

Freeports

**Submission to Department of
International Trade consultation**

July 2020

Introduction

The TUC exists to make the working world a better place for everyone. We bring together more than 5.5 million working people who make up our 48 member unions.

The TUC welcomes the opportunity to provide evidence to the government's consultation on its 'freeports' proposals.¹ The government consultation document suggests a 'freeport' would be an area with lower taxes and tariffs and different regulation than the rest of the domestic economy. The government's stated intention is to attract more foreign investment to the UK through such freeports. The location of these freeports we understand is to be decided following this consultation process.

The TUC agrees with the government's consultation document that there is a need to 'level up' regions by supporting good jobs, infrastructure, quality public services and skills opportunities across the country. In order for freeports to provide this outcome, they would need to support:

- good jobs
- the highest social standards and employment rights (benchmarked against EU standards)
- robust regulation and collection of taxes
- quality public services
- infrastructure development
- skills development
- a trade deal with the EU which guarantees tariff free trade in goods and low barrier trade in services and that UK workers continue to be protected by the same standards as those found in the EU

The TUC is concerned that the government's freeports proposals as they have been presented stand to undermine good jobs, workers' rights and the delivery of quality public services in some parts of the country which may exacerbate, rather than address, regional inequalities.

The TUC regrets that trade unions and the workers they represent have not been engaged by government in its freeports plans to date and there are no trade union representatives on the government's Freeports Advisory Panel.

In order to guarantee freeports deliver for workers and support local public services, infrastructure and skills, trade unions must be engaged meaningfully on their design and implementation. Unions have valuable insight into both workers' priorities and business

¹ UK government (2020) 'Freeports consultation', available at: <https://www.gov.uk/government/consultations/freeports-consultation>

needs and are an essential part of any conversation about investment and the local or regional economy.

The TUC believes it is crucial that any freeports proposal must also be subject to local democratic structures and scrutiny. The government must engage with local government, unions, employers and local civic partners to ensure freeports and any infrastructure developed to support them promotes good jobs, supports high employment and safety standards and adequate skills investment.

In our response to the consultation the TUC will cover the areas we are best placed to comment upon.

What would be needed for freeports to deliver for workers?

1. Promote good jobs

The TUC is concerned that the government's consultation document states that regulatory flexibility is one of the aims of establishing freeports. This raises the risk that workers' rights and the quality of jobs will be reduced in freeport areas. This would deepen regional inequalities.

Previous advocates of freeports have suggested that one of the major reasons for establishing freeports was to enable the UK to turn away from EU regulation and establish US-style Free Trade Zones in the UK. For example, in a 2016 report advocating freeports known to be influential with the government, Rishi Sunak called for freeports in the UK to replicate the free trade zones found in the US, citing the free zone in Smyrna, Tennessee as an example of a US free zone 'success story'.²

This 'flexibility' has often been used to undermine workers' rights. US trade unions have highlighted that employers in the Smyrna free zone have been able to deploy anti-union practices with impunity due to lower levels of oversight by labour authorities. Notable examples include Nissan which hired union busters to stop the United Auto Workers union being able to organise and gain recognition in Smyrna.³ Unions have also reported that workers in the free trade zone are subject to a high level of surveillance by employers which is used to intimidate and exploit workers.⁴

2 Sunak, Rishi (2016) 'The Freeports Opportunity', available at:

<https://www.cps.org.uk/files/reports/original/161114094336-TheFreePortsOpportunity.pdf>

3 USA Today (2019) 'Where UAW goes now after rejection by Nissan workers in the South', available at: <https://eu.usatoday.com/story/money/cars/2017/08/05/nissan-workers-deal-big-blow-uaw-and-where-does-union-go-now/542624001/>

4 Orenstein, D. (2019) Out of Stock: The warehouse in the history of capitalism University of Chicago Press, p.241

This echoes practices documented by the International Labour Organisation in tariff free 'Export Processing Zones', such as those found in Indonesia, Philippines and Morocco where multinational companies have been able to abuse fundamental workers' rights knowing host governments are unlikely to raise concerns for fear companies will leave.⁵

Research by the University of Sussex⁶ and the Copenhagen Business School⁷ indicate an additional threat that freeports will displace good unionised jobs in one area and create jobs with lower workers' rights in the freeport zone. Unions in TUC regions have flagged concerns about the impact of freeports on jobs and conditions in particular areas. Concerns highlighted include:

- the already small number of jobs in Great Yarmouth being displaced if Felixstowe became a free port;
- workers' rights and pay in both Teeside and South Tyneside being reduced if Teeside became a freeport - these areas are already two of the poorest in the North East; and
- increased deprivation in the Humber estuary and Doncaster if freeport zones are established that draw large employers away from their current locations.

It is also important to note that any job gains from freeports will be undermined if the UK is not able to secure a good deal with the EU. Good unionised jobs in sectors such as manufacturing would be particularly at risk as they depend on barrier free trade in goods and low barrier trade in services with the EU.

TUC analysis drawing on the projections of NIESR (Figure 1) shows that at least one million jobs could be at risk if the UK leaves the EU with a deal that increases tariffs and barriers to trade.⁸

⁵ ILO (2014) 'A trade union manual on Export Processing Zones', available at: <https://www.flandersinvestmentandtrade.com/export/sites/trade/files/attachments/ILO%20-%20Trade%20union%20manual%20on%20export%20processing%20zones.pdf>

⁶ UKTPO (2019) 'What is the extra mileage in the reintroduction of free zones in the UK', available at: <https://blogs.sussex.ac.uk/uktpo/publications/what-is-the-extra-mileage-in-the-reintroduction-of-free-zones-in-the-uk>

⁷ Helgadottir, Oddny (2020) 'Freeports: Johnson should look elsewhere for growth enhancements', *Social Europe*, available at: <https://www.socialeurope.eu/freeports-johnson-should-look-elsewhere-for-growth-enhancements>

⁸ National Institute for Economic and Social Research (2019) 'UK trade and trade policy after Brexit', available at: <https://www.niesr.ac.uk/sites/default/files/publications/NIESR%20Election%20Briefing%20-%20UK%20Trade%20and%20Trade%20Policy%20after%20Brexit.pdf>

Figure 1: Estimate of jobs dependent on EU trade at risk from tariffs and barriers being applied to UK trade with the EU

Industry	Total employees (000s)	Output (£m)	% Industry Output exported to the EU	Jobs dependent on EU trade (000s)
A Agriculture, forestry and fishing	153	30810	7.1	11
B Mining and quarrying	119	29043	48.2	57
C Manufacturing	2744	514239	29.3	805
D Electricity, gas, air cond supply	186	115349	0.2	0
E Water supply, sewerage, waste	215	41862	3.5	8
F Construction	1413	292534	0.2	3
G Wholesale, retail, repair of vehicles	3623	354264	1.6	59
H Transport and storage	1252	168777	5.9	74
I Accommodation and food services	1640	126263	5.6	92
J Information and communication	1165	199791	10.1	117
K Financial and insurance activities	1215	256200	11.4	138
L Real estate activities	314	349172	0.1	0
M Prof, scientific, technical activ.	1897	268963	5.7	109
N Admin and support services	1147	181856	6.9	79
O Public admin and defence	2061	155379	0.0	0
P Education	3155	143592	2.5	80
Q Health and social work	4044	226278	0.0	1
R Arts, entertainment and recreation	619	52073	7.1	44
S Other service activities	591	43724	2.3	14
T Households as employers	15	5151	0.0	0
U Extraterritorial organisations	61	0	0.0	0
Total employees	27627	3555320		1692

Source: ONS supply and use tables 2017, LFS Q3 2019

The TUC has estimated that no deal with the EU and the resulting tariffs on manufactured goods would cause a particularly high risk of job losses in the West Midlands and the South East where over 18,000 jobs would be at risk in each region. In the North West, East Midlands and South West the TUC has calculated that over 15,000 jobs would be at risk. See Figure 2, below.

Figure 2: Potential job losses key commodity areas by region and nation of no deal with the EU

Commodity production	North East	North West	Y&H	East Midlands	West Midlands	East of England	London	South East	South West	Wales
Manufacture of chemicals	766	4012	3110	1807	1272	2024	2819	1705	1393	975
Manufacture of electrical equipment	207	1534	821	1545	2207	1263	827	2322	1887	494
Manuf of machinery n.e.c.	1716	4057	4746	6174	4328	4360	1076	7324	4673	1397
Manuf vehicles and trailers	1829	3102	1887	1726	8620	2044	644	3119	999	1205
Manufacture of other transport	1033	4535	1101	4832	1917	1425	753	4057	6365	1604
Total	5551	17239	11665	16084	18344	11116	6119	18528	15318	5677

Source: ONS Supply and Use tables, 1997-2017, Labour Force Survey 2019Q3, TUC calculations

The TUC is also concerned that there will be a risk freeports allow countries to circumvent UK trade remedies and dump cheap manufactured goods on the UK market. This would put significant numbers of jobs in UK manufacturing at risk. To avoid circumvention, any freeport must have robust systems in place to track and monitor goods that are processed in the freeport to ensure valid trade remedies are applied.

The TUC believes any freeport that is established must support the creation of more good jobs with decent pay, underpinned by collective bargaining between unions and employers.

2. Prevent tax evasion

The TUC is concerned that government has stated freeports could be areas that 'ease tax' and seek to 'promote economic activities by creating an ambitious and attractive offer on tax'. Now-Chancellor Rishi Sunak's proposal on freeports in his 2016 report explicitly stated that they would be areas with lower rates of taxes, drawing on examples of free zones in China with lower taxes and less tax regulation.⁹

The TUC does not believe the UK should be attracting investment on the basis of lowering rates of tax and lower regulations. Instead the UK should be attracting investment that will support good jobs, increased productivity, skills and decent wages.

The suggestion that freeports could have less tax regulation also raises the threat that freeports could attract money laundering and tax avoidance activities. The European Parliament has flagged concerns that free ports are conducive to tax evasion and money laundering.¹⁰

The TUC believes any freeport that is established must not lead to lower rates of tax in certain areas or lower tax regulation. Any freeport must have a rigorous process for enforcing tax collection via a properly funded and staffed customs operation. The UK should seek a good deal with the EU that will support foreign investment into the UK on the basis of following high employment and social standards.

3. Support quality public services

As mentioned above, the TUC is concerned that the establishment of freeports could result in areas with lower rates of taxation being established which would decrease the amount of public funds available in certain areas to support quality public services. At the same time, freeports are likely to increase demand for public services in certain areas due to the population relocation likely to take place as a result of their establishment. Public services in areas with freeports are therefore at risk of being to put under serious strain. This would particularly negatively affect areas that have suffered most from ten years of austerity, increasing the regional inequality that already exists in the availability of quality public services.

The TUC believes any freeport that is established must not lead to lower rates of tax in certain areas or lower tax regulation. The government must provide adequate investment to public services across the country, particularly in parts that have been most severely affected by austerity and areas where freeports are established.

⁹ Sunak, Rishi (2016) 'The Freeports Opportunity', available at:

<https://www.cps.org.uk/files/reports/original/161114094336-TheFreePortsOpportunity.pdf>

¹⁰ European Parliament (2018) 'Money laundering and tax evasion risks in freeports', available at:

https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundry-FINAL.pdf

4. Support local infrastructure

The TUC is concerned that the government consultation document suggests that local business rates may not have to be paid by companies locating in a freeport. This would mean that companies would not contribute to local infrastructure they would be benefitting from. This is a particular concern as the infrastructure likely to be required by freeports is extensive. If large numbers of workers were to be newly employed in the freeport, the surrounding area would require investment in electricity, transport, housing and other essential infrastructure.

Transport infrastructure would particularly be needed if freeports were established in coastal areas, such as the Yorkshire and the North East coast which are currently underserved by electrified railway lines, light rail, buses, and freight capacity. East-West connectivity is also severely lacking. These add to concerns the TUC has that the expanded intra-city transport settlements fund announced by the Chancellor in the March budget - which city regions can bid for - may see funding diverted from long overdue investment in regional transport infrastructure towards building and maintaining infrastructure.

Freeports may also exacerbate existing shortages of housing, especially for young workers who may move closer to a freeport. With little support for local government to build housing of its own and pressures applied through right to buy, the TUC is concerned freeports could place more pressure on some local authorities to provide adequate housing at a time when budgets have been cut dramatically, reducing funding for other services.

The TUC does not believe that freeports are the best way to boost local infrastructure. The TUC believes any freeport that is established must provide local authorities with adequate investment in transport, housing, electricity and other infrastructure required to support them. To maximise the returns from investment in transport investment, public transport should be publicly owned.

7. Support skills development

Significant under-investment in workforce skills has left a legacy of poor productivity and entrenched barriers for people wanting to improve their job prospects. The TUC believes freeports must support a reversal of this process.

Government spending on adult education and skills (excluding apprenticeships and higher education) fell by 47 per cent between 2009–10 and 2018–19 and the total volume of employer-led training has declined by around 60 per cent since the end of the 1990s. The TUC has repeatedly called for a fiscal boost to revitalise the adult skills system and the national college network.

The TUC has welcomed the increased investment in apprenticeships in recent years, but there remain significant challenges, including slow progress in tackling the continuing high numbers of poor-quality low-paid apprenticeships and inadequate access to underrepresented groups. Reforms are required to strengthen enforcement of rights, boost wage levels, improve equality of access, and guarantee progression to an advanced apprenticeship.

Freeports must not further entrench a 'postcode-based' skills funding system which has developed in areas where skills funding has been devolved. The TUC is concerned that this has created further barriers to participation for many learners and reduced the capacity of trade unions to deliver training for union representatives in colleges.

In designing a policy to support skills for freeports, the government should learn lessons from the recent devolution of the adult skills budget to Mayoral Combined Authorities (MCAs) and the Greater London Authority (GLA). This has resulted in some benefits for local communities, including better alignment of further education and skills provision to local needs and allowing more focus on disadvantaged groups.

The engagement of unions and employers is crucial to supporting skills development to meet local demand. In many areas the TUC and affiliated unions are working closely with the GLA and/or MCAs on the skills agenda, including sitting on representative bodies that are developing skills strategies in the context of the new devolved powers. However, the TUC is concerned that there is only limited representation of unions at decision-making levels on Combined Authorities, Local Economic Partnerships and Skills Advisory Panels - while employers continue to retain a strong representation. There is a need to embed the strategic voice of unions on local further education and skills at a national level. As the OECD highlights, the UK lacks the national social partnership arrangements on skills found in many other countries with high-quality training systems.¹¹

The TUC does not believe that freeports are the best way to support skills development. The TUC believes that any freeport that is established must support further education colleges and universities in the area to support the development of local skills through meaningful social dialogue between unions, employers and local authorities. Any freeport must embed strategic skills partnerships in the locality with meaningful union-employer engagement and adequate employer support. This must be part of the development of a nationwide skills system to increase learning opportunities, especially to those facing the greatest barriers to progression. Key features of this should include:

- *Government engagement with unions on the delivery of the new Kickstart scheme for young people, to ensure it delivers real jobs with real prospects*
- *A new right to retrain for everybody, backed up by funding and personal lifelong learning accounts. This should involve bringing forward the £600 million promised investment in a national skills fund and accelerating the work of the national retraining partnership to ensure there is a gateway to new skills for everyone.*
- *An "education and training guarantee" for all school leavers and other young people aged 25 and under who wish to take up this option. This guarantee would include an apprenticeship, place at college or other form of education or training. In support of this, the Apprenticeship Levy should be flexed to allow employers to use their funds to provide pre-apprenticeship training programmes, where appropriate.*

¹¹ OECD (2019) 'Getting Skills Right', available at: <http://www.oecd.org/employment/emp/adult-learning-work-in-social-partnership-2019.pdf>

5. Support a good EU-UK deal

The TUC believes the trade priority of the UK must be to secure a deal with the EU that guarantees workers' rights in the UK will stay aligned with that of the EU and protects the millions of jobs that depend on tariff-free and low barrier trade with the EU.¹²

The government's proposals to create regulatory flexibility through freeports risk undermining the prospects for workers in the UK to continue to be protected by EU standards of social and employment protection, exposing workers to the threat of worse working conditions and lower pay. Diverging from EU standards will also mean the UK will face additional barriers to trading in services with the EU. As the majority of jobs in the UK depend on services sector this could put millions jobs at risk.

It is important to note that zones with lower tariff and tax regulations are allowed within the EU single market. These are termed 'free zones' and exist in countries such as Germany, France and Italy.¹³ These zones are importantly different from those envisioned by the government, however, as EU rules on employment and social standards must be followed by businesses operating in these zones. Seven free trade zones operated in the UK between 1984 and 2012. However in July 2012, the Statutory Instruments that established the remaining five free ports (Liverpool, Southampton, Port of Tilbury, Port of Sheerness and Prestwick Airport) expired. The government has not indicated why it did not continue to have free zones in the UK after 2012.

The TUC believes any freeport that is established must support a deal with the EU that guarantees workers in the UK continue to be protected by EU levels of social and employment rights and ensures barrier free trade in goods and low-barrier trade in services.

Conclusion

The TUC believes there is an urgent need to rebalance our economy, tackle regional and labour market inequalities, support skills and boost manufacturing. The TUC has set out comprehensive proposals to achieve these aims in our 'A Better Recovery' report.¹⁴ Securing a good deal with the EU that guarantees the highest standards of workers' rights, zero tariffs and low barriers in service trade is a crucial part of this process. The TUC looks forward to discussing these proposals further with government.

We believe the evidence of previous 'free trade zones' on which the government's freeports proposals are based is that they undermine workers' rights, displace good jobs and investment, increase the risk of tax evasion and place new pressures on regional and local infrastructure rather than supporting a strong economy that helps to deliver decent jobs and livelihoods for everyone.

¹² TUC (2019) 'General council statement on Brexit', available at: <https://www.tuc.org.uk/news/tuc-general-council-statement-brexit-no-no-deal-future-fit-working-people>

¹³ European Commission (2020) 'Free zones in operation in the customs territory of the Union', available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/procedural_aspects/imports/free_zones/list_freezones.pdf

¹⁴ TUC (2020) 'A Better Recovery', available at: <https://www.tuc.org.uk/ABetterRecovery>