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3.07 Potential Economic Enablers

3.07.1 FREE ZONES

Generally, the term ‘Free Zone’ is used interchangeably with ‘Free Trade Zone’ and ‘Special Economic Zone’.

Special Economic Zone (SEZ)

In autumn 2018, the UK government announced the creation of the UK’s first Special Economic Area (SEA) at the STDC site. The SEA covers the full 4,500-acre site and provides the board with the powers to retain business rates from new investors which can in turn be used to clean up even more land for development, minimising future asks on the taxpayer. This is seen as a first step to Free Trade Zone or Free Port.

The purpose of SEZs is to stimulate economic activity, attracting investment, boosting employment and increasing trade. The main tools used to generate these outcomes are, typically, reduced taxation levels, regulation and customs duties. SEZs are also managed by a single authority and are based around a competitive advantage or location. High profile examples of generic SEZs include: Iskandar, Malaysia; and Shenzhen, China

Free Trade Zone (FTZ)

A Free Trade Zone is a specific class of SEZ. The World Bank defines FTZs as “small, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, trans-shipment, and re-export operations”. It is a geographic area where goods may be landed, stored, handled, manufactured or reconfigured, and re-exported under specific customs regulation and, generally, not subject to customs duty. Duties are only payable once goods move to domestic consumers, meaning there is clear demarcation between the FTZ and surrounding areas. Key examples include: Colon Free Trade Zone, Panama; Copenhagen, Denmark; and Gdansk, Poland.

Within the overarching framework of an SEZ, different types of zones have emerged with subtle variations on the general model. These are:

- Customs-bonded Warehouse: Many examples are found in the USA and China.
- Export Processing Zones: Found in Thailand, the Philippines, Sri Lanka, Egypt and Honduras.
- Enterprise Zones: Examples include the UK’s EZ programme and similar in the USA, France and Italy.
- Freeports: Examples include Korea’s ‘International City’ at Cheju, and similar zones typically found in India and the Philippines.
- Specialised Zones: Typical examples are Dubai’s ‘Internet City’ and Malaysia’s Labuan Offshore Financial Centre.

- Single Factories: They are widely used in Africa, Mauritius and Mexico.

Free Zones

Free Zones have had limited application as an economic development policy tool in the UK. Recently, up to five locations have been designated as Free Zones in the UK: Liverpool, Prestwick, Sheerness, Southampton and Tilbury. However, HM Revenues and Customs identify the Isle of Man as the only Free Zone in operation in the UK as of 2016. In contrast, in USA there are 100+ such zones, many with car manufacturers within them. They are key for imports and provide flexibility on how taxes/duty is paid.

The absence of conventional Free Zones in the UK is attributed to membership of the EU Single Market and Customs Union. This means that the UK is unable to set tariff/customs duties domestically, with responsibility falling to the central EU Customs Union instead. This has made it difficult for the UK to offer the tax incentives normally associated with Free Zones, while maintaining compliance with EU regulations. Within this context, current UK Government policy is geared towards Enterprise Zones rather than Free Zones.

However, in a post-Brexit Britain, there is opportunity to embrace the Free Zone concept, and, indeed, Free Zones have been recognised as delivering against the three key strands of UK Government’s Modern Industrial Strategy:

- Boosting manufacturing
- Boosting trade
- Regional rebalancing

There is cross party support in UK Government and it is suggested there is potential for 85,000 jobs across the UK through the creation of Special Economic Zones (Freeports/Free Zones).

In August 2019 in an announcement from Teesport, the Secretary of State for International Trade, Liz Truss MP, announced that up to ten Free Port locations will be established in the UK. The move came after a 19-month campaign by the Tees Valley Mayor, Ben Houchen, who published a 100-page ‘White Paper’ setting out how these new low-tax zones would work in the UK.

The report stated that a Free Port in Tees Valley could provide a net boost of £2billion to the UK economy and up to 32,000 new jobs over 25 years.

3.07.2 ENTERPRISE ZONES

Enterprise Zones (EZs) in the UK have been focused on urban economic development and regeneration. Regulatory and tax incentives are used to reverse the experienced decline in existing industrial areas. EZs offer a wider range of incentives for investors relative to other SEZs, including affordable housing, public safety, and training opportunities, as well as tax and regulatory incentives.



Tees Valley Enterprise Zone

The Tees Valley Enterprise Zone has been established to help attract real investment and growth to the area, and deliver significant job opportunities from 2015 onwards. It includes seven individual sites across the five Tees Valley Boroughs, and offers financial incentives to qualifying businesses by way of business rate discount or enhanced capital allowances. The EZ is being delivered by the Tees Valley Local Authorities in partnership with the Combined Authority.

Within the STDC area there are two locations with designated EZ status – the first comprising a significant portion of the South Bank/South Bank Wharf site; the second comprising almost the entirety of the Prairie site at Grangetown. Wilton International has also been included within the Tees Valley EZ. These sites may offer the potential to attract development more swiftly than other areas within the site – e.g., Wilton (for the process industry and advanced engineering) and South Bank Wharf (for renewable/advanced engineering) can offer large-scale occupiers enhanced capital allowances against the cost of their plant and machinery.

The EZ status of two key sites within the STDC area and the neighbouring site of Wilton International provides an additional, important attribute for South Tees and STDC, when endeavouring to attract inward investment and drive economic growth for the Tees Valley. The EZ status at these sites runs until March 2020.