

# **Scotland's Economic Performance - The contribution of place-based economic development zones**

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Analysis of survey responses

January 2021



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## Scotland's Economic Performance - The contribution of place-based economic development zones – Analysis of survey responses

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## Executive Summary

The Scottish Government is committed to sustainable, inclusive economic growth as part of our ambition for Scotland to flourish through a just transition towards a net zero, wellbeing economy. This report details the results of a survey designed to engage a broad range of stakeholders. It focuses on the contribution that place-based economic development initiatives can make to building a green, jobs-focused recovery. We were also interested in views on whether the UK Government's freeport proposals, for bespoke economic development zones around ports (maritime, air and/or rail terminals), might enhance that activity, and if it could better reflect Scotland's needs and priorities.

The UK Government (UKG) has cited the creation of freeports as something made possible by the UK's exit from the European Union. However, freeports have operated in the UK in the past while it was in the EU, and many still exist across the EU.

There were 39 responses to the survey overall. 35 were submitted through the Consult portal and 4 were sent directly. There were 13 responses from business. Harbour authorities are included in this category. Local authorities submitted 11 responses (the 3 Ayrshire councils submitted together and Dundee submitted on behalf of the Tay Cities Region). There were 15 responses from others including business organisations and other interested groups.

The survey provided a range of evidence and views on the importance of place based economic development historically and how lessons can be learned for future interventions. There was reflection on the need for similar initiatives to the UK Government freeport model in Scotland.

Reflecting on place-based economic development interventions to date, non-domestic rates (NDR) relief was noted as the most beneficial of the historical interventions, with enhanced capital allowances and a streamlined planning processes close behind.

Whilst there were concerns over potential displacement of economic growth and interactions with the timing of UKG development of freeports, respondents were supportive of a Scottish freeport approach tied to Scottish Government policies on inclusive growth, fair work and the just transition.

It was acknowledged that there was an opportunity within Scotland to shape the nature of this intervention. Some of these comments related to natural advantages in Scotland around renewable energy and net zero transition, but also touched more

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widely on the importance of high-value jobs rather than a ‘race to the bottom’ in terms of relaxing planning constraints.

The view that Scottish progress should be aligned to the UKG timetable as much as possible whilst allowing for variation to reflect devolved policy was mentioned by a number of respondents.

A key point from many submissions was the importance of flexibility to meet local needs rather than a one-size-fits-all approach, and that a range of approaches would be preferable. There was a general view that the key potential benefit of a freeport model was to bring together a range of place based initiatives in a single package rather than a focus on any single aspect of support.

There was also some concern around the nature of the UKG bidding process potentially distorting competition and a suggestion that all ports should be able to achieve the same status rather than “picking winners”. A view was expressed that these concerns could be exacerbated in Scotland if one rural area gained through designation at the expense of another.

Some respondents also reflected on the impact of Covid 19, both in terms of the impact on current activity and timescales but also on the importance of new interventions to help with economic recovery.

## 1. Introduction

The Scottish Government is committed to sustainable, inclusive economic growth as part of our ambition for Scotland to flourish through a just transition towards a net zero, wellbeing economy.

We sought to engage a broad range of stakeholders about the potential contribution that place-based economic development initiatives and specific incentives or measures can make to building a green, jobs-focussed, fair work recovery.

We invited stakeholders to share their views on how we can build on our current initiatives, such as Enterprise Areas and development of sectoral clusters, to make a greater contribution to our aims. We were also interested in views on whether the design and support package set out in the UK Government's freeport proposals for bespoke economic zones around ports (maritime, air and/or rail terminals) might enhance the current offer, and if it could better reflect Scotland's needs and priorities.

## 2. Details of responses

There were 39 responses to the survey overall. 35 were submitted through the Consult portal, or after the survey formally closed but following the survey format, and 4 were sent directly with a more general commentary on the issues.

There were 13 responses from business (harbour authorities are included in this category).

- Aberdeen Harbour Board
- AGS Airports
- Airport Operators Association (letter)
- Associated British Ports, Ports of Ayr and Troon
- CBRE Ltd.
- Clydeport - Peel Ports
- Forth Ports
- Orkney Harbour Authority
- Peterhead Port Authority
- Scottish Hydrogen and Fuel Cell Association
- Scrabster Harbour Trust
- The Scottish Ports Group (British Ports Association)
- The UK Major Ports Group

There were 11 responses from local authorities (the 3 Ayrshire councils submitted together and Dundee submitted on behalf of the Tay Cities Region). All of these were from officials rather than elected members.

- Aberdeen City Council

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- Aberdeenshire Council
- Argyll and Bute Council
- Ayrshire Councils
- Dumfries and Galloway Council
- Dundee City Council on behalf of Tay Cities Region Management Group
- Glasgow City Council
- Inverclyde Council
- Midlothian Council
- Renfrewshire Council
- The Falkirk Economic Partnership and Falkirk Council

There were 15 responses from others including business organisations and other interested groups.

- Cromarty Rising
- Highlands and Islands Enterprise
- Historic Environment Scotland
- Industrial Communities Alliance (Scotland)
- NatureScot
- Opportunity Cromarty Firth (a consortium of 12 organisations)
- Road Haulage Association
- Royal Town Planning Institute (RTPi) Scotland
- Scottish Chambers of Commerce (via correspondence)
- Scottish Enterprise (via correspondence)
- SEStran - South East of Scotland Transport Partnership
- South of Scotland Enterprise
- Tain and District SNP Branch
- The National Trust for Scotland
- Unison Scotland (via correspondence)

This document summarises the findings, by question, of the survey and includes attributed quotes from respondents to share their particular insights. The submissions from Scottish Enterprise, Scottish Chambers of Commerce, Airport Operators Association and Unison were sent via correspondence rather than in the format of the survey questions. These responses have informed the analysis.

### 3. Analysis of responses

The approach in the analysis is to draw out the range of views expressed within each question and quote directly from a range of responses. These quotes have not been edited other than to correct typographical errors.

#### 3.1 Effectiveness of existing measures

The first question related to existing measures.

1: Has your organisation/sector/locality benefited from any of the following incentives?

Non-domestic rates reliefs  
 Enhanced Capital Allowances  
 Enhanced Structures and Buildings Allowance (SBA)  
 Employer National Insurance relief  
 Streamlined planning permission process  
 Customs relief

If so, please detail the type and context of the relief (e.g. business located within an Enterprise Area or authorised by HMRC for customs relief) and evidence of the impact this lever has had on your organisation/sector/locality.

For the 19 responses to this question (of which multiple responses were possible) out of the 35 formal submissions, the results were as follows.

Option	Total	Percent
<b>Non-domestic rates reliefs</b>	15	42.86%
<b>Enhanced Capital Allowances</b>	13	37.14%
<b>Enhanced Structures and Buildings Allowance (SBA)</b>	9	25.71%
<b>Employer National Insurance relief</b>	7	20.00%
<b>Streamlined planning permission process</b>	12	34.29%
<b>Customs relief</b>	7	20.00%
<b>Not Answered</b>	16	45.71%

A number of organisations used this question to express broad views around the drivers of economic development rather than drawing on specific experience.

Non-domestic rates (NDR) relief was clearly noted as the most beneficial of the suggested interventions with enhanced capital allowances and a streamlined planning process close behind. Comments around planning were generally around

the speed of decisions rather than the nature of decisions. Employer NI relief and customs relief were viewed as less important overall but, while organisations in the business category were overwhelmingly in favour of NDR relief, a small number stressed how they had benefited from Capital Allowances.

The business organisations broadly did not have specific experience of Enterprise Areas and thus mainly answered this question on a theoretical basis. A number of respondents referred to different options being more beneficial in different circumstances and (although not directly related to the specific question) suggested that a “toolbox” of options would be the best approach. This notion of tailoring to local circumstances was an important theme throughout all questions.

#### **Highlight from UK Major Ports Group submission**

UKMPG has undertaken some work with inward investment experts at property consultancy CBRE looking at generic cost models for model companies in some different industry sectors. We used scenarios of different incentive packages to assess potential impact on location investment decision making. A general lesson from this exercise was that different sectors will respond differently to different elements of an incentive package. A potential takeaway from this from the Scottish Government could be to operate a ‘toolbox’ approach to its offering for stimulating investment, with the flexibility to tailor offers to opportunities. A second potential takeaway might be that if the Scottish Government wishes to target specific sectors or industries in line with its broader economic strategy then it can tailor its toolbox from the outset to be attractive to such sectors.

There were some comments around “red tape” and reducing the administrative burden on ports which, although submitted before the details of the UK’s ongoing relationship with the EU were known, have some resonance.

#### **Highlight from Scottish Ports Group**

Firstly, regarding the streamlining of planning processes; it should firstly be noted that ports are not encouraging a ‘race to the bottom’ in terms of planning standards. However, ports do need to see planning processes streamlined so project approvals are able to take place quickly so ports are better able to respond to market opportunities. Reclassifying ‘port zones’ with improved planning, fiscal and regulatory status to improve the planning framework and create a regulatory environment will make it easier for existing and new businesses to operate, invest and employ people.

The efficiency of freight movements is a fundamental factor in ensuring a port can function effectively alongside a reduced cost. Therefore, any measures offered by the Scottish Government that cut through red-tape, such as simplifying declaration requirements as specified in the UK Government's freeport's proposals, could help advance productivity. This would allow port operators and cargo owners in Scotland to devote less time to administrative processes associated with the transport of freight and therefore would be welcomed by the Scottish Ports Group. Furthermore, enabling goods to suspend or delay fiscal duties and tariffs would be attractive to many in the ports, manufacturing and logistics sectors. Duty suspension, duty inversion and export exemption are all mechanisms that we understand that there would be a real interest in utilising. We also identified that for ports who facilitate the offshore wind industry, this could be of great benefit; making a significant difference to cash flow and helping them to attract more projects.

Forth Ports submitted detail on how they have benefited from specific incentives which provides a good indication of how important the specific detail of interventions is likely to be, while Scrabster Harbour Trust were unenthusiastic about their experience with Low Carbon / Renewables North Enterprise Areas.

#### **Highlight from Forth Ports**

Forth Ports have received the following relevant incentives:

- **Enhanced Capital Allowances:** These have been claimed in respect of energy efficient lighting, but this relief was available to all UK companies so has not had a significant impact on the business.
- **Enhanced Structures and Buildings Allowance (SBA):** Forth Ports currently claim SBAs in respect of relevant works. However, we do not currently claim enhanced SBAs, which we are assuming is where the rate this incentive can be claimed is increased above the normal writing down allowance of 3% (previously 2%) per annum. As the normal SBAs are available to all UK companies this has not been a significant incentive for the business to increase investment in structures and buildings.
- **Streamlined planning permission processes:** Our ports do currently benefit from permitted development rights, limited to development for the purposes of shipping or in connection with the movement of passengers, goods, or traffic. However, airport operators are also able to use their permitted development rights for the development of 'operational buildings' for purposes connected with the provision of services and facilities. We believe an amendment to permitted development rights for ports to bring them in line with the development rights for airports, would act as a major lever to support port development. In the early 1990's parts of the Port of Grangemouth, mainly focusing on the non-operational part of the port at Carron,

Old and Junction dock were classed as being within a Simplified Planning Zone. This had limited success in relation to the port with no additional port activity being driven by this.

The wider City of Dundee still has areas of Enterprise Area status, but this does not include the port estate at Dundee.

- Customs and duty relief: Forth Ports do not use customs and duty relief for our own goods as we are a port service company and not an importer of goods. We do however have a Customs Warehouse Authorisation and Excise Warehouse Authorisation at Port of Grangemouth, which is to benefit port customers as a service offering.

Local authorities had more direct experience of Enterprise Areas and specially NDR relief and streamlined planning processes. There was a repeated view that NDR relief had been especially valuable during the pandemic but that it was also beneficial more generally in attracting business, although there were issues raised around displacement, additionality and the interaction with wider local authority funding.

#### **Highlight from Argyll and Bute Council**

NDR relief - This has been used extensively to support small businesses in our town centres and has assisted in retaining many of our small businesses, a large number of who are operating in a rural context. This has however in turn placed more pressure to pay a higher NDR on other businesses such as hotels. These businesses have been hard hit during the pandemic and without the relaxation of NDR this year it would have placed a significant pressure on them to the extent that they may not have survived.

Although not referenced above we have extensively used the master planning process when looking at our places and key development sites/locations. This has allowed us to then establish the principle of a particular type of development(s) and at the same time give certainty to investors and developers whilst helping to identify the main obstacles to development going forward.

There were some views around displacement within local authority areas being caused by Enterprise Areas.

### **Highlight from Midlothian Council**

According to the Scottish Enterprise, Enterprise Area evaluation report the Biocampus has supported 250 jobs and 31 Modern Apprenticeships from 2015 – 2019. This can be seen as a significant Fair Work initiative and is welcome. However, many traditional industrial areas such as Midlothian have undergone huge structural economic change in living memory, changing from traditional manufacturing and primary industries to knowledge based industries. The traditional industries are still important in Midlothian, and to some extent these industries can enjoy the potential economic growth that spins off from the knowledge based industrial growth e.g. through local procurement, and other aspects of economic growth e.g. population growth. However, it has to be recognised that the benefits of this economic growth are not always distributed equitably across the Council area, and some areas where there is ongoing legacies of unemployment, low skills and qualifications and other access and deprivation factors, will struggle to take up the new opportunities that these developments can bring.

And the extent of the incentives available within Enterprise Areas was raised by Glasgow City Council (as part of a useful summary of a range of evidence on the effectiveness of place based development policy).

### **Highlight from Glasgow City Council**

The Creative Clyde Enterprise Area

The Council has played an active part in the development of the Creative Clyde Enterprise Area. Enterprise Area status covers seven separate sites at Pacific Quay, ranging in size from 0.3 hectares to 5.9 hectares. These include the land where a masterplan was developed by Scottish Enterprise. The sites also include the Grade A listed South Rotunda building and the Watermark Business Park.

The Council is aware of the findings of the 2019 evaluation of Enterprise Areas carried out by RSM Consulting on behalf of Scottish Enterprise. Its specific findings in relation to Creative Clyde were that, as of October 2019, three additional companies had been attracted to the site creating an estimated 160 jobs.

Part of the reason for these apparently rather modest impacts could lie in the more limited range of incentives available in this Enterprise Areas compared to many others in which in addition to rates relief, capital allowances were also available.

The responses from other organisations made a number of interesting points about the wider context of economic development but the nature of the question meant that most, other than 3, did not directly respond. Opportunity Cromarty, RTPi and NatureScot all stressed the importance of tailoring to the Scottish Economy and local need.

### **Highlights from Opportunity Cromarty submission**

Opportunity Cromarty Firth's ports primary role is in supporting offshore resource-based wealth generation. The employment opportunities within these sectors already provide high wage jobs [average wage of £48,000 p.a. in the private consortium members, against a national average wage of £24,486]. This plays a crucial role in helping to promote confidence in the local employment opportunities, which in turn supports the viable repopulation of the area. It also clearly supports the transition to a green economy and makes the most of our natural resources.

Freeport status, applied to ports that in contrast act primarily as transport nodes, has well documented drawbacks with the potential to simply displace wealth generation from other locations, resulting in lower regulation and standards and in net loss of tax revenue. This is not the case for proposals which include ports with an offshore support role, such as Opportunity Cromarty Firth.

Non-domestic rates reliefs - Whilst this would have some cost base advantage, we would not prioritise this feature as it is a blunt instrument with the gain frequently accruing to the landowners as higher rents, rather than boosting the economic activity and employment that we would like to see prioritised. We also acknowledge the increased investment that will be needed in local transport, housing, education and social services infrastructure to support expanded activity and employment in the Cromarty Firth area and it seems counterproductive to reduce the revenue base that will help to fund it.

Enhanced Capital Allowances - We believe enhanced capital allowances will be essential to attract additional large, multi-national manufacturers to the area to cluster activities alongside similar companies.

Enhanced Structures and Building Allowance – This could also be of benefit in supporting investment but the advantages, and the likely impact, will be specific to each of the consortium members and proposed developments.

Employer National Insurance Relief – The consortium members are pledging to contribute any National Insurance relief to a skills and training programme. All members of the consortium, along with their supply chain across the region and

Scotland, will need access to a larger skilled workforce. The opportunity to hypothecate NI within a freeport for this purpose would be of great value to the industry sector and the Highland region.

Streamlined planning permissions - The timescales for a development project from inception through to delivery can take a number of years. In a rapidly accelerating sector with crucial investment decisions being made over the next decade, Scotland and the Firth needs to remain responsive and flexible to attract investment. The consortium believes that there is merit in identifying opportunities for streamlined planning measures – which might include the Scottish Government's emerging concept of Masterplan Consent Areas – to provide a means of identifying and addressing issues early on and expediting the process for suitable developments.

Opportunity Cromarty submitted a very detailed response with in depth analysis of the issues raised by the options and crucially, ideas on how they could be implemented in the most beneficial manner, whilst RTPI submitted a detailed plan as to how the planning system could embrace geographically based incentives.

#### **RTPI Scotland Comments**

Although the RTPI does not have any direct experience in the assessment of the incentives listed it is assumed that business will benefit most from the financial incentives on offer and see these as a priority. Nevertheless, process efficiencies are important and can have a critical benefit in terms of timescales for development and investment.

It is clear that any incentive should take an approach which:

- is specific to Scottish needs
- provides a context for investment in an area
- allows for a more sustainable approach which has an impact in the longer term, rather than being a quick fix or sticking plaster
- is planned and thought through to enable this to happen
- is able to allow an area to be developed quickly
- provides certainty for investors, businesses, developers and communities

A positive way of doing this is for any geographically based incentives to embrace the planning system. Too often initiatives of this type have been seen as a means of 'skipping round' planning processes. The reality is that planning can improve predictability for investors, businesses and developers to allow them to create a

sustainable and lasting legacy for communities. Previous approaches have been too focused on the areas within the boundary of the incentive and on trying to create quick fixes which have no long term impact.

Seven suggestions on how this could be made to work are set out below.

- masterplans, masterplan consenting areas and development frameworks
  - fast track planning applications
  - resources and finance
  - brokerage and support
  - link opportunity and need
  - development plans
  - national planning framework
- (full detail in submission)

### 3.2 Wider geographical incentives

2: Has your business/sector/locality benefited from any of the following incentives based in wider geographical areas?

Funding support for infrastructure / regeneration

Regional Selective Assistance

Funding for innovation

Other relevant government funding

Industrial clusters and collaboration hubs

If so, please detail the type and context of the relief, and evidence of the impact this lever has had on your organisation/sector/locality. Which of the incentives mentioned in question 2 do you think is the most effective and best value in creating employment, fair work and advancing innovation and productivity? Please provide evidence of the impact these incentives could have on you.

Almost all the business organisations had received some form of wider geographical based support.

Clydeport made specific reference to City Deals (within Q1) which is shown below.

#### **Highlight from Clydeport (answer to Q1) – City Deals**

In 2019 Clydeport and Inverclyde Council decided to co-invest in designing and building an innovative floating dedicated cruise jetty at Greenock Ocean Terminal.

This was to ease congestion found while boarding and disembarking cruise passengers at the current container terminal. The City Deal scheme was utilised to match fund 50% of the build cost of £16M, with Clydeport and Inverclyde each spending £4M, the balance being match funded by utilising the IC and Wylie Foundation. This investment was necessary as Greenock was attracting an average of 75 cruise ships and in 2018 was seeing passengers of 100,000. The new Cruise Terminal has allowed us to already increase the number of cruise visits to over 100 with over 200,000 passengers booked for 2021. This will have a hugely positive impact to the local and Scotland wide economy

Local authorities, as would be expected had both provided and received a range of funding – see individual responses for detail. Highlands and Islands Enterprise made a specific point about how the schemes listed tended to be competitive and stressed the importance of tailoring to local circumstances.

Option	Total	Percent
<b>Funding support for infrastructure / regeneration</b>	20	57.14%
<b>Regional Selective Assistance</b>	7	20.00%
<b>Funding for innovation</b>	12	34.29%
<b>Other relevant government funding</b>	12	34.29%
<b>Industrial clusters and collaboration hubs</b>	13	37.14%
<b>Not Answered</b>	14	40.00%

In terms of the incentives preferred, there was a clear preference for general funding support for infrastructure and regeneration. Industrial clusters and collaboration hubs also scored highly and were closely followed by other government funding. Regional Selective Assistance was ranked lowest due to its geographically constrained nature although those who had benefited from it, rated it highly, generally.

### 3.3 Additional tools

3: The Scottish Government is considering whether to extend, expand or enhance any existing economic development zones (such as the network of Enterprise Areas, Regional Growth Deals, etc) or potentially create new such zones – including around the freeport model. Additional tools (reserved or devolved), such as the following, could potentially build on these initiatives:

Non-residential Land and Buildings Transaction Tax (LBTT) relief

Facilitation of regulatory innovation, e.g. through the Regulation Engagement Network proposed in the UK Government's freeport proposals, to facilitate direct

engagement between freeports and relevant regulators. This aims to help innovative firms navigate regulation as they develop, test and apply new ideas and technologies in some sectors, minimising bureaucracy and uncertainty, and identify opportunities for regulatory flexibility and ‘sandboxes’.

Masterplan Consent Areas may also be an option when the new provisions of the Planning (Scotland) Act 2019 are enacted.

Which of the above tools do you think is the most effective and best value in creating employment, fair work, and advancing innovation and productivity?  
Please provide evidence of the impact these incentives could have on you.

Option	Total	Percent
<b>Non-residential Land and Building Transaction Tax relief</b>	8	22.86%
<b>Facilitation of regulatory innovation</b>	8	22.86%
<b>Masterplan Consent Areas</b>	17	48.57%
<b>Not Answered</b>	15	42.86%

Of those who responded, Masterplan Consent Areas was the preferred option with over twice the number of respondents as Non-res LBTT and Regulatory innovation. There were a number of comments that these measures were likely to be less important than the existing measures and funding support discussed above.

### **Non-residential LBTT**

The views on LBTT were somewhat mixed and limited to a relatively small number of respondents. A range of views were expressed in terms of the economic incentive impacts of transaction taxes more generally and LBTT in particular. It tended to be the case that the less detailed responses were more supportive of reductions and those that went into more detail tended to express greater concerns.

#### **Highlight from CBRE Ltd.**

LBTT is a relatively small cost for most projects and the granting of LBTT relief even at the rate of 100% would not be in itself a sufficient incentive to address most current (and future) challenges of viability. That was the case when assisted areas previously received SDLT relief. The principal beneficiaries were existing owners, the value of whose assets increased by the amount of the SDLT relief granted. There was no restriction to new development.

It should also be noted that where expenditure on a new development project is incurred by an investor under a development agreement rather than by the

purchase of a completed project for a single capital consideration, then LBTT could already be restricted only to the land value.

A recurring issue was the distributional implications of who benefited from reliefs – would existing land owners simply sell for a higher price without any additionality? It was also pointed out (CBRE) that LBTT is a relatively small cost for many projects and so would be unlikely to be a major influence on transformative decision making.

#### **Highlight from Opportunity Cromarty**

We see no particular advantage from this [LBTT relief] in terms of job creation or productivity and suspect it would only inflate purchase prices should further land be required.

Others however suggested that it could be an issue for start-up businesses and may act as a barrier to long-term investment (as the amounts payable are dependent on the value and hence length of leases).

#### **Highlight from Forth Ports**

Non-residential LBTT is a significant upfront cost for those leasing and purchasing land and buildings in Scotland and the UK. In particular, it acts as a significant barrier to 'young' innovative businesses. The quantum of LBTT is also based upon the length of the lease derived from rental value. Not only is this a barrier in itself, tenants are less willing to commit to longer lease lengths. This potentially results in decisions to not develop due to it being perceived as too high a risk to the developer. Exemption, deferral or phasing of LBTT would stimulate inward investment and thereby boost development, innovation and employment. We believe that, of the three incentives outlined above, LBTT relief will provide the greatest incentive to investment in a freeport in Scotland. Land costs are significant and LBTT creates an additional burden, so lowering these barriers to entry is an effective way to maximise the employment and innovation uplift resulting from the construction of a freeport business facilities.

Regulatory innovation - Innovation in renewable energy, biotechnology and low-carbon transport are all strengths in the regions of Scotland in which Forth Ports operates. These sectors could be complemented by a freeport that improves connectivity, promotes export activity and strengthens the ecosystem for these industries. To foster an innovation-friendly business environment, offering a 'one-stop-shop' for regulatory information, as exists in the Jebel Ali Free Zone in Dubai, could provide an essential contact point to answer questions and build a

business case for investment. A new freeport presents an opportunity to develop testbeds for new technologies. This could be supported through coordinated regulatory and funding actions through specialised development zones (e.g. Future Mobility/Transport Zones) and specific policies to encourage collaboration between freeport businesses and innovation assets.

#### **Highlight from AGS Airports**

From the tools quoted, Land and Buildings Transaction Tax relief would be the most effective measure on the basis that much of the development activity will require new buildings that can be capital intensive. Reducing LBTT liabilities would therefore make the area more attractive to developers/occupiers and again could unlock enhancement of other features such as design quality and environmental performance.

Masterplan Consent Areas could also have a role, although the cost/benefit of these over existing Simplified Planning Zones or expanded permitted development rights requires further consideration.

#### **Facilitation of regulatory innovation**

There was considerable discussion of the importance of the regulatory environment for renewable energy, bio-tech and low-carbon transport and the view that a place-based “test-bed” for new technology might be one potential outcome.

A number of respondents thought that there was scope for regulatory innovation in the context of changes due to the end of the EU Withdrawal agreement and the UK’s ongoing relationship with Europe.

#### **Highlight from Aberdeen Harbour Board**

Brexit will have implications for exporting businesses in understanding the changing nature of regulations across different jurisdictions. The provision of additional business support programmes, to facilitate small and growing companies to focus on innovation would be welcome in this context. For those industries that may face changing regulations either because of Brexit or as innovators that do not currently fit within a clear regulatory regime a publicly funded regulatory facilitation network would be beneficial. This body could:

- ensure the collective views of innovative firms are represented clearly to government of all levels.

- facilitate necessary regulatory approvals for innovation.

There is evidence that this approach would be welcomed as the Scottish Enterprise evaluation of Enterprise Areas found that use of “a dedicated EA site Manager for each EA to co-ordinate and broker other support could therefore be considered as a core element of the EA offer” and one of the roles suggested for this site manager would be to broker relationships and provide business support.

### **Masterplan Consent Areas**

Masterplan Consent Areas could also have a role, although it was pointed out that the cost/benefit of these over existing Simplified Planning Zones or expanded permitted development rights requires further consideration. However, there was considerable support for the concept, particularly in their role in removing uncertainty from delivery.

#### **Highlight from National Trust for Scotland**

Of the three levers referred to, the Masterplan Consent Areas appears to hold the greatest potential - providing there are the financial and human resources to map a new approach to an area, and obtain the necessary consents for the re-development. This could reduce the risks for individual investors and give them greater confidence.

### 3.4 Incentives in the wider context

4. Which incentives or categories of incentives included in questions 1 to 3, or others not listed here, would have the most significant impact on your organisation / sector / locality? Please provide details of the impact and be as specific as you can in terms of value / jobs etc.

#### **Highlight from UK Major Ports Group**

As highlighted previously, we believe a ‘toolbox’ approach is important as different incentives will work better for different sectors.

We would flag that non-financial measures (we’ve highlighted planning as key) have an important role to play in attracting inward investment. They may also have fewer of the distortive effects of financial measures and have obvious positives from the perspective of public funding.

We believe that financial measures should be set at ‘just enough’ levels that nudge

investment whilst minimising risks of market distortion and leakage from other hard-pressed regions. If the correct flexibilities and ‘nudges’ are in place, these spur wider agglomeration effects which are in themselves more powerful and enduring reasons to create and maintain businesses. This is opposed to the problems experienced in Enterprise Zones and similar approaches where businesses come and go solely on the basis of financial incentives.

There were a range of themes suggested within this section that reflected the views expressed above. There was a general view from business organisations that direct funding was the preferred approach if a choice had to be made. However, there were almost unanimous suggestions that it was likely to be a combination of measures that was most effective rather than any single one with a majority of respondents stressing a mix of fiscal and planning interventions. A key component of this was the tailoring of such packages to meet local requirements rather than a “one-size fits all” approach.

In addition, there were a number of sector specific suggestions.

#### **Highlight from Aberdeen City Council**

A freeport used for an energy transition zone could allow firms comparative advantages in production costs within the zone. Economic benefits of production (ease of onsite vs transportation) would be retained within the region, generating investment and jobs. Production-based incentives within freeports make them attractive for this reason.

Specific advantages of such industrial areas/facilities/clusters are likely for the energy sector, again giving the region more comparative advantage in this sector. The induced economic effects could be substantial and would provide a direct transitional path for many local firms to diversify (project management; consultancy; hazardous operations).

#### **Highlight from Dundee City Council on behalf of Tay Cities**

In terms of place-making, incentives that can unlock site development that can play an effective role in attracting inward investment and growth. An example being Vacant and Derelict Land funds which are there for site servicing purposes as a way to prepare a site for an investor coming in.

In reality a number of incentives may be needed dependent upon the type and size of business being attracted, for example, if it were a manufacturing company or part of a supply chain etc. It is difficult to identify one intervention that is applicable

for all situations and therefore a wider basket of interventions would be welcomed.

As previously mentioned, the internationally recognised freeport designation backed up by a range of interventions, both capital and revenue, including central government, national agencies and regional partners would best support the ambitions to deliver inclusive, sustainable growth and a step-change in productivity through a regional collaboration of innovation hubs all committed to delivering clean growth.

### **Scottish Hydrogen and Fuel Cell Association**

An extension of the UK Renewable Transport Fuels Obligation (RTFO) scheme to maritime sector (or something similar for development fuels) would enable commercial case for low/zero carbon ferry lifeline services to the Islands.

## 3.5 Fair work and just transition

5 . How would we best ensure that the Scottish Government's economic agenda of fair work, high productivity and innovation, and making a just transition to a net zero, wellbeing economy is supported by these economic incentives and support?

Almost all business respondees broadly supported the concept of fair work and just transition and were supportive of fair work initiatives in particular, although there was a specific case where no comment was made because “there is no indication that UKG proposals will have a negative impact”. There were several indications of the likelihood of new initiatives creating high value jobs but also that employment opportunities should be designed so that those with a range of skills could benefit.

### **Highlight from Aberdeen Harbour Board**

... spatially targeted policies could certainly be accompanied by measures to ensure that growth is more inclusive. In this way those who are particularly marginalised in the labour market locally could be targeted for additional support (skills, work readiness etc.) to ensure that communities close to spatial policies such as freeports or Transition Zones can participate in the resultant employment growth locally. Any review of best practice from Scotland and across the UK outlines many examples of local employment programmes targeting underperforming areas within the labour market to ensure a more inclusive pattern of benefits locally.

### **Highlight from the Scottish Ports Group (BPA)**

Throughout our responses to each question, we have noted how an economic zoning policy might be moulded to assist the Scottish Government's vision of supporting a productive and innovative economy while ensuring a just transition to a net-zero economy.

Targeted levers, such as customs and planning, can incentivise growth in certain sectors of the ports industry, such as offshore wind to build renewable energy capacity in Scotland. Innovation-focused levers could also stimulate solutions-focused businesses to innovate to solve key problems relating to net-zero transition, while also creating jobs, such as the transformation of chemical industries and energy transition.

We have not placed any emphasis on fair work because thus far we have not seen any levers suggested here or in the UK Government's freeports plans that would undermine the Scottish Government's Fair Work Action Plan.

However, it is worth noting that equal access to incentives is a critical part of ensuring fairness and avoiding displacement throughout this process. We are supportive of UK freeports but retain our concerns that the UK Government has not explored this fully; though it does appear that some planning benefits will be evenly distributed amongst English ports and more than seven freeports will be allocated in England if the Government sees fit.

### **Highlight from UKMPG**

UKMPG has been repeatedly assured by the Westminster Government that governments in Scotland, Wales and Northern Ireland have significant flexibility in the design and implementation of the freeport approach in their nations. We would therefore expect that the Scottish Government would build the priorities of its economic agenda into its approach. This could be through the design of the freeports approach or more tactically through levers like the assessment criteria set for bids. A freeports approach should be harnessed as one way of catalysing progress towards the Scottish Government's economic agenda rather than in tension with it.

A number of respondents (UK Major Ports Group in particular) made specific reference to assurances made by UKG on the flexibility that the devolved

administrations will have to tailor any new UK interventions to their own particular approaches to economic development.

There were a small number of dissenting voices on the business side who stressed the need for action rather than words.

#### **Highlight from Scrabster Harbour Trust**

Listen and trust business and do not get in the way.  
Engage with business and avoid flowery aspirational policy language.

Local authorities were supportive of existing Scottish Government initiatives. A number of local authorities used this question to raise issues around economic displacement and fairness in terms of the location of new initiatives in Scotland and how potential locations would interact with existing levels of economic growth and development. A number of local authorities specifically mentioned the notion of making new support conditional on achievement of wider Scottish Government policy goals.

#### **Highlight from Aberdeenshire Council**

All economic incentives and support offered by the Scottish Government should be contingent on the beneficiary organisations committing to the government's economic agenda and on them delivering tangible progress and outcomes in that regard. However creative thinking may need to be applied to ensure that these principles are not perceived as costly barriers which might discourage investors.

#### **Highlight from Argyll and Bute Council**

The worst outcome from any proposed scheme for investment would be that an area such as Argyll and Bute would be disadvantaged at the expense of another area securing freeport status. The potential for displacement is a real one and the levelling up agenda should be ensuring that each area receives the support and investment it needs to support the needs of its communities and can realise its full potential.

#### **Highlight from Falkirk Economic Partnership and Falkirk Council**

The freeports incentives package and location should build upon existing national and local economic initiatives and partnerships to ensure that the objectives of Scottish Government are realised. Falkirk Council and its partners have been

working to progress a coherent package of measures to progress fair work, high productivity and innovation.

#### **Highlight from Renfrewshire Council**

Scotland needs to play to its geographical strengths. In Glasgow City Region there is the opportunity to create some economic clusters that, in turn, could trigger further investment. AMIDS and the other proposed Innovation Districts are one example of this.

The City Region has the critical mass of industry sectors, skills, and labour to ensure that the benefits of such a policy will be captured and maximised.

It is important that the incentives offered in the economic agenda are not spread too thinly across the country so that the benefits are not diluted. Focusing a number of incentives in particular key clusters will maximise the agglomeration effects, creating hives of economic activity.

These issues were echoed in the responses of the Enterprise agencies.

#### **Highlight from Highlands and Islands Enterprise**

Incentives could come with a level of conditionality to support fair work, net zero and commitment to staff training and development. Reviewing how public procurement could better support local content, fair work and net zero could be impactful. All new infrastructure or adaptation of existing infrastructure needs to meet net zero ambitions.

#### **Highlight from South of Scotland Enterprise**

Fair work runs through all our engagement with business and communities and we want to support organisations make progress on their fair work journey. It will be important that those organisations seeking support are prepared to make that commitment. Working to apply Fair Work First principles is important, while ensuring that businesses get the advice and support they need to deliver on those principles.

There are significant opportunities in the south of Scotland as we decarbonise heat and transport that we are looking to exploit and there will be opportunities for incentives to support this work. There is also an opportunity to link this support to

the Scottish Government’s community wealth building agenda to ensure that local economies benefit from incentives being provided.

A number of respondents (NatureScot) in particular touched on issues of connectivity and “transport poverty” whilst also noting that wellbeing rather than simple economic growth should be the focus on investment.

#### **Highlight from NatureScot**

Improved connectivity is a key element and would be an incentive to attract people and investment, particularly in the context of just transition. It is important to help people suffering from transport poverty to be better able to access employment opportunities. This consultation includes reference to supporting infrastructure – with the main emphasis on funding opportunities. We suggest that support for improved connectivity needs to be considered more fully. While funding is clearly important, a place-based approach to economic development zones should also establish principles on infrastructure, including how existing infrastructure could support creation of innovative, productive places that people want to work in. We therefore suggest that the focus needs to be broadened from potential funding streams and that the definition of supporting infrastructure should include existing or potential green networks that would support low/zero carbon travel and improved health for people working in economic development zones. As proposed in the introduction, an effective way to do this would be to embed use of the Place Principle in planning for economic development zones.

### 3.6 Timescales

6. What investment timescales and/or other milestones important for your organisation, sector or locality should the Scottish Government be aware of when considering potential new or enhanced, spatially-designated enterprise models in Scotland?

A number of organisations provided specific information on the timescales of existing initiatives that would benefit from further support.

#### **Highlight from Aberdeen Harbour Board**

The £370m development of the new Aberdeen Harbour South is due to open fully in October 2022 with partial opening possible in December 2021. Should an enterprise model be in put in place covering the new development clearly it would

be advantageous if this was in operation in time for the new development to benefit.

### **Highlight from Orkney Harbour Authority**

From our point of view it is vital that this is linked with the current timetables and targets for climate change. In particular the well-known timetable for the ScotWind round of offshore wind developments - most of which are located around Orkney coasts and tie in with the facilities that will be constructed, as detailed in our Harbours Masterplan - is a key strategic leverage for considering freeports etc.

### **Highlight from Forth Ports**

Forth Ports is currently undertaking significant capital investment at both the Port of Dundee and the Port of Grangemouth.

A £40m private sector led investment at the Port of Dundee will see the East End of the port redeveloped, transformed and converted to an area of port infrastructure that is class leading in Scotland and fit for the 21st century, with this development focusing on the emerging markets of offshore renewable energy and the decommissioning of existing oil and gas assets.

Grangemouth is at the heart of both Scotland refining, chemicals and logistics industries, all of which are key drivers for the Scottish economy. The port is in the process of completing a £3m investment in rail handling facilities which will result in the Port of Grangemouth being the only location in Scotland capable of handling the longest freight trains operating in the UK.

- The Port of Grangemouth has entered into commercial arrangements with a developer looking to build an LNG power plant on land owned by the Port. The developer will be working through consenting matters in the coming 24/36 months, with the aim of securing the appropriate consents allowing Scotland to continue on the transition to net zero, with the plant aiming to facilitate the production of hydrogen as fuel.

However, the almost consensus view is that there would need to be a reasonable alignment with progress in the rest of the UK to ensure that Scotland does not 'lose out' in cases where the UK government might offer support to activity in Scotland. A number of respondents noted the lengthy timescales that are generally associated with new development activity and thus the scope for a considered approach but also pointed out the time it would take to prepare bids for any new interventions. This

was reflected in comments around allowing due time for processes to take place but balancing this with ensuring that pace is kept with any UKG actions.

**Highlight from The Scottish Ports Group (British Ports Association)**

Naturally, timescales we want to bring the Scottish Government's attention to would be the current bidding process and planned launch of English freeports in the latter half of 2021. We have previously written to Ivan McKee MSP to note the impact of divergence in the launch of freeports and the potential risk to jobs in Scotland should English freeports be installed long before Scotland's. We understand that the Scottish Government recognises the significance of this; though we must note that preparing a bid for a freeport is a time and resource-intensive process, and we ask that periods for catching-up do not rely on a rushed bid process for Scottish ports.

We also note that the Crown Estate Scotland's ScotWind Leasing cycle is currently underway.

**Highlight from Peterhead Port Authority**

A larger scale port project can take up to 18 months to negotiate, 24 months for detailed design and statutory consents and 24 months for construction, so typically up to 6 years from inception to start of operations.

**Highlight from Inverclyde Council**

The Scottish Government should take account of the activity in England and the other devolved nations to ensure that Scotland is not disadvantaged.

Some respondents also reflected on the impact of Covid 19 – this was both in terms of the impact on current activity and timescales but also on the importance of new interventions to help with economic recovery.

One respondent mentioned the potential role of the Scottish National Investment Bank (theBank.scot) in the context of expiring EU funding.

### **Highlight from Midlothian Council**

Also, the expiration of EU funding through Brexit presents a potential funding gap until a replacement fund is established such as the UK Shared Prosperity Fund. The Scottish National Investment Bank and its 'patient capital' ethos can play a role in supply chain development from small enterprises who have the potential to be part of economic growth sectors.

There were also a number of respondents who pointed out the importance of ensuring that there is long-term certainty over the nature of investments.

### 3.7 Lessons from previous provision

7. What are the main lessons to be learned from Enterprise Areas and other spatially-designated enterprise models, including freeports, that might apply to the future operation of similar initiatives in Scotland? How do you think the 'offer' could be improved in Scotland? What new features would you suggest, and why?

A number of respondents provided evidence or links to the available evidence on the effectiveness of Enterprise Areas. This evidence is mixed and a number of submissions took the view that this was an opportunity to enhance existing offers or to solve historical issues.

### **Highlight from Aberdeen Harbour Board**

The first UK Enterprise Zones were aimed at curing market failures in specific locations which suffered from deprivation, abandonment and dereliction of buildings and these issues are now less widespread. The original focus on capital allowances in the first wave of UK Enterprise Zones may have been successful in encouraging investment to overcome these problems, but the policy has been less effective in supporting additional employment. The recent evaluation of the Scottish Enterprise Areas programme also suggested that the level of incentives available in the programme were not in their own right sufficient to encourage relocation. Indeed, the evaluation found that "Overall, businesses were reluctant to attribute improvements in business performance specifically to their location within an EA [Enterprise Area]".

Although the evidence is mixed, most international studies into the performance of Enterprise Areas or Zones also suggest that the standalone tax incentives for specific areas have proven relatively ineffective in raising overall business activity. Where growth has been recorded in the target area, this is often attributed to displacement as businesses choose their location to reduce their tax burden, but

the incentive is not strong enough to encourage new businesses to form, or for businesses to take on people who would otherwise be unemployed.

However, the process of displacement may, in some cases, support the inclusive growth agenda by focusing new business investment on more deprived areas. If in displacing business activity these firms are sustained over the long term, the approach could have merit in spreading opportunity across a wider area. If additional policy support is not in place, or businesses have not been attracted to some other fundamental economic strengths of that location (such as a key industry cluster or enabling infrastructure) , the attractiveness of these tax breaks is likely to decline through time.

Similarly, the freeport model that had been used in the UK up until 2012 showed little evidence of any wider impact outside of the operations within the port itself and largely consisted of a simplified set of customs procedures within the port area. A more successful model must generate wider spill over benefits somehow or risk being only peripherally successful. One potential benefit of freeport status is to enhance the marketability of associated sites to foreign investors and suitable manufacturers. The evidence from the Enterprise Areas evaluation was that trading off the Enterprise Area status was one of the more tangible benefits of the Enterprise Areas and one that could potentially be replicated on the international stage with freeports.

#### **Highlight from AGS Airports**

One of the lessons from Enterprise Areas is to conceive of Freeports Plus as part of a coherent package of measures designed to achieve policy objectives. By providing connectivity and a competitive business environment, freeports explicit role is to enable the sustainable and inclusive growth of advanced manufacturing and international trade as espoused in Scottish Government policy.

#### **Highlight from Unison**

Enterprise Areas have failed to live up to the claims made for them or at the very least the claims remain unproven, across the UK. There is good evidence to support the criticism that they displace investment from other areas rather than generate new investment. There is scarce evidence that they have provided value for money and indeed most participants in the recent review felt there was no reason for their continuation.

Freeports are based on the same rationale but present an even greater risk of ‘turbo-charging’ inequality and uneven development within a region or nation. There are currently approximately 3,500 freeports worldwide, including 80 within the EU. While these vary in type (and the UK Government’s proposition is not precise), what they are in essence is on-shore tax havens, which function as a state within a state, outside of the normal application of laws about customs duties, import/export, planning, construction, tax, business rates and labour.

There was little positive comment on the previous operation of freeports within the UK other than in terms of the simplification of customs procedures. It was acknowledged that this may become more of an issue post EU exit (although the survey concluded before the nature of the current arrangements were known and it remains unclear, if unlikely, if freeports are a mechanism for solving current difficulties). There was an acceptance of the mixed evidence of the effectiveness and potential issues of the freeports model internationally, although this was relatively limited. It was noted that there is brand recognition of the freeports concept amongst international investors.

#### **Highlight from The Scottish Ports Group (British Ports Association)**

We have noted in our response to question three that the Scottish Government has the opportunity to improve the offer of freeports by ensuring a more inclusive policy is established. We are first and foremost supportive of the UK Government’s freeports policy, but believe the Scottish Government can enhance this ambition in a way that allows more to benefit from the policy by broadening levers to all ports.

#### **Highlight from Scottish Hydrogen and Fuel Cell Association**

Whilst freeports is an internationally recognised brand and model, the general perception is that Enterprise Areas are not so widely recognised by potential inward investors. The feedback from our SHFCA members is strongly in favour of using a freeports approach, based on the signalling effect to international investors, as well as the customs and VAT benefits it presents.

There was a general view that the key potential benefit of a “freeport” model was to bring together a range of place based initiatives in a single package rather than a focus on any single aspect. This was coupled with the note that land assembly, planning consents and a wider development strategy would all be crucial components.

### **Highlight from Argyll and Bute Council**

There is no one size fits all and each area across Scotland is different. For an area such as Argyll and Bute we face unique challenges in regard to our geography and our economy. As a rural authority with 22 inhabited islands investment in infrastructure and regeneration is critical and our area should not be at a disadvantage as a result of models being proposed at a both a UK and Scottish Government level that are more suited to an urban location. For many of our more remote communities such as Campbelltown our ports play a key economic role as well as being a critical transport link. The Place based approach is key in determining what is the right approach and it may be that a variety of tools and models are required depending on the needs of that Place and its community.

### **Highlight from HIE**

There is a large body of work that suggests that Enterprise Areas are unlikely to produce long-term, significant sustainable impacts on their own, and that whilst they can reasonably accelerate growth or mitigate decline, they are not powerful enough to fundamentally alter an area's economic trajectory without significant other resources going into the area. (Hooton and Tyler, Do Enterprise Zones have a role to play in delivering a place-based industrial strategy, 2019). HIE believes that this holds true for the Enterprise Areas in our region, and that significant public sector investment is needed to enable success.

### **Highlight from South of Scotland Enterprise**

The evaluation of Scotland's Enterprise Areas demonstrated that most benefit came not necessarily from financial incentives, although they will have been welcomed by and important to individual businesses, but where partners worked collectively across the public and private sector bringing together investment, support and advice to demonstrate confidence in and commitment to a particular location.

Again, a point raised by a number of recipients was the importance of flexibility to local needs and the form of local economic activity in terms of key sectors of local or national significance as well as the importance of wider Scottish Government initiatives around fair work and inclusive growth. There was also a number of concerns raised around the likelihood of displacement of activity both within Scotland and between Scotland and the rest of the UK and some comments reflecting that the potential additionality of the freeports model may be low.

### **Highlight from Renfrewshire Council**

Another key lesson learnt is the need to create actual new jobs. Not just the displacement of businesses from one part of the country to another to take advantage of tax and duty relaxations. Therefore, encouraging inward investment and the establishment of new companies should be a priority.

There was considerable discussion of the dangers of displacement between areas but also the fact that new initiatives could support inclusive growth (or a view of it) by focusing new investment in less well-off areas.

### 3.8 Freeports and sustainable inclusive growth

8. The UK Government's model of freeports involves a number of the above incentives. What impact could a model like this in Scotland have on sustainable, inclusive economic growth - in particular, on job creation, fair work and our transition towards a net zero economy?

There was again reflection on the need for similar initiatives in Scotland given progress in the rest of the UK but there was an acknowledgement that there was an opportunity within Scotland to shape the nature of the intervention and a suggestion by a number of respondees that this local tailoring could make investment more compelling.

### **Highlight from AGS Airports**

Freeports Plus are a necessary response to maintain Scottish jobs, connectivity and competitiveness in the face of progress being made in England. But more than that, Freeports Plus are a chance for Scotland to make our investment proposition even more compelling, to provide a much needed boost to connectivity and exporting and to stimulate innovation and net zero transition in our infrastructure and economy.

Some of these comments related to natural advantages in Scotland around renewable energy and net zero transition but also touched more widely on the importance of high-value jobs rather than a race to the bottom in terms of planning constraints.

### **Highlight from Aberdeen Harbour Board**

Evidence and some commentators suggest that in overall terms freeports create benefits at the expense of other areas and that many of the benefits are in effect displaced from other areas. This would suggest that at the macro-level freeports have drawbacks in pursuit of policies aspirations such as fair work but in location specific sectors such as off-shore wind and hydrogen and CCUS freeports could be highly effective and catalytic if they are targeted in locations where:

- a) the right infrastructure capacity exists
- b) there is a critical mass of highly skilled labour, technology and an existing cluster which enables the agglomeration benefits to be achieved
- c) you can build on existing investment and policy alignment

### **Highlight from Associated British Ports, Ports of Ayr and Troon**

I believe the adoption or introduction of a new incentive model (either freeport or EZs) could encourage significant new growth opportunities.

Any new model should however also be carefully thought through to maximise possible linkage to currently known or opportunities in development, such as:

- Offshore wind - The green agenda.
- Fish Processing - Increased fishing opportunities for Scottish Fishermen due to Brexit and a drive toward the requirement for fish to be processed in Scotland rather than just trucked abroad. Aquaculture offers the same opportunities.
- The forest industry - Linked to sustainable development, manufacturing and support for rural economies.
- Cruise - Scottish Tourism.
- Agriculture - Supporting our real economy and UK production of food.

Again, the importance of tailoring initiatives to local circumstances was stressed. There were a number of worries that those who did not benefit from new initiatives would be left behind and that care should be taken that existing inequalities were not exacerbated. Some of this concern was very specific to port activity rather wider economic development issues.

### **Highlight from Scrabster Harbour Trust**

Potential for displacement of activity. Creation of two tiers of ports. Kick in the teeth for certain. Trust port have invested heavily for the benefits of their local / regional economies taking on significant borrowing and investment risk.

Whilst local authorities were supportive of the concept, there were concerns specifically expressed around displacement and how the mechanics would work in Scotland in terms of inclusive growth. It was commented by a number of respondents that “the devil was in the detail”.

### **Highlight from Aberdeenshire Council**

The freeport model could lead to displacement and governments should develop policies to run alongside freeports that offer other incentives to non-designated areas to ensure that they remain attractive to businesses from sectors not directly impacted by freeport status.

### **Highlight from Ayrshire Councils**

The Ayrshire Regional Economic Partnership has agreed on the need for any Scottish freeport proposition to provide real safeguards against displacement, the exacerbation of existing regional inequalities, the potential for illicit trade and criminality, dilution of workers’ rights and a compromise of environmental standards.

### **Highlight from Glasgow City Council**

The Council notes the intention of the UK Government to set up a freeport in Scotland and broadly welcomes the opportunity to explore options in the Glasgow City Region.

The risk here is that if a freeport is “parachuted” into Scotland then:

- its location might not be consistent with the Scottish Government Economic strategy’s commitment to territorial cohesion;
- its creation may lead to expectations of infrastructure investment from the Scottish public sector which may be difficult to fulfil;
- it may assume devolved incentives such as rates relief would be forthcoming;

and

- its operating principles may not incorporate fully Scottish priorities in relation to inclusive growth and net zero.

Therefore, we are keen that any discussions on freeports take cognisance of Glasgow's commitment to inclusive and sustainable growth. We also believe that there are advantages to be realised from considering the wider city region as an appropriate spatial scale for the reasons set out below.

### **Highlights from Inverclyde Council**

This initiative could have a positive impact on the items listed but this will be dependent on the detail of any scheme. However, any model of freeport should be developed to ensure that it does not cause a "race to the bottom" by, for example, ensuring that employment rights and protections are not reduced, that community wealth building is integral to it and that environmental protections are maintained.

The key dissenting voice was from Unison based on a view of the traditional role of freeports rather than in the context of wider placed based development.

### **Highlights from Unison**

In its consultation document the Scottish Government says it wants to take a 'values based' approach to assessing the freeport proposition, and work *to ensure that all of Scotland benefits*. Our main concern about freeports – and Enterprise Areas - is precisely how they measure up against the aims of:

- Fair work
- A wellbeing economy
- 'Inclusive growth' and the Fairer Scotland Duty
- The Public Sector Equality Duty
- A just transition towards a net zero carbon economy

The key question is, who stands to benefit? The UK Government has made clear that freeports will be private sector driven initiatives. They are designed to achieve the free flow of wealth around the world, devoid of social obligations.

We see no place for these. We do not believe that the freeport proposal can be made to work either with the government's ambition of a wellbeing economy, a just transition to a net zero economy, or with the fair work agenda.

Cromarty Rising made specific detailed reference to their concerns over marine protection and if these would be exacerbated by a freeport within Scotland.

There were some concerns raised around transport capacity implications depending on the nature of any scheme but also more positive views around potential integration of networks.

#### **Highlight from Road Haulage Association**

The concept of freeports can help us create a fully integrated transport network for that area. Road conditions could be improved allowing access/egress to rail hubs allowing value decisions to be made on best modes for particular journeys.

#### **Highlight from SEStran - South East of Scotland Transport Partnership**

It is understood that the nature of freeports and their impacts are complex, and they can be of benefit for some forms of enterprise, but not all. Impacts may include:-

- unequal distribution of opportunities for businesses and employers (geographically, sector-wise or by type of business); e.g. creating a two tier system where those that can't benefit from the freeport incentivisation grow at a slower rate / pay higher tax / are less resilient.
- increases in freight related movement or additional challenges in transport access to the freeport area including congestion can have a range of wider impacts on communities or transport networks.
- secondary impacts from congestion on the reliability and resilience around goods movement which could affect productivity and job retention for business of all sizes.

It is fully expected that any introduction of these policies or zones will involve a full and detailed strategic transport appraisal (and equalities impact and strategic environmental assessments). It is important to identify, and minimise any negative economic, environmental or impacts that may come from introducing a freeport, and to harness all potential opportunities to shift to more sustainable movement of goods and good access / mobility for people, employees, etc.

### 3.9 Local interactions

9. What would be the impact on your organisation/sector/region if a competitor location were designated as a freeport / if a competitor business established a premises within a freeport (e.g. with tax reliefs and other incentives) within 100 miles of your operation? Or elsewhere in the UK/Scotland?

There was a range of views expressed that broadly tallied with the geographical reach of respondents. It was acknowledged that there was already competition within Scotland but that any new initiative could distort this competition.

#### **Highlight from Scottish Enterprise**

The consultation document asks respondents to consider the competitive disadvantage that may arise from designation of freeports in other parts of the UK. SE believes that, both regionally and sectorally, there could be negative impacts for Scotland's economy from the designation of freeports outwith Scotland as this could create an uneven incentive environment for companies potentially disadvantaging Scotland in safeguarding current jobs and attracting new employers. Scotland needs to develop an approach that mitigates this risk.

There was a particular concern expressed around the impact on alternative sites specialising in off-shore renewables and energy transition. The location of a freeport at Teesport was raised as a potentially significant issue.

#### **Highlight from Scottish Hydrogen and Fuel Cell Association**

Given the nature, location, and scale of future offshore wind deployment in the North Sea it is very likely that freeports at distances greater than 100 miles could have a very significant impact on the future attractiveness of ports in Scotland to potential investors. The distance from Teesside to Grangemouth, Fife coast, and Dundee is well in excess of 100 miles, but the location of a freeport in Teesside could have negative impacts for most of the ports on the east coast of Scotland. The freeport opportunity with offshore wind and hydrogen is not a zero-sum game for ports located in Scotland. Unless there is a level playing field across whole of the UK East Coast there is a very real threat of Scotland losing future investment in offshore wind and hydrogen infrastructure and project activities, together with the potential longer term of operational maintenance and associated supply chain jobs.

Based on the estimated growth of offshore wind and hydrogen between 2020 and 2045 as outlined in the Climate Plan Update of December 2020 the stakes are

very large. An attractive environment for investment could enable up to £8 billion per year of investment and about 12,000 jobs per year secured or created in the low carbon energy economy with the development of offshore wind and hydrogen.

However, it was pointed out by a number of respondents that the nature of any impacts would depend on the nature of the areas receiving additional support and the type of economic activity both there and in potential competitors.

#### **Highlight from The Scottish Ports Group (British Ports Association)**

The Scottish Ports Group represents the Scottish ports industry as a whole so we cannot respond on a port-by-port basis to this question. However, it is critical that we note that any freeports or economic zoning policy must be implemented in a way that avoids displacement.

Throughout our engagement on freeports, as the British Ports Association, we repeated the risk of handpicking a number of freeports for the UK, due to intervention in the competitive port market and the risk of economic displacement. We are therefore sceptical of criteria that organises and sorts bids into ports that are more worthy of this economic advantage. The UK government does note the avoidance of economic displacement being a factor in this framework, but this cannot truly be a full-proof measure against this while also pursuing the arbitrary cap of ten with the exception of establishing a few more in the case of a high number of high-quality bids.

It is also key to note that is it not just intra-Scotland displacement that could be concerning, but the risk of displacement between England and Scotland should the Scottish Government not establish freeports – or a suitable countermeasure – while England presses ahead.

#### **Highlight from Aberdeen Harbour Board**

If a competing Energy Port on the Scottish East Coast were to get freeport designation this would almost certainly have a negative impact on the Aberdeen Harbour Board's ambitions for developing a world class off-shore renewables hub and energy transition zone in Aberdeen. (Although the extent of this impact depends on the nature and location of the port in question and the nature of the incentives offered).

The competitor location would serve to divert investment, skilled labour and growth away from Aberdeen. The impact on the regional economy would also be

detrimental because other port locations in the region do not have comparable assets to Aberdeen Harbour South or an existing industrial energy cluster and supply chain of the scale at Aberdeen. It is this scale that can drive rapid growth in off-shore renewables and there is a strong economic rationale in supporting it to do so.

**Highlight from CBRE Ltd.**

There is already competition between locations across Scotland, the UK and wider afield.

We are aware of reports that considered the displacement impact of EZs and in the main would note that the suggestion of any significant displacement did not reflect our experience over many years.

If for example, a company decided to move from Glasgow city centre to say Inverclyde, or Clydebank or North Lanarkshire EZ then that move was simply to gain, in our experience, some financial advantage, but would because the project was only viable, or perhaps could drive earlier expansion and employment than would otherwise have been the case.

One key comment was:

“Greatest overall benefit may come not from a single freeport site serving all of Scotland, but from applying targeted incentives and investment at a number of regions based on sectoral industrial hubs. This minimises the risks of displacement and distorting opportunity.”

There was also some concern around the nature of the UKG bidding process potentially distorting competition and a suggestion that all ports should be able to achieve the same status rather than “picking winners”. A view was expressed that these concerns could be exacerbated in Scotland if one rural area gained at the expense of another.

There was a key concern from an area not currently benefiting from a City-Region deal but other respondents were more relaxed about the issue and suggested that it was equivalence with the rest of the UK that was more important.

Another useful comment was the notion that the term “freeport” has a particular resonance with potential (overseas) investors in spurring initial interest.

### 3.10 UK Freeports before 2012

10. Has your organisation/sector/region been or interacted with freeports that existed in the UK until 2012? What lessons could be learned to apply to potential new freeports in Scotland?

There were only a small number of respondents who had experience of previous freeports that they were able to usefully draw on. The main comments made were around the fact that the previous model was somewhat limited and narrow focused and that the current initiative is to be welcomed as being much broader in scope with a wider focus, beyond customs facilitation, to that of place based economic development.

#### **Highlight from The Scottish Ports Group (British Ports Association)**

Comparison with the previous model of freeports in the UK is not directly possible, due to the huge difference in models. Previously, UK freeports were just customs-based. Now, the UK-Government has proposed a much broader package of levers – from innovation, planning, tax, regeneration, as well as customs. We are therefore reluctant to use the performance of freeports previously as evidence of strength or weakness of these proposals. However, we understand they were a success in a number of regions and their regenerative power has the potential to be very strong.

#### **Highlight from Industrial Communities Alliance (Scotland)**

Looking across the current Scottish economic and social landscape, with its challenges and inherent inequalities, it is evident that freeports are not a 'silver bullet' for our communities. It may, indeed, be part of a cocktail of initiatives but it is not in itself the answer and must be viewed within the context of other policies and funding streams.

This current engagement, via the survey, provides the Alliance in Scotland with the further opportunity to continue its positive interaction with the Scottish Government to promote strategic, integrated and well-resourced funding initiatives, co-designed with our local authorities and key stakeholders, for an optimum impact on the communities that we serve.



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