

Responding to COVID-19 in the Liverpool City Region

Assessing the Potential of Liverpool City Region's Freeport

Dr Tom Arnold

Map of Liverpool City Region Combined Authority (LCRCA) boundary (in red) and constituent local authorities



Data sources: Westminster parliamentary constituencies (December 2018 - ONS), local authority districts (December 2018 - ONS), and combined authorities (December 2018 - ONS)

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Key takeaways

1. Liverpool City Region has been selected as one of eight new freeports in England, with a range of multi-modal customs and tax sites spread across the city-region.
2. The government's freeports policy has prompted debate about the extent to which they may benefit local economies, with supporters suggesting they can play an important role in boosting regional productivity as part of the government's 'levelling up' agenda, while critics argue they are likely to displace economic activity rather than create significant numbers of new jobs.
3. The multi-site and multi-modal character of the Liverpool City Region freeport represents an opportunity to build on existing sectoral strengths in the region and work with the city-region's universities to develop more environmentally friendly technologies and techniques.
4. Risks of business activity being displaced from elsewhere can be mitigated through a focus on attracting businesses operating in particular sectors, as well as through strong governance incorporating public and private institutions.
5. As part of a wider policy mix outlined in the Liverpool City Region Local Industrial Strategy and its post-Covid 'Building Back Better' Recovery Plan, freeports could play a role in bringing more good quality jobs to the area.

1. The UK Government's proposals for Freeports

Liverpool City Region (LCR) will soon begin working with government on the detailed business plan for a new freeport – one of eight new free economic zones in England announced by Chancellor Rishi Sunak at the Budget. Presented as a central plank of the government's 'Levelling Up' agenda to reduce economic disparities between different parts of the UK, the Chancellor enthused that freeports would regenerate post-industrial sites, bring high-quality jobs to areas that had suffered from economic decline over recent decades, and act as hubs for research and innovation in sectors such as carbon capture and storage. [Critics of the plans](#) have however suggested that there is little evidence to support claims that freeports will have significant positive effects on local economies. Opponents have argued they could displace economic activity from elsewhere, increase potential for tax evasion and

money laundering, and be costly to maintain.

This policy brief does not seek to address the merits or otherwise of the UK's new freeports policy, but assesses plans for a Liverpool City Region freeport in the context of ambitions to deliver a sustainable, green recovery in line with the principles of Liverpool City Region's Local Industrial Strategy and its [Building Back Better](#) Recovery Plan. The LCR bid emphasised the potential of the freeport to regenerate deprived areas, enhance trade and logistics infrastructure for the benefit of the wider North West, and attract inward investment, particularly focused on advanced manufacturing and research and development activity. However, perhaps the key element in the plan is its commitment to make a significant contribution to ambitions to reducing carbon emissions and consumption. This brief evaluates the role of the freeport in Liverpool City Region's post-Covid recovery plans, its long-term industrial

strategy, ambitions to achieve net zero and its trade, manufacturing and logistics landscape.

2. The Liverpool City Region Freeport bid

The freeport will be located across several sites spread across Liverpool City Region. Three locations will be *tax sites* centred on significant regeneration opportunities, providing businesses located within the sites special tax benefits including:

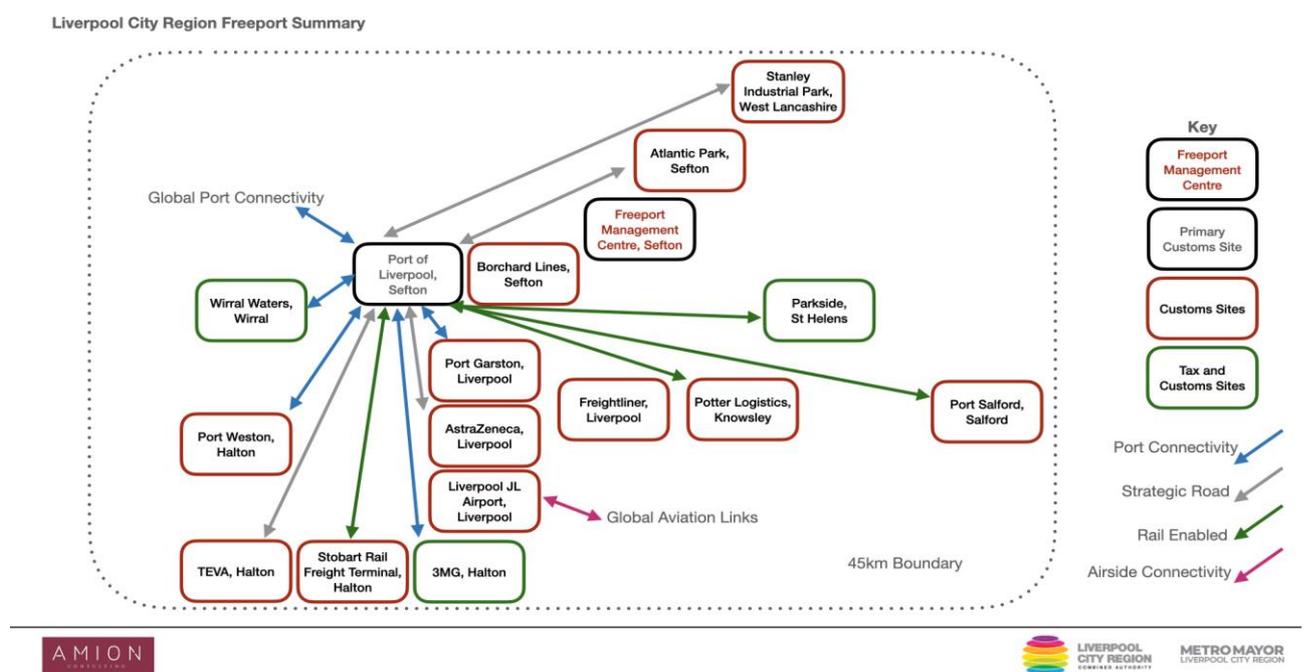
- Business Rates Relief for all new businesses and certain existing businesses that expand, until 2026
- Relief from Stamp Duty Land Tax on the purchase of property within the sites
- Employer National Insurance Relief for some employees
- Enhanced capital allowances for companies investing in plant and machinery.

In addition, there will be 16 *customs sites* (with two outside of Liverpool City Region, at Port Salford in Greater Manchester and one in West Lancashire). The Primary Customs Site will be within the Port of Liverpool, and the tax sites will also be customs sites. Businesses operating within the customs sites will receive tariff benefits including the ability to defer payment of import duties while goods remain on site, and duty inversion – meaning goods exiting the freeport can be levied with a lower tariff than their component parts. Due to the UK’s ongoing negotiations with international trade partners regarding post-Brexit arrangements, benefits within customs sites may change over coming years. Figure 1 below illustrates Liverpool City Region’s Freeport sites and their status.

3. Targeting Net Zero

The LCR Freeport bid emphasises its potential to contribute towards the UK meeting its carbon reduction goals. Proposed improvements to transport

Figure 1. Freeport customs and tax sites



(Source: Liverpool City Region Freeport Bid Summary)

infrastructure across the tax and customs sites, including a new rail freight interchange at Parkside St Helens and rail heads across several other sites, aim to shift freight traffic from road to rail, and it is anticipated that several sites will aim to attract businesses operating in renewable energy and sustainable manufacturing.

There are particular opportunities in hydrogen technology, [already a sector with significant presence in Liverpool City Region](#) and the wider North West. The N8 partnership, representing the eight most research intensive universities in Northern England (including the University of Liverpool) has highlighted the potential contribution the hydrogen economy can make, suggesting over 200,000 jobs could be created in the industry by 2030. The transition from natural gas to hydrogen looks set to be a major element of the UK's climate change mitigation strategies and discussions on the potential of hydrogen are likely to feature heavily at this year's COP26 UN Climate Change Conference.

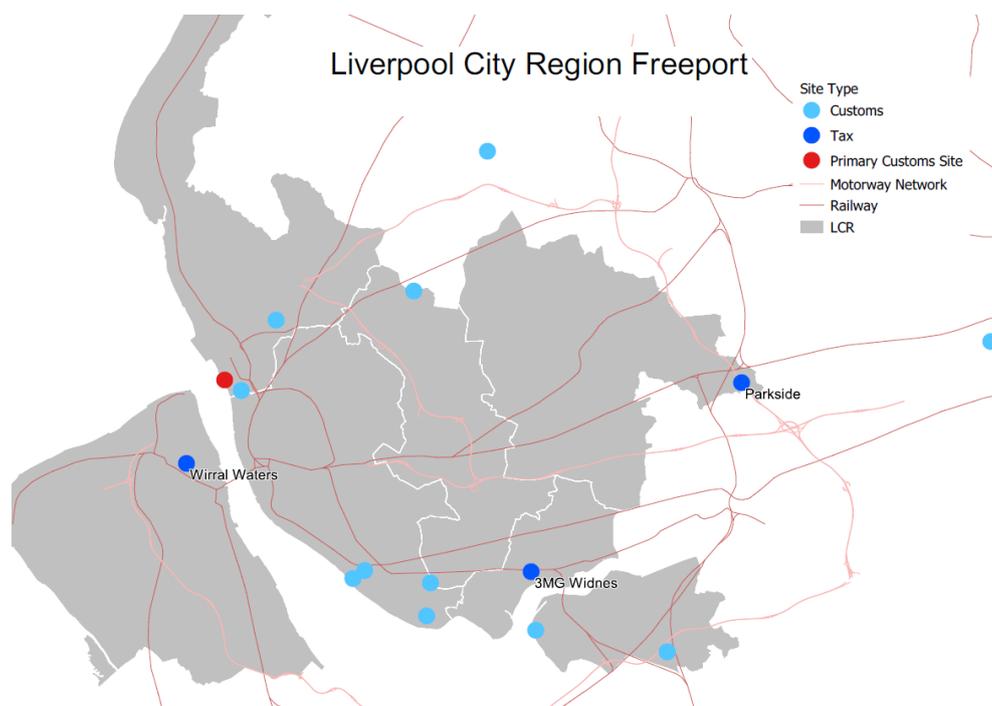
The LCR freeport also aims to align with the city-region's 2040 Climate Action Plan by:

- Ensuring any new assets within freeport sites will be zero carbon where possible
- Designing appraisal frameworks that emphasise the environmental and social costs and benefits of any new development
- Frequently monitoring progress on carbon and greenhouse gas emissions within the freeport and across the city-region.

4. What can the freeport achieve?

Due partly to the initial lack of detail provided by government when it announced its freeports policy at November 2020's Spending Review, speculation on what effect they may have on local and regional economies has often used international examples.

Figure 2. Map of Liverpool City Region's Freeport sites



(Source: Liverpool City Region Freeport Bid Summary)

Freeports will for example be able to use inverted tariff structures to take advantage of the differential tax rates paid on component parts and finished goods. This means importers do not pay tariffs on 'intermediate' goods (i.e. goods that are used to create another product) imported into a freeport, but only on a finished product that leaves the free zone. When there are significant differences in tariff rates between intermediate parts and final products, as in the USA for example, this can result in large savings for producers. In the UK currently, tariffs on intermediate parts are typically lower than final products, so tariff inversion benefits may not be as clear as in other nations (Holmes and Garrett 2020).

While the UK's current customs arrangements mean tariff inversion benefits may not be as immediately significant, there are tariff benefits to businesses producing within freeport sites. In the LCR freeport, manufacturers will be able to move component parts between sites and pay only a single tariff on the finished product. The most significant advantages are therefore likely to be gained by businesses developing products across multiple sites, utilising different technical expertise at each site. The LCR freeport therefore represents something of an opportunity to develop supply chains across the city-region, as well as for logistics firms.

Commentators have also expressed concern that freeports may displace activity from elsewhere (Payne and Thomas 2021). With any zone in which business conditions are different to those elsewhere in a region or nation, there is a risk of some level of displacement, and evidence from experiments with Enterprise Zones in the 1980s and 1990s highlights the need to ensure investment is attracted from new or expanding businesses, rather than relocations (Centre for Cities 2019).

The LCR Freeport introduces several measures aimed at countering displacement risks. Businesses locating to the freeport will be required to prove "demonstrably additional, added value", with an emphasis on new FDI and UK direct investment. The LCR freeport bid emphasised its intention to target business with unique capabilities in sectors such as maritime, automotive, biomanufacturing, clean energy and advanced logistics that are unlikely to compete directly with existing businesses in the region. Perhaps the most significant mitigator of displacement is that the tax benefits are unlikely to outweigh the costs of relocation for many businesses. The long-term effects of free zones are hard to anticipate as tax incentives can change, but in the short term the risks of significant displacement of economic activity both from within Liverpool City Region and beyond its borders appears low.

The principal objectives of the Liverpool City Region Freeport are, then, more closely related to orthodox cluster-based regeneration approaches, with the aim of attracting and developing businesses operating in similar sectors, and the potential agglomeration benefits this would bring. While the last year has proven the usefulness of digital connectivity and enabled businesses across the world to engage and trade with each other, there is nevertheless strong evidence that when research intensive businesses locate close to each other, and to research institutions such as universities, there are significant benefits for innovation (Turkina et al. 2019), inward investment and value added business activity.

The multi-modal and multi-site character of the LCR Freeport bid means there is scope for realising the benefits of innovation clusters across the city-region. The freeport management board will include representatives from public, private and academic bodies, and links to

Greater Manchester will also be enhanced through the inclusion of Port Salford as a customs site. The presence of significant research capacity within Liverpool City Region, including an N8 university, gives it a comparative advantage over some of the other freeport sites announced last week. There is potential for the already significant collaboration between academia and the private sector to be further extended into sectors where the freeport can provide a geographical focus for innovation. Sheffield's Advanced Manufacturing Research Centre, home to around 40 technology intensive manufacturing businesses and significant research and development capability, provides an example of the benefits innovation clusters can bring to local economies.

While the LCR bid has no defined rigid criteria for the types of business the freeport will seek to support and attract, it has – through industry engagement – suggested that it is likely businesses operating in one of the city-region's existing sectoral strengths will benefit most from the tax benefits associated with freeport status. These include:

- **Advanced manufacturing:** particularly large automotive companies, bio-pharma and chemical manufacturing, all of which feature strongly in the Liverpool City Region Industrial Strategy
- **Food manufacturing:** the sector is likely to be increasingly important over coming years due to the UK's exit from the EU's single market and customs union
- **Maritime and Port:** Liverpool's long maritime heritage and continuing importance to the UK's international trade network makes it well-placed for research and innovation opportunities in the freight sector, with much of this anticipated to relate to decarbonisation

- **Advanced logistics:** The freeport sites across the City Region are multi-modal, supporting a multi-gateway offer and the potential for a common LCR logistics platform. The sites already have significant strengths in warehousing, supply chain management and fleet management and will look to attract more businesses operating in these areas.

Alongside the Budget, government published [Build Back Better: Our Plan for Growth](#), essentially a rebadged nascent industrial strategy outlining its broad approach to improving UK productivity, particularly outside London and the South East. While there is a degree of uncertainty about the future of sub-national devolution in England following the indefinite delay in publication of the Devolution White Paper, freeports appear to be a central plank of this government's regional policy as it seeks to fulfil its promise to 'level up' the nation. For Liverpool City Region, it will be crucial as it develops the detailed business plan for its freeport that focus remains on developing existing economic strengths and ensuring the sites attract businesses in high-productivity sectors and value added activity, particularly those who can contribute to reducing the city-region's carbon footprint.

5. Conclusion

Liverpool City Region's Freeport represents something of an experiment, although one with parallels in previous attempts at concentrating particular forms of economic activity in a few select cities, as Urban Development Corporations did in the 1980s and 1990s. Claims by the Chancellor in his [budget speech](#) that they represent "a policy on a scale we've never done before" appear hyperbolic, but there are nevertheless opportunities to develop clusters of R&D-intensive businesses working closely with public partners and

universities across Liverpool City Region. The city-region has an obvious geographic and sectoral advantage in port and freight, but will also aim to use the freeport to develop its existing strengths across advanced manufacturing, for example within automotive, biomanufacturing, food and chemicals. Key to its success will be in ensuring enough incentives are in place to attract new businesses, rather than relocations from elsewhere.

Liverpool City Region has over the last 30 years significantly improved its economic standing, attracting investment, reducing unemployment and witnessing the birth of new industries. However, in common with the majority of UK cities outside of London and the South East, it continues to struggle with flatlining productivity, low pay and few routes for progression for too many workers – problems likely to be exacerbated by the aftershocks of COVID-19. The freeport will not, on its own, address these issues. However, by clustering high-productivity and innovative businesses, it can be a part of a wider policy mix outlined in the [LCR Local Industrial Strategy](#) and the Combined Authority's [Building Back Better](#) strategy that seeks to alleviate the city-region's weaknesses and builds on its many strengths.

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