflate the Customs & Excise argument that most businesses seeking bonding arrangements would be too small to deal with. In the meantime, however, business has been lost from the UK to ports such as Rotterdam, which is able to grant such a facility.

Southampton, for its part, was told that it could not offer bonded warehousing because Customs & Excise deemed that there was sufficient bonded space within a radius of forty miles. In its publicity, it has fought back by observing that freeport status actually confers some advantages over bonded warehousing for certain users -- no bond is necessary, and goods can be processed on-site by the user's own staff, although security is strict and staff movements through the fence are carefully monitored.

Nevertheless, it is plain that a reform of the excise bonding arrangements would be not only a fairly simple policy to introduce and operate, but would confer significant advantages on UK freeports that are presently available only in other European freeports and abroad.

Value added tax

A Value Added Tax of 15% is payable on transactions within the United Kingdom. Special arrangements exist for bonded warehouses, but not (remarkably) in freeports, and perhaps the most persistent complaint of operators is that Supply VAT makes UK freeports unattractive to overseas companies. And yet, one of the main reasons why freeports were established was to encourage exactly that inward investment from abroad.

Supply VAT does not just make more expensive the transactions that are conducted within freeports, but reduces the potential range of transactions which are likely to find a home in them. One effect, for example, is that UK freeports are made unsuitable for commodity trading business and warehousing, since tax is incurred every time ownership is transferred. Yet this business generates significant invisible earnings through more liberal freeport facilities, such as those at Hamburg and Rotterdam.

It is not surprising, therefore, that freeport operators are in almost complete agreement that they should be placed outside the Supply VAT net. This seems to be in line with the March 1969 Directive of the European Community, which places them outside the territory of the host nation for customs and related taxes. With such a policy in operation, they might then be able to

compete more effectively with other European freeports, for which the absence of VAT, customs duties, and other taxation is stressed as a positive selling point. The Zona Franca de Cadiz, for example, actually advertised in The Economist of 1 March 1986 and elsewhere that users would enjoy:

- '-- Exemption from VAT and special taxes.
- Exemption from inland excise and import duties.'

It is not just the cost of the tax which causes problems; the costs of the paperwork involved is significant for freeport users, as it is for all traders subject to VAT. And because such goods are not coming to UK freeports in the first place, other invisible trade like shipping and insurance is also lost to foreign competitors.

Rules exist to help in certain cases, but their complexity makes them ineffective. A foreign company, if engaged entirely in import/re-export business from and to third countries, need not register for, and not therefore raise, Supply VAT on its transactions. The snag is that permission not to register must first be sought from Customs & Excise. For infrequent or casual transactions (an important feature of entrepot trading), this is not a practical proposition, and in any case has a remarkable bureaucratic circularity about it. Simplification and reform of this relief seem long overdue.

There are other difficulties. Under the sixth EEC VAT Directive, the United Kingdom is obliged to refund the VAT charged on UK goods when they enter the freeport, just as if they had been exported -- a rule in line with the notion of freeports as enclaves that are effectively outside the tax and duty area of the host country. Yet this directive, say operators, is not being implemented.

The application of VAT to UK-sourced components used in manufacture within the freeports actually mitigates against UK suppliers and in favour of imported components. The arrangement is in stark contrast to that in the French free zones (actually bonded warehouses), which can receive French goods which will then be treated for all financial and tax purposes as if they have been exported. Once again, our own rules seem to be quite contrary to the objective which the establishment of freeports in the United Kingdom was intended to achieve.

The effect of incurring Import VAT on finished products that leave the freeports for the UK market is similar. The tax means that any UK component of these products (such as labour) is being penalized, and freeport operators and users argue that reform of these arrangements is necessary if they are to enjoy simple equity with existing manufacturers in the UK when supplying the UK market. Freeports, they say, are unlikely to attract companies that produce solely for export markets, and indeed they should encourage the ability to serve the domestic economy. Yet any finished goods that leave for the UK suffer the VAT disadvantage.

VAT, together with import tariff duties, is also levied on imported machine tools used exclusively within the freeport. This once again is at odds with the notion that the UK taxation and tariff system should affect freeport manufacturers only when goods leave through the fence for the domestic market, and is another point at which UK freeports lose some of their theoretical advantage to traders and manufacturers.

Temporary importation arrangements

Goods that are held under temporary importation arrangements are not allowed to enter UK freeports unless they are exclusively for export. This would appear to be contrary to European Community rules, which allow for the free movement of goods into and out of freeports, and in any event seems an unnecessary restriction which could be eased.

Lack of policy response

Many freeports complain of getting little or no help from the Commissioners of Customs & Excise in London regarding points of detail or policy. Some operators say they are still waiting for replies to enquiries made nine months ago. A clear and simple policy approach is urgently needed if the UK freeports are to press ahead with confidence.

There is strong reason to believe that Customs & Excise officers at all levels are troubled by the freeport principle and have no particular desire for the experiment to succeed. Some operators believe that when they ask for rulings on questions of procedure that are unclear, the answer generally errs on the side of inflexibility, and the mere fact that the question is asked sets in motion a further tightening up of all related rules that in the end leaves the freeport operators and users worse off.

Perhaps as the existing freeports become more established, their ability to campaign effectively for more liberal and better co-ordinated customs policies will increase, and perhaps the addition of further sites into the freeport system will boost their strength yet further. For the moment, however, the success of each freeport seems to be crucially dependent on the discretion of local Customs & Excise officers and the relations it is able to foster with them, rather than on the advantages conferred by a clear, helpful, and dispassionate national policy.

CONCLUSION

All of these six points are significant ways in which UK freeports are losing out to competitors, including competitors in other European Community countries, because of restrictive rules which would be straightforward to reform.

Indeed, the point was raised in a House of Commons motion introduced in April 1986, which observed that the main objections to the existing regime related to VAT, customs and excise duties,

and IPR procedures, and expressed the concern that 'the paperwork involved in all these procedures is unproductive and is a burden on business and civil service manpower', and called on the Chancellor of the Exchequer 'to abolish value-added tax within the freeports and to give to the freeport area, as a whole, excise warehouse status.

The interesting thing about the present operating restrictions that cause so much complaint from operators is that none of them are applied to similar transactions in any of the European free zones. This unique treatment puts the UK at a considerable disadvantage over her partners in the Community, making it more costly and more difficult for foreign investors to set up shop in the freeports, and discriminating against UK manufacture and components.

When the idea of freeports was being discussed in the United Kingdom, Customs & Excise argued that no VAT concessions, or for that matter concessions in other taxes and duties, would be permissible under the Treaty of Rome, since they would constitute a distortion in competition and trade within the European Community. Events in the last couple of years, however, have made that objection impossible to sustain. Various countries in the Community are offering extremely generous concessions, and as a result of this and other measures, a number of European freeports have quickly prospered. Freeports, and the concessions that help to make them successful, are now no longer viewed as a distortion of trade and competition, but as a healthy way of encouraging more trade into Europe in general. Other EC countries, unlike the United Kingdom, are actively helped to grasp this opportunity by their own customs systems.

Freeports would be judged a success if foreign export and import companies were attracted to do business through them, if foreign manufacturers saw the merit of creating jobs in the UK by moving their manufacture to the freeport area, and if new businesses were started that capitalized on the new opportunities the freeport regime offered.

It is early to say how well the freeports will perform on these measures, but at present they do not give the impression of being headed for wild success. Only modest progress has been achieved to date; and that is not just because only a comparatively short time has elapsed. Some of the successful freeport applicants, like Prestwick, had a very clear idea of what they would do with a freeport long before they were picked, but even they have been struggling against an unfavourable operating environment. Others, it is alleged, owe much of the progress they have made to development gains rather than to their freeport status as such.

The measures of freeport success hinge exclusively on the extent to which businesses are encouraged to move to and set up in the freeport area. At present, however, there are few gains that would encourage a business leader to take the expensive and risky step of moving into a new site, or even into a new country.

The benefits conferred by the freeport status are simply not sufficient to justify to most people the expense of setting up a new operation, with new buildings and plant costs, the need to hire a new workforce, to transport inputs and finished goods to a new manufacturing base, to build up new distributive networks, and so on. In fact it takes a very powerful set of incentives before such a decision is likely to be taken.

In the less commercially attractive freeport areas, an added attraction is the availability of development aid grants for businesses that start up within them. Liverpool and Prestwick are examples of the operating freeports that enjoy these advantages. In fact, it might be these grants, as much as the freeport status, that has enticed new manufacturing to these areas; although their existence has not been enough to get customers established in the Belfast and Cardiff freeport sites. In any event, the concept of a freeport relies on the reduction of regulation and taxation, rather than on the offer of generous grants. They are intended as areas of trading and manufacturing freedom, rather than islands of subsidy.

The problems caused by the restrictive regulatory and tax framework within which each of the six freeports must operate are so considerable that it is doubtful that local management will ever be able to make them into a runaway success. Yet it is plain that differences in local conditions could make the difference between marginal success and complete failure. Some people, including certain freeport operators, believe that a good choice of site is actually more important than the customs rules themselves. These points make it appropriate to look more closely at the actual problems and successes that can be found in the individual locations.

Problems

The relationship with the local Customs & Excise officials seems to be a key factor in the success of any freeport, but at Belfast this seems to have started disastrously. As typified by the problems with the fencible, the suddenness of the local officials to live 'by the book' has not helped the freeport to come into operation as quickly as was hoped. The operators in Belfast feel that flexible parameters would be more suitable in their case, so that companies can locate there and choose to be located inside or outside the freeport as their circumstances prompt -- a system which works widely in the United States and other countries where freeports are common. But this has not yet been approved.

Another example is that of the freeport's despatch standards. The system proposed for controlling the flow of goods into and out of the customs area must naturally be approved by Customs & Excise; but it has proved impossible to get that approval in advance. Indeed, Customs & Excise has been insisting that the operators should install the system, and only then will they

3. FREEPORT NORTHERN IRELAND (BELFAST)

Operation

Belfast is a freeport which, eighteen months after being designated, has not yet opened. One reason for this is that Customs & Excise inspected the designated site but determined that it lacked certain features necessary for it to operate as a freeport, such as sufficiently secure fencing. Thus, the one firm currently operating inside the zone does so without the benefit of freeport status. Another five applications have been received from companies which are interested in operating within the zone once its freeport status has been achieved.

The freeport is a part of Northern Ireland Airports Limited, and employs five people from within that organisation. The zone covers 70 acres, part of Aldergrove airport. The principal means of entry would be by road and air transport, and Customs & Excise would come into the zone to check goods when the freeport is established and separated from other airport land by a suitable perimeter fence.

Types of business

The land at Belfast is priced attractively, something which is seen essential in attracting businesses in a region that is still suffering economically. The freeport operators expect that the zone will attract in particular those businesses ancillary to the aircraft industry, with parts being either made or assembled at the zone, then shipped out to the European Community and other countries. Most of the inputs would be likely to come from the United States.

Problems

The relationship with the local Customs & Excise officials seems to be a key factor in the success of any freeport, but at Belfast this seems to have started inauspiciously. As typified by the problems with the fencing, the tendency of the local officials to live 'by the book' has not helped the freeport to come into operation as quickly as was hoped. The operators in Belfast feel that flexible perimeters would be most suitable in their case, so that companies can locate there and choose to be located inside or outside the freeport as their circumstances prompt -- a system which works widely in the United States and other countries where freeports are common. But this concept has not yet been approved.

Another example is that of the freeport's computing standards. The system proposed for controlling the flow of goods into and out of the customs area must naturally be approved by Customs & Excise; but it has proved impossible to get that approval in advance. Instead, Customs & Excise has been insisting that the operators should install the system, and only then will they

determine if it is suitable -- which, if the decision were negative, would represent an extraordinary waste of effort and money.

An interesting point made by the Belfast zone's operators is that government ministers are not as closely involved in the freeport concept as they were in the enterprise zones proposal. There is no single minister both committed to and responsible for the success of the United Kingdom's freeports. Hence, over-bureaucratic and unhelpful attitudes can persist within those public agencies with whom a freeport must deal, with no firm direction from above to stop them.

A problem more specific to Belfast is that the freeport was originally established around an aircraft project. The collapse of this project was an initial blow to the freeport management; but to some extent the comparative lack of attractiveness of the present freeport conditions generally might have hastened this particular failure.

Advantages

The Belfast site is at an airport, which confers certain natural advantages, especially to firms involved in the aircraft industry, and to potential users dealing in high-value, low-bulk goods. However, the ports of Belfast and Larne are some distance from the site, and despite the fairly good road and other communications in Northern Ireland, and despite the fact that Aldergrove is a busy international airport with regular flights all over the world, its site may not be ideal. Some proponents of a freeport in Belfast would have preferred it to be located in or near to the existing enterprise zone at the city-centre airport by the harbour, where overland and marine links with market centres would have been more direct. There has been some suggestion that the unpromising choice of Belfast for a freeport was due more to the effort of the then Secretary of State for Northern Ireland, Mr James Prior, to win concessions for the area, rather than a rational assessment of the site's advantages.

Marketing strategies

Marketing is done through the existing marketing outlets of the operators, Northern Ireland Airports. The management see it as difficult to market the freeport as an individual entity, particularly perhaps in view of the present lack of benefits available. The marketing stress is therefore on the freeport as just one part of a total package available to airport users.

Conclusion

Despite its difficulties, the attitude at Belfast is one of guarded optimism. Because of the evident lack of any rush of potential freeport users, the use of the land for development might prove to be the most important initial benefit. However, the rules that constrain freeports may change, and the management

at Belfast certainly believe their task would be easier if the freeport idea were given some teeth and if national policy made Customs & Excise procedures more responsive to local needs.

Operation

The Birmingham freeport is due to open in September 1986, and work on it has been going on since September 1983, representing an investment of £6,000,000 so far.

Such a large commitment to an idea which is still largely in the experimental stage suggests that the investors at Birmingham have supreme confidence in the potential of their freeport. However, it is interesting to note that none of the development so far has been, in effect, ordinary industrial development that happens to be situated on airport land. There is more than a faint suggestion from other freeport operators that Birmingham's backers were more pleased to get the land freed for development than in the acquisition of freeport status in itself.

The West Midlands freeport operators, nevertheless, observe that the facility's brand new buildings are designed specifically for freeport use. Certainly the scale of the development is impressive, faring the largest semi-industrial development currently under construction in the West Midlands. At the moment there are two hundred prospective firms coming into the zone, many of whom are in an up-market, high-quality development with good security provided by the customs fence and supervision by Securicon. The first phase of the development is only 165,000 square feet; supposedly the smallest on offer by the six freeports, although the actual size at Birmingham is smaller. The first phase is expected to be let up within the normal period of twenty-four months from practical completion, an expansion is already being contemplated.

The principal means of entry is by road, with air entry also an option. The relationship with Customs & Excise appears good, and it is anticipated that they will be based within the freeport site when operations begin.

Types of business

For the existing units, a flexible warehousing region will suit both warehousing and manufacturing requirements. For the main sector at Birmingham are expected to be import-export companies performing repackaging and light assembly functions. It is anticipated that most of the finished items handled will be high-value components bound for the United States, the Far East, and the European Community. Good communications from the airport to other countries, easy access to the zone by road from Britain's main seaports, and the concentration of import-export firms expected there should reinforce its appeal to overseas users.

Problems

Two points must be borne in mind when assessing the progress of

4. WEST MIDLANDS FREEPORT (BIRMINGHAM)

Operation

The Birmingham freeport is due to open in September 1986, and work on it has been going on since September 1985, representing an investment of £6,000,000 so far.

Such a large commitment to an idea which is still largely in the experimental stage suggests that the investors at Birmingham have supreme confidence in the potential of their freeport. However, it is interesting to note that most of the development so far has been, in effect, ordinary industrial development that happens to be situated on airport land. There is more than a faint suggestion from other freeport operators that Birmingham's backers were more pleased to get the land freed for development than in the acquisition of freeport status in itself.

The West Midlands Freeport operators, nevertheless, observe that the facility's brand new buildings are designed specifically for freeport use. Certainly the scale of the development is impressive, forming the largest semi-industrial development currently under construction in the West Midlands. At the moment there are two hundred prospective firms coming into the zone, many of whom see it as an up-market, high-quality development with good security provided by the customs fence and supervision by Securicor. The first phase of the development is only 166,000 square feet, supposedly the smallest on offer by the six freeports, although the actual site at Prestwick is smaller. The first phase is expected to be let up within the normal period of twenty-four months from practical completion, so expansion is already being contemplated.

The principal means of entry is by road, with air entry also an option. The relationship with Customs & Excise appears good, and it is anticipated that they will be based within the freeport site when operations begin.

Types of business

For the existing units, a flexible warehousing regime will suit both warehousing and manufacturing requirements. But the main users at Birmingham are expected to be import-export companies performing repackaging and light assembly functions. It is anticipated that most of the finished items handled will be high-value components bound for the United States, the Far East, and the European Community. Good communications from the airport to other countries, easy access to the zone by road from Britain's main seaports, and the concentration of import-export firms expected there should reinforce its appeal to overseas users.

Problems

Two points must be borne in mind when assessing the progress of

the Birmingham freeport. Firstly, Slough Estates, who have the task of harnessing the freeport's potential, are principally property developers, not international traders. Accordingly, they have a very specific idea of how best to manage the freeport that is not completely shared by other operators. Secondly, because the freeport at Birmingham has not yet started up at the time of writing, operating problems have not had a chance to occur as yet.

Nevertheless, the existence of the cargo terminal at Heathrow in London, one of the largest cargo terminals in the world, does pose a challenge to Birmingham freeport, which is rather near to it, and so will face stiff competition for business from the bonded warehouse regime operating there. On the other hand, Birmingham argues that with twenty units, they can offer better access and can rent smaller amounts of space than would be required by Customs & Excise to create a bonded warehouse.

Another problem specific to the site was the existence of a fuel farm facility on the site of the freeport. To clear the obstruction, and the legal problems associated with it, took six months longer than expected, and partly explains why Birmingham is only now coming into operation.

More generally, the Birmingham freeport's operators share the concern that the rules could certainly be designed to give more help to the users that the freeport idea was intended to foster, particularly those in manufacturing.

Advantages

An obvious advantage of Birmingham is its location. Near the geographical and demographical centre of the United Kingdom, it is on a dual carriageway with access to the main motorways of M1, M4, M6, and M45. The site is only just over an hour away from London by train or car, and so it is seen as having access to major financial and communications centres.

Marketing strategies

The marketing effort of Birmingham seems to be the greatest of all the freeports. Its budget for advertising and public relations would appear to be the greatest of any, and it is using the extensive networks of its two major backers, Slough Estates and Prudential, to market the concept. The press has been involved in communicating to the general public, while exhibitions and public relations work takes the message to the more closely targeted business community.

Conclusion

Thus far, Birmingham seems set to be the most commercial viable of the existing freeport sites. To judge by the operators' confidence and investors' commitments, and given the site's good communications and proximity to London, the site is potentially

the most successful of the six.

5. CARDIFF FREEPORT

Operation

Cardiff is a freeport where no physical progress is yet evident. The site is 30 acres, and could increase to a maximum of 120 acres, but only 8 acres actually have freeport status at the moment, and no buildings have been erected. The operators have been trying to attract subsidies for development, but this has proved a difficult task. At present only two employees are working on the freeport project.

Four or five companies have expressed an interest in using the freeport as a place of business, but the general air of economic depression in the Cardiff area does not inspire much optimism that this number will increase rapidly. The fact that the only access is by road similarly cuts down the range of potential freeport users in the region.

Types of business

The concentration of the operators at Cardiff is not on manufacturing. Instead, the freeport, when working, expects major distributors to come into the zone, dealing in a diverse range of goods such as electronic equipment, musical instruments, contact lenses, and timber products. The main destinations for the goods emerging from the freeports would be North America, the Middle East, and other non-European countries, for which Cardiff is most suitably located. Inputs, however, would be likely to come from all over the world.

Problems

Obviously there has been no opportunity for operational problems to arise, but the relationship between the operators and the local Customs & Excise appears excellent, which may help to avoid future problems. Like other freeport operators, however, those at Cardiff seem dismayed at the enormous power of local officials to interpret the regulations to an extent that could spell success or failure for an entire site.

The freeport in Cardiff has been slow to get off the starting-blocks. Partly, this might be due to the fact that a declining industrial base and low rents in the area have made the site a poor prospect for commercial development. Also, the local authority might be criticized for its rather faint support for the freeport project, once Cardiff had been designated; but again, the freeport's managers feel that the comparatively unattractive conditions under which freeports must operate mitigate against success. In particular, the VAT regulations are seen as a major obstacle, particularly to manufacturing: it is felt that duty should be paid after manufacture, not before.

Those same problems faced by all the freeports seem to loom

much larger at Cardiff, where general economic depression makes the prospects of success for a freeport marginal in any event. This has inspired Cardiff's managers to do everything they believe possible to make politicians and officials aware of the regulatory barriers to the success of freeports and the unhelpful way in which Customs & Excise rules can be interpreted by the local officers at each site. Lobbying of MPs and representations to the Department of Employment and the Department of Trade and Industry have been strands of this campaign. The predominant reaction seems to be one of ignorance: politicians and officials do not understand freeports, say the Cardiff managers, and their tendency is to hand problems back to Customs & Excise in London. That regime, they argue, regards freeports as an experiment which they would prefer to fail, and their tendency is not to interpret doubtful cases to the benefit of the freeport users, but to cut back any benefits that already exist.

Advantages

There are some locational advantages in Cardiff, which is in the right area of the country for marine communication with North and South America. The Port of Cardiff is capable of taking ships up to 35,000 tonnes, and has a growing trade in commodities such as fruit juice and timber. Cardiff is on the rail freight network and also has access to the motorways M4 and M5.

Cardiff is an intermediate development area, and development grants can be made to businesses starting in the zone, and for machinery costs. Because the freeport site was formerly an industrial area, there is also support available from the funds set up by the European Community to ease the impact of declining coal and steel industries.

Marketing strategies

The start-up cost at Cardiff so far has been about £250,000, the actual site being worth about twice that amount. Some steps have been taken to promote the freeport, including the circulation of some 2,500 brochures throughout the world, seminars, and media work. However, there is presently little in the way of a marketing budget, because Cardiff feels that it has little to market at the moment.

Conclusion

Cardiff remains generally optimistic despite its disadvantages, but once again, the future viability of the development of the site would be much improved with (even minor) easements in the operating conditions that prevail.

However, a rational assessment would probably place Cardiff as the second worst-off zone, behind Belfast. It is at least open, but businesses see few advantages in undertaking the expense of moving to the area under the present rules.

6. LIVERPOOL FREEPORT

Operation

A significant feature of the freeport at Liverpool is its size -- some 600 acres, roughly a square mile of land controlled by the Mersey Docks and Harbour Company. This is a private-enterprise concern, which achieved a profit of £3.2 million in 1985 on a turnover of £52 million, and so its management, and thus the management of the freeport, is independent of central and local government.

The principal means of entry into the freeport are road from other UK and European sea- and airports (50%), sea (40%) and rail (10%). Most of the freeport lies within the Royal Seaforth Docks which were officially opened in 1968 and contain modern container, grain, and timber terminals which have undergone further recent improvement.

Liverpool's freeport was the first to come into operation, opening on 29 November 1984. Out of the 300,000 square feet of property which became available when the freeport opened, over 130,000 square feet is occupied; and other areas within the docks are also involved with freeport traffic.

Types of business

Since the freeport commenced operation, three companies have moved into the zone. Two are warehousing concerns (one a new company, the other a company that has expanded into the zone), occupying 100,000 square feet. The third is Streed Limited, which is engaged in linen manufacture, and became the first manufacturer to set up within a UK freeport. Another new company intends to move into the freeport in September 1986, and will go on to occupy a new facility of 20,000 square feet which will be completed by March 1987. The operators are dealing with other enquiries for facilities between 5,000 and 30,000 square feet, representing both manufacturing and warehousing and distribution activities.

Streed Limited, is a very successful company which now represents some 20% of Liverpool freeport's business. The raw materials for its linen manufacture business come from Pakistan, and the finished products go principally to the United States and Scandinavia. Other goods distributed from the freeport include stereo components, yarn, industrial goods, wood pulp, foodstuffs and edible oils. Most merchandise is destined for the UK and the European Community, but some goes to North America and other countries.

In the first twelve months of operation, Liverpool Freeport handled goods to the value of £24 million. And growth has been rapid: in the first six months of 1986, the freeport handled

75,000 tonnes of goods, valued at £36 million.

Problems

Like other freeports, Liverpool has found that suggestions put to Customs & Excise at the national level for a more flexible treatment of freeport users have not found much acceptance.

The significant economic decline of Merseyside in recent years might have presented Liverpool Freeport with a much harder task to find large numbers of users with a bright commercial future. In fact, however, most of the companies using the freeport are not based on Merseyside, but in other UK cities such as London, or even overseas. Furthermore, the existence of the freeport has brought new businesses into the area. Thus, the state of the local economy at the time of designation, say the operators, was of less importance than the pessimists believed.

Nevertheless, Liverpool Freeport is heavily dependent on sea traffic, and yet might be regarded as set in the wrong part of the country for easy distribution. The grid system, which lowers the cost of inland road transport, undoubtedly helps, especially since Liverpool is a fairly central location for UK-wide distribution. But Liverpool has successfully overcome whatever locational problems it has by being competitive in terms of price and service, and has in fact won distribution business from other freeports. Double handling charges can be eliminated, for example, when goods are brought directly into the zone from a ship.

Advantages

Liverpool seems to be overcoming its natural disadvantages better than other existing freeports. There is a realization in the locality that good promotion of the port, good facilities for users, and the minimum of industrial disruption are all necessary if Liverpool is to revive. Much effort has been put into industrial relations, and clear contracts were negotiated long before the freeport opened, reducing the threat of strike action.

The depressed state of Merseyside actually brings other advantages. With roughly 20% local unemployment, there are plenty of potential workers for labour-intensive freeport industries. Property values and thus industrial rents are low. Development grants are available, although Prestwick and Cardiff also qualify. Infrastructure, including roads, rail links, and buildings, are already in existence, keeping rents down again. And some 40% of the UK population lives within 125 miles of the freeport.

In addition, planning problems are less significant than elsewhere, because the land is owned by the operators, and much of the development consists in converting existing buildings rather than erecting new ones which might bring local objections.

A significant feature is the good relationship which the freeport has with the local Customs & Excise regime. The initial conditions laid down (such as the requirement of a 1.5-mile customs fence) were followed to the letter, building up an early trust. Today, the freeport is linked by computer to the Customs & Excise headquarters at Southend, making it easier to smooth any difficulties. So too does the existence of three Customs & Excise bases within the zone. And as a final illustration of the close co-operation, it is noteworthy that a customs officer is on hand to answer questions when potential clients view the freeport site.

Marketing strategies

The promotion of the freeport to potential business users, like the initial application to establish it, has perhaps been helped by the enthusiastic support of local politicians and media. For there is in Merseyside a feeling that the region must capitalize on every such advantage to overcome its evident economic depression.

The Port of Liverpool certainly provides such a foundation; within its 2,000 acre dock estate are 1,000 tenants, including national and international firms. Investment by industry over the last two years has been £80 million, in addition to investment by the Mersey Docks and Harbour Company. Traffic levels are predicted to exceed 10 million tonnes in 1987. Industrial relations are good, with the last stoppage some five years ago, and productivity has increased significantly.

The marketing of the port and the freeport is independent, but co-operative to a certain degree. The freeport has been featured on the port's poster campaign, and the port facilities are mentioned in the freeport's promotional literature. The general promotion of Merseyside through central and local government initiatives undoubtedly reinforces the message. For its own part, the freeport has developed a video presentation to use in the more specifically targeted potential users.

Conclusion

The general attitude in Liverpool is optimistic. Primarily, the freeport is seen as a distribution centre for industry rather than as a manufacturing base, although this facet seems to be growing and might continue to grow over the years.

7. FREEPORT SCOTLAND (PRESTWICK AIRPORT)

Operation

Prestwick airport lost some of its rationale with the development of larger jet aircraft which could fly non-stop over the Atlantic to major UK destinations without having to refuel in the West of Scotland. The more conveniently located airport at Glasgow has also taken much of its commercial trade. When the freeport at Prestwick was opened on 4 April 1985, therefore, the future of the airport itself was under review, meaning that no companies were prepared to risk moving to it at that time. Indeed, like the case of Belfast, it is sometimes suggested that the choice of Prestwick owed more to the prestige of the Ayrshire MP and Secretary of State for Scotland, George Younger, than to the natural advantages of the site.

The freeport became operational in September 1985, after it was decided that the airport should remain open. Currently there are two firms in the freeport, with two applications pending.

The zone is nominally 35 acres, with the prospect of future land purchase; but the actual serviced and developed area is 7.5 acres. At the moment, the only means of entry is by road, although extension of the site towards an airport runway is a possibility. Customs & Excise have an off-site checking point to keep track of the goods coming through the freeport, and spot checks within the site are made occasionally. Security is not at present as tight as has been insisted on in other freeport sites.

Types of business

Manufacturing of textiles and high-fidelity equipment occurs in the zone, employing about 30 people. The raw materials for the textiles business come from India and Pakistan, and the packing from the UK, with the products going to Scandinavia. The electronic equipment is exported principally to non-European countries, and most of its inputs come from the UK.

Problems

Prestwick has reasonable communications by road, and potentially by rail and air, but it is hard to see what advantage (in terms of communications) it could have for manufacturers and import-export traders over nearby Glasgow. Despite the decision that the airport should remain open, there are few flights, although the United States is only five and a half hours away.

Rents are certainly lower than many city sites, and development grants are available, but new buildings would be necessary if any large numbers of undertakings were to be accommodated at the site.

The relationship with the local Customs & Excise is a close

one, but once again there is little evidence of a sympathetic treatment of freeport users by local or national officials. As in other freeports, enquiries have met stony silence and existing incentives for users have been obstructed at the national level. Some potential users at Prestwick have been denied entry under freeport status. The obstacles of VAT and long delays in customs documentation have caused Prestwick the same difficulties that exist in other freeport sites. Because of the very marginal nature of the site at Prestwick, it is clear that a fairly radical easing of the existing regulations would be necessary before it could become even a modest success.

Advantages

Nevertheless, Prestwick does have some advantages. The area around it is very beautiful, which in the United States has proved a major advantage to freeport operators because it attracts new businesses looking for a better working environment than is possible in city centres. It is close to Glasgow and to the Silicon Glen area, and so can draw on a highly educated and skilled workforce that specializes in high-tech production.

Once again, development subsidies, rather than natural advantages and ease of operation, seem to be high on the list of benefits that are drawn to the attention of potential users.

Marketing strategies

Freeport Scotland Limited had a very modest budget to develop and sell the freeport concept. Although it has approached potential users in areas which Prestwick could serve well (such as Canada and Scandinavia), its marketing power is limited and unless financial provision is made to increase this adequately, there must be doubt whether it can long continue.

Conclusions

Despite the initial enthusiasm for a freeport from the local authority, the poor location of Prestwick undoubtedly makes it one of the least likely to succeed, given the present operating framework laid down by the government and put into effect by HM Customs & Excise. Easier operating conditions might save it, but it would still face stiff competition from the freeports in better locations.

8. SOUTHAMPTON FREE TRADE ZONE

Operation

Southampton was the first freeport to open in the UK, on 6 April 1984. Unfortunately, Associated British Ports, the 51% owners, and the other members of the operating consortium, found themselves in immediate dispute with the dockworkers, which prevented the freeport from becoming operational for over a year. The dispute was settled only in December 1985.

Since then, the zone has developed quickly. In the first twelve weeks, it handled goods valued at £12 million, by the end of six months, the freeport had traded with nineteen different countries.

The site contains 475,000 square feet of warehousing at present, of which roughly 145,000 square feet is in use. Up to 900 acres could be made available for future manufacturing, storage, and office space if needed. Currently, about half of the area is utilized, but it is anticipated that the present site will be full by the end of 1986.

Types of business

The freeport's principal function is warehousing. Some 25 companies have used the facilities to date and roughly 100 more applications are pending. Many different products and companies are represented, with most of the goods coming from the United States and Far East, and going to destinations in the European Community. The outlook for manufacture in Southampton, other than light assembly or repackaging, seems limited.

Problems

It is possible that the concentration on warehousing may prove to be a long-term disadvantage, whatever the short-term benefits. Of the most successful freeports throughout the world, quite a high proportion rely on a manufacturing base rather than a warehousing function, although the experience is certainly mixed.

The freeport's agreement with the dockers now makes it possible to move goods from port quays direct into the zone, although the freeport is in fact physically some distance from the container quays, making a road transfer for containers inevitable.

The location of the freeport within an area covered by the dock work labour scheme precipitated the original disagreement. While the operating consortium accepted that jobs involving the loading or unloading of ships was work for registered dockers, it wanted to hire non-dockers within the zone, arguing that the movement of goods within freeport warehouses was clearly not dock work. The dispute was eventually settled, but not before the Dock Labour Board had declared for the dockworkers' monopoly.

The operation of the dock work labour scheme raises problems for several freeport sites (and potential freeport sites), and its application probably serves to raise costs and to some extent reduce flexibility. Certainly, those not covered regard their own position as fortunate.

Advantages

Southampton, however, has other features which outweigh whatever costs are suffered; and undoubtedly the greatest asset of Southampton seems to be its location. Because of their proximity to London and to Europe, ports on the southern and eastern coasts of Britain are the most attractive, particularly in view of the good road links that now serve them. The closeness of Southampton by road and rail to two of the world's busiest airports, Heathrow and Gatwick, is also an advantage.

In addition, the Southampton area is not facing the same economic difficulties faced by other freeport locations, such as Cardiff and Liverpool, which allows it to draw on a stronger local economy and again augurs well for its future. However, for a freeport which concentrates on warehousing functions that come from international trade and is not dependent upon local manufacturing concerns, a strong local economy may be a comparatively modest advantage.

Marketing strategies

Perhaps because of the dockworkers' dispute, the freeport at Southampton seemed cautious about promoting itself aggressively for the first few months of 1986, but now that it has more confidence, some large-scale marketing initiatives are in progress. The Southampton public relations firm, Blair Bowden Associates, work with the media as part of this effort, and background public relations work has been done by the shareholders.

Conclusion

Although Southampton appears to be doing better than most of the six freeport sites in the United Kingdom, there is still a feeling that it has suffered unnecessary problems and could do very much better under a more sympathetic regulatory framework. Like other freeport operators, those at Southampton believe that the national organisation of Customs & Excise has never been in favour of the freeport experiment, and have interpreted the regulations in ways that make them less and less attractive to potential users and more and more difficult for the operators to manage.

9. REVITALIZING THE FREEPORT CONCEPT

The general concerns about the operating conditions available to UK freeports are certainly clear from the foregoing summary of the progress of each site. The adverse incidence of the VAT regulations and excise bonding restrictions, the burdens of planning and other regulations on business users of freeports, and the lack of any national agency within the government or within Customs & Excise to make sure that the freeports idea actually works as it was intended to, all seem to be having their effects and causing headaches for the operators.

The lack of any national policy watchdog is particularly important. At present, there seems to be a large measure of doubt, particularly from within Customs & Excise and the Treasury, whether the fundamental idea of freeports is a good one. And impartial observers could certainly be forgiven for concluding that the present duty and VAT regulations seem almost designed to kill the whole concept. Yet it remains true that freeports throughout the world have proved remarkably successful -- provided that they offer the attractions of lower taxes, duties, and regulations, and are independent of governmental authorities in their day to day operation.

British reticence

The long-running Treasury objection to freeports, that they constitute a distortion of trade and are thus neither desirable, nor allowable under the Treaty of Rome, cannot in reality be substantiated. Other European Community government, with a more ebullient attitude, have made their own freeports much more attractive to overseas investors than those in the United Kingdom. The rest of Europe seems to be embracing the freeport idea with enthusiasm, leaving the UK engrossed in its own study of the minutiae of dusty Directives and Regulations. As the UK holds back, Hamburg, Rotterdam, Cadiz, and the rest are actively marketing themselves as places where the international trading community can insulate itself from the depressive effects of VAT and customs regulations.

Nor can freeports be criticized any more than other policy initiatives on the ground that they might distort trade. Already the bonded warehouse scheme operates under conditions that might well be more inclined to change the pattern of certain types of trading activity than the rather modest concessions presently allowed to the freeports. Yet there is no suggestion of changing the bonded warehouse regimen.

In any event, the efficient operation of freeports would be unlikely to take trade away from other European ports; but it would certainly encourage the creation of new businesses in both trade and manufacture that would otherwise not come into existence in Europe at all. There is, in fact, a clear world demand for freeport facilities within the United Kingdom, partly

because English is the main language of world commerce and partly because of the UK's excellent links with the United States, other European countries, and the Commonwealth. At present, frustrated traders who are not attracted at all by the complex and rigid regulations applying in the UK and its freeports have to turn to other freeports in other countries (including European Community countries) which offer an escape from VAT and customs duty paperwork.

Poor choices

All this makes it unlikely that the present round of freeport experiments in the United Kingdom will be judged a success.

The choice of sites has certainly not helped. Belfast, Prestwick, and Cardiff seem to have been chosen at least partly with the sensibilities of their respective secretaries of state in mind. With Liverpool and Birmingham, they would appear to be aimed at helping areas of high unemployment rather than producing trading gains for the country as a whole. Only Southampton is located in a thriving area, and even there the recent loss of large numbers of jobs in nearby Portsmouth might be cited as a factor influencing the decision. But when we look at freeports throughout the world, it becomes clear that they stand the greatest chance of success in areas that are already prosperous, and in sites that are already popular stopping points on the trade routes of the world. Southampton and Liverpool might qualify on the latter measure, but the group as a whole seems to have been chosen with other objectives in mind.

In some cases, freeports might come to work as much as a result of enthusiastic local management, of an area-wide promotion campaign, and of grants and subsidies to new businesses, as of the benefits of the freeport principle itself. Even these subsidy inducements, however, will have difficulty in generating bright fortunes for a number of the freeport sites. It seems likely that at least two, and possibly four, of the existing six freeports, could fail altogether unless present policies are changed.

A PROGRAMME FOR REFORM

There are two complementary programmes which can be undertaken in order to improve the operation of the freeport idea in the United Kingdom and to gain for the UK the new business creation and increased trade that the idea was designed to bring.

Reform of existing freeports

The most significant reform would be to treat the freeports as if they were outside European customs territory for the purposes of Value Added Tax, along the lines already discussed. The most important benefit of this would be that VAT would not be payable on transactions within the zones, making them more attractive to overseas companies and enabling them to join Hamburg and

Rotterdam as commodity trading centres.

Where goods never leave the freeport gates for the UK economy -- and indeed in the case of imported machine tools that are used solely for manufacturing within the zone -- it seems pointless that they should be subjected to UK taxes, particularly where such taxation depresses trade with and employment inside the freeport areas. At no loss to the Treasury (except the interest on tax held before it is repaid), this measure would make the freeports substantially more attractive to foreign businesses.

As a part of the reform of VAT, further thought needs to be given to those VAT rules which actually discriminate in favour of foreign manufacture and foreign component imports. The application of VAT to UK-sourced components used by manufacturers within the freeports, and the raising of Import VAT on goods, including those with a domestic content, which leave the freeport for the domestic economy, all need review.

The 1986 government white paper on business burdens raises the prospect of a review of the VAT and other conditions operating in freeports, due in March 1987. In view of the clear opinions of the operators about the exact rules which would need alteration, and the significant burden which the existing regime clearly puts on the zones, there may well be a case for making those changes earlier.

The second reform that would seem to be required is more automatic procedures for IPR and other customs procedures within the freeports. The presence of experienced zone operators should make this straightforward to implement.

Related to this is the need to treat the UK freeports similarly to those in the United States and elsewhere, so that manufacturers can choose to pay duty on the components they use or on the finished products they make within the freeport, in order to allow them the most favourable rate and so attract new businesses to come to the United Kingdom.

Thirdly, excise bonding facilities need some thought. They already exist in other areas within the United Kingdom and it seems pointless not to allow this additional advantage automatically to the freeports. The presence of Customs & Excise personnel or agents in freeport sites should make this a straightforward arrangement to introduce and maintain.

The fourth need is to institute a freeports 'ombudsman' whose task was to make sure Customs & Excise policy was clearly explained to and understood by the freeports operators, to interpret the rules to facilitate the smooth running of the freeports, to represent the needs of the freeports at a political level and within Customs & Excise, and to campaign effectively against unnecessary regulations and paperwork. This would clearly have to be an individual or group with an expertise in customs regulations, and with some authority within Customs &

Excise although slightly detached from it.

Business deregulation is another innovation that could put greater life into the freeport concept. The 100% capital write-off offered in enterprise zones would be entirely appropriate, as would a general liberalization of planning controls. Such advantages, and the inclusion of land tax or corporation tax relief within the freeports would be generally welcomed by the operators. European Community rules, which relate solely to customs matters, may pose problems. One solution might be to mimic the Belgian system, in which 'free warehouses' (similar to freeports but not bounded by a secure fence) are established and simply placed in enterprise zone sites. It would need some care to ensure that such a policy was not constructed to the detriment of the existing freeports, however.

A final reform that would help at least some of the freeport operators would be a national review of the dock labour scheme. It may not require a complete reform, or replacement, of the scheme to achieve the necessary benefits, and it might be sufficient simply to remove freeports from the ambit of the scheme.

Introducing new freeports

Because most of the existing freeports were placed in depressed areas, the concept started out with one strike against it. It should be no surprise that freeports located in areas where people want to do business are generally more successful than those in other areas, and the same is almost certainly true in the United Kingdom. Properly constituted, freeports should create employment; but they are intended to generate trade, with the beneficial consequences of that spread across the whole country, rather than to provide an assistance package to an area whose location has become unfavourable. Consequently, the correct places for freeports are those areas where traders and manufacturers already want to go.

In the United Kingdom experiment, no freeports were designated on the east coast. Trade with Scandinavia is therefore poorly served, as is trade with other European countries (although Southampton, on the south coast, is reasonably well located with respect to some of them). Because the south-eastern parts of the UK are relatively prosperous, they were given no further freeport advantage; freeports were concentrated for political reasons in areas where they were by and large unlikely to prosper.

The location of new freeport sites on the east coast would capture important trade routes that are presently not served by the existing six. Furthermore, the power of the present freeports to cut through both paperwork and policy obstacles has been limited because of their limited attraction to customers; the new customers who would want to set up in east-coast freeports would give the whole concept a boost, and would constitute a large group who could voice effectively the need for

simpler regulations. Far from hindering the existing six, a new batch of freeports would be likely to help them all.

We propose therefore a 'second round' of freeports on the east coast of the UK. The sites which stand out most significantly are Aberdeen, Felixstowe, and Tilbury. The case for each of these will now be examined in turn.

Because it is likely that most of the users of an Aberdeen freeport would be in petrochemicals, it would not take trade away from existing freeport sites. Relationships between the freeport operators and the potential customers are already established, and are likely to remain good.

For the users, a freeport could provide valuable warehousing and facilities for component assembly and the servicing of equipment necessary to the oil industry.

A demonstrated demand for a freeport at Aberdeen already exists, with NESDA (the North-East Scotland Development Agency) having a list of potential clients and anticipating initial new demand from twenty companies, eight of which are based in Scotland.

Characteristics

With the support of the City of Aberdeen, the availability of land for freeport development should be straightforward enough, and outline planning permission for industrial developments already exists. A phased development of five-acre units near the airport at Dyce is envisaged, and it would take about six months for the first unit to become operational, although for clients with specialised buildings needs, this could be longer.

The relationship with the local Customs & Excise officials is already established and should form a good foundation for future freeport operations.

Aberdeen's advantages

In general, freeports succeed on the back of existing patterns of trade, and are unsuccessful in the attempt to move traders to areas where they have little interest in locating. Aberdeen, far removed from most of the UK market, has by necessity become a centre of international trade, and the prosperity following the discovery of North Sea oil has made it an important trading centre. On the evidence from other countries, therefore, a freeport at Aberdeen would have a good chance of success, particularly in view of the desire to build up a light manufacturing region within it. Furthermore, its geographical near profile would mean that it would not interfere with the efforts of the existing freeport sites.

Problems

Optimism still does not abound at Aberdeen, partly because of the

10. PROPOSALS FOR NEW FREEPORT SITES

ABERDEEN

Aberdeen is the oil exploration centre of Europe, and a freeport at Aberdeen would provide a valuable service to customers already located in the area. Because it is likely that most of the users of an Aberdeen freeport would be in petrochemicals, it would not take trade away from existing freeport sites. Relationships between the freeport operators and the potential customers are already established, and are likely to remain good.

For the users, a freeport could provide valuable warehousing and facilities for component assembly and the servicing of equipment necessary to the oil industry.

A demonstrated demand for a freeport at Aberdeen already exists, with NESDA (the North-East Scotland Development Agency) having a list of potential clients and anticipating initial user demand from twenty companies, eight of which are based in Scotland.

Characteristics

With the support of the City of Aberdeen, the availability of land for freeport development should be straightforward enough, and outline planning permission for industrial developments already exists. A phased development of five-acre units near the airport at Dyce is envisaged, and it would take about six months for the first unit to become operational, although for clients with specialized buildings needs, this could be longer.

The relationship with the local Customs & Excise officials is already established and should form a good foundation for future freeport operations.

Aberdeen's advantages

In general, freeports succeed on the back of existing patterns of trade, and are unsuccessful in the attempt to move traders to areas where they have little interest in locating. Aberdeen, far removed from most of the UK market, has by necessity become a centre of international trade, and the prosperity following the discovery of North Sea oil has made it an important trading centre. On the evidence from other countries, therefore, a freeport at Aberdeen would have a good chance of success, particularly in view of the desire to build up a light manufacturing regimen within it. Furthermore, its specialized user profile would mean that it would not interfere with the efforts of the existing freeport sites.

Problems

Optimism still does not abound at Aberdeen, partly because of the

temporary lack of fortune in the oil industry, but more importantly because the existing regulatory conditions are thought to be insufficient to permit a smoothly operating freeport which gives real benefit to industries starting there.

To justify designation as a freeport, Aberdeen would probably have to serve a wider market than the oil industry, however. The industry already has a favourable customs arrangement under the continental shelf facility, and this, together with an ordinary customs warehouse arrangement, would provide them with what was effectively a freeport operation. Yet Aberdeen, with its fishing, distilling, and other important industries, could almost certainly benefit from full freeport status.

Conclusion

Under a more flexible regulatory framework, a freeport at Aberdeen would stand a bright chance of success, creating jobs and businesses that would help the petrochemical industry and thus bring marginal benefits to most spheres of business in the United Kingdom.

FELIXSTOWE

Felixstowe is another area with bright economic prospects, and it is already a thriving port where a new freeport development could be expected to attract considerable interest.

Felixstowe is in a good location for European trade, but it has trading links with a wide variety of countries outside Europe, and has already become the largest container port in the United Kingdom. There are a large number of potential freeport users overseas who already recognize the advantages of Felixstowe's port facilities and good industrial relations record, and might therefore be more disposed to enter a freeport site there than at other sites less familiar and less attractive to them.

As with Aberdeen, much of the trade of a freeport would be likely to come from existing port users or new businesses that were ancillary to existing users, so that it would not interfere with the efforts of other freeport sites.

Characteristics

From the point of being designated as a freeport, Felixstowe might take up to two years to become operational. There is high interest in the idea, but the port cherishes its relationship with the local authority and is likely to be careful in the development of any new site.

Some 25 firms were seriously interested in the idea when Felixstowe first put forward its bid for freeport status, and interest still remains. Partly, the demand comes from firms at the Cambridge Science Park which is associated with the port's

landholders.

The initial size of the freeport would be a sizeable 66 acres, with 67,000 square feet of purpose-built manufacturing space. In fact, Felixstowe is interested only in a manufacturing freeport, since available warehousing already exists (and would be on hand to absorb freeport users' bulk space requirements) and since the port recognizes that manufacturing is a characteristic of successful freeports elsewhere in the world. The manufacturing, however, would be light, predominantly with high-technology and light industrial goods -- from the original proposal, 70% of potential users would fall into these categories. The assurance that there would be no heavy manufacture within the zone has done much to alleviate the doubts of the local authority, which now supports the freeport concept.

Advantages

Like Liverpool, the operators at Felixstowe see the freeport as an added dimension to existing facilities, rather than something which can encourage the development of substantial new trade by itself.

The company has a proven management record and has invested heavily to make Felixstowe a highly successful port, the biggest container port in the country. Its willingness to stimulate new ideas and support new technology could well give Felixstowe exactly the right working environment for a freeport based on light manufacture, one which would become an attractive centre for new technological development.

Felixstowe has estimated that the freeport could generate up to two thousand jobs in the area, in work related directly and indirectly to the freeport. Rate revenues for the local economy could be approximately £1,500,000 per annum, with a possible net gain to the UK economy of roughly £22,000,000 per annum.

In considering a freeport with a light manufacturing base, the managers at Felixstowe recognize the importance of good freight links; and it certainly enjoys excellent road and rail connexions directly into the port.

Problems

Once again, the operators at Felixstowe, having gone into the mechanics of freeport operation more deeply than most, are worried that the existing conditions allowed to freeports are insufficient. Felixstowe would need new buildings, roads, and landscaping, and so rents are likely to be higher than at freeports in depressed cities. The proposed site is not immediately next to the quays, so some handling and haulage costs will also be borne by the users. Yet the advantages must clearly outweigh these relocation costs if a freeport is to survive.

The present vagueness by Customs & Excise about the operating

conditions for freeports, particularly as regards manufacturing, and the problems of slow processing and cumbersome procedures found in other freeports, would tend to make Felixstowe, a fairly expensive site to develop and use, less attractive, despite its natural advantages.

Conclusion

The fact that Felixstowe envisages a light manufacturing emphasis for its freeport suggests that not only an easier customs regimen, but the easing of other regulations, particularly for small businesses, would particularly increase its attractiveness.

Nevertheless, Felixstowe seems well placed to become a successful freeport, being well located in a prosperous part of the country, having good support facilities and an existing volume of trade, and being linked to a science park which could develop technologies to be manufactured and traded from the freeport in a complementary manner.

LONDON (TILBURY)

A strong case has emerged for a freeport at Tilbury in London. Although London's docks would not seem the obvious place to find a successful freeport, the general region around London is thriving, with 40% of UK trade going through the capital. Freeports are designed to stimulate and reinforce existing trade links, rather than to move trade to new locations, and it could be argued that the freeport experiment would be lacking if it did not include a site that could build on and help multiply the large volume of trade already going through the London area.

The new orbital motorway around London, M25, has also enhanced the attractiveness of the Tibury area, linking it conveniently to the modern cargo facilities at Heathrow and Gatwick. The proposed development of Stanstead airport and of new road and rail links to serve it would also boost Tibury's convenience to potential users.

Characteristics

The operators estimate that Tilbury, already endowed with existing buildings, would take only a matter of weeks to become operational, depending on the level of demand actually exhibited by companies in the area. Existing warehouses at the docks could be used and converted, or purpose-built units could be placed on undeveloped land. The principal use envisaged would be entrepot trade, and the model would be the freeport at Miami, where warehouse facilities are linked to showrooms so that interested buyers can come on-site to select products. Light assembly and repackaging might also be included, as they are at Miami.

Several companies appear to be interested in using the freeport zone, and future users might include new and expanding trade markets such as China, the developing countries, and Eastern

Europe, for which the zone might provide a showcase in the West.

The initial size of the freeport would be roughly 40,000 square feet, with a second phase of 200,000 square feet or more being possible depending upon the demand which arises. The use of existing land owned by the operators should reduce the planning process to a minimum.

Advantages

The location of London on existing trade routes bodes well for its success as a freeport. The depressed economic conditions in the immediate locality could well be stimulated by a freeport, which should benefit from the general prosperity of the London area.

However, it is likely that the pattern of industries attracted to Tilbury will be somewhat different to those attracted to the other potential freeport site in the South-East, Felixstowe, and operators at each site foresee no unconstructive competition between them.

Problems

There is some feeling at Tilbury that the existing freeport experiment has not been running long enough for firm conclusions to be reached, and it appears that the port would be content to start up operations under present regulatory arrangements. However, the belief is shared with operators at Felixstowe that after the initial round of designations, a certain momentum has been lost from the freeport concept and that it would require a further debate upon the future of freeports to get businesses interested in thinking about the idea once again.

Tilbury is covered by the dock labour scheme, and it might require some careful negotiations if the difficulties experienced by Southampton are to be avoided.

Security might also be a difficulty, especially if the whole dock were to be included as a freeport, which could be a sensible policy. Existing fencing might be sufficient, but if Customs & Excise demanded a three-metre fence as they have done at other sites, it could entail the expensive replacement of up to seven miles of fencing. Monitoring of freeport activities is seen as less of a problem, and contingency plans exist to install a computer link with the Customs & Excise system in Southend, similar to the link at Liverpool.

Conclusion

London should stand a good chance of designation in a second round of freeports, principally because of its excellent location and transport and communication links to other countries and the main centres of the UK market. Tilbury remains a very active port and as such could support an effective and imaginative

freeport which would in turn reinforce the existing pattern of trade. Relations with Customs & Excise are good, and the operators appear to have a good deal of enthusiasm for the idea.