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FREEPORTS in the UK

TRADE

FEBRUARY 1983

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the department for Enterprise

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The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

n. b. P.M.
BHP
3/5

The Earl of Caithness
The Paymaster General
HM Treasury
Parliament Street
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Department of
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Direct line 01 215 5622
Our ref PB3AMR
Your ref
Date 3 May 1990

Dear Malcolm

FREEZONES - FUTURE POLICY

Aap

Thank you for your letter of 26 April.

I remain of the view that Freezones are a failure and should not be extended any further. However, I accept that it is for you to decide the final policy on this issue.

I am copying this letter to recipients of yours.

James
Andrew



TRADE: Freeports, Feb 83





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cc/gu

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

n. b. P.M.
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Earl of Caithness
Paymaster General
HM Treasury
Parliament Street
LONDON
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25 April 1990

In London,

FREEZONES: FUTURE POLICY

Thank you for copying to me your letter of 29 March about future policy on Freezones. I have also seen Nick Ridley's reply of 18 April.

Whilst I would not press for the designation of any new zones, I do welcome the proposal to extend for ten years the existing freezones in Liverpool, Southampton and Birmingham. This will be particularly appreciated in Merseyside where the Liverpool Freeport is seen to have been of value in bringing jobs and investment to an area of high unemployment.

Copies of this letter go to the Prime Minister, Geoffrey Howe, Douglas Hurd, Peter Walker, Nicholas Ridley, Malcolm Rifkind, Cecil Parkinson, Peter Brooke and Sir Robin Butler.

James ...
Chris Patten

CHRIS PATTEN

HPF

TRADE: Freeports in UK

Feb 1983



11-11-83

CCP/M



n. b. P. M. at ~~last~~ stage

BHP

26/4

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H 0ET

26 April 1990

Dear Nick,

FREEZONES: FUTURE POLICY

Har

Thank you for your letter of 18 April. I have also seen Malcolm Rifkind's letter of 18 April, Peter Brooke's letter of 24 April and Barry Potter's minute of 3 April.

Although freezones have certainly not been an unqualified success, I would not agree that the zones are a failure. The three existing zones, in particular Liverpool, have made modest progress in recent years. Given that both the costs and benefits of freezones appear to be small, the choice between ending the scheme and continuing the experiment on a more permanent basis is admittedly not clear-cut. However to end the existing zones when their designation runs out next year would be difficult to justify; and equally to extend their designation but to refuse in principle to contemplate any new bids would appear inconsistent.

As I said in my previous letter, I continue to see modest advantages in making the freezone regime, more permanent for example, in terms of our deregulation and enterprise objectives; and the Liverpool freezone contributes positively to the region's image. But the scheme would be a variant of Customs warehouses within the overall Customs regime.

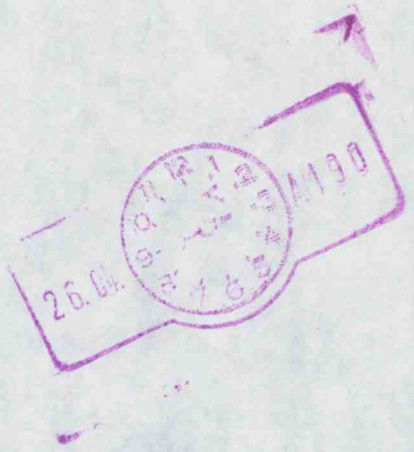
So although I appreciate that the arguments are finely balanced, I would prefer to proceed along the lines indicated in my previous letter.

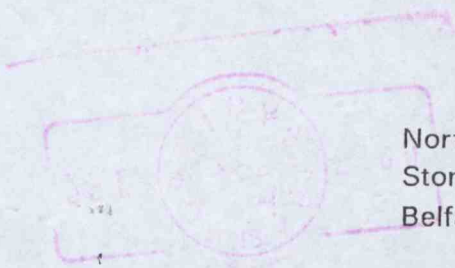
I am copying this letter to the Prime Minister, Geoffrey Howe, Douglas Hurd, Peter Walker, Malcolm Rifkind, Cecil Parkinson, Christopher Patten, Peter Brooke and Sir Robin Butler.

Yours
Malcolm

THE EARL OF CAITHNESS

TRADG : Freepons, Feb 83





CC RE
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Belfast BT4 3ST

n. b. P.M.
BHP
2574

The Earl of Caithness
Paymaster General
Treasury Chambers
Parliament Street
LONDON
SW1P 5AG

24 April 1990

Dear Malcolm,

FREEZONES: FUTURE POLICY

fiap

I refer to your letter of 29 March 1990 to Nicholas Ridley in which you outline Government's future policy on freezones.

I note that the designations of the three freezones where there is no economic activity at present (including Belfast) will remain in force until the planned expiry date in 1991 and that they will be free thereafter to apply for fresh designations against the new criteria if they wish. The Belfast freezone has never had an occupant despite the efforts of the operator to promote it in the early years, and I therefore have no objection to its designation being removed. I am content that the Belfast freezone operator, or any new candidate for designation, should have to meet the criteria to be published by Customs and Excise later in the year.

Copies of this letter to go to the Prime Minister, Geoffrey Howe, Douglas Hurd, Nicholas Ridley, Peter Walker, Malcolm Rifkind, Cecil Parkinson and Christopher Patten, and to Sir Robin Butler.

[Handwritten signature]
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PM/SOFS/2455

~~TRADE~~ Freeports in the UK Feb 83



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ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

cc p.u.

n. b. P.M.

*BHP
2514*

The Earl of Caithness
Paymaster General
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

18 April 1990

Dear Malcol

FREEZONES: FUTURE POLICY

See memo Bl.

Thank you for copying to me your letter of ~~29~~ March to Nicholas Ridley setting out your proposals for future policy on freezones.

It was disappointing for us that the Prestwick freezone did not succeed, but I believe we must accept the consultants' conclusions that freezones are not significant tools of regional development policy.

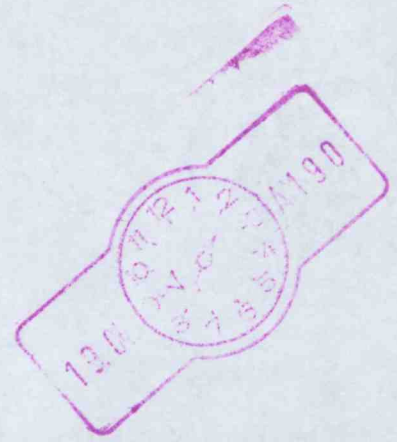
I am content that the freezone regime should continue as a variant of Customs warehouses within the overall Customs regime; and with your proposal to introduce arrangements under which applications for new freezones can be considered by Customs and Excise. In this latter connection you should be aware of the likelihood of interest locally in a new freezone for Aberdeen.

Copies of this letter go to the Prime Minister, Nicholas Ridley, Geoffrey Howe, Douglas Hurd, Peter Walker, Cecil Parkinson, Christopher Patten, Peter Brooke and to Sir Robin Butler.

MALCOLM RIFKIND

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TRADS: Freeports, Feb 83



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the department for Enterprise

cel/j

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Earl of Caithness
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Your ref
Date 18 April 1990

Dear Malcolm

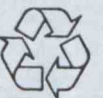
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I am replying to your letter of 29 March about the review of freezones.

I am aware of the views of colleagues in other Departments who support your proposals, but in my opinion the zones are a failure. I believe the existing zones should be allowed to limp on but I see no reason to extend the experiment any further.

I am copying this letter to recipients of yours.

Nicholas



Recycled Paper

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free
(c: Economic Zones, das)

10 DOWNING STREET
LONDON SW1A 2AA

bc: BG

From the Private Secretary

3 April 1990

Dear Malcolm,

FREEZONES: FUTURE POLICY

The Prime Minister has seen the Paymaster General's letter of 27 March to the Secretary of State for Trade and Industry setting out future policy on freezones. She has noted without comment the letter and attached draft Parliamentary Question and Answer.

I am copying this letter to Tim Sutton (Lord President's Office), Stephen Wall (Foreign and Commonwealth Office), Stephen Williams (Welsh Office), Martin Stanley (Department of Trade and Industry), Jim Gallagher (Scottish Office), Simon Whiteley (Department of Transport), Roger Bright (Department of the Environment), Stephen Leach (Northern Ireland Office) and to Sir Robin Butler.

Yours ever,

Barry

BARRY H POTTER

Malcolm Buckler, Esq.
Paymaster General's Office

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Price Minister ✓

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H 0ET

27 March 1990

Dear Nick,

mt

FREEZONES: FUTURE POLICY

As you may be aware, designation of the existing freezones runs out in August 1991. The experiment has been reviewed by the Treasury's external consultants supervised by an interdepartmental group of officials. I have been reviewing the future of freezones policy, on the basis of this work.

By way of background, as you may know a freezone is a fenced-in industrial area with an emphasis on foreign trade amongst its occupants. The terms freeport and freezone tend to be used interchangeably although they do not have to be sited at a port or airport. The goods within the freezone are treated for customs duty purposes as being outside the Customs territory of the country. UK freezones offer similar duty benefits to those available in other customs duty relief regimes, in particular Customs Warehouses. The biggest difference is that Customs Warehouses operate mainly through paper entries while freezones operate primarily through physical controls at the boundary fence.

In 1983, following a Working Party chaired by the then Economic Secretary, Jock Bruce-Gardyne, Ministers decided to adopt the freezone idea as an experiment, with, in the words of Lord Cockfield: "what I see as the underlying rationale - that we should not stand in the way of commercial enterprise which believes that freeports can be made a success".

Officials sifted through applications received from potential freezone operators against criteria including viability and likely trader demand. Ministers however went beyond the Working Party recommendation that only two or three sites should be designated by reference only to identified trader demand, and concluded that

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a reasonable geographical spread throughout the UK was needed to reflect regional interests. In 1984 six sites were designated for a seven year period.

Of the six sites chosen, two never opened (Belfast, Cardiff), one folded quickly (Prestwick), and three have traded in a modest way (Birmingham, Liverpool and Southampton), with Liverpool being the most successful.

The consultants found that the freezones have had only modest costs and benefits. Liverpool and Southampton are seen by their parent companies as useful contributors to overall port profits. The freezones have attracted little manufacturing. Total trade volumes through freezones are small, mainly imports. The amount of inter-regional or international shift in the location of economic activity has been low - only about 10 of the 150 jobs housed in freezones might be regarded as net additional jobs. But the net public sector costs have also been low.

In the light of this experience, I see freezones as having modest but nonetheless worthwhile objectives. They are an alternative means of delivering the fiscal services of Customs Warehouses; freezones may be more convenient than Customs Warehouses for some business users. The existing active freezones will probably survive and may prosper; and allowing further designations will create opportunities for new entrants to the market. I therefore intend to make the freezone regime permanent and to consider fresh designations.

Our stance towards ports is market orientated. So we need fair and objective criteria so that the Government cannot be accused of unfairly favouring one port over another. When freezones were announced, some people thought of them as essentially regional policy instruments and had unrealistically high expectations of their effects. In practice, it seems clear that Freezone designation does not significantly affect locational preferences of employers with mobile business. So Freezone designation should be seen as a variant of Customs warehouses within the overall Customs regime.

I therefore propose to announce now that I mean to offer to extend the designation of the three active freezones (Birmingham, Liverpool and Southampton) for 10 years, as they have enough business to justify continued designation.

Customs and Excise will publish later in the year criteria for the consideration of new candidates for freezone designation. The criteria will be objective, related primarily to the applicant's commercial viability and international trade prospects; there will be no pre-set limit on the number of freezones. I will also consider taking powers in a future Finance Bill to facilitate permanent designations and to revoke designations where necessary.

The designations of the three freezones where there is no activity at present (Belfast, Cardiff and Prestwick) will remain in force until the planned expiry date in 1991. They will be free to apply for fresh designations against the new criteria if they wish.

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I also propose to make certain improvements to the Freezone regime, in particular to introduce, subject to EC approval, VAT zero rating for supplies of imported freezone goods where the customer is required to clear the goods from the freezone, and also to provide better guidance on documentary procedures emphasising simplification where possible.

I attach a draft Parliamentary announcement, to be made in both Houses, setting out future policy on freezones.

Copies of this letter go to the Prime Minister, Geoffrey Howe, Douglas Hurd, Peter Walker, Malcolm Rifkind, Cecil Parkinson, Christopher Patten, Peter Brooke, and Sir Robin Butler.

Yours truly
Malcolm

THE EARL OF CAITHNESS

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CONFIDENTIAL**DRAFT ANNOUNCEMENT ON THE FUTURE OF FREEZONES**Draft question:

To ask [Her Majesty's Government,] whether the Treasury's evaluation of the freezones experiment has been completed and if they will make a statement.

Draft reply:

Yes. A copy of the evaluation report on the UK freezone experiment (1984-89) by the Treasury's consultants Roger Tym and Partners is being made available today in the House of [Lords] Library. Further copies are available from the Treasury.

The experiment has shown that freezones can be worthwhile and viable enterprises in the UK. The Government has therefore decided to offer a further designation for ten years from August 1991 to the three currently operating freezones at Birmingham, Liverpool and Southampton. In addition, the Government intend to announce later in the year objective criteria against which further similar designations of freezones under existing EC and UK legislation will be considered by Customs and Excise. Applications from potential freezone operators will be invited at that time and will be judged primarily against the criteria of their commercial viability without public sector assistance and sufficient volume of demand to justify the Customs resources required at the freezone.

Finally, the Government has decided in the light of the evaluation report to introduce certain improvements to the freezone regime. Subject to EC approval, VAT zero rating will be allowed for supplies of imported freezone good where the customer is required to clear the goods from the freezone. Furthermore, the Customs

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and Excise guidance on the freezone regime will be updated and consolidated to take account of technical amendments made since the scheme was introduced to ensure that the scheme operates as clearly and simply as possible within the necessary EC and Customs procedures.



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Freeports

3.54 pm

The Minister of State, Treasury (Mr. Barney Hayhoe): With permission, Mr. Speaker, I should like to make a statement about freeports.

Last year, in the course of his Budget statement my right hon. and learned Friend announced that, in accordance with the recommendations of a working party chaired by my noble Friend the then Economic Secretary to the Treasury the Government had decided to designate a limited number of freeports on an experimental basis.

Subsequently, on 27 July I informed the House of the terms on which freeport applications would be assessed and invited applications to be submitted by 31 October. Forty five applications were received by that date. On 3 November I listed the names in a written answer and I undertook to announce the successful candidates early in the new year.

Since November all 45 applications have been examined, first by officials and then by Ministers. As it was necessary to limit the numbers it was not possible to satisfy all of the applicants. My right hon. Friend and I, with ministerial colleagues, have made our choice with great care and no little difficulty and the House will understand that it would not be right—or proper, for reasons of commercial confidentiality—for me to attempt to explain why a particular application was successful and why another failed. Our selection achieves a mix of airports and seaports with a good geographical dispersion. This will enable the freeports concept to be properly tested and, as we have said, each of the initial freeports will be closely monitored and formally reviewed after five years.

We have chosen six sites. They are:

Belfast—Northern Ireland Airports Limited.

Birmingham—West Midlands Freeport Limited.

Cardiff—Pearce (Wales) Consortium.

Liverpool—Mersey Docks and Harbour Company.

Prestwick—Kyle and Carrick district council and British Airports Authority.

Southampton—Associated British Ports (Holdings) PLC.

The necessary enabling legislation will be included in the Finance Bill which my right hon. Friend will introduce next month. Discussions will begin immediately with the successful applicants with a view to designating and bringing the sites into operation as quickly as possible. In some cases it may be necessary for the plans submitted to be modified to some extent for operational reasons. I hope that the whole House will wish these ventures well.

Dr. Oonagh McDonald (Thurrock): Does the Minister accept the conclusions of the working party's report that no tariff advantages can be gained from the freeports? Will he confirm that practically the only tangible advantage is cash flow relief and that that will lead to the concentration of goods in warehouses in some freeports until they are ready to be dispersed, at which point customs duty will have to be paid? Does he agree that that will merely give some ports an unfair advantage? It will relocate trade and jobs, concentrating them in the few ports which have been chosen by the Treasury. It will not create new jobs in the country as a whole.

Does the Minister agree that his announcement is no substitute for a real policy for the docks? The Government have abolished the National Ports Council and have no solution for the crisis facing the docks. The Tilbury port

users committee, which might be expected to welcome the proposal referred, not to this policy, but to a policy to combat subsidies which are given to continental ports such as Rotterdam and Hamburg, through lower costs and, perhaps free pilotage and lighting. The committee would rather have had a sensible policy for the ports than this announcement. In view of the absence of a serious policy to deal with the crisis in our ports, it is not surprising that the Government were flooded with applications from areas which are desperate for jobs.

The Minister said that this was a geographical spread of freeports. That factor is supposed to have been taken into account, but east London, east Anglia, as Conservative Members will no doubt have noticed, Yorkshire, the north and north east, all areas of high unemployment, have not been taken into account in the Minister's statement. The General Council of British Shipping gave as its only praise for the idea the fact that the title of freeport is a marketable commodity. Does the Minister agree that the council has well summed up today's statement? It is a cosmetic solution. The Opposition would welcome Government policies or statements which were designed to create real jobs. This statement does not do that, and that is why we cannot welcome it unreservedly.

Mr. Hayhoe: I am sorry that the hon. Lady, in a rather long and, I thought, carping and sour response which was muddled in its reaction, adopted the line that she did, but I can confirm that under EC rules there are no tariff benefits. That was made clear by the working party, so there is nothing particularly new in what the hon. Lady said. There will be advantages, of course, in terms of cash flow. A main advantage may well be the marketing concept of a freeport. Benefits will flow also from the simplification of procedures and the reductions in compliance costs. This is a fairly modest initiative, but I expect that those who will benefit will not share the hon. Lady's sour reaction to it.

Mr. James Molyneux (Lagan Valley): Is the Minister aware that there will be great satisfaction in Northern Ireland following the announcement that Aldergrove is to be one of the freeports? Is he also aware that he and Northern Ireland Ministers will receive from the elected representatives and the Antrim borough council the widest possible co-operation?

Mr. Hayhoe: I am grateful to the right hon. Gentleman for what he has said.

Sir Hector Monro (Dumfries): Will my hon. Friend accept that there will be widespread delight in Scotland that Prestwick has been chosen for a freeport, particularly so in the county of Ayrshire and in west and south-west Scotland? Will he take an early opportunity to explain to industry the advantages of freeports, so that it can make the best use of them?

Mr. Hayhoe: I am grateful to my hon. Friend for his welcome of the Prestwick announcement. Publicity for that freeport or, indeed, for any of the others, must rest with those who are concerned intimately with the arrangements and the Government are not taking any responsibility in that matter. I should also make it clear that we have no financial commitment to these freeports other than to the Customs staff who will be involved with them.

Mr. Nicholas Winterton (Macclesfield): We have heard a great deal today about the wrongful imprisonment of people. Will my right hon. Friend arrange for the Home Secretary to come to the House next week to make a statement about the mistaken release of prisoners from Strangeways prison in Manchester, which is causing the people of that area great concern and which is also a matter of concern to this House?

Mr. Biffen: I am sure that that is so, and I shall refer the remarks of my hon. Friend to the Home Secretary.

Mr. Eddie Loyden (Liverpool, Garston): Will the Leader of the House discuss with the Secretary of State for Social Services why he has not seen fit to make a statement on the drug Osmosin, which has been related to 600 adverse reports and 20 related deaths?

Mr. Biffen: I will look into that matter and have discussions with the Secretary of State for Social Services.

Mr. D. N. Campbell-Savours (Workington): With reference to the memorandum by the Secretary to the Cabinet on Ministers' private interests — on the declaration of those interests — has the Leader of the House noted the statement in the document:

"If any Minister finds himself in doubt or difficulty over this, he may seek the Prime Minister's guidance."?

That is in relation to difficulty over deciding whether there is a need to declare an interest. Whose guidance does the Prime Minister seek? Would she seek the guidance of the Leader of the House, or —

Mr. Speaker: Order. The hon. Member must ask a question about the business for next week.

Mr. Campbell-Savours: —or perhaps we could discuss whether the Prime Minister would seek the guidance of the Attorney-General or the Lord Chancellor. Someone must advise her.

Mr. Biffen: As the Prime Minister answers questions every Tuesday and Thursday, that is an interesting topic to be directed to her. [Hon. Members: "She is not answering it."]

Mr. David Winnick (Walsall, North): In view of the principle involved in the question of belonging to a trade union — which has now been taken away from those employed at GCHQ — will the Leader of the House ensure that there is at least a statement on the subject next week, even if a debate is not to be provided? Will he make arrangements for the details of free trips to be duly entered in the Register of Members' Interests, and is it not important that we know of trips paid for by foreign Governments?

Mr. Biffen: I have no responsibility for how hon. Members make their entries in the Register of Members' Interests. As for Cheltenham, I can hold out no prospect of a statement on that, but I take note of what the hon. Gentleman says.

Mr. John Browne (Winchester): Does my right hon. Friend accept that I am one who favours the exploitation of our oil and gas reserves? However, bearing in mind the fact that we now have onshore drilling for oil and gas, there is a special need for added environmental protection. Does the subject not deserve a special debate?

Mr. Biffen: I can offer no prospect of a debate in Government time next week or shortly thereafter, but I agree that environmental factors are an important dimension of energy debates.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Will the Minister accept that those hon. Members of all parties who have been pressing for the establishment of a freeport at Prestwick are pleased that it has been chosen for one? It represents a glimmer of hope in the general gloom that surrounds employment in the country. Will the Minister accept that we hope that jobs will be provided by inward investment, particularly from North America, rather than by the relocation of jobs currently in the United Kingdom? If this scheme is to be successful, does the Minister agree that to impose a five-year experimental period does not show the kind of confidence in the concept which the Government ought to be showing?

Mr. Hayhoe: The hon. Gentleman's attitude will do more to effect the success of the freeport at Preswick than will the attitude of his Front Bench. I am therefore grateful to him for what he said.

It is right that there should be a review. There should be an independent monitoring of the progress made by these freeports. I assure the hon. Gentleman that that will be done in a way that will not inhibit their development.

Mr. Fred Silvester (Manchester, Withington): I must express my expected disappointment at the exclusion of Manchester airport. I wish to make a point to my hon. Friend, not simply on a local matter, but going wider. Is it not the case that the freeport is intended to be an engine of economic development? If that is one of the objectives, is it not slightly unwise to have as an objective the spreading of the goodies as widely as possible, when we should be looking for those operations which are most likely to provide the biggest dynamo for the areas in which they are situated?

Mr. Hayhoe: I can well understand my hon. Friend's disappointment that Manchester was not chosen, but I know he will understand when I say that having selected Liverpool and Birmingham to have included Manchester would have meant an undue concentration in one broad area of the country. I accept what he said on the wider point.

Mr. Donald Stewart (Western Isles): Is the Minister aware that there will be some resentment and even anger in Scotland, in view of the disappearing industrial base of the country, that only one port has been chosen? Is he also aware that there will be great satisfaction that the one chosen is Prestwick, since that town has been denied its right as one of the premier airports of the country, due to the indifference over the years of British Governments and the petty-minded and parochial attitudes of the councils of Glasgow and Edinburgh?

Mr. Hayhoe: I noted the great difficulty of the right hon. Gentleman in saying anything agreeable about the selection of Prestwick.

Mr. Malcolm Thornton (Crosby): I must tell my hon. Friend how delighted all Merseyside will be, and relieved too, that Liverpool has been included in the list. It is a tribute to the support that has come from Members on both sides of the House for this application. Does my hon. Friend agree that this is further evidence of the Government's commitment to Merseyside and that, together with the international garden festival this year, this could well be Liverpool's year.

Mr. Hayhoe: I share with my hon. Friend and the other Members representing Liverpool their hope that this will assist in the revival of Liverpool and that the international garden festival will be a great success.

Mr. Eddie Loyden (Liverpool, Garston): Can the Minister say at this stage whether registered dock workers will be employed at the freeports? *[Interruption.]* Questions are being asked of the Minister, and not of the rabble opposite. Will the Minister say whether the conditions laid down by the National Dock Labour Board will be applicable at the freeport, and whether local authority responsibilities will be affected in any way by the regulations governing the freeport?

Mr. Hayhoe: I do not believe that any of the points raised by the hon. Gentleman are matters for me and, therefore, the operators of the freeports concerned.

Mr. Churchill (Davyhulme): Is my hon. Friend aware that there will be disappointment in Manchester that the city with the second largest international airport in the United Kingdom outside the south east has been excluded? Can my hon. Friend give his reasons more fully than he did to my hon. Friend the Member for Manchester, Withington (Mr. Silvester)?

Mr. Hayhoe: As I have indicated, I do not think that it would be advantageous to seek to give reasons why certain of the sites were selected or others were not, but I accept what my hon. Friend said about the merit of the application for Manchester.

Several Hon. Members rose—

Mr. Speaker: Order. I know that this is a matter of great interest to all hon. Members who have been seeking to intervene, and I shall endeavour to call them all, but I appeal for short supplementary speeches—*[Laughter]*—supplementary questions, I mean.

Mr. David Lambie (Cunninghame, South): I too, disagree with the view expressed from the Front Bench by my hon. Friend the Member for Thurrock (Dr. McDonald) on behalf of the Labour party. I thank the Minister and his right hon. Friend the Secretary of State for Scotland for acting on the advice of the Select Committee on Scottish Affairs and designating Prestwick as Scotland's first freeport. Is the Minister aware that his announcement will give great pleasure to the people of Ayrshire, especially the unemployed, and those of us who have been campaigning for a number of years on behalf of Prestwick? It will give a fresh start to Prestwick and, as such, it can only be a good thing for the area.

Mr. Hayhoe: I am grateful to the hon. Gentleman for referring to the report of the Select Committee on Scottish Affairs, I think in December 1982, and it was agreeable to be able to make a decision in harmony with that recommendation.

Rev. Ian Paisley (Antrim, North): Is the hon. Gentleman aware that the decision that he has made to include Northern Ireland will be widely welcomed throughout the Province? I am sure that he is aware that the Assembly's Economic Committee made strong representations to have a freeport in Northern Ireland. Does he understand that there will be regrets in Northern Ireland that the facility will not be divided between the

[Rev. Ian Paisley]

international airport and Belfast harbour? Will he go a step further and declare a customs-free zone for Londonderry harbour and Belfast harbour?

Mr. Hayhoe: I do not think that it would be right for me to go beyond what I have already said. However, I am grateful to the hon. Gentleman for showing that there is support from both sides of the House for the announcement that I have made.

Mr. Malcolm Bruce (Gordon): Does the Minister realise that there will be considerable disappointment in Aberdeen that the city has not been designated a freeport? Will he acknowledge that the concept of a freeport appears to have changed between the original outline and the final award and designation? The original idea, as I understood it, and as the working party explained it, was that the designation should underwrite and secure economic success. There is no area that is more successful than Aberdeen, yet it has been denied freeport designation for reasons which I suspect are political.

Mr. Hayhoe: I do not think that it would be wise to go into the precise reasons, but I agree with the hon. Gentleman about the attractions of the Aberdeen application. As I have said, I am sorry that some areas have not been selected.

Mr. Gerald Malone (Aberdeen, South): Will my hon. Friend carefully explain to the House why the Treasury took the trouble to set out the criteria which applications for freeports had to meet, when in Scotland the only applicant to meet the criteria, Aberdeen was not successful?

Mr. Hayhoe: I do not accept my hon. Friend's assertion. All the sites that have been chosen meet the broad criteria that were set out.

Mr. Allan Roberts (Bootle): Will the Minister address himself to the question asked by my hon. Friend the Member for Liverpool, Garston (Mr. Loyden)? There is some anxiety that the Government—not the operators—might “do a GCHQ” on the freeports. This has happened in parts of the developing world where there are no trade union rights, and it could happen in the freeports because the areas will be cut off from the normal economy. Will he give an undertaking that the Government will not do that?

Secondly, how many new jobs does the Minister think will be created by the freeports? I campaigned for Liverpool to be included in the designation, although I had doubts about the concept. I took the view that if we were to have one we wanted it in Bootle. Will the Minister give an estimate of how many new jobs will come to the area, and will he say whether he thinks the freeport status of Liverpool will enable the area to attract trade from Hamburg and Rotterdam?

Mr. Hayhoe: I am sorry that the hon. Gentleman, true to form, seeks to impose some sinister interpretation on what is a straightforward announcement and straightforward action by the Government in designating six sites. The dock labour issue is for the operators concerned, not for the Government. Whether any of the freeports will attract trade from other freeports in Europe or elsewhere

must be a matter for the operators. I wish them well in attracting such trade and making a success of their ventures.

Mr. Michael Colvin (Romsey and Waterside): Is my hon. Friend aware that his list shows a certain degree of inconsistency? He has backed some winners and some losers. But therein lies the secret, for it will be a real test of the idea of freeports. In backing Southampton he has most certainly backed a potential winner. I am sure that he would like to pay tribute to Associated British Ports and its presentation, which did so much in persuading him that the port, which is becoming of growing importance in the European context, should be on his list.

Mr. Hayhoe: I am grateful to my hon. Friend for his welcome, and especially for the selection of Southampton. I agree that there is a reasonable mix in the sites that we have designated. That reasonable mix will allow the freeport concept to be properly tested.

Mr. Frank Field (Birkenhead): As I come from an area which benefits by the decision that has been announced today, I thank the Minister for the decision. However, I am mindful of the worries that other Members must have who represent areas which are not included in his list of six.

Mr. Dennis Skinner (Bolsover): I have no worries.

Mr. Field: Even though my hon. Friend does not have worries, I do.

Mr. Skinner: Get on with it.

Mr. Field: I am on my feet and I am trying to speak to the Minister.

Mr. Skinner: Get on with it, then.

Mr. Field: I shall be a lot quicker if the hon. Member shuts up.

Mr. Speaker: Order. I understand, but this does take time.

Mr. Field: I hope that the Minister will carefully consider the remarks of my hon. Friend the Member for Thurrock (Dr. McDonald). May I lastly say, if I allowed to—

Mr. Skinner: Get off your knees.

Mr. Field: The hon. Member obviously has difficulty distinguishing feet from knees. That is a basic problem. There has been a debate locally about the wisdom of the scheme. However, now that the decision has been made, I hope that all of us will pull together to make a success of the designation.

Mr. Hayhoe: I think that a majority of Members will share the views expressed by the hon. Member for Birkenhead (Mr. Field), especially at the end of his question, including those in his remarks to the hon. Member for Bolsover (Mr. Skinner).

Mr. Robert Adley (Christchurch): Will my hon. Friend understand that there is great disappointment in the Medway towns, including my own constituency, which contains the port of Sheerness? This is felt particularly following the closure of the Chatham dockyard and in the light of the other advantages which we felt we had. One wishes success to all the other applicants, but is it not

strange that of the six selected not one is an example of the newer expanding ports, which one would have thought would be natural applicants for freeport status? Is there any prospect of the list being reopened before the expiry of the five-year experimental period?

Mr. Hayhoe: When one selects six out of 45—my hon. Friend will know that there were voices saying that fewer should have been chosen—it is inevitable that some categories and groups will not fall within the selection. This initiative should not be regarded as the only action that is being taken by the Government that will be of some assistance to certain areas.

Mr. Nigel Spearing (Newham, South): Will the Minister remind the House of the advantages of freeports over existing bonding operations in existing ports? If there are no advantages, why is the programme being introduced? If there are advantages, surely it puts the existing bonding operations at a commercial disadvantage.

Mr. Hayhoe: As the working party's report made clear, there are no specific tariff advantages. It will be open to unsuccessful applicants to discuss with Customs other procedural arrangements which could provide somewhat similar benefits. I have made that clear in the past in the House in respect of the Isle of Man initiative, which was introduced under existing legislation. The 45 applications, which were spread so widely throughout the United Kingdom, showed considerable interest among operators for these benefits.

Mr. Roger Gale (Thanet, North): I am extremely grateful to my hon. Friend for his reply to the hon. Member for Newham, South (Mr. Spearing). Will he acknowledge that there are many of us who represent areas whose applications have not been successful who have no feelings of sour grapes and wish to see success? Will he confirm that nothing in his statement will deny the right to set up export-free processing zones to those who wish to do so under existing Customs and Excise legislation, which is exactly what, with total confidence in our area, we shall do in Thanet?

Mr. Hayhoe: I am grateful to my hon. Friend for his comments. The present customs arrangements allow certain procedural arrangements to be made which can benefit those concerned.

Mr. Ian Wrigglesworth (Stockport, South): Is the Minister aware that I and my colleagues welcome this concept and wish well the areas that have been chosen? However, does he agree that on this day of all days, when we have the highest level of unemployment in recent times, as announced this morning, the initiative is an inadequate response to the high levels of unemployment? Why has the northern region, which has the highest level of unemployment in the country, not been given one of the freeports? If the Minister is not able to designate one of the areas in the region as a freeport, will he reconsider with his Treasury colleagues the application by Teesside airport to introduce duty-free facilities and persuade Customs and Excise to provide at least that relief to the provisions of the airport.

Mr. Hayhoe: Since the initiative of designating freeports was not intended to be a response to high unemployment, I can understand the hon. Gentleman's conclusion. It was never intended for that purpose.

Customs duties at the airport are a separate question, but I am prepared to look at any further representations by the hon. Gentleman.

Mr. Fergus Montgomery (Altrincham and Sale): Following the rather carping question of the hon. Member for Bootle (Mr. Roberts), I assure my hon. Friend that if Merseyside is not especially happy about having the freeport, Manchester would be delighted to have it. I draw my hon. Friend's attention to the requirements for freeport status as stated in the July memorandum—that there should be trade demand and economic viability, that there would be no extra funds from central Government, and that it should be possible to do the necessary work quickly. As Manchester international airport fulfills all those requirements, will my hon. Friend explain why we are being bypassed? Is he aware that some of us are getting a little sick of Manchester being treated as a poor relation in the north-west?

Mr. Hayhoe: The description of Manchester as a poor relation is a long way from reality. I assure my hon. Friend that a number of sites which fully met all the criteria were excluded from selection, and I made that clear earlier. I have not said that those six sites were the only ones that met the criteria. I said that my right hon. Friend and I and the other Minister's involved had a difficult task in selecting what we believed was a reasonable group which would cause the concept of freeports to be properly tested.

Mr. Robert Parry (Liverpool, Riverside): As the Member representing the Liverpool docklands area and Riverside, I welcome Liverpool's designation as a freeport, although I appreciate that it will not provide a panacea to Merseyside's economic problems. Can the Minister give an assurance that trade union views, planning, health and safety regulations and minimum wages will be observed within the freeport areas?

Mr. Hayhoe: I assure the hon. Gentleman that there will be no difference between what occurs inside and outside the freeport zone in relation to safety requirements and the other aspects to which he referred. His question gives me an opportunity to say that a particularly stupid article in, I believe, the *New Statesmen* last November which suggested otherwise was absolute bosh.

Mr. Tim Rathbone (Lewes): Will my hon. Friend accept my gratitude and that of most hon. Members at the arrival, at last, of freeports in this country? My sadness, which is shared by many hon. Members, is that the thriving port of Newhaven in my constituency is not one of those appointed. Will my hon. Friend reassess the period needed to measure this test to ascertain whether the time can be brought down to below five years? Will he tell the House the number of freeports that will be allowed then to expand this helpful instrument for the economy?

Mr. Hayhoe: It is better for me to make no commitments about the future. Let us see how we go. I am attacked on two sides: It is said that five years is too short a period to allow proper assessment of the viability of any of the ports, and now my hon. Friend offers me the opportunity to say that five years is too long. I believe that five years is about right.

Mr. Greville Janner (Leicester, West): Is the hon. Gentleman aware of the enormous disappointment that will be felt in the east midlands now that once again that area has been omitted from the Government's initiatives,

[Mr. Greville Janner]

in spite of great and growing unemployment and the ideal facilities at east midlands airport? Will the hon. Gentleman undertake to draw the anger and irritation of the east midlands to the attention of his colleagues, not least to that of the Chancellor of the Exchequer?

Mr. Hayhoe: My right hon. Friend has heard what the hon. and learned Gentleman has had to say.

Mr. Tony Favell (Stockport): Are there any provisions to take freeport status from those areas which do not use it properly, as may be apparent from the statements of hon. Members who represent Liverpool constituencies? If there are such provisions, Manchester will welcome the opportunity to become a freeport. The people of Manchester believe that Liverpool is adopting the status of the prodigal son, and they are fed up to the back teeth with Liverpool being rewarded with the fatted calf.

Mr. Hayhoe: No open-ended commitment is being made by the Government to continue to provide the official resources — the customs and manpower — required to control freeport zones. That is why we are having a review. If the review shows that any of the sites designated has failed to work well and does not have the opportunity and potential for the future, the Government will take the necessary action.

Mr. Skinner: Is the Minister aware that when the election was fought in June the Labour party manifesto made no reference to freeports, and not one Labour Member of Parliament of the 200-odd who were returned to the House was elected on the basis of a mandate which included freeports, whether in England, Scotland or Wales?

Mr. Lambie: Speak for yourself.

Mr. Skinner: It was not in the Labour manifesto. Will the Minister bear in mind also that some of us are not kidded about this freeport? They are not free and they are not ports. This is nothing more than a confidence trick. A few years ago we had another one called enterprise zones. Enterprise zones were going to solve the problems of a few areas in the country. We do not hear much about them now. [HON. MEMBERS: "Question."]

Mr. Speaker: Order. It would help the House and me if the hon. Member occasionally said, "Is the Minister aware".

Mr. Skinner: I think that you will find, Mr. Speaker, if you look in *Hansard* tomorrow and check with those people up there in the Press Gallery, that my opening words were "Is the Minister aware that as far as the Labour manifesto is concerned"—do hon. Members want me to continue?

Is the Minister further aware that what he has said today will not stop the trail of human misery in the Liverpool and Merseyside area and all the other areas that are involved? His policies, which have brought about the 50,000 or more bankruptcies and resulted in more than 4 million people trying to get work, need to be changed. Only in that way—not by the Minister's statement today—can we get Britain back to work.

Mr. Hayhoe: I am grateful to the hon. Gentleman for reminding us of the Labour party manifesto at the last election. I found it a great winner for the Tory party. The

more often the electorate are reminded of its existence and the fact that at least some Labour party Members still support it, the better our chance of political success.

Lord James Douglas-Hamilton (Edinburgh, West): Is my hon. Friend aware that Edinburgh's application for a freeport will stand until the day when the number of freeports will, I hope, be increased? Is he further aware that, notwithstanding some disappointment from Aberdeen and Edinburgh, the Prestwick decision will be widely welcomed, because not only is Prestwick the home of the Scottish aircraft industry, but the decision will greatly assist service industries?

Mr. Hayhoe: I am grateful to my hon. Friend for the way in which he has expressed his disappointment by wishing the freeport at Prestwick well.

Mr. Eric S. Heffer (Liverpool, Walton): Is the Minister aware that many Labour Members have at no time supported the concept of freeports? Once the Government had come forward with a policy of freeports — [Interruption.] Each hon. Member must concern himself with his own people in his own areas, especially if his has the highest level of unemployment in the country.

Is the hon. Gentleman aware that if my area had not been designated a freeport the future of the port of Liverpool as a whole would have been hanging in the balance? Is he aware also that some of us, especially me, have had discussions with the port authority and have received categorical assurances that the wages and conditions of the port workers will be maintained at the same level, that all those who work at the freeport will be free to join their trade unions and enjoy those wages and conditions, that the local authorities concerned will not lose any rates and that the customs duties will continue once goods move from the freeport? Is the hon. Gentleman aware also that—

Mr. Anthony Steen (South Hams): Too long.

Mr. Heffer: It may be too long for the hon. Gentleman, but many of us who are deeply worried about the future of our areas, although we do not like the concept, are prepared and happy to accept that it is better than nothing. It cannot be a substitute for the Government coming forward with proper policies to deal with unemployment and economic development throughout the country.

Mr. Hayhoe: I am grateful to the hon. Gentleman for what he said about discussions with the operator for the Liverpool freeport. If he had passed on that information to his hon. Friends earlier rather than giving it in the House now he might have saved some time and avoided the raising of various questions which are not really matters for me. I have noted the other points that he made.

Several Hon. Members rose—

Mr. Speaker: I shall call those hon. Members who have been rising, but there is an important debate to follow and I ask them please to be brief.

Mr. Michael Brown (Brigg and Cleethorpes): I wish the experimental freeports every success. My hon. Friend expressed the hope that the operators would be successful in obtaining traffic from freeports in Europe. As there is no freeport on the east coast of the United Kingdom, how does he expect the freeports to succeed in that respect?

Mr. Hayhoe: It is not for me to judge how the traffic will go, but if the facilities and services offered when the freeports that I have announced come fully into operation are attractive on a world basis they will undoubtedly attract further traffic to this country, to our considerable advantage. I accept that no site has been designated on the east coast. As I said earlier, in choosing six out of 45 it was extremely difficult to cover all the various combinations and groupings which I knew would be mentioned when the House considered the matter.

Mr. Michael Stern (Bristol, North-West): Is my hon. Friend aware of the regret that will be felt in the city of Bristol that the freeport has gone to the wrong side of the Bristol channel? Will he bring that to the attention of my right hon. Friend the Secretary of State for Trade and Industry when assisted areas and regional development aid are considered by the House next Tuesday?

Mr. Hayhoe: I am grateful to my hon. Friend. I certainly undertake to draw the attention of my right hon. Friend to his comments.

Mr. Kenneth Hind (Lancashire, West): Is my hon. Friend aware that, despite the carping from the Opposition Front Bench and some Liverpool Members, the people of Merseyside are extremely grateful for the consideration the Government have shown in granting them a freeport and will grasp the opportunity to make something out of it?

Mr. Hayhoe: I am grateful to my hon. Friend. I hope that his predictions will be fully justified.

Mr. Steen I congratulate my hon. Friend on putting into practice one of the recommendations of that splendid publication, "New Life for Old Cities", which advocated freeports. Will he have regard, however, to the problems of bureaucracy when setting up the freeports? Will he bear in mind especially the American experience that the advantages may be negated, especially in relation to policing, if the Government are not sensitive to the way in which the freeports are run? Will the Government study the way in which freeports are run in the United States?

Mr. Hayhoe: I believe that the working group sought advice from other freeport operators, but I will certainly draw the attention of Customs and Excise to the points made by my hon. Friend. As to the reference to his earlier publication, I had forgotten the debt that we owe to my hon. Friend in this matter.

Mr. Albert McQuarrie (Banff and Buchan): Is my hon. Friend aware that there will be deep dismay in Aberdeen that no freeport site has been selected in that area? In reply to my hon. Friend the Member for Aberdeen, South (Mr. Malone), my hon. Friend said that all the applicants met the criteria. Will he confirm that the land on which the Prestwick freeport will be sited is owned by the Scottish Development Agency—a Government-sponsored body—and that Kyle and Carrick district council proposes to be involved in the administration? As public money will be spent by those two authorities, the application does not meet the criteria laid down by the Government, so will my hon. Friend reconsider the decision?

Mr. Hayhoe: I do not think that my hon. Friend's comments will attract much support in the House, save from one or two of my hon. Friends and some Opposition

Members who wish to press the claims of other areas. I can only repeat that the broad criteria were met—not by all the applicants, as my hon. Friend suggested, but by all the sites that have been designated.

Mr. Bill Walker (Tayside, North): Is my hon. Friend aware that the Select Committee on Scottish Affairs recommended that Prestwick should have freeport status before the Government said they would consider such decisions? Is he aware that that was a unanimous view and that Labour Members of the Select Committee played a major part in the work that was done?

Mr. Hayhoe: I accept that the Select Committee made that clear recommendation in December 1980 and I understood that it found support in all parts of the House. I believe, therefore, that our announcement will attract wide support in Scotland, although I accept that people who would have preferred their own areas to be chosen will be sorry that they were not.

Mr. K. Harvey Proctor (Billericay): I congratulate my hon. Friend on his statement and the commitment to free enterprise. Does he agree that hon. Members should temper their regional or constituency disappointment by wishing success to all six of the applications selected and ensure that they have a profitable future? Does he agree also that the attitude of the hon. Member leading for the Opposition might have been different if a freeport had been designated in the constituency of Thurrock?

Mr. Hayhoe: I have no reason to suppose that the hon. Member for Thurrock (Dr. McDonald) expressed other than the views appropriate for her to express as Front Bench spokesman for her party.

Mr. Peter Bruinvels (Leicester, East): As a great supporter and believer in freeports, may I say how pleased I am that we have the original six? Although I wish that the east midlands airport had been one, I hope that it will be considered favourably in the next round. The enterprise zones, to which we wished success when they were announced, have proved successful and created many jobs, and I am sure that the freeports will do the same. Will my hon. Friend bear in mind that the people of the east midlands would like to be considered at a later stage?

Mr. Hayhoe: I am grateful to my hon. Friend for his positive and constructive comments.

Mr. Timothy Yeo (Suffolk, South): As Felixtowe is the most modern and profitable port in the country and was described by *The Times* last year as the nearest thing to an economic miracle in the British ports industry, and as it is an outstanding example of what private industry can achieve in an area previously dominated by moribund public sector attitudes, does my hon. Friend agree that the decision to exclude Felixtowe from the list of six seems to run counter to the Government's philosophy and will be greeted with great disappointment throughout Suffolk and the whole of East Anglia, especially as there is no east coast port on the list?

Mr. Hayhoe: I agree with my hon. Friend that Felixtowe is a highly successful port with a tremendous track record over the past 10 years. Its exclusion from the selection that I have announced in no way detracts from what it has already achieved or from what I believe will be its glittering future.

Dr. McDonald: Will the Minister just tell us how many new jobs will be created by the freeport scheme?

Mr. Hayhoe: No, I cannot make that prediction. So far as I know, none of those who have supported the concept of freeports has been able to give such a figure. Nevertheless, in making their applications the individual operators have stated that new jobs will flow. If their predictions of the success of their operations are fulfilled, that should be welcomed by hon. Members in all parts of the House.

Royal Air Force

Motion made and Question proposed, That this House do now adjourn.—[*Mr. Ian Lang.*]

4.39 pm

The Minister of State for Defence Procurement (Mr. Geoffrey Pattle): I am pleased to open today this debate on the Royal Air Force, coming as it does at a time when the RAF is in fine fettle. We have too often to talk in terms of cutbacks, economies and scalings down when addressing defence issues. Today, however, the situation is different, in that the service is growing in terms of front-line aircraft, equipment capabilities and, no less important, confidence in its own ability to do its job. Over the past four or five years I detect a real battle hardening in the service. By that I do not mean the hardening born of fighting and losing financial battles in the corridors of Whitehall, but true battle hardening in the south Atlantic and in the highly professional attitude of the service to its job.

It does not matter whether one's scrutiny fixes on the manner in which the RAF goes about its current operational task or its planning for future ones; the result is the same. One comes away highly impressed by the standards achieved. In the past year we have seen the RAF mount impressive operations over the south Atlantic and in the near east. The air-to-air refuelling capability demonstrated in the long haul between Ascension Island and Port Stanley has been remarkable. Equally, the despatch of six RAF Buccaneers to Akrotiri in support of the United Kingdom contingent to the multi-national forces in Beirut last September was a convincing demonstration of the reach and reflexes of air power. Therefore, we come to today's debate heartened by the state of the RAF, which is professional to its fingertips and, as I hope to demonstrate, armed to the teeth.

My hon. Friend the Minister of State for the Armed Forces will wind up the debate and deal with points raised. He will emphasise operational matters, whereas I shall emphasise procurement issues.

I shall tell the House the progress that we are making with the major re-equipment programme that is now under way for the RAF. The RAF is currently undergoing the most extensive modernisation programme for 20 years, involving the expenditure of some £14 billion on major projects in the coming decade. Those measures, coupled with the advances in capability that the RAF has achieved over the past five years, will leave the RAF much stronger and better armed than it has been for many years.

I shall describe the re-equipment programme under three broad headings: our readiness to meet the threat; our ability to respond to it; and the reach of our air power in the world today—the three Rs revisited.

First, I remind the House about our readiness to detect and meet the threat that hostile aircraft pose to the United Kingdom. Any conventional attack by the Warsaw pact on western Europe would most likely include heavy air attacks on this country. Warning would be provided primarily from a chain of radars, and airborne early warning aircraft.

An enormous programme of improvements to our detection capability is well under way and the RAF is already deriving benefits. Starting later this year, Nimrod AEW aircraft will at last replace the almost timeless Shackleton. The Nimrod, which can operate with the

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10 DOWNING STREET

From the Private Secretary

1 February 1984

Selection of Freeport Sites

The Chancellor reported to the Prime Minister on the outcome of the meeting he had with colleagues on the selection of freeport sites. She has noted that, following the discussion, five sites, Southampton, Liverpool, Birmingham, Belfast and Prestwick, were recommended. She has noted the Secretary of State for Wales' request for Cardiff to be added to the list. She would like this to be done provided the Secretary of State for Wales is prepared to provide the additional staff necessary in the way that has been agreed with the Secretaries of State for Scotland and Northern Ireland.

She agrees that these decisions should be announced as soon as possible and is therefore content that Mr. Hayhoe should make an Oral Statement to the House on Thursday 2 February.

Andrew Turnbull

John Kerr, Esq.,
HM Treasury.

GT



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 From The Secretary of State for Wales

CONFIDENTIAL

The Rt Hon Nicholas Edwards MP

De Nigel

[Handwritten initials]

1 February 1984

FREEPORTS

Wyn Roberts attended your meeting yesterday to discuss the report of the Working Party on Freeports. He has told me of the conclusions of the meeting and I have talked to other colleagues who were present. I feel I must write to express my disquiet.

I had understood from earlier discussions on this issue that applications for freeport status were to be assessed against the objective criteria laid down in the report. I was prepared to accept on this basis that the only Welsh application (Cardiff) did not match up to the criteria and could not be regarded as a runner. I was therefore very disturbed to hear that the final recommendations have been chosen on criteria that seem to differ markedly from those previously accepted by colleagues: for example, I find the inclusion of Birmingham and Prestwick hard to justify, while Liverpool is rated below Cardiff in the Working Party report.

If we are now to depart from the objective criteria in selecting freeports, I have to ask that Cardiff be considered. Otherwise, I shall find it difficult to explain why non-objective criteria can produce successful applications in England, Scotland and Northern Ireland but not in Wales.

/ I am copying this to the Prime Minister, members of E(A) and Sir Robert Armstrong.

[Handwritten checkmark and initials]

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer

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② File

① ✓ NO

NOTE OF A MEETING HELD IN H.M. TREASURY ON TUESDAY, 31 JANUARY,
TO DISCUSS THE POSSIBLE LOCATION OF FREEPORT SITES

Present Chancellor of the Exchequer
 Secretary of State for Northern Ireland
 Secretary of State for Scotland
 Secretary of State for the Environment
 Lord Privy Seal
 Secretary of State for Trade and Industry
 Secretary of State for Transport
 Minister of State (Treasury)
 Parliamentary Under Secretary of State (Welsh Office)

The Chancellor said that he was inclined to endorse the working party's suggestions. It could be detrimental to the ultimate success of the experiment if considerations other than on objective merit, as measured against the originally established criteria, were to influence the initial decision.

2. It was however suggested that the criteria were not in fact entirely adequate as the basis for decisions. The original application from the Merseyside Docks and Harbour Company (MDHC) had made a poor showing against the criteria, but there was enormous enthusiasm on Merseyside for the idea of a freeport, and rejection of the application would have serious psychological and practical effects. The MDHC's largest single customer would certainly transfer its business to any nearby freeport. Trader demand for the potential Merseyside site had developed considerably since the application had been submitted. The potential size of the site could be a problem, but the operators could be asked to cut it down, and the number of points of access could be strictly limited. Very little fresh capital investment would be required, and the MDHC management was now much improved.

3. It was agreed that it would be impossible to have freeports on both Merseyside and Manchester, and that while the case for Manchester was stronger in terms of the narrow economic criteria, Liverpool was preferable on wider grounds.

4. It was noted that the selection of Tilbury would cause severe problems, for example over the use of registered dock workers, because of its connection with the Port of London



authority. There was a real possibility of industrial action on the site within the next 3 months, and the long-term future of the port itself was at present by no means certain. It was agreed that Tilbury was not, therefore, at the present time a suitable location for an experimental freeport, and should be dropped from the list to be recommended to the Prime Minister.

5. It was agreed that the working party were right to recommend Southampton. But the purposes of the experiment might be better served if the total number of locations were increased. This would however create a staffing problem for Customs and Excise, who had been allotted manpower to service only three sites. There was also a risk that if too many sites were chosen, they would cut each other's throats. After discussion it was agreed that it would be possible to increase the number of sites to five without seriously damaging the experiment, provided the staffing difficulty could be resolved.

6. It was then suggested that the case for a freeport at Birmingham was stronger than it appeared in the working-party's report. The wider arguments which pointed to Liverpool rather than Manchester applied with even greater force in the case of Birmingham, for the West Midlands was the area which had suffered most from the recession. With Tilbury ruled out from the original list, and Southampton selected, going for five sites would permit the choice of both Liverpool and Birmingham in place of Manchester. The addition of both the runners-up, Aberdeen and Belfast, would also give a sensible split between seaport and airport sites.

7. The Secretaries of State for Scotland and Northern Ireland agreed to transfer to Customs and Excise from their Departmental staff ceilings the necessary staff for Belfast and for a Scottish site. It was noted however, that Aberdeen might not be the right site in Scotland. Aberdeen airport was already highly congested and a freeport was not required to stimulate activity there. It was suggested that a better case on wider grounds could be made for Prestwick, though the establishment of a freeport might make it more difficult to take an objective decision in due course on the future of the airport. The eventual decision was that Prestwick was to be preferred.

8. It was accordingly decided that the Prime Minister's approval should be sought for the designation of Belfast, Birmingham, Liverpool, Prestwick and Southampton. An early announcement would be desirable, and the best course would be for the Minister of State



(Treasury) to make an oral statement to the House on Thursday 2 February. There would be ample opportunity for further discussion of the Freeports experiment during committee stage debates on the Finance Bill.

B.

MISS J C SIMPSON

1 February 1984

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10 DOWNING STREET

Prime Minister

The Chancellor's meeting has selected 5 sites. He wants to announce quickly to prevent leaks

Agree choice and an oral statement on Thursday?

AT

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1 note Wales

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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

SELECTION OF FREEPORT SITES

Barney Hayhoe and I this afternoon met Jim Prior, George Younger, Patrick Jenkin, John Biffen, Norman Tebbit, Nick Ridley and Wyn Roberts to discuss the selection of freeports.

2. We recognised that we had to balance the objective assessment set out in the report by officials, which was attached to my minute of 17 January, against a range of important political considerations. The subject has generated a wholly disproportionate amount of public interest, and there will be protests whatever our choice.

3. After considerable discussion, we have decided to recommend five sites: Southampton, Liverpool, Birmingham, Belfast and Prestwick.

4. The application from Southampton stood on its merits. The pressure from Liverpool has been particularly intense, and we felt obliged to include it. We selected Birmingham Airport as the other English site on both locational and political grounds. We agreed to add Belfast Airport and Prestwick Airport on the understanding that Jim Prior and George Younger would transfer to Customs and Excise the necessary staff numbers (10 to 15 in each case) from their Departmental allocations.

/We agreed



5. We agreed that it would be best for Barney Hayhoe, who has handled the matter hitherto, to announce the selection in an Oral Statement to the House. I hope, to prevent leaks of our decision, that he can do so on Thursday, 2 February. The aim is to make it as low-key as possible; but a Written Answer would not, we judged, be acceptable.

6. I should be grateful for your agreement to the selection and to the proposed method of announcement.

N.L.

N.L.

31 January 1984

ce NO



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JU525

Secretary of State for Trade and Industry

26 January 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister ②
To note Mr Jenkin has urged
that Liverpool's case be examined.
Mr Prior has backed Belfast.

AT
261,
Mr

D Nigel.

Thank you for copying to me your letter of 17 January to the Prime Minister about freeports.

2 I shall be pleased to attend a meeting to discuss the Working Group's recommendations (which I have since learnt is to take place on Tuesday 31 January). I thought it might be helpful to you and colleagues if, prior to the meeting, I set out my preliminary views.

3 Firstly, and most important, the establishment of freeports in the UK is an experiment to evaluate their potential. We should therefore select only the strongest candidates with the greatest potential for success: this is not only the most rational approach but also the easiest to justify publicly. As to the number of sites, I agree with you that the success of this venture will also depend to a considerable extent on their being kept to a minimum, and although I would prefer an even smaller number I am willing to support your suggestion that the upper limit should be four.

4 My own preference would be to designate those three sites which best meet all of the selection criteria: Southampton port, Manchester Airport and Thurrock Park Tilbury, together with the strongest of the territorial candidates short-listed. In view of its existing high proportion of trade with non-EEC countries, I would support Belfast Airport in preference to Prestwick or Aberdeen, which both appear to have serious question marks concerning their long-term viability and spread of trade.

5 If, contrary to this approach, it was felt necessary to take account of wider considerations than were included in the selection criteria, then we should take into consideration the arguments for other candidates including, for example, Birmingham airport.



6 I have seen a copy of the Prime Minister's reply to you, and I agree that Felixstowe certainly does have some strong points. I am, however, concerned at the paucity of information provided on the basis of the revenue forecasts and the source of finance for the development. Unless these deficiencies were quickly overcome I feel that it would be preferable to support Tilbury's already established case — *and it would not be unhelpful to give some support to London!*

7 In sum, I think we should endorse the Working Group's selection of Manchester, Southampton and Tilbury and give consideration to only one other site, for which my preference is Belfast.

8 I am copying this letter to the Prime Minister, other colleagues in E(A) Committee and to Sir Robert Armstrong.

Norman

NORMAN TEBBIT

TRADE : freeports. Feb 83

26 JAN 1984

11 12 1 2 3 4
10 9 8 7 6 5
19 18 17 16 15 14



CONFIDENTIAL

CNO

NBPM AT

24/11

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref: J/PSO/10415/84

Your ref:

24 January 1984

Dear Nigel,

FREEPORTS

Thank you for your letter of 17 January and for sending me a copy of your minute to the Prime Minister with the report by officials on the freeports bids. I would like to join the discussion that you propose. You will be aware of the anxiety on Merseyside about the outcome. Notwithstanding the exclusion of the Liverpool proposal from the officials' shortlist, I hope we can examine the proposal alongside the 8 others you mention in your minute to the Prime Minister. I consider it extremely important that the Liverpool case is considered by Ministers despite the disappointing showing made as against the criteria.

I am copying to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

The Rt Hon Nigel Lawson MP

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will request if required

Trade
Freeports
Feb 83.

24 JAN 1984



CONFIDENTIAL



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

NPPM
AT 23/1

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Parliament Street
LONDON
SW1P 3AG

23 January 1984

Nigel Lawson

FREEPORTS

Thank you for sending me a copy of your minute to the Prime Minister of 17 January 1984. I would be very happy to take part in the discussion you suggest on the recommendations contained in the report by the Inter-Departmental Working Group of Officials. Our ultimate choice of Freeport locations will have to be justified as based on the outcome of the competition which was run of course with the objective of finding the best sites on which to test Freeport status. Officials have done a very good job in reducing the 45 competitors down to a small number of those most suited to this experiment.

I endorse the strengths of Manchester Airport, Southampton and Tilbury. I would also subscribe to the thoughts expressed in paragraph 8 of the Working Party's Report. The 3 clear winners of the competition are in England but 2 candidates, Aberdeen and Belfast Airports are seen as having considerable merit, and I would argue strongly that Belfast Airport should be included in the sites chosen for the experiment.

In pressing the case for Belfast Airport I would not argue that Northern Ireland, or any other part of the UK, has a presumptive right to a Freeport. Two other applications from Northern Ireland have been, quite properly, rejected as not meeting the established criteria. While it might be argued that a wider geographical

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/...

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spread of Freeposts gives a better experimental basis, designation on regional grounds of an applicant with little intrinsic merit would not be in the best interests of the region or the Freeport experiment. It seems to me, however, that neither of these arguments applies to the application by Belfast Airport, which the Working Group has acknowledged as a relatively strong application deserving consideration on its merits.

Belfast has a volume of international trade which (outside London) is second only to Manchester. It has a strong management with sound financial backing and they have a real sense of commitment to effective international marketing as a means of securing the full exploitation of the excellent facilities of the Airport. Designation would provide a valuable reinforcement to the existing efforts of the management team and would also offer hope of recovering to the United Kingdom, some £5 million of Northern Ireland's international trade which is at present routed through Dublin Airport. As far as the impact of designating Belfast on the rest of the UK is concerned, there would be minimal distortion or trade diversion effects.

I agree that it will be necessary to keep the number of designations small but I am convinced that Belfast Airport should be included among the sites chosen for Freeports, because of the ranking it attained, on its merits, in the competition.

I am copying this letter to the Prime Minister, to members of E(A) and to Sir Robert Armstrong.

[Handwritten signature]

CONFIDENTIAL

Trade . feb. 83
free ports



23 JAN 1984



10 DOWNING STREET

cc: SO	DTI
D/En.	DoE
WO	LPSO
D/Emp	HMT
MAFF	
CSO	
D/T&S	
CO	

From the Private Secretary

20 January, 1984

Freeports

The Prime Minister has seen the Chancellor's minute of 17 January, setting out his proposals for the establishment of three freeports. She would be happy for the Chancellor to hold a meeting with colleagues most closely concerned to discuss his recommendations. She has commented that Tilbury has been preferred to Felixstowe, even though the latter has been extremely successful.

I am copying this to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

John Kerr, Esq.,
H.M. Treasury

E. R.
PRIME MINISTER

FREEPORTS

The Chancellor is proposing three freeports:

- (i) Manchester (airport)
- (ii) Southampton (seaport)
- (iii) Tilbury (seaport, Greenfield site).

He wishes to keep the number of freeports at three, or at most four.

The obvious problem is that all his three are in England, two in the South.

The Chancellor has offered a meeting with colleagues who will no doubt press the case for other sites. (I believe Prestwick is in Mr. Younger's constituency.) It is almost certain this offer will be taken up.

Agree the Chancellor should hold further discussions with colleagues, reporting back to you if agreement is not reached?

AT

Yes no

19 January 1984

Why have they preferred
Tilbury to Felixstowe?

The letter is an enormous
sum.

no

C/MO



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

You will recall that, following Geoffrey Howe's announcement in his last Budget that he proposed setting up a limited number of experimental freeport locations, applications for consideration were invited on 25 July last year. Forty-five applications were received by the closing date of 31 October: Barney Hayhoe listed them in a Parliamentary Answer on 3 November. Since then, these have been considered by an interdepartmental Working Group of officials on the basis of selection criteria which I agreed with colleagues. I attach a copy of the Working Group's report.

2. You will remember that the basic idea of the freeport is that within them goods will be treated for customs purposes as being outside the customs territory of the UK. In general, customs duties and agricultural levies will be due only when goods are consumed within the freeport, or when they leave the freeport for markets in the UK or other EC countries. Within the freeport, traders will have the opportunity of undertaking various activities including transshipment, warehousing and processing.

3. You will see that the Working Group report strongly endorses the applications from Manchester airport, Southampton and Tilbury. If more, or a different distribution of, sites were thought desirable, they suggest that these should be selected from Aberdeen airport, Belfast airport, Birmingham airport, Felixstowe or Prestwick airport. I should be happy to hold a meeting with those colleagues most closely concerned, such as Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, Tom King, Norman Tebbit and Nicholas Ridley, to discuss these recommendations before reaching a final decision. I must say at the outset, though, that I am convinced that the success of the experiment depends at this stage on the initial selection of sites being extremely limited. I suggest that the maximum should be four.



4. I hope we shall be able to agree quickly on a final list. We have promised to make an announcement "early in the New Year", and in order to stick to that I should like to make our decision public before the end of the month.

5. I am copying this minute to other members of E(A) and to Sir Robert Armstrong.

(N.L.)

17 January 1984

CONFIDENTIAL**FREEPORTS: CHOICE OF SITES**

1. This submission puts forward for the consideration of Treasury Ministers a shortlist of 8 freeport applications; explains how it has been arrived at; and makes recommendations about the final choice of freeport sites to be made from the shortlist.
2. The selection process has been carried out by an interdepartmental Working Group of officials, under Treasury chairmanship. We decided that, for the selection process to be fair, all sites should be judged on the basis of the information in the application submitted. The 45 applications were sifted initially on the basis of the essential criteria derived from the Memorandum of Guidance for potential operators issued in the summer. A list of these criteria is at Annex A. 16 applications passed the initial sift. A list of those dropped at this stage, together with the main reasons why they did not meet the essential criteria, is at Annex B.
3. The 16 remaining applications were then assessed and compared on the basis of the appraisal criteria, which were likewise made clear in the Memorandum of Guidance. These criteria are listed at Annex C. A list of the eight further applications dropped at this stage, and the main reasons for doing so, is at Annex D. We checked, finally, that there were no decisive objections from MAFF to any of the shortlisted applications because of the implication for agricultural land.

The prime candidates

4. The Group agreed upon three applications which are in its view the prime candidates on the basis of the objective appraisal criteria:
 - a) Manchester (airport): application from Manchester International Airport Authority
 - (b) Southampton (seaport): application from Associated British Ports (Holdings) PLC.
 - c) Thurrock Park, Tilbury (seaport): application from London International Trade Zone.

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5. The application for Manchester Airport is strong on many of the appraisal criteria. A well conducted market survey has identified a reasonable level of informed trader demand. The modest level of investment required means that financial backing, though not yet identified, should not be a difficulty, and returns look to be adequate after year one. The freeport can begin operation with minimum delay. In addition, Manchester, as the only GB long haul international airport outside the South East, has well-established international services and is already a centre for third country traffic. The Working Group agreed that this was the best of the airport applications.

6. Southampton's application identifies a promising level of trader demand. The consortium of private sector investors concerned looks to have the necessary commercial competence and should have no difficulty in raising the necessary funds. The venture would be likely to show a profit in Year 1 and a cash flow surplus in Year 4. The proposed operators have substantial expertise in a variety of fields. Virtually all the facilities for the proposed Phase 1 are in place, so that the freeport can begin operation immediately.

7. The application for Tilbury also comes from a consortium of private sector companies with suitable commercial expertise. The Port of London Authority has only a minor role as landowner. One of the investors, Miami Free Zone Corporation, has experience of the operation of Freeports in the USA, and has given particular attention to possible customs systems. The proposed site is not contiguous to the port, but it is part of the seaport complex and we are confident that suitable arrangements can be made. The geographical location, close to London, is clearly advantageous, and transport links are good. The returns on the investment are acceptable. The initial development of the site is going ahead already so once again the freeport can start operations immediately.

Territorial candidates

8. These three sites are all in England. We believe it would be a mistake to allow regional policy considerations to sway a decision in favour of a freeport application which has little intrinsic merit: after all, the economic and employment impact even of successful freeports is likely to be very limited, while freeports which are not viable will bring no economic benefit to an area, and will serve only to create disappointment. However we recognise that in their final selection Ministers may wish to include a site or sites elsewhere in the UK. If so, the Working Group recommend the following applications which, though not as strong as those listed in paragraph 4, have merit.

d) Aberdeen (airport): application from Barratt Scottish Properties plc.

e) Belfast (airport): application from Northern Ireland Airports Ltd.

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9. The application for Aberdeen comes from a sound private sector investor and the financial analysis stands up well. The main doubt about this site is that the level of trade is at present heavily reliant on oil-related traffic. The Group agreed that there were sufficient doubts about future trade demand to preclude putting Aberdeen among the front runners. The application was nevertheless sufficiently good to be chosen if Ministers specifically wanted a Scottish freeport.

10. Belfast has several points in its favour. The volume of international trade is second only to Manchester outside London and there is a very high percentage of third country trade by value. The financial analysis is realistic as regards costs, with high promotional costs included and prudent assumptions about occupancy rates and cash flow. The applicants recognise that the anticipated returns are zero once interest is included and as such inadequate for a commercial venture. However, the applicants can fund the project themselves and regard the return as adequate for investment which will be in support of existing plans for development of airport trade. This makes it a less attractive but defensible option, if Ministers wished a location in Northern Ireland.

Other shortlisted candidates

11. The remaining three applications in the shortlist are included because we recognise that Ministers may wish to consider them for reasons other than their objective merits on the basis of the published criteria. They are:

- f) Felixstowe (seaport): application from Felixstowe Dock and Railway Company.
- g) Birmingham (airport): application from West Midlands Freeport Ltd.
- h) Prestwick (airport): application from Kyle and Carrick District Council/British Airports Authority.

12. The difficulty over Felixstowe is that it is a poor application for a potentially good site. The application contains palpable overstatements of trader demand and likely revenue. The finance for the investment, which is relatively high, has yet to be found. Nevertheless, Felixstowe is geographically well placed to attract third country trade from other European Freeports, especially from USSR and Scandinavia. The port has shown a consistently impressive level of increase in turnover in recent years; it is a modern port, privately owned where restrictive labour practices are considerably less of a problem than they would be in some other sites. The application has strong support in some quarters, and Ministers may come under pressure to look beyond the application to the site itself, and to select it for designation.

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13. The application for Birmingham Airport was considered not to be a front runner, primarily on financial grounds: it has very poor costings and, once interest is included, the venture is continually loss-making. Its access to third country traffic is limited; and the evidence of trader demand is also rather sketchy. The Group agreed that this application and that from Manchester Airport would be in close competition if both were designated and therefore saw the two applications as alternatives. Birmingham's application is less good than Manchester's but there is likely to be considerable pressure to favour the West Midlands.

14. The application for Prestwick shows reasonable levels of trader demand from small, high technology firms who are likely to benefit, and 99% of Prestwick's trade is third country. It is, however, very poor on financing, with a number of important cost factors omitted. Although the initial investment is secure, further development depends on finance from traders and must therefore of necessity be highly speculative. The future of the airport itself is also dependent on decisions on the future routing of transatlantic flights. However, the Working Group took note of the Secretary of State for Scotland's commitment to this site; and of the recommendation from the Select Committee on Scottish Affairs in their report on the airport that Prestwick should be granted freeport status.

Applications not on the shortlist

15. Of the applications dropped as failing the appraisal criteria outright, there are two in particular which there will be pressure from some quarters to include on regional grounds. These are:

- i) Cardiff (seaport): application from Pearce (Wales)

- j) Liverpool (seaport): application from Mersey Dock and Harbour Company.

We cannot recommend either of these to Ministers as reasonable prospects.

16. The application for Cardiff, though better than the other two Welsh applications, failed on the appraisal criteria. It is particularly poor on financing. All operating costs are excluded, but the project still shows a rate of return less than the current interest rate. The financial backing has yet to be found and it must be highly doubtful that it will be. The site is unsuitable and there is insufficient trader demand. Nonetheless, particularly if sites in Scotland and/or Northern Ireland are chosen, there will be pressure for a Welsh freeport also.

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17. There may be pressure on Ministers to designate Liverpool (seaport). The application from the Mersey Docks and Harbour Company, however, failed on the appraisal criteria. Given the type of traffic presently using Liverpool docks existing traders would get very little benefit from freeport status; and the evidence of trader demand in the application is untargetted and wholly unconvincing. The site proposed is excessively large and unmanageable, posing intractable problems of security. Since all that is envisaged is fencing in, the level of investment is low and hence easy to find; but it is highly questionable whether this site could enjoy significant commercial success as a freeport, especially in view of its proximity to Manchester, which is by far the sounder prospect.

The final choice

18. In making their final choice from the shortlist Ministers will wish to bear a few further points in mind. Although regional policy considerations should not play a part in the selection, the geographical distribution of the sites selected is relevant. It is important that freeports should not be so close together as to be competing for trade. The prime candidates offer quite a good geographical dispersion. Secondly, to reflect the experimental nature of the exercise, Ministers may wish to select a variety of sites: small and large, sea and airports. The shortlisted sites offer examples of each, as Annex E shows.

19. The Working Group recognise that there is pressure for more than the "two or three" sites recommended in the report of Mr Bruce-Gardyne's Working Party. Sir Geoffrey Howe's 1983 Budget speech referred to "a limited number". The fewer sites there are, however, the better the chance of a successful experiment: too many sites would compete with each other, and the less impressive applications would have to be included. If a very small number are selected, it will be easier to defend the choice to those applicants which have been unsuccessful, since the competition for selection will clearly have been strong. Manpower and costs considerations need also to be taken into account. The Public Accounts committee has shown an interest in the staffing implications of freeports and may be expected to return to the matter. The 1984/5 manpower ceiling approved by Ministers for Customs and Excise includes provision for 2 or 3 experimental freeports only, on the basis of 12-15 officials for each site. Any increase in the number of freeports would require additional manpower provision.

Recommendations

20. On the basis of the assessments of the applications set out in this submission, the Group recommends that the selection should be from the applications listed in paragraph 4: Manchester, Southampton and Tilbury. These three offer a useful spread of types of site:

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an established airport (Manchester); an established seaport (Southampton); and a "greenfield" site (Tilbury); and they are reasonably well dispersed geographically. If Ministers wish to go outside this list, in order to achieve an even wider geographical spread then, on the basis of the objective appraisal criteria, the best alternative candidates are Aberdeen and Belfast, as explained in paragraphs 9 and 10.

HM Treasury
Parliament Street
London
SW1P 3AG

January 1984

CONFIDENTIAL**ANNEX A****ESSENTIAL CRITERIA**

1. Applicant can demonstrate ready availability of land.
2. Site associated with sea or air port: contiguous?
close?
3. Appropriate authorities have indicated approval in principle (planning etc).
4. Area does not include residential accommodation/retail activity and is otherwise suitable.
5. Satisfactory security arrangements can be made.
6. No additional central government funding (excluding any automatic assistance) required.
7. Adequate evidence on demand and on finance available.

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APPLICATIONS NOT PASSING INITIAL SIFT

<u>Applicant and location</u>	<u>Comment</u>
Belfast Harbour Commissioners (Belfast)	Insufficient financial information; some aspects of the site unsuitable.
Blue Circle Industries plc (Dartford)	Insufficient detail on development proposed; no financial information.
Bournemouth Borough Council and Dorset County Council (Hurn Airport)	Doubtful availability of land; inadequate detail on development; no financial information.
British Waterways Board (Sharpness Docks, Gloucs)	No detail of funding of extensive development.
Bryant Samuel Properties Ltd (Birmingham Airport).	Insufficient detail on scale of investment or proposed funding.
Central Regional Council (Port of Forth, Grangemouth)	Site unsuitable on security grounds.
Cheldale Ltd (Lympne Industrial Estate, Kent)	Site not associated with port or airport; no financial information.
City of Edinburgh District Council (Edinburgh).	Limited evidence on finance and trader demand; security arrangements doubtful.
City of Swansea (Swansea)	Unsuitable site with doubtful security arrangements; insufficient evidence on demand and availability of finance.
Dundee Port Authority (Dundee)	Very poor financial evidence, unsuitable, scattered location.
Falmouth Docks and Engineering Co (Port of Falmouth)	No information on suitability of site or activities proposed.
Foyle Development Organisation (Londonderry)	Limited evidence on availability of finance or proposed scale of investment.
Freeport Operators (South Humberside) Ltd (North Killingholme, South Humberside)	No evidence of availability of finance for substantial development required.

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Hellberg Harris International
Ltd (Solihull)

No evidence of funding or
proposed scale of investment;
site unlikely to be available.

London Borough of Croydon
(Croydon)

No useful information provided

Medway Ports Authority (Sheerness
Docks and Chatham Dockyard)

Insufficient evidence of demand
and availability of finance;
sites not suitable on security
grounds.

Renfrew District Council
(Clyde and Glasgow Airport)

Very limited information on
funding and on nature of site.

RTZ Estates (Avonmouth)

No information on trader demand
or availability of finance.

RTZ Estates (Thameside)

No information on availability
of finance; very limited evidence
on trader demand.

Sally UK Holdings Ltd
(Manston Airport, Kent)

Ministry of Defence indicate
that proposed site would not be
available for freeport operations:
no evidence of trader demand.

Sealink (UK) Ltd (Fishguard)

Very limited evidence of
availability of finance and
trader demand; extension of
small site would require major
work.

Sealink (UK) Ltd (Harwich)

Very limited evidence of
availability of finance and
trader demand; separated sites
proposed.

Sealink (UK) Ltd (Newhaven)

Very limited evidence of
availability of finance and
trader demand; prolonged
development required before
freeport operations could begin.

Shetland Islands Council
Council (Sumburgh Airport)

Very limited evidence of
availability of finance and
trader demand; no detail of
suitability of site.

Simon Storage Group (North
Killingholme, South Humberside)

Very large site requiring
extensive development before
operations could commence

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Southampton Airport Ltd
(Southampton Airport)

Insufficient detail of proposed site and of funding arrangements.

Southend-on-Sea Borough Council
(Southend Airport)

Expansion beyond small initial site unlikely to obtain planning permission; limited evidence of availability of finance or trader demand.

Teignmouth Quay Co Ltd
(Teignmouth Port)

Very small site; no evidence of availability of finance or trader demand.

Wallace Field Co
(Speke Airport)

Bona fides doubtful; little relevant information.

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ANNEX C

APPRAISAL CRITERIA

Demand

1. Is there strong evidence of trader demand?
2. What existing level and type of international trade handled already?
3. Is there reasonable expectation of increased trade?
4. Likely effect on trade opportunities elsewhere in country, especially in immediate locality?

Finance

5. What strength of backing?
6. What existing expertise available (construction, port operation, financial planning, management, promotion and marketing etc)?
7. What returns expected, over what period?
8. Realism of financial arrangements and budgeting (what sort of appraisal technique used)?
9. No additional central government funding required?

Timing

10. Does the proposal build on existing facilities?
11. Is proposed scale of development realistic?
12. What is proposed start date for operation?

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APPLICATIONS NOT PASSING SECOND SIFT

<u>Applicant and location</u>	<u>Comment</u>
City of Kingston Upon Hull (Alexandra Dock, Hull)	Trade predominantly low value bulk goods and goods of EC origin; not much evidence of trader demand, questionable whether investment proposed sufficient to generate commercial success.
East Midlands Airport Joint Committee (East Midlands Airport)	Scant information on trader demand; level of international trade sharply fluctuating in recent years; very basic financial projection suggests inadequate returns.
Hargreaves Shipping Services Ltd (Immingham)	Much of trader demand identified would have little practical interest in freeport activities; certain activities already established on site seriously question its suitability.
Iverclyde District Council (Greenock)	Little worthwhile evidence of trader demand; small international trade in consistent decline in recent years; poor budgeting suggests inadequate return for operators.
Mersey Dock and Harbour Co (Port of Liverpool)	Over-ambitious proposal takes no account of limited evidence of trader demand or of security requirements; questionable whether sufficient investment to generate commercial success.
North East Regional Airport Committee (Newcastle Airport)	Trade growth uncertain in absence of scheduled flights to 3rd countries; financial backing on scale envisaged would be difficult to raise; number of important items of costing omitted from budget.

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Pearce (Wales)
(South Glamorgan)

Unsuitable site with doubtful financial backing; insufficient trader demand financial projection omits all operating costs, but returns are still less than interest rate.

Port of Bristol Authority
(Royal Portbury Dock,
Bristol)

No real evidence of trader demand; little indication that operator has grasped freeport concept; financial information fails to demonstrate satisfactory return for operator.

FREEPORTS: KEY FEATURES OF SHORTLISTED SITES

NAME OF APPLICANT	PROPOSED LOCATION	REGION	PROPOSED SIZE (IN PHASES)	PROPOSED SCALE OF DEVELOPMENT	TIMESCALE FOR OPERATIONS	PROPOSED SCALE OF INVESTMENT AND MAIN CONTRIBUTORS
MANCHESTER INTERNATIONAL AIRPORT AUTHORITY	MANCHESTER (AIRPORT)	NORTH WEST	PHASE 1: 1.73 ACRES PHASE 2: 63 ACRES	PHASE 1: EXISTING WAREHOUSE PHASE 2: CARGO CENTRE, OFFICES PARKING FOR 250, CARS, 60 LOBBIES	PHASE 1: MINIMUM OF DELAY PHASE 2A: END YEAR 1 PHASE 2B END YEAR 5	PHASE 1: £250,000 PHASE 2: £2.5m FUNDED BY OPERATOR (NOT YET DECIDED)
ASSOCIATED BRITISH PORTS HOLDINGS PLC	SOUTHAMPTON (SEAPORT)	SOUTH EAST	PHASE 1A: 3 ACRES PHASE 1B: 50 ACRES PHASE 2: 80 ACRES PHASE 3: 800 ACRES	OPEN WAREHOUSE STORAGE PLUS INDIVIDUAL USER UNITS FOR STORING PROCESSING ASSEMBLY AND MANUFACTURE	PHASE 1A: IMMEDIATE	CAPITAL: PHASE 1A £6.8m RAISED OR PROVIDED BY SHAREHOLDERS IN FREEPORTS MANAGEMENT DEVELOPMENT COMPANY: ASSOCIATED BRITISH PORTS TRAFALGAR HOUSE (GLEAN COMY TRADING KLEINMOET REASON
LONDON INTERNATIONAL TRADE ZONE	THURROCK PARK TILBURY (SEAPORT)	SOUTH EAST	PHASE 1: 20 ACRES PHASE 2: 35 ACRES	PHASE 1: 3 MULTI-USE BUILDINGS FOR ASSEMBLY/ PROCESSING, WAREHOUSING AND, OFFICE/SHOWROOMS PHASE 2: TO BE DECIDED	IMMEDIATE USE OF 20,000 ft ² EXISTING WAREHOUSE. PHASE 1 COMPLETED 18 MONTHS AFTER DESIGNATION	£5.42M (PHASE 1) TAYLOR WOODROW GROUP (NOT YET FINALLY DECIDED)
BARBATT SCOTTISH PROPERTIES PLC	ABERDEEN (AIRPORT)	SCOTLAND	PHASE 1: 28 ACRES PHASE 2: 11.5 ACRES	SPECULATIVE AND PURPOSE BUILT WAREHOUSES AND OTHER FACILITIES INCLUDING EXHIBITION SPACE WEIGHING AND MEASURING COMPUTING	10 ACRES IMMEDIATELY	£12M IN YEARS 1-5 BARBATT SCOTTISH PROPERTIES
NORTHERN IRELAND AIRPORTS LTD	BELFAST (AIRPORT)	NORTHERN IRELAND	PHASE 1: 70 ACRES PHASE 2: UP TO 78 ACRES	PHASE 1(a) - EXISTING WAREHOUSES PHASE 1(b) NEW INFRA-STRUCTURE PLUS WAREHOUSE UNITS	PHASE 1(a): 4 MONTHS PHASE 2: AFTER 5 YEARS	PHASE 1(a): £205,000 PHASE 1(b) £2.8M NORTHERN IRELAND AIRPORTS LTD
FELIXSTOWE DOCK AND RAILWAY COMPANY	FELIXSTOWE (SEAPORT)	SOUTH EAST	TOTAL: 66 ACRES FLOOR AREA: PHASE 1: 10,000m ² PHASE 2: 25,000m ² PHASE 3: 22,500m ² PHASE 4: 9,500m ²	LIGHT INDUSTRIES UNITS IN A VARIETY OF SIZES, DISPERSED TO REFLECT USER REQUIREMENTS, CAR AND LOBBY PARKING	PHASE 1: DEC 1985 PHASE 2: DEC 1987 PHASE 3: DEC 1989 PHASE 4: DEC 1990	PHASE 1: £4.9M PHASE 2: £13.1M PHASE 3: £13.5M PHASE 4: £6.4M FELIXSTOWE DOCK AND RAILWAY CO PLNS LOAN
WEST MIDLANDS FREEPORT LTD	BIRMINGHAM (AIRPORT)	WEST MIDLANDS	PHASE 1: 15 ACRES PHASE 2: 18 ACRES	SECURE UNITS INCLUDING CARGO TRANSIT SHED. DESIGN TO REFLECT USER REQUIREMENTS, CAR AND LOBBY PARKING	PHASE 1 1984-1986 PHASE 2: 1985-1989	PHASE 1: 21M PHASE 2: 57M CORPORATION PLC
KYLE AND CARBICK DISTRICT COUNCIL/BRITISH AIRPORTS AUTHORITY	PRESTONICK (AIRPORT)	SCOTLAND	PHASE 1: 31 ACRES PHASE 2: 25 ACRES FURTHER UP TO 149 ACRES	PUBLIC WAREHOUSE FURTHER DEVELOPMENT BY INCOMING COMPANIES	TOTAL 5 YEARS STARTING JULY 1984	£110,000 year 1 £60,000 PA THEREAFTER SCOTTISH EXPRESS INTERNATIONAL (FREEPORT OPERATORS)

Trade: Receipts 2/13

1768 11/11 1882

1 2 3 4 5 6 7 8 9 10 11 12

MJ

26 July 1983

Thank you for your letter of 25 July, about Treasury Ministers' conclusions on the Working Party on Freeports' report.

The Prime Minister is content with the draft Parliamentary answer attached to your letter.

MS

Miss J C Simpson
HM Treasury.

SE



PA

①

Prime Minister

Agree me

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

draft Answer?

25 July 1983

Mes 25/7

Michael Scholar Esq
10 Downing Street
LONDON
SW1

Dear Michael,

FREEPORTS

You will recall that following the report from the working party on freeports chaired by Mr Bruce-Gardyne, the then Chancellor announced in his Budget speech that the Government had approved the establishment of a limited number of freeports on an experimental basis. It was originally intended to include the legislation enabling this in the 1983 Finance Bill, but this of course fell with the dissolution of Parliament: the legislation will now be in the 1984 Bill.

In the meantime, however, it has also been agreed interdepartmentally that criteria for the selection of freeports sites would be published in advance of the legislation, hence enabling potential operators to present their cases, and, if successful, establish themselves with the minimum possible delay. It was agreed that announcement of the criteria should be made by means of a Parliamentary Question and a press notice.

I attach a copy of the draft PQ, and the press notice and supporting memorandum of guidance. The intention is that the Minister of State should answer the PQ on Wednesday. I should be grateful if you could confirm that the Prime Minister is content. All three texts have been agreed with all interested Departments.

Yours,
JCS

MISS J C SIMPSON
Private Secretary

PRESS NOTICE

Amund

DRAFT ARRANGED PQ

Q. To ask Mr Chancellor of the Exchequer on what basis he proposes to select the experimental freeport sites; and if he will make a statement.

A. The Government has accepted the recommendations of the working party on freeports that locations for the experimental establishment of freeports should be determined by evidence of trader demand and potential economic viability. A Press Notice has been published today setting out the criteria under which applications from potential operators will be assessed. A copy of the Press Notice and of the supporting memorandum of guidance issued by HM Treasury will be available in the library.

3. Applications are now invited from potential site operators who should include evidence based on the above guidelines and in particular details of the following:

- a. Existing levels of international trade handled in the locality and potential for growth and investment arising from the establishment of freeport facilities.
- b. The extent to which new development would be required, together with a projected timetable for bringing freeport facilities into operation.
- c. A description of the applicant's financial backing and relevant expertise together with a financial forecast showing funding arrangements, estimated capital costs, projected cash flow and forward trading estimates.
- d. The activities envisaged and the hours of operation.
- e. Evidence that the appropriate authorities have no objection in principle to the proposal on planning or other grounds.

4. Ministers have already received many approaches from interested parties but in order to ensure that bids are dealt with on the same basis all potential operators are now invited to submit formal applications based on the above guidelines to the Secretary, HM Treasury, Parliament Street, London SW1P 3AG by 31 October 1983. A memorandum of guidance is available from the above address. All applications received will be fully and carefully considered by the Government. Legislation will be introduced at the first opportunity to allow selected sites to be formally designated.

5. Experimental freeport facilities will be provided at a limited number of locations in the first instance. As the working party recognised, however, it is already possible for traders engaged in the transhipment, handling and processing of goods destined for re-export to come together

under existing customs provisions in a specific location which is not fenced or otherwise enclosed. The above considerations would not apply in such cases. Enquiries should be directed to the local Collector of HM Customs and Excise.

FREEPORTS IN THE UNITED KINGDOM

GUIDANCE FOR POTENTIAL OPERATORS

1. The Government has invited applications from potential operators in respect of a limited number of freeports to be designated under legislation which will be introduced at the first opportunity. The terms of the invitation are reproduced in the annexed Press Notice. This memorandum gives further information on the freeport concept and on the method of application.

The freeport concept

2. A freeport is an enclosed zone within or adjacent to a seaport or airport within which goods are treated for customs purposes as being outside the customs territory of the country. In general, customs duty and agricultural levies are due only when goods are consumed within the zone, or when they cross the perimeter of the freeport area for markets in the United Kingdom, or in other member states of the European Community.

3. Activities which may take place in a freeport include:-

- (a) loading, unloading and transhipment;
- (b) storage, including stockholding pending the availability of quotas;
- (c) sampling, packing, labelling and other forms of minor handling related to the preparation of goods for marketing;
- (d) processing of most third country goods for export outside the European Community, subject to the "protective test" applied by European Community legislation; and
- (e) destructions of, for example, unsaleable or surplus goods.

Community goods may be processed in a freeport without restriction. This includes goods from third countries provided the requirements for bringing them into free circulation have been completed.

4. Traders who are registered for VAT purposes may import goods into a freeport without accounting for tax on them. VAT will become chargeable if goods are removed from the zone for use in the United Kingdom. The normal VAT rules will apply to goods and services supplied to or within the zone. Relief from excise duty will be limited to the warehousing facilities available under existing legislation.

5. Control of goods within the freeport will be primarily on the basis of traders' commercial records. However the freeport will also be fenced or otherwise enclosed under responsibility of the operator, and the number of access points will be restricted to a minimum. Goods subject to national prohibitions, for example relating to certain drugs, to obscene articles or to animal and plant health or conservation, will be excluded from freeports. Import or export requirements may be applied to other particular goods. Certain categories of traders in goods subject to restrictions may be excluded from operating in a freeport.

6. Traders will be required to provide statistics to Customs and Excise of certain receipts into and deliveries from freeports.

Form and content of applications

7. Ministers have already received many approaches from interested parties but in order to ensure that all bids are dealt with on the same basis potential operators are now invited to submit formal applications based on the published criteria,

8. Applications may be made by potential operators or those with a major interest in the land for which designation is sought. Proposed sites must be closely associated with either a sea or airport, but need not necessarily form part of the existing complex.

9. It would be helpful if the main application could be limited to 2,000 words. Supplementary material may be included in appendices. The topics on

which information should be provided are described below. The Press Notice reproduced as an Annex will act as a checklist.

Expected level of demand

10. The Government has indicated that the locations for the experimental freeports will primarily be determined by evidence of trader demand and potential economic viability. Applications should include details of the level of international trade associated with the existing port facilities, where possible broken down between trade with the European Community and elsewhere. An estimate should be provided of increased traffic expected from freeport operation. Evidence of support should be provided from firms either established in the proposed freeport area or intending to establish there should designation be granted.

Proposed area

11. There should be a map to a scale of at least 1:2500 showing the area proposed for the freeport, together with information on land ownership. It is intended that a designated freeport should occupy a discrete area which can be conveniently enclosed by a single fence or other suitable means and proposals should be submitted. In principle there should be no more than two gates which must be capable of being locked when not in operation. Account should be taken of security considerations both within the zone and at the immediate perimeter. In particular, the area to be designated should exclude residential accommodation. Applicants should also bear in mind that retailing activities will not normally be allowed in freeport areas.

Development programme

12. The proposed freeport should be in a position to start substantial operation with minimum delay after designation. Details should be included of the extent to which new development would be required with a projected timetable to bring the facilities into operation.

Finance

13. A financial forecast should be provided showing funding arrangements, estimated capital costs, projected cash flow and forward trading estimates, together with a description of the applicant's financial backing and development expertise. Potential operators must be able to demonstrate that investment, development and promotion of the freeport will not require

additional funding by central government.

Proposed activities

14. It will be the operator's responsibility to create the commercial environment which will attract enterprise to the freeport both by promotional activity and by offering central services. Potential operators should indicate the facilities they intend to provide within the zone, as well as the proposed hours of operation. A charge will be raised in respect of any customs attendance necessarily given outside the normal hours approved for ports or airports locally.

Planning

15. Planning, health and safety and pollution controls will continue to apply in freeports. The application should contain evidence that the appropriate authorities have no objection in principle to the proposal on these grounds.

Procedure for designation

16. The Chancellor of the Exchequer will decide on the experimental locations in the light of the evidence received. Subject to the passage of the necessary legislation, freeports and the operators will be designated by Order. Once the selections have been made detailed discussions on technical matters of procedure and control will take place between the operators concerned and HM Customs and Excise. Designation Orders will be subject to review five years after the site becomes operational.

Other procedures

17. The existing reliefs relating to the transshipment, handling and processing of goods destined for re-export are already widely available throughout the UK. It is possible for traders engaged in such activities/^{to come} together in a specific location which is not fenced or otherwise enclosed. The above considerations would not apply in such cases. Enquiries should be directed to the local Collector of HM Customs and Excise.

Further information

18. Further information about freeports may be obtained from:

R W MacLachlan
HM Customs and Excise
General Customs Division E
Room 21/6
Kent House
Upper Ground
London
SE1 9PS

Telephone: 01 928 0533 Ext 306

Submission of Applications

19. Applications should be submitted by 31 October 1983 to:

The Secretary
HM Treasury
(Freeports IA2)
Parliament Street
London
SW1P 3AG

HM Treasury
July 1983

CONFIDENTIAL

copy
Trade



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Prime Minister ²

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall
LONDON SW1

Mus 14/3

14 March 1983

Dear brother

mt

FREEPORTS

with mcs?

I have seen your letter to Arthur Cockfield of 9 March. In my letter to you of 4 March I queried whether operators should not be free to make their own assessments, take their own risks and establish Freeports. I see that my view has the support of David Howell who has argued that we should be prepared to make Freeports status available, within suitable limits, to any operator who wants to set one up. As I have said any selection process involving Ministers which ends up with Northern Ireland left out is going to cause difficulties for me. Self-selection, on well published, relevant, objective criteria, would be preferable and easier for me to defend - apart altogether from the intrinsic benefits of that approach.

I have noted that your officials are to draft criteria and that my officials will be involved. I endorse your feeling that we may have to discuss them. I would like to be sure that there will be scope for us to examine whether these criteria could be the basis for self-selection thereby avoiding some difficult choices of Freeports locations. In the meantime I believe it would also be helpful if, in your announcement about Freeports, you would refer to "a limited number" rather than a specific number such as two or three.

I am copying this letter to the Prime Minister, colleagues on E Committee, George Younger, Nick Edwards, Jock Bruce-Gardyne, Iain Sproat and Sir Robert Armstrong.

[Handwritten signature]

CONFIDENTIAL

Trade
Feb '83
Freeports

MAR 4 1983



Freeports

CONFIDENTIAL

TRADE.



10 DOWNING STREET

From the Private Secretary

14 March 1983

NOR needed
MS14/3

Freeports

The Prime Minister has seen a copy of the Chancellor's letter of 9 March to the Secretary of State for Trade about the next steps in relation to freeports.

The Prime Minister has minuted as follows:

"Felixstowe is very keen to become a freeport".

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, Muir Russell (Scottish Office), Adam Peat (Welsh Office), Chris Harrison (Mr. Bruce-Gardyne's Office), Iain Sproat, M.P. and Richard Hatfield (Cabinet Office).

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL



*cc J.V.
Prime Minister (2)*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Feb 1983 is very

*ML 10/3
to home = freeport*

9 March 1983

MT

The Rt Hon Lord Cockfield
Secretary of State for Trade

Dr AM

FREEPORTS

The responses to my minute of 25 February are agreed on one point - that we should introduce freeports in the UK. Views differ on the number. For the reasons I set out in my minute, I favour going ahead with a limited experiment as recommended by the working party. If we find that the experiments are as successful as we hope, we can consider designating additional locations. I propose therefore to announce my acceptance of the working party's recommendations in my Budget Speech and to introduce the necessary legislation in the Finance Bill.

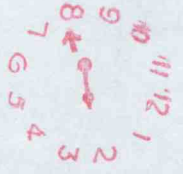
I agree that officials should consider how to handle applications. We need clear and robust criteria for judging the acceptability of applications. Potential applicants will need to have those quickly in order to judge whether they could fulfil them, and to frame their specific proposals accordingly. I have asked my officials to prepare a note of the possible criteria as quickly as possible in consultation with yours and those of the other Departments mainly concerned. We may then need to discuss them.

Copies of this letter go to the Prime Minister, colleagues on E Committee, George Younger, Nick Edwards, Jock Bruce-Gardyne, Iain Sproat and Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

Trade: Receipts 2/83



10 MAR 1983



NBAM
MS 9/3

LA JV

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

9 March 1983

Dear Geoffrey,

FREEPORTS

Thank you for sending me a copy of your minute of 25 February to Arthur Cockfield together with the report of the working party on freeports.

As my office has already told yours, I saw no difficulty about publication. In general I welcome the report of the working party, and I am pleased that it has recommended that we should try out the idea here, though the limitations on relief imposed by our EC membership may reduce the attractiveness to entrepreneurs.

The suggestion is that there should be a limited experiment with not more than two or three freeports during the initial stage. I think we should be prepared to be flexible about the number, particularly if we get several attractive bids. Otherwise, I think we shall be laying ourselves open to the criticism that because it was too narrowly based, the experiment was doomed to failure from the start, and that this was the intention.

If it is decided to proceed, the announcement of the intention to receive bids, and the criteria which we set out, will be important. I hope that there will be interdepartmental consultation about all these matters, and my officials will be ready to take part in this. As Arthur Cockfield suggests, our earlier experience with enterprise zones serves as a model which we can usefully follow.

I am sending a copy of this letter to the Prime Minister, Arthur Cockfield and other colleagues on E Committee, Nicholas Edwards, Jock Bruce-Gardyne, Iain Sproat and Sir Robert Armstrong.

Yours sincerely,
George

Trade Freeports Feb 83

29 MAR 1983





Caxton House Tothill Street London SW1H 9NAF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

CC JV

Prime Minister (2)

MS a/3

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

8 March 1983

D. Geoffrey

mf

FREEPORTS

I have seen a copy of your minute of 25 February to Arthur Cockfield on this subject.

I must confess to some doubts as to whether the attractions of a freeport as described in the working party's report will be sufficient to lead to any net gain in industrial or employment terms. Nevertheless, there has been a great deal of public interest in the idea and many commercial organisations seem to support it. I agree therefore that it is worth giving it a try in the form of a limited experiment. We shall of course need to monitor the results closely.

There is one further point I should make on the question of locations. When we reach that stage it will be important to bear in mind the interaction between the choice of particular sea ports for the experiment and the operation of the Dock Labour Scheme. We obviously want to avoid any industrial relations difficulties in the docks arising from these proposals for example any which might put at risk the general strategy on dock labour being adopted by port employers with Government backing.

I am copying this letter to the Prime Minister, colleagues on 'E' Committee, George Younger, Nicholas Edwards, Jock Bruce-Gardyne and Sir Robert Armstrong.

J. Younger

Trade : Feb 83 : Freeports

12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
- MAR 1983 -



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

mes 7/3

7 March 1983

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

Dee Sedby

FREEPORTS

You invited views on the recommendations made by Jock Bruce-Gardyne's working party.

I favour a more whole-hearted acceptance of the idea of freeports. In my view we should be prepared to make freeport status available, within suitable limits, to any operator who wants to set one up. Such limits could include, as the working party's report suggests, evidence of a sufficient volume of demand from traders and that there would be no call on public funds for the development and promotion of the freeport. The implications for Customs & Excise resources would of course have to be considered as well. I doubt if we should find ourselves swamped with applications if we make it clear that economic viability is the criterion. We should not unnecessarily deter those who are prepared to grasp the opportunity. It would also save us from having to make invidious decisions for the experimental sites. Certainly as far as seaports are concerned we could run into sharp criticism if we were to single out one or even two ports for what the others would inevitably regard as an unfair advantage.

Trade
Feb 83
Freeports

If, however, you and other colleagues are persuaded by the working party's view that we should have no more than two or three freeports to start with, it might be worth considering whether they should all be at airports. Apart from the point I have just made, there is the positive consideration that the economic ingredients for success are more likely to be apparent at airports.

I am sending copies of this letter to those who received copies of your minute of 25 February.

Yours ever

David

DAVID HOWELL



MBPM
MS 8/3

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

7th March 1983

I Geoff

FREEPORTS

I have seen your minute of 25 February and Arthur Cockfield's letter of 2 March.

I agree generally with the line that Arthur suggests in his letter. I hope that my officials can be involved in the next stage of discussions both generally and because I know that a number of Welsh authorities are already considering the possibility - albeit in some cases a bit remote - of applying for designation.

/ I am copying this letter to recipients of yours.

John
Howe

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer



SECRETARY OF STATE
FOR
NORTHERN IRELAND

Prime Minister (circled)
ms 4/3
NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

4 March 1983

The Rt Hon Sir Geoffrey Howe
QC, MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall
London, SW1.

Dear Sir

FREEPORTS

You copied to me the Report of Jock Bruce Gardyne's Working Party, under cover of your minute to Arthur Cockfield on 28 February.

Like George Younger (his letter to you of 14 February) I have been looking forward to an assessment of the case for Freeports. However, the recommendation in the Report to create two or three experimental Freeports in the United Kingdom is going to make difficulties for me unless consideration is given, and seen to be given, to Northern Ireland for one of the selected locations. Such is the rate of economic decline in Northern Ireland and such is the political environment (for example the new Assembly is seeking to prove itself in the economic field) that any idea with the appeal associated with the term "Freeport" is used by local spokesmen to challenge Government. I am already coming under increasing pressure from a number of interests here, including the Assembly, the local Institute of Directors and the Belfast Harbour authorities to establish immediately a Freeport in Northern Ireland. I also have no doubt that the desperate economic situation in the Province requires all possible remedies to be tried. I will be severely criticised if Northern Ireland cannot derive some benefit from this kind of development, if not of an actual Freeport, then of something close to it, such as duty-free zones referred to in para 9.7 of the Report's Conclusions.

I would therefore be grateful if I and my officials could take part in the selection of experimental free zones. I hope that sympathetic consideration will be given to bids from Northern Ireland.

As a more general comment on the Report, I feel that the Working Party has taken a very restrictive view by advocating only two or three experimental Freeports. If there are advantages in Freeports,

/.....

will request + required

mt

why keep a queue of potential candidates waiting while an experiment is played out in a few locations, perhaps for years? The Report shows that nearly all the practices associated with a Freeport take place at present but in an uncoordinated and dispersed way, up and down the country. Should operators not be free to make their own assessments, take their own risks and establish Freeports subject only to limited restraints to avoid over-proliferation?

I am copying this letter to the Prime Minister, colleagues on E Committee, George Younger, Nicholas Edwards, Jock Bruce Gardyne, Iain Sproat and Sir Robert Armstrong.

*Y
Younger*

Free Ports

Colmn 210

3/3/83

Mr. Hordern asked the Chancellor of the Exchequer when the report of the working party on free ports will be published; and if he will make a statement.

Sir Geoffrey Howe: I am today placing in the Library of the House the report of the working party which was set up under the chairmanship of my hon. Friend the Economic Secretary to the Treasury.

The working party was unable to identify any tariff benefits which could be offered to traders in free ports, in conformity with European Community legislation, which were not already available under existing customs arrangements. However, it recognised that the marketing and presentational advantages of free ports could be significant, and also took into account the possibilities of achieving economies of scale and of reducing bureaucracy.

The working party therefore recommended that two or three free ports should be established on an experimental basis. The report emphasised that the choice of locations for this purpose should be determined solely by demonstrated user demand and economic viability.

The Government are considering these recommendations.

The report is being published generally today and copies can be obtained from Her Majesty's Customs and Excise.

SECRET

②

Prime Minister

ms 7/3



Copy to:

- PS/Minister (AF)
- PS/Minister (DP)
- PS/US of S (AF)
- PS/US of S (DP)
- PS/DUS (N)
- PS/DUS (Pol) PE
- AUS (NS)
- Head of OP2
- Head of CFS Co-ord (N)
- Head of DS12
- Head of DS15 (L)
- Head of DS16
- Head of DS20

MO 21/8/5

SECRETARY OF STATE FOR TRADE

Handwritten scribble

FREEPORTS

The Chancellor of the Exchequer sent me a copy of his minute to you of 25th February. I saw no objection to publishing the report of the freeports working party, which I read with interest. There are, however, a number of points which will need careful consideration from the viewpoint of national security during the preparation of legislation and subsequently. Many ports have an important defence role, both in peacetime (by virtue of their collocation with a naval base or warship construction yard) or in tension (as a reinforcement port). It would be necessary to ensure that the establishment of freeports would not prejudice these activities.

2. In addition, as you know, we are currently seeking to bring about the exclusion of Soviet merchant vessels from ports that are sensitive for defence reasons. On the assumption that we are successful in this, it would be important to ensure that freeport status would not let the Russians back into ports from which we have managed to debar them.

3. The above points have come immediately to mind on a first reading of the papers. There may be others. I should therefore be grateful if my officials could be kept in touch with developments.



4. I am copying this minute to the Prime Minister, the Home Secretary, the Chancellor of the Exchequer and to Sir Robert Armstrong.

WDA

Ministry of Defence

2nd March 1983

SECRET



Prime Minister (2)

From the Secretary of State

MS 2/3

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

MS

2 March 1983

Dear Geoffrey,
FREEPORTS

att

Thank you for your minute of 25 February and the attached copy of the Report by the Freeports Working Party.

I agree that we should go ahead on the basis of the Working Party's recommendations. Although the Report is long and will call for careful study, what I see as the underlying rationale - that we should not stand in the way of commercial enterprise which believes that freeports can be made a success - must be right. The emphasis of the Report on the need for commercial interest in and commercial responsibility for any freeport is one which I endorse.

Publication of the Report is both necessary and desirable. There has been a great deal of public interest in the deliberations of the Working Party and in the general freeport question; we should be open to criticism if we did not publish the findings of the Working Party. The Report will serve both as a basis for further public discussion and as a guide to those who may have a commercial interest in establishing freeports.



From the Secretary of State

While I accept that we must have some limit on the number of freeports to be established, nevertheless there will be pressure - legitimate pressure founded on industrial and commercial considerations - for a higher number once the Report of the Working Party has been analysed and digested. While a limit of 3 may be acceptable at the moment we should not regard that number as sacrosanct but should be prepared to show flexibility at a later stage if the pressure of user demand warrants it.

Finally, there are questions of mechanics and procedure. You say in your minute that there are a number of practical points you wish to consider before announcing your intention that we should legislate. My officials are ready to help in the Treasury and Customs & Excise consideration of any general problems. In particular officials might consider how best we should handle the various applications that publication of the Report is likely to prompt. The model of earlier exercises on Enterprise Zones comes to mind, but whatever procedure is adopted we shall need to have careful interdepartmental consideration.

A copy of this letter goes to the Prime Minister, colleagues on 'E' Committee, George Younger, Nicholas Edwards, Jock Bruce-Gardyne and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Cockfield', with a long horizontal stroke extending to the right.

LORD COCKFIELD



NBDM
Freeport Working Party MS 3/3

Treasury Chambers, Parliament Street, SW1P 3AG

J Rhodes Esq
Private Secretary to
Secretary of State for Trade
1 Victoria Street
LONDON
SW1

2 March 1983

Dear John,

WORKING PARTY ON FREEPORTS

As foreshadowed in the Chancellor's letter of 25 February to your Secretary of State, the report of the Freeport Working Party is being published tomorrow, Thursday 3 March.

I attach for your information a copy of the press release which the Treasury will be issuing. Since I have already had a number of questions from officials about the government's attitude to the report, I am also attaching a copy of the press briefing which will be used by the Treasury press office.

I am copying this letter to Michael Scholar at No.10, the private secretaries to members of "E" Committee, the private secretaries to the Secretaries of State for Scotland and Wales, and to the private secretary Sir Robert Armstrong.

Yours sincerely,

Chris Harrison

C D HARRISON
Private Secretary

3 MARCH 1983

WORKING PARTY ON FREEPORTS

In a written Parliamentary answer today the Chancellor of the Exchequer announced that he had now received the report of the working party set up under the chairmanship of the Economic Secretary to the Treasury to examine whether freeports could with benefit be introduced in the United Kingdom. The Chancellor stated:

I am today placing in the Library of the House the report of the working party which was set up under the chairmanship of my hon Friend the Economic Secretary to the Treasury.

The working party was unable to identify any tariff benefits which could be offered to traders in freeports, in conformity with European Community legislation, which were not already available under existing customs arrangements. However, it recognised that the marketing and presentational advantages of freeports could be significant, and also took into account the possibilities of achieving economies of scale and of reducing bureaucracy.

The working party therefore recommended that two or three freeports should be established on an experimental basis. The report emphasised that the choice of locations for this purpose should be determined solely by demonstrated user demand and economic viability.

The Government is considering these recommendations.

The report is being published generally today and copies can be obtained from HM Customs and Excise.

NOTES TO EDITORS

The freeports study was first announced by the Economic Secretary to the Treasury in a written Parliamentary answer on 8 December last year.

The main task of the working party was to consider the advantages and disadvantages of such a system in principle. It would have been premature at this stage, and would have delayed and complicated the study, to have taken into account the merits of individual locations, and the Working Party did not do so.

The working party included representatives of the Association of British Chambers of Commerce, the British Importers Confederation, the Confederation of British Industry, the Institute of Directors and the National Association of Warehousekeepers, as well as officials from interested government departments. In the course of the study, freeport and warehousing facilities at Rotterdam, Shannon and Hamburg were visited and compared with customs facilities at Heathrow and Tilbury. Two visits were also made to the premises of UK traders operating under existing duty relief procedures. A wide range of representative bodies in the transport and shipping sectors as well as a number of local authorities submitted evidence.

Legislation would be required to permit zones to be designated and to provide an appropriate system of customs control applicable to freeport operation. Although in essence a customs frontier would be created at perimeter fences, the working party recognised that the enforcement of national prohibitions and restrictions such as those applying to drugs, pornography, and animal and plant health would need to be maintained. Certain freeport activities would also have to be controlled under the rules of the European Community.

Copies of the report may be obtained from H M Customs and Excise, Room 21/6, Kent House, Upper Ground, London SE1 9PS. The price will be £5.

QUESTIONS FOR PRESS BRIEFING

1. Will the go-ahead to freeports be given in the Budget?
The Chancellor is presently considering the report with his colleagues; no decisions have yet been made.
2. When will sites be chosen? Will sites be named in the Budget?
The working party did not consider individual locations. As widespread consultation would be necessary before a decision on sites could be taken, it would be some time before an announcement could be made.
3. Why only three sites? The value of facilities of this kind must be tested before extending them widely. The working party concluded that in view of the inevitable uncertainties about the real scale of user demand designation should be restricted in the first instance to two or three experimental locations to include both air and sea port sites.
4. Basis of selection. The working party emphasised that selection of locations must be determined solely by economic viability and demonstrated trader demand.
5. Operating costs. The working party firmly took the view that investment, development and promotion costs should not be dependent on public funds and that responsibility for these should rest with the operator.
6. Ring fence. The purpose is to provide a secure environment which allows customs intervention in freeport activities to be reduced. The perimeter fence in effect becomes the customs frontier.
7. What activities would be allowed? All forms of activity related to transshipment, storage, processing and related services allowable under the European Community Freeports Directive would be available to traders operating in freeports in the United Kingdom.
8. Increased risks of drug etc smuggling. The working party recognised that the enforcement of national prohibitions and

restrictions such as those applying to drugs, pornography, and animal and plant health would have to be maintained.

9. Tariff benefits for goods manufactured in freeports. EC rules do not allow imported goods to be processed free of duty specifically for the home market (which includes all member states). If diversion of this kind did occur duty would be charged at the rate applicable to the components rather than that applicable to the finished article.
10. Revenue effect. There would be no effect upon the revenue, as freeport facilities would provide no additional duty reliefs.
11. Manpower costs. It is probable that the control of freeport facilities would require additional customs staff.
12. Why legislation necessary? Legislation would be required to permit zones to be designated and to provide an appropriate system of customs control applicable to freeports operation.
13. Application for designation. If the Government decided to implement the recommendations of the working party an announcement would be made about the way in which application should be made.



Prime Minister (2)

To be aware.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

MCS 25/2

SECRETARY OF STATE FOR TRADE

FREEPORTS

I have now received the agreed report of the Freeports working party.

....

2. As you will see from the attached copy, the outcome was by no means as cut and dried as recent press comment suggested. The working group was unable to identify tariff benefits which could be offered to traders in freeports in conformity with European Community legislation, which were not already available under existing customs arrangements.

3. However, the working group recognised that the less tangible marketing and presentational benefits could be significant, and also took into account the possibilities of achieving economies of scale and of reducing bureaucracy. It therefore concluded that, on balance, there would be merit in making the necessary legislative changes now to enable freeports of a 'classic' kind (ie controlled at a perimeter fence) to be established.

4. The report recommends that in the first instance there should be two or three experimental freeports selected solely on the basis of a sufficient volume of informed trader demand. The working group firmly took the view that selection must rest on potential economic viability and stressed that the costs of investment, development and promotion must be the responsibility of operators.

5. I shall wish to consider this carefully. But my initial predisposition is to favour going ahead on the basis of the working party recommendations. I realise that the limitation to two or three experimental sites might create difficulties. But it is in my view essential to test the value of facilities of this kind in practice before extending them widely, particularly in view of the probability that additional customs resources will be required. We must also adhere strictly to the criterion of potential economic viability, however tempting it might be to



allocate freeports on a regional basis. It would be up to would-be operators to demonstrate a scale of user demand in a particular location which would justify its selection as one of the experimental sites.

6. I propose to publish the report as soon as possible next week, with a written Answer to notify Parliament. There are obvious attractions in the idea of going on to announce in the Budget Speech the intention to legislate in this year's Finance Bill along the lines suggested by the working party. But there are several practical points which I shall need to consider first. Meantime I should welcome colleagues' views.

7. If you, or any of our colleagues, see any difficulty about publication next week, please let me know on 28 February.

8. Copies of this minute go to the Prime Minister, colleagues on 'E' Committee, George Younger, Nicholas Edwards, Jock Bruce-Gardyne, Iain Sproat, and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

25 February 1983



TO THE CHANCELLOR OF THE EXCHEQUER

You asked me to chair a Working Party which would study the potential benefits to the UK economy of the establishment of freeports. The Working Party comprised representatives of:

Association of British Chambers of Commerce
British Importers Federation
Confederation of British Industry
Institute of Directors
National Association of Warehousekeepers

HM Customs and Excise
Department of the Environment
Northern Ireland Office
Scottish Office
Department of Trade
Welsh Office

I hereby present the Working Party's unanimously agreed Report.
May I express my personal gratitude to all its members for contributing their time, effort and experience.

JOCK BRUCE-GARDYNE
Economic Secretary to the
Treasury

FREEPORTS IN THE UNITED KINGDOM

REPORT OF A WORKING PARTY UNDER THE CHAIRMANSHIP OF THE ECONOMIC SECRETARY

1. INTRODUCTION

1.1 A freeport or freezone is an enclave treated as being outside the customs territory of the host state where goods can be manufactured, processed and stored without payment of customs duty and subsequently exported. Customs duty and other internal taxes are payable only if the goods pass from the zone into the home market.

1.2 The facilities covered by the term freeport vary widely. The "classic" freeport is situated at a sea or airport bounded by a ring fence or natural barrier and permits duty-free entry, transshipment, storage and processing. However similar facilities, concentrating principally on manufacturing, may be provided inland (where they are known as "freezones" or "export processing zones"), while in other cases processing is specifically excluded. The full range of facilities which may be provided in an EC freeport or freezone is described in paragraph 4.1.

1.3 There are at present nearly 400 zones which to a greater or lesser extent offer freeport facilities in 78 countries. Considerable interest has been expressed in both Parliament and the Press in the possible introduction of such facilities in the United Kingdom. Advocates of the freeport system argue that they attract and stimulate export trade and capital investment from overseas, and thus increase employment and prosperity by the introduction of new work. The Government therefore decided that a detailed study should be undertaken to examine whether the establishment of freeport facilities would be beneficial to industry and commerce in the UK.

1.4 In a written reply to Mr Michael Hamilton MP on 8 December¹, the Economic Secretary to the Treasury, Mr Jock Bruce-Gardyne MP announced the setting-up of an inter-departmental working party under his chairmanship with the following terms of reference:

To identify and evaluate the benefits to industry and commerce of the customs facilities afforded at freeports situated both in the Community and elsewhere and to identify which of these facilities would encourage industrial growth and investment in the United Kingdom.

To consider the extent to which customs facilities currently available in the United Kingdom compare with those permitted in freeports under EC legislation.

To consider whether there is sufficient awareness on the part of both United Kingdom commerce and industry and of potential investors from overseas of the advantages offered by existing customs facilities.

To make recommendations.

1.5 A number of representative organisations which could bring a wide and general view to the evaluation of the economic implications of freeports, in keeping with the terms of reference of the study, were invited to participate in its meetings. These were represented as follows:

Air Commodore C H Clarke (National Association of Warehousekeepers)
Mr B M Field (Association of British Chambers of Commerce and CBI)
Mr G C S Mather (Institute of Directors)
Mr P J Moore (British Importers Confederation)

The meetings were also attended by officials of HM Customs and Excise, the Department of the Environment, the Department of Trade, and the Scottish, Welsh and Northern Ireland Offices. The secretariat was provided by HM Customs and Excise.

1.6 The working party wishes to express its gratitude to all those who assisted in arranging its programme of visits. Particular thanks are due to the Dutch Ministry of Finance; the Shannon Free Airport Development Company Limited; the Senate of the Free and Hanseatic City of Hamburg; Ford Motor Co Ltd (Tractor Operations Division) Basildon; and Rank Xerox Ltd Reprographics Manufacturing Group (European Manufacturing and Supply Division), Welwyn Garden City.

2. PROGRAMME OF STUDY

2.1 The working party undertook an extensive programme of visits. Freeport and warehousing facilities at Rotterdam, Shannon and Hamburg were examined and compared with UK customs facilities at Heathrow Airport and Tilbury Docks. The premises of Ford Motor Company Ltd (Tractor Division) at Basildon and Rank Xerox Ltd (Reprographics Manufacturing Group, European Manufacturing and Supply Division) at Welwyn Garden City were also visited to obtain the views of UK users of existing customs procedures. Details of these visits are contained in Annex I.

2.2 Written evidence was invited from a number of representative bodies in the transport and freight forwarding sectors. A general invitation was also issued by means of a Press Notice. All submissions were circulated to the working party. In addition, oral evidence was given by a number of bodies who volunteered to do so: Trade members also received briefing from the bodies they represent.

2.3 The working party also discussed the existing EC legislation on freeports and zones and possible future developments with Mr Albert Hazeloop, Director, Customs Legislation in the Customs Union Service of the European Commission.

3. FOREIGN VISITS

3.1 Rotterdam

3.1.1 The Dutch system lays great stress on flexibility of procedure for the transit, storage and transshipment of goods. This reflects the largely "entrepot" nature of Dutch trade; some 30% of goods in foreign trade loaded or unloaded in the EC pass through the Port of Rotterdam. The handling system attempts to balance the trader's interest in speed of clearance and ease of with the need for control for revenue and other purposes. The Dutch do not regard their system as amounting to a ^{"classic"} freeport in Rotterdam but rather a balanced system of customs sheds and customs warehouses, many of which operate under ^{the} EC legislation on freezones (in its promotional literature Rotterdam describes itself as "freer than a freeport").

3.1.2 A document based on the cargo manifest must be completed ^{and lodged with customs} in respect of all goods arriving ^{by sea} at Rotterdam, giving details of quantity and distinguishing marks together with a general description of the goods. Goods may be stored free of duty in an officially locked customs shed on the evidence of the original document until the fifteenth day of the second month after arrival under the responsibility of the operator. Goods may be stored without removal beyond that period but a new document must be completed nominating a person responsible for them, and the ^{is} consignment/physically they must be further re-documented every 12 months thereafter checked; In each case security for the goods must be lodged in money or other realisable form at a "tax collection office". On goods leaving the shed for export or Dutch customs territory a fresh document is completed and the quantity etc matched with the entry document, duty being charged on discrepancies.

3.1.3 Alternatively goods may be stored in a so-called "free warehouse" ("vrij-entrepot"). These are regarded as outside Dutch customs territory and operate under the EC Directive on Free Zones. In general no attempt is made to relate quantities of goods entering the warehouse with those leaving but the warehouse is subject to strict physical customs control and is locked when not in operation. This control replaces the need to give security for stored goods. In the majority of these warehouses a charge is made for ^{when goods are manipulated} customs attendance/outside specified opening hours. A stock account must be kept for certain goods, for example tobacco products or spirits, where there is high risk of revenue loss.

3.1.4 In addition goods may be stored in "fictitious warehouses" which may be established at any premises. Control is by means of a stock account, together with annual accounts lodged at the tax collection office. Security must be given.

3.1.5 Emphasis is laid on facilities for transit between warehouses. Normally transit is allowed without payment of duty on the evidence of a specific transit document or in sealed transport. Within the areas of certain ports, goods may be transported on an open vehicle marked with a metal flag. However this is subject to prior permission from the Collector of Customs, and goods must be carried according to a specified route and timetable, if necessary under customs guard. Direct transshipment from one vessel to another is permitted but a transit document must be completed in advance.

3.1.6 Although Dutch legislation permits inward processing of goods within the warehouse system, this is not used in practice. Traders prefer the general inward processing relief system which is available throughout the EC.

3.1.7 The Dutch customs authorities saw the main benefit of a freezone as the reduction of bureaucracy. They suggested that the flexibility of their system had many advantages over a "classic" freeport since it did not restrict operations to one area. They expressed concern that this flexibility might be reduced under the proposed EC Regulation freezones (see paragraph 4.1). The layout of the port of Rotterdam was in any case not regarded as suitable for the development of an enclosed freeport.

3.2 Shannon

3.2.1 Shannon industrial freezone was established in 1959 as a development from Shannon Free Airport. It was intended to encourage the use of an airport which had been overtaken by technical developments in transatlantic air travel. Development of the zone was specifically intended to encourage overseas investment and followed the end of a period where a high tariff wall had been erected to encourage import substitution. The free movement of goods to and from third countries had been very attractive in relation to the comparatively slow customs procedures operating at the time. However representatives of Shannon Free Airport Development Company (SFADCO) regarded the customs reliefs as largely incidental to the early success of the zone in comparison with the tax incentives offered, government provision of training and advance factories and the activities of the Development Company itself. Moreover the importance of relief from customs had greatly diminished following the Anglo-Irish Free Trade Agreement and more particularly Ireland's accession to the European Community. About 80% of Shannon's trade now relates to goods in free circulation. In most cases these travel by sea and road, rather than by air.

3.2.2 A condition of entitlement to operate within the zone is that a high proportion of production should be exported. In practice this is not difficult to achieve given the limited market within Ireland. Prior to accession to the EC, zone users were entitled to relief on all goods imported for processing. This was an attractive and widely used relief.

3.2.3 Following accession, relief was available only on processing for export to third countries. All firms operating within the zone were offered approval for Inward Processing Relief although the attraction of the relief was greatly reduced since a substantial proportion of traffic was ineligible. This meant increased documentation but firms offset this against benefits from increased Community markets. Membership of the EC also restricted the incentives which could be offered to firms setting up within the zone. The only fiscal advantage now enjoyed by firms settling in Shannon rather than the rest of Ireland is a reduced rate of profits tax applied to exported services.

3.2.4 Following these changes, it has been decided to abandon classic freezone control at the perimeter. Since the end of 1982 control has been on the basis of commercial documentation in line with EC customs warehousing legislation and goods are controlled at Shannon Airport on arrival or departure according to normal customs procedures. Physical control of the 2 perimeter gates had each involved attendance of one officer 24 hours per day. A total of 10 officers had been involved exclusively on control at the zone, with other staff operating clearance procedures at Shannon Airport. The removal of perimeter controls has allowed for a net saving of 7-10 customs staff. Possible opposition to the continuing use of the term "free zone" from the EC is recognised, but Irish officials are unwilling to risk a loss of commercial goodwill if the name were changed.

3.2.5 Goods arriving at Shannon Airport are in theory subject to VAT on arrival but it has been agreed administratively that the postponed accounting system, which was withdrawn for the rest of Ireland in 1982, should continue to operate at Shannon. It is open to question whether they will be able to maintain this distinction in the face of EC proposals to harmonise the operation of the postponed accounting system.

3.2.6 SFADCO officials now regard the success of the Shannon zone as largely self-sustaining; falling employment is only now being experienced as a result of the US recession and a move to less labour-intensive industry. Further development is likely to concentrate on firms involved in exported services moving into Shannon in response to the tax benefits. All arrangements necessary for firms setting up in the zone could be made through SFADCO as the sole development agency.

3.2.7 SFADCO officials also admitted that the facilities offered have done relatively little to generate airport traffic. About two-thirds by volume of goods moving into or out of the zone arrive by sea (although the proportion is exactly reversed in respect of the value of the goods). In practice Shannon is not regarded as suited to the "entrepot" style traffic which would have generated air movements, since it is inappropriately placed to be a distribution centre for Ireland.

3.3 Hamburg

3.3.1 Hamburg is one of the largest and oldest of the "classic" freeports, where goods are subject to customs control only when they leave the zone for the national customs territory. The two freeports in Hamburg (the "old" freeport which dates from 1833, and the "new" freeport, dating from 1910) represent about one-sixth of the total port area, the remainder being a customs port on the normal pattern.

3.3.2 Ships flying a customs flag can move without hindrance by customs officers into the Hamburg freeports for loading and unloading at any time of the day or night. No documentation is required. Transshipment and warehousing within the freeport is permitted without the need to lodge security for duty or other customs control requirements. Goods may be freely traded, sampled and inspected, or subjected to handling procedures such as packing or unpacking.

3.3.3 By a derogation from the EC Directive on Inward Processing (see para 4.7 below) goods may also be freely processed within the "old" freeport without regard to possible distortion of competition with production in Germany or other Community member states. In practice this does not amount to a significant proportion of the freeport businesses. Only some 70-80 of the 1000 firms operating in the freeport are involved in manufacturing; 50 of these are engaged in shipbuilding or ancillary industries. The non-manufacturing firms carry out a large variety of port-related activities (warehousekeepers, agents, ships chandlers etc). In employment terms, manufacturing represents about 18-20,000 of the freeport's total workforce of 60,000. Processing in the "new" freeport is carried out according to EC legislation (ie the "protective test" mentioned in paragraph 4.7 below).

3.3.4 Statistics for freeport traffic are not kept separately from the total for the Port of Hamburg. However some indication may be obtained by removing/ ^{those relating to} bulk cargo, which is stored for the most part outside the freeport, from the total. The residue represented some 18.5 million tonnes in 1982. The freeport has proved particularly attractive for the storage of high value goods such as oriental carpets, electronics, coffee and unprocessed tobacco.

3.3.5 Goods are subject to VAT and other indirect taxes only when supplied for personal consumption within the zone or when they pass into German customs territory. Transactions between business traders are not subject to VAT (although the German authorities regard this as merely an extension of the normal deduction mechanism). Traders are expected to charge VAT and excise duties on all sales for consumption within the zone, for example in canteens.

3.3.6 The Free Port Authority employs about 160 people to control activities within the zone. These are responsible for the enforcement of prohibitions such as those relating to drugs, strategic materials or on health grounds. The freeport perimeter is guarded by 19 customs offices, and the Elbe, which passes through the freeport, is controlled by customs launches. A total of some 900 officials/ ^{at all levels} are engaged in controlling the whole Port of Hamburg area. Studies by both the Federal Ministry of Finance and the Free Port Authority have concluded that no fewer staff would be involved in control work if the freeport facility were to be withdrawn.

3.3.7 The Free Port Authority officials were firmly of the opinion that freeports considerably strengthen trade and transit facilities. However they recognise that freeports might not be important where the geographical position creates control problems (for example, where the port is intermingled with residential accommodation,) and also that the need for freeports is considerably reduced where a liberal system of reliefs operates to achieve similar ends. In their opinion, freeports are not suited to the storage of high volume/low value goods.

4. EUROPEAN COMMUNITY LEGISLATION

4.1 The existing EC legislation on freeports is contained in Council Directive 69/75 of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action relating to freezones, (copied in Annex III). Under the Directive, such zones are regarded as outside the Community customs territory. Subject to conditions laid down by Customs, goods may enter the zone free of duty or other border charges for

- (a) loading, unloading, transshipment or storage;
- (b) usual forms of "minor handling" allowed under customs warehousing (eg sampling, packing, labelling etc);
- (c) destruction; and
- (d) processing beyond "minor handling", subject to Inward Processing Relief (IPR) for third country goods not already in free circulation. Processing of Community goods may also be allowed but under customs supervision if the goods are intended for use or consumption in the Community.

Goods may remain within the zone for an unlimited period. They are not subject to quantitative import restrictions but national prohibitions (eg on health, security or social grounds) may be applied. Duty is charged as appropriate when goods leave the zone for use or consumption in the member state or when they are consumed within the zone.

4.2 Under Article 16.1 of the Sixth VAT Directive, Member States may also elect, subject to prior consultation in Brussels, to relieve from value added tax goods deposited or manufactured in a zone established under the Free Zones Directive, as well as the operations permitted under that Directive as described in paragraph 4.1 above. However relief may not be given when any of these transactions is aimed at final use and/or consumption, and goods supplied to home use must bear the full amount of tax applicable.

4.3 The Council is currently examining proposals to harmonise the collection of VAT at importation, so that registered VAT traders may defer payment until the goods are sold or otherwise supplied, when, in most cases the trader will be able to offset this against tax on the onward supply. The UK "postponed accounting system" is already fully in line with these proposals.

4.4 There is no Community legislation governing the charging of excise duties in freezones.

4.5 The Commission is at present considering a draft Regulation on freezones. This harmonising measure seeks to emphasise the export relief nature of a freezone facility and to equalise economic factors between a freezone and other export reliefs. It is more specific than the Directive in the requirements for the control of the perimeter (including fencing), authorisation of traders within the zone, the obligation of traders to keep stock accounts, the way in which transshipment is controlled and the provision of suitable documentation to identify Community goods placed in the zone. The draft Regulation is copied at Annex III. This is an internal Commission document for discussion among member states and is not a formal Commission proposal. It is still at an early stage of consideration.

4.6 Customs warehousing is subject to Council Directive 69/74 of 4 March 1969 (copied in Annex III). This allows goods to be entered for warehousing without payment of duties, agricultural levies and similar charges whilst in storage. Goods may be stored regardless of origin or destination in an authorised customs warehouse for up to 5 years (or longer on application) although subject to prohibitions or restrictions on health or other grounds. They may be subjected to "minor handling" under the same conditions as goods in freeports. Further processing beyond minor handling must be under the IPR rules. The proposed customs warehousing Regulation would not significantly alter these procedures.

4.7 Goods for non-Community countries can be relieved of customs duties or CAP levies under Inward Processing Relief (IPR) when it is intended that the resulting products will be wholly or mainly exported from the Community. The relevant legislation is Council Directive 69/73 of 4 March 1969 (see Annex III). Processing covers a range of operations from simple "minor handling" or assembly to the most complex forms of manufacture. Relief is only granted if comparable Community production is not available on terms which would make the export sale economic ("the protective test").

Exported goods are totally relieved of duty, as are scrap and waste production in proportion to the quantity or value exported. Traders can deposit the duty at importation and make a claim when products have been exported (reimbursement) or import without payment of duty by giving a written undertaking and periodically rendering balanced accounts (suspension). Goods may be diverted to the home market only if their production is incidental to the export activity; in such cases, duty is payable on the imported materials.

4.8 The working party discussed developments in EC legislation on freezones with Mr Albert Hazeloop of the Commission Customs Union Service. He expressed the personal view that distortion of competition in the Community would best be avoided by introducing a unified warehousing regime. Moreover while accepting that a free zone offers some advantages over other procedures, for example a reduction of formalities when goods imported into a zone are re-exported without entering customs territory, he felt that these are reduced

for the Community because a substantial proportion of goods enter free of customs duty from all sources or under preference and because there are in the Community more liberalised warehousing regimes. However he recognised that certain member states are committed to maintaining traditional freeports and zones.

4.9 Mr Hazeloop said that the UK government would be freely entitled to establish freeports under existing and proposed legislation. In particular, the effect of Article 5 of the draft Regulation was to confirm that all industrial, commercial and financial operations could be carried on within the zone, although manufacturers could not be granted more generous treatment than is allowed under IPR and Community rules.

5. Freeports outside Europe

5.1 Freeports are not exclusively European institutions: they are to be found throughout the world in both developed and developing countries. The latter were excluded from consideration partly because we understood such freeports frequently offered, in addition to the advantage of cheap labour, specific financial and other concessions and partly because differences in the level of industrial development would vitiate any proper comparison. We were however given information (eg by Rush and Tompkins plc) on the foreign trade zones of the United States of America which, as an advanced industrial economy, would be more nearly comparable to the United Kingdom.

5.2 The establishment and operation of FTZs in the USA is governed by the Foreign Trade Zone Act of 1934, as amended, and relevant parts of the Customs Regulations. FTZs are not Government installations but are established locally to attract and promote trade and commerce. They are operated as public utilities by qualified or approved corporations and function under United States Customs Service supervision. The growth of FTZs was slow: only 7 zones were approved between 1934 and 1952 (and 3 of these later surrendered their licences to operate). It was not until the 1970s that the number of FTZs approved grew but in that decade it grew very rapidly.

5.3 In the view of the USA authorities the advantages of operating in a free zone are:-

- (i) It permits goods to enter without payment of duty.
- (ii) It allows most goods to be manufactured into other products and exported without payment of duty.
- (iii) It allows the finished product to be imported into the United States with duty assessed on either that applicable to the raw materials as they enter the zone or on the finished product at the time of entry into the United States.
- (iv) It permits quota goods to enter the zone and be manufactured into non-quota goods and then entered into the United States without regard to the quota.

- (v) It permits quota goods on which quota is full to be held till entry is permitted.
- (vi) It satisfies certain laws requiring exportation of merchandise from the United States.
- (vii) It allows bulk goods to be packaged prior to entry.
- (viii) It permits goods to be marked before entry.

5.4 The attractiveness of carrying out assembly or manufacturing operations in an FTZ was no doubt enhanced by a change in United States customs regulations which permitted those operating costs, such as overheads and labour, and profits to be disregarded for duty appraisalment purposes from the value of products manufactured within foreign trade zones when they were transferred to US customs territory for consumption.

5.5 There are some 70 or more FTZs approved in the United States but not all are as yet fully operative. In addition to FTZs (normally found adjacent to a port, whether coastal or inland) it is possible under United States legislation to set up sub zones. This is an enclosed and protected area located away from the main foreign trade zone and is usually part of an existing manufacturing plant in which normal production operations are under way. (The obvious benefit is that the manufacturer is able to conduct normal operations without relocating and still take advantage of the foreign trade zone.) Each sub zone is under the management of a parent FTZ which is responsible for its operation.

6. CURRENT UK POSITION

6.1 Goods may be unloaded or loaded under a general customs supervision at approved places. Imported goods can remain in transit sheds for up to 14 days (or longer subject to negotiation), pending clearance or entry to other regimes. Goods can be transhipped on simple documentation at the same place or removed for shipment elsewhere in most cases without onerous sealing requirements. Goods can be re-labelled provided this facility is not used to disguise origin.

6.2 Arrangements can be made for regular importations of uncleared goods of sufficient volume to be cleared at a trader's own premises (local import control). Similar arrangements exist for exported goods (local export control). A further facility, with or without local clearance, enables the computerised trader to account for import duties periodically by magnetic tape to HM Customs and Excise's computer (Period Entry). Future developments will allow direct transmission of data on imports, exports and franchise warehousing.

6.3 Customs warehousing is available within the terms of the EC Directive. The system embraces warehouses for goods from third countries liable to customs duties (including CAP charges), and has been extended in the UK to goods liable to excise duties, or a combination of both customs and excise duties. Warehouses are situated at or near the place of importation or can be anywhere in the UK depending on trade needs. Customs warehouses can be owned and run by a warehousekeeper for deposit of goods by all traders (general warehouses) or operated by the trader at his own premises (franchise warehouses) on evidence of substantial existing or potential exports or special storage needs. To deliver goods, traders present an official declaration (warrant) to Customs for each consignment, or record the removals on a schedule kept at the warehouse, presenting a warrant at the end of the period. Payment of duty can be deferred for up to 6 weeks from the delivery date. Customs control is based mainly on traders' own records and written under-takings to pay duty, and visits by customs officers. Duties are not charged on natural or accidental losses or when goods are destroyed or abandoned to the Crown.

6.4 The Community rules on Inward Processing Relief apply.

6.5 Temporary Importation Relief is available for specified goods imported for a period and re-exported. This allows, for example, items to be exhibited with a view to obtaining orders.

6.6 Relief is available under the EC Tariff on goods used in the construction or repair of seagoing ships and similarly on a wide range of those for aircraft. There is also relief on the element of the cost of constructing a ship which represents hydrocarbon oil duty or motor vehicle licence duty.

7. UK VISITS

7.1 London (Heathrow) Airport

7.1.1 The visit to Heathrow examined procedures for the control of imported freight. Heathrow is the largest port in the UK by value of goods handled (some £13,000m in 1981); ^{35% of all consignments entering the UK arrive there.} Customs officials described the computerised entry processing system which has largely controlled freight operations at Heathrow and Gatwick since 1971. The current version, which is known as Air Cargo Processing in the 80s (ACP80), was developed by the airport "community" of airlines and agents, together with Customs and National Data Processing Services. The ACP 80 network comprises the computer systems installed by six large airlines and a bureau facility provided by National Data Processing Services.

7.1.2 ACP80 ^{provides} / a data processing base for a facility which enables transit shed operators and agents to input information for entry and clearance of goods direct from their own premises, either on or off airport. Once goods arrive in the transit shed, the operator inputs particulars of all consignments of foreign cargo to a unique consignment reference, based on the air waybill number. Customs clearance work is processed through visual display units and terminals located in the participating agent's own office; this includes error vetting and query responses, the build-up of value for duty if payable, and a duty calculation. The computer response indicates whether the entry is required for examination of documentation or full examination before clearance. Customs claimed that some 80% of consignments are automatically cleared one hour or so after the input of entry details to the computer although an entry must then be lodged with Customs within an agreed period to allow for necessary checks. Goods not required for immediate home use may be entered for other regimes eg warehousing/ ^{and} inward processing which are for the most part carried out off site.

7.1.3 Goods may also be entered for transit or transshipment. About 20% of cargo arriving at Heathrow and Gatwick are for transit to another UK port or airport, or, more usually, transshipment on a through waybill for onward travel on another aircraft. No paperwork is required for transhipped consignments both imported and exported by one of the 6 airlines with their own computers, and for other transshipments the ACP80 computer produces a transfer freight manifest which authorises discharge of the goods and acts as a control

document. In addition forwarders are permitted to remove consignments for consolidation on or off airport. Transit cargo may be removed to any approved port or airport in the UK without a formal transshipment entry on a message from the computer which produces a travelling freight manifest allowing clearance from the transit shed and any necessary control at the place of export. Customs exercise minimal control over transit and transshipment goods and rely on the automatic reconciliation of the import and export details, with selective checking for the purpose of licensing, prohibitions and restrictions. There is virtually no requirement for the sealing of transit and transshipment goods other than in the case of high duty excise goods.

7.1.4 Customs emphasised that the airport is by its nature a secure environment, complementing the documentary controls. This means that physical control can be diverted from the perimeter fence to the control of, for example, possible relabelling fraud within the airport area. However they agreed that the existence of a perimeter fence does assist the physical control of goods.

7.1.5 The working party also met representatives of the British Airports Authority and British Airways, as well as of the Institute of Freight Forwarders and the Airline Operators Committee. These trade representatives in general welcomed the liberalisation of procedures resulting from ACP 80, which they regarded as fully implementing the NEDC "Gateway" report. They also saw little attraction in its replacement by a freeport facility. However it was felt that procedures could be speeded up in a number of areas, particularly if entry of consignments were allowed before arrival. The need to place goods in a transit shed before completing an entry introduces considerable delay although it was accepted that this is partly a result of the layout of Heathrow. Customs explained that although the pre-entry facility had earlier been offered it is now precluded by the EC Free Circulation Directive. British Airways representatives also argued that ACP 80, by operating at inventory level, involves unnecessary detail and would prefer control at manifest level. Customs officials suggested, however, that the current low level of checking depends on being able to select items for checking from the inventory.

7.2 Ford Motor Co Ltd (Tractor Division)

7.2.1 At their Basildon plant, Ford concentrate nearly all their tractor assembly for the European and certain other world markets. In addition they manufacture engines, hydraulic units and front axle components for tractor assembly both at Basildon and at the other Ford tractor plants in Belgium, France, Brazil and the USA. The Basildon plant currently employs about 3000 people on a 100 acre site and in 1982 was responsible for 0.7% of total UK exports.

7.2.2 The high proportion of exports, allied to a policy of sourcing world-wide on a cost basis, means a heavy involvement in inward processing. For the past 12 months this has been operating on a system of period entry under which duty on 50% of imported consignments is suspended until the 15th of the month following entry. This allows as much as 6 weeks credit. The suspension is intended to reflect the percentage of goods exported outside the EC.

7.2.3 Ford representatives were conscious of a heavy burden of documentation for inward processing but acknowledged that this was largely the result of EC requirements. However they suggested that UK procedures for controlling IPR compare unfavourably with those in Belgium. The UK system requires them to relate imports and exports at part number level. The Belgian authorities, on the other hand, require a reconciliation only at tariff heading level, and relieve duty on the total percentage exported, calculated on a once-yearly basis, although subject to monthly deposits. Furthermore the Belgian authorities were prepared to release goods for use in Ford's Antwerp in advance of formal entry. In the UK, they claimed, goods are held for up to 4 hours until entry procedures are completed.

7.2.4 Despite extensive use of inward processing in both the UK and France, Ford's had never experienced any restriction on their activities as a result of the "protective test".

7.2.5 Ford representatives also had experience of the operation of US foreign trade zones at their Michigan plant. They believed their application to operate a foreign trade zone had been successful because they could point to the advantage to the economy of assembling goods in the US rather than importing them as finished products.

7.3 Tilbury Docks

7.3.1 Customs officials described transshipment procedures operating at Tilbury and other UK maritime ports. Goods for transshipment can be imported on a simplified document under security of a bond or, increasingly, a signed undertaking to pay the duty. Containerised goods are sealed before release to the agent for removal. During transshipment goods may be repacked or consolidated; further handling has to be carried out under inward processing and a full entry document completed. Goods have to be presented to customs for examination or checking of seals within 28 days although this can be extended if there is clear evidence of an intention to export.

7.3.2 Representatives of Tilbury Port Users/^{Committee} suggested that the relative attraction of Rotterdam in preference to Tilbury/^{or Felixstowe} as a transshipment centre results less from advantages of the Dutch customs system than the considerably lower handling costs. Handling costs in Tilbury are increased by the high cost of the Dock Labour Board scheme, and of lighting and pilotage. Customs costs are in fact very low in relation to other charges involved in shipping. A freeport would have to be commercially attractive to users; there is no point in speeding customs facilities if other costs are high. In fact, Rotterdam is generally preferred to Hamburg because of the cost advantage. Moreover there is a danger that the centralisation of facilities in a freeport could allow warehousekeepers or unions a monopoly power to increase costs; on the other hand, existing warehousing facilities might also be harmed if trade were diverted.

The Port Users Committee also said that the simplification of Customs procedures over the past 2 years means there is in fact now little to choose between the level of documentation in Rotterdam and the UK. UK Customs costs have also reduced by increased use of written undertakings in preference to bonds for all but high value cargoes.

7.4 Rank Xerox

7.4.1 The Rank Xerox plant at Welwyn Garden City is one of ^{the company's} four manufacturing and international supply centres in the UK. It is responsible for the production of printed circuit boards and photoreceptors for all ^{save the smallest of} Rank Xerox photocopiers and for the development of the new generation of copiers. Much of this is exported, while imports include a wide range of components and spares as well as goods for repair or testing. In 1982 imports amounted to over 5200 consignments with value for duty purposes of £91.5million (duty paid £2.4million) while over 9400 consignments with a value of £1245 million were exported. Within Europe, Rank Xerox also has plants in France, Spain and Holland.

7.4.2 Rank Xerox moved over to a system of import period entry in February 1981. This means that goods can be cleared through customs against a skeleton entry, full details being subsequently declared monthly on metal tape. This applies to all dutiable importations except those eligible for quotas or preferences or requiring import licences. Goods entering the franchise warehouse (see para 6.3) are also excluded. A similar system for exports ^{procedures} was adopted in October 1981. These ^{are} linked with the system of local import and export control which permits clearance at Rank's own premises of all full container or trailer loads destined for Welwyn Garden City or the neighbouring plant at Radlett. Rank regard these facilities as substantially reducing costs involved in customs clearance, while permitting improved stock control on their own part. On the other hand Rank's administrative costs have increased to some extent and initial systems development costs were incurred. They intend to improve the period entry system by moving to direct data transmission.

7.4.3 A storage area of 160,000 ft² has been designated a franchise warehouse in which non-community goods can be stored without payment of duty. Goods valued £25.1 million were entered in 1982 and duty amounting to over £400,000 ^{seen as} avoided. The manual control of this warehouse was/ administratively cumbersome but will improve with the introduction of a microcomputer in Spring 1983. They will also be developing a system of period entry for the warehouse and would indeed have done so had earlier programming been compatible with that eventually adopted for the system. They also complained that Customs required a 100% annual stocktaking, although local

stock of only selected lines at any one time
Customs officials later agreed that taking / might meet their require-
ments. Customs control is carried out from Stevenage, where it occupies the /
equivalent of
the time of approximately 2 officers throughout the year. Rank complained
that when urgent clearance is required, documents must be sent by taxi
to Stevenage.

7.4.4 In 1982 Rank claimed nearly £130,00 relief from duty which
was suspended pending exportation after inward processing. In general
the system works well, but in the case of the small proportion of goods
entering the regime from the customs warehouse Rank regard the
associated documentation as onerous. Moreover they suggested that
in general the documentation required by the UK for the relief is
greater than in the Netherlands or Belgium.

7.4.5 Rank Xerox told the Working Party that they had not been
influenced by the availability of the wide range of customs facilities
in concentrating activities at Welwyn Garden City: the dominant con-
sideration had been the location of their manufacturing plant there.
Had they been choosing a site for warehousing and inward processing
de novo they might well have preferred a site adjacent to one of the
major ports.

8. EVIDENCE

8.1 A substantial amount of written evidence was received by the working party. Understandably much of this sought to promote the suitability of particular areas as sites for freeports. As the terms of reference for the study precluded consideration of individual locations we could not take cognisance of evidence of this kind. Many of the bodies which submitted evidence to us, however, addressed their arguments, wholly or in part, to the general principles of the freeport concept as they understood them. Some of these bodies also appeared before the working party to supplement their written views with oral evidence. The main points of a general nature which emerged from this evidence, both written and oral, are summarised below.¹ An extended account of oral evidence received is given at Annex II.

8.2 The Adam Smith Institute suggests that freeports would benefit a number of manufacturers, particularly in the computer field, who incur a higher rate of duty on components than on imported finished articles. Moreover without freeports the UK would be less able to influence EC thinking on the subject. Since the EC legislation process moves slowly, the UK could proceed on the most favourable interpretation of existing rules and negotiate a settlement with the Commission at a later date, during which time the freeport could establish itself. The Institute argues that in the face of import penetration it makes sense to devise circumstances in which local labour is used as much as possible to add value to imported goods.

8.3 The Aerodrome Owners Association favours the establishment of freeports both as storage facilities and for processing. However these should be in areas where economic growth is assured. It argues that the documentation associated with freeports has been overestimated, and in oral evidence expressed the fears of some of its members that Customs and Excise would try to impose limitations on freeport operators which would damage their cost-effectiveness.

¹ Copies of written evidence submitted to the Working Party have been placed in the Library of the House of Commons.

8.4 Associated British Ports believes that there is real scope for the development of freeports both of the "entrepot" type and for export processing of imported and UK materials. The UK system is seen as far less flexible than those existing in certain continental ports. In oral evidence ABP pointed out that there is still a significant percentage of goods subject to high tariff rates, while even low tariffs act as a disincentive to some extent, and involve customs documentation. Suitable locations would include ports with an assured continuing sea traffic, as well as ready availability of road transport links. ABP regarded the purpose of freeports as the generation of new traffic rather than the distortion of competition between ports and cast doubt on ^{other} evidence received by the working party that any reduction in customs costs would be insignificant in the context of high UK handling and port charges in the UK.

8.5 The British Airports Authority does not disagree with the view expressed by Customs and Excise that existing arrangements provide importers ^{with} the benefits a freeport can offer; but draws a distinction between the reliefs that exist and UK industry's perception of them. The Authority claims that UK airports are losing traffic to continental rivals which have an advantage in being associated with "freeport" facilities. The term is useful in marketing, particularly when associated with low rates, tax incentives and investment grants, although a freeport package would principally be based on customs benefits. The BAA adds that there could be staff savings for Customs if traffic were concentrated in freeports. In oral evidence the BAA suggested that an airport-based freeport would encourage distribution activity particularly of cargoes with a high value to weight ratio. The effort required on the part of traders to identify reliefs available was seen as a deterrent.

8.6 The British Ports Association expresses itself in favour of anything which generates trade. However the attraction of freeports has reduced with the development of free trade blocs such as EFTA and the EEC and ^{has} been further eroded by the unitisation of cargo permitting inland customs clearance. The Association would oppose any system which artificially influenced customer choice of port. In oral evidence, the BPA argued that better dissemination of knowledge of existing procedures would go a long way to meet demands for freeports. It would prefer a system which would enable operators to set up a concentration of facilities ^{at their own discretion,} on sites chosen purely on commercial criteria. Customs and Excise should move from their traditional revenue - collecting attitude to more active encouragement of local development and initiative.

8.7 The Clyde Port Authority sees undeniable cash flow advantages arising from the absence of duty on materials and products held in a freeport. Freeports should be used to stimulate commercial activity in regimes affected by changing trading patterns. Although there ^{would have to} be initial government expenditure in establishing such zones, the self-sustaining character of development ^{would} remove the need for continuing subsidy.

8.8 The Felixstowe Dock and Railway Company suggests that the evidence from other countries is that the existence of freeports does much to stimulate trade. Freeports increase commercial activity and employment, and reduce import costs. Moreover cash flow advantages to manufacturers will be reflected in lower prices on the home market. However customs reliefs would not themselves guarantee success, which would depend on location, government incentives on rating, investment or taxation, and the quality of management and marketing.

8.9 The General Council of British Shipping sees no operational benefits to UK traders operating in freeports under EC rules, other than a possible reduction in cash security requirements. However the title of a "freeport" is a marketable commodity. It believes therefore that, if commercially viable, traders should have the opportunity to concentrate in one place the reliefs offered by current legislation, and call them "freeports".

No restriction should be placed on the number of these which would affect the commercial choice of shipowners. Moreover the General Council would not approve of legislation reducing existing reliefs elsewhere. There should also be greater publicity for these reliefs, which should be examined with a view to simplification.

8.10 Kyle and Carrick District Council argues that freeports would attract firms wishing to establish a foothold in Europe. The main attraction to UK firms could be the provision of an exhibition centre. It draws attention to advantages of scale for both Customs and Excise and firms locating in the zones.

8.11 The London Chamber of Commerce and Industry submits the results of preliminary enquiries carried out in 1977 into the feasibility of a freeport for London dockland. It found little enthusiasm for concentrating bonded warehouses in an enclosure or desire for additional customs duty free facilities.

8.12 NESDA (the Industrial Development Department of Grampian Regional Council) sees cost savings from the simplification of procedures for inward processing relief or warehousing. A freeport could also include an international exhibition centre for equipment. It would generate employment and airport traffic, as well as offering a marketing advantage for the area in which it is established. The North Sea gas and oil industries would benefit particularly from simplification of their complicated tax position. It envisages that the operator, either a public or private sector body, would be responsible for security fencing and charges for customs attendance, as well as the administration and financing of the zone. Financial viability might depend on tax or investment incentives; otherwise success would depend on whether customs savings balance the cost of relocation and the higher overhead costs.

8.13 A report commissioned from PEIDA by the Prestwick Airport Working Party considers the establishment of a freeport as one option to stimulate activity at the airport. While recognising the limitations imposed by EC legislation, PEIDA believes that a freeport would offer economies of scale and common services, and could encourage inward processing relief under duty suspension. There would also be promotional advantages in the designation. A freeport is more likely to prosper when it can capitalise on existing favourable physical or economic conditions, and must be in a location in or near major trade routes where transshipment will be necessary.

8.14 The Port of London Authority would wish to offer any facility demanded by its customers, including a freeport, although this would be an ancillary service rather than a means to dramatically improved competition. The main factor determining the relative competitiveness of UK ports will remain the subsidy enjoyed by continental rivals. Moreover it is unlikely that a freeport could significantly increase the 10% of cargo on ships making for Europe which is at present for the UK or reduce suspicion of the effects of the Dock Labour Scheme.

8.15 Rush and Tompkins Group plc describes its experience of operating US Foreign Trade Zones (FTZs) in Philadelphia, Miami and New Orleans. The US system allows not only dutyfree warehousing but also relief on processing both for export and for the home market. This improves cash flow and offers savings when the rate of duty on finished goods imported into the US is lower than that on raw materials or components. These savings effectively mean that zone users rent space at rates below market level. A zone can be constructed so that security problems are minimal. In oral evidence, Rush and Tompkins said that the zones are particularly attractive to small companies who find difficulty in identifying all the reliefs to which they may be eligible. In addition to the mystique associated with the term "freeport" users also benefit from the concentration of facilities for international trade. However it was seen as essential that ^{any} UK zones should offer access to the European market, and attempts should be made to alter EC legislation so that relief is available on goods processed for the Community market as well as those exported to third countries.

8.16 The Trades Union Congress draws attention to the divorce between the concept and practice of enterprise zones, which are to a great extent modelled on the freeport system. It suggests that money would be better spent allowing local authorities to undertake economic initiatives and development work for urban areas.

8.17 West Midlands County Council argues that users would be attracted to freeports by savings in costs and documentation, as well as by the high security environment which would be created by customs control arrangements. Even though many benefits are already available, a freeport would act as a "shopwindow" for them and encourage an export-orientated approach. A service charge could be levied to cover security and customs costs.

9. CONCLUSIONS

9.1 The Working Party was unable to identify any tariff advantages which could be made available, within the rules of the EC, to firms operating within a freeport, which are not already available to firms in the UK handling, warehousing or processing imported goods destined for export to third countries or for release into free circulation. In particular, Community rules do not allow imported goods to be processed free of duty specifically for the home market. Thus, importations of materials and components imported into a freeport for use in the manufacture of articles intended for release into free circulation would be charged with duty just as they would be if processed elsewhere in the UK. If diversion did occur to the home market (which includes the other member states of the EC), processors would not enjoy the option - as they do in the US - of paying the duty applicable either to components or to finished products. The other tariff advantages of the US system listed in 5.3 above are either offered by the current UK system or are similarly excluded by EC legislation.

9.2 However, a number of witnesses suggested in evidence to the Working Party that the following non-tariff advantages could accrue from the establishment of freeports:

- (i) Simplification of Customs procedures, particularly for inward processing, leading to savings in compliance costs for traders, and scope for swifter turn-around.
- (ii) Importers handling goods subject to tariff quotas would enjoy greater flexibility in determining final destinations.
- (iii) There would be a cash flow benefit to zone users resulting from exemption from duty unless and until goods were exported or released into free circulation.
- (iv) To the extent that freeports attracted processors to assemble components at present imported after assembly overseas, there would be additional employment and domestic value added, and reduced import costs.

- (v) A ring fence and customs control on freeports would offer to traders a secure environment which should be reflected in lower insurance costs.
- (vi) Freeport users and customs authorities could both achieve economies of scale from the physical concentration of facilities. As locations dedicated to international trade, freeports would be likely to attract exhibition centres etc.
- (vii) Freeports could be marketed internationally as locations with particular appeal to overseas companies seeking an 'offshore' bridgehead to the European market.
- (viii) The relative absence of customs formalities would be calculated to attract small firms which might be unaware of, or unable to cope with the formalities involved in existing facilities for goods destined for re-export.

9.3 Some of these benefits are already available under existing customs procedures, while others are intangible. The Working Party recognised that:

- (i) Operators in a freeport could not escape Customs control of prohibited or restricted imports (drugs, pornography, firearms); or the enforcement of Community rules for inward processing;
- (ii) Existing arrangements for warehousing enable traders to adjust deliveries to take account of tariff quotas;
- (iii) The relevance of cash flow benefits would be conditioned by the high proportion of imports which attract no duty anyway, and also by the availability under present rules of duty suspension on goods destined for re-export, at no cost to the trader; and
- (iv) The inability to process imported components for the Community market without payment of duty would greatly reduce the attractiveness of the European bridgehead concept.

9.4 It is also important to bear in mind that the attractiveness of maritime freeports to potential participants from overseas could be influenced by relative costs of access and handling. About this the Working Party received conflicting evidence. Certain shipping operators told us that such costs were so much higher at UK ports that any saving on the costs of Customs processing would be insignificant as an inducement to attract transit trade currently handled at continental ports. An opposite view, however, was expressed to the Working Party by representatives of UK port authorities. Any savings on Customs procedures within freeports might give them an edge over other UK ports not enjoying such facilities.

9.5 The Working Party considered whether there might be merit in creating additional attractions for freeport operators. At Shannon, for example, postponed accounting for value added tax has been retained when it has been withdrawn at other points of entry to the Republic; while at Hamburg there is exemption from the so-called 'protective test' whereby Community rules do not allow the grant of relief on goods imported from third countries for inward processing when comparable goods are available within the EC on comparable terms. The practical significance of the test is open to argument: we heard evidence that it is rarely invoked; on the other hand this may be because traders refrain from making requests in relation to imports which they have reason to expect might provoke its application. However, Community rules would in any case preclude the extension of Hamburg's exemption to new freeports, and it is the view of the Working Party that any deliberate general discriminations such as had been introduced at Shannon would be unacceptable from the point of view of the UK.

9.6 The Working Party was unable to form a judgement about the implications of the establishment of freeports for Customs manpower and administration costs. At Hamburg we were told that it was the view of the port authorities, endorsed by the Federal Finance Ministry, that withdrawal of the freeport perimeter and policing would not yield any savings in manpower or administration; whereas at Shannon we were advised that the abandonment of perimeter control had in due course led to a saving of ten Customs personnel. It seems probable that there would be some additional Customs costs and manpower involved. Were such services to be supplied free of charge to freeport users there could be complaints from other traders not so privileged. Nevertheless it was the view of the Working Group that user charges would frustrate the purpose of establishing freeports and should not be levied.

9.7 It has become apparent to us in the course of our investigation that there is widespread ignorance about the extent of optional procedures available to traders under existing rules. We recommend that Customs and Excise should co-operate with other Government agencies and trade associations in preparing suitable publicity material for dissemination to potential users at home and abroad. It is ~~obviously~~ ^{for example} already possible for traders engaged in the transshipment, handling and processing of goods destined for re-export to come together, under existing Customs provisions, in a specific location, and for that location to be promoted in terms of a duty-free zone, even though it did not operate under the specific provisions of the Community directive.

9.8 However the Working Group recognises that a freeport of the classic type, within a ring fence under Customs control, could/^{also} have special appeal and marketability. Having considered all the evidence it is the CONCLUSION of the Working Party that there would, on balance, be merit in opening the way to the establishment of/^{such} freeports in the United Kingdom. We therefore recommend that amending legislation should be introduced forthwith to make this possible. Such legislation should be drawn so as to permit all forms of activity - transshipment, warehousing, processing and related services - allowable under the EEC free zones directive to be undertaken.

9.9 It would then be up to an intending zone operator to demonstrate that there was sufficient volume of informed trader demand to justify authorisation of such facilities at a particular location. In view of the inevitable uncertainties about the real scale of user demand we recommend that authorisation should be restricted in the first instance to two or three experimental locations, to include both air and sea port sites. The choice of locations for this purpose should be solely determined by demonstrated user demand and economic viability. Investment, development costs and promotion at a zone should not be dependent on public funds and responsibility for these would rest with the operator.

9.10 We were also told that in the view of some international companies engaged in inward processing in the UK and elsewhere in the European Community UK customs procedures for this purpose involve a greater degree of complexity than those applied by Customs in some other member countries. We therefore recommend that Customs should investigate such claims and see whether, if they are well founded there is scope for adopting more simplified procedures.

PROGRAMME OF STUDY VISITS

11-12 January 1983 Port of Rotterdam

Present Economic Secretary to the Treasury
 Mr C D Harrison (Private Secretary)
 Air Commodore C H Clarke (National Association of Warehousekeepers)
 Mr G C S Mather (Institute of Directors)
 Mr P J Moore (British Importers Confederation)
 Mr N J Collings }
 Mr J A Grimwood } (HM Customs and Excise)
 Mr J C Octon (Department of Trade)
 Mr D J Alexander (Northern Ireland Office)
 Mr R W Maclachlan (Secretary)

NOTE: Mr B M Field visited Rotterdam on behalf of the Association of British Chambers of Commerce and CBI on 19-20 January 1983.

13-14 January 1983 Shannon Free Zone

Present Economic Secretary to the Treasury
 Mr C D Harrison (Private Secretary)
 Mr B M Field (Association of British Chambers of Commerce and CBI)
 Mr N J Collings (HM Customs and Excise)
 Mr J C Octon (Department of Trade)
 Mr D Jeal (Northern Ireland Office)
 Mr R W Maclachlan (Secretary)

17-18 January 1983 Free Port of Hamburg

Present Economic Secretary to the Treasury
 Miss T A M Pollock (Private Secretary)
 Mr B M Field (Association of British Chambers of Commerce and CBI)
 Mr P J Moore (British Importers Confederation)
 Mr N J Collings (HM Customs and Excise)
 Mr J C Octon (Department of Trade)
 Mr D J Alexander (Northern Ireland Office)
 Mr R W Maclachlan (Secretary)

31 January 1983 Heathrow Airport

Present Economic Secretary to the Treasury
Mr C D Harrison (Private Secretary)
Air Commodore C H Clarke (National Association of Warehousekeepers)
Mr P J Moore (British Importers Confederation)
Mr N J Collings (HM Customs and Excise)
Mr J C Octon (Department of Trade)
Mr A C King (Scottish Office)
Mr D Jeal (Northern Ireland Office)
Mr R W Maclachlan (Secretary)

2 February 1983 Ford Motor Company Ltd (Tractor Operations Division - Basildon)

Present Economic Secretary to the Treasury
Miss T A M Pollock (Private Secretary)
Air Commodore C H Clarke (National Association of Warehousekeepers)
Mr B M Field (Association of British Chambers of Commerce and CBI)
Mr G S Mather (Institute of Directors)
Mr N J Collings (HM Customs and Excise)
Mr W B Solesbury (Department of Environment)
Mr A C King (Scottish Office)
Mr D Jeal (Northern Ireland Office)
Mr R W Maclachlan (Secretary)

2 February 1983 Tilbury Docks

Present Economic Secretary to the Treasury
Miss T A M Pollock (Private Secretary)
Air Commodore C H Clarke (National Association of Warehousekeepers)
Mr B M Field (Association of British Chambers of Commerce and CBI)
Mr N J Collings (HM Customs and Excise)
Mr W B Solesbury (Department of Environment)
Mr J C Octon (Department of Trade)
Mr A C King (Scottish Office)
Mr D Jeal (Northern Ireland Office)
Mr R W Maclachlan (Secretary)

3 February 1983 Rank Zerox Ltd (Reprographics Manufacturing Group, European
Manufacturing and Supply Division) Welwyn Garden City

Present Economic Secretary to the Treasury
Mr C D Harrison (Private Secretary)
Air Commodore C H Clarke (National Association of Warehousekeepers)
Mr B M Field (Association of British Chambers of Commerce and CBI)
Mr P J Moore (British Importers Confederation)
Mr N J Collings (HM Customs and Excise)
Mr J C Oton (Department of Trade)
Mr R W Maclachlan (Secretary)

ORAL EVIDENCE TAKEN BY WORKING PARTY ON FRIDAY 11 FEBRUARY 1983

Present: Economic Secretary to the Treasury (Mr Jock Bruce - Gardyne) (Chairman)

Air Commodore C H Clarke (National Association of Warehousekeepers)

Mr B M Field (Association of British Chambers of Commerce and CBI)

Mr G C S Mather (Institute of Directors)

Mr P J Moore (British Importers Confederation)

Mr N J Collings (Customs & Excise)

Mr J C Octon (Dept of Trade)

Mr D Jeal (Northern Ireland Office)

Mr A C King (Scottish Office)

Mr C D Harrison (Private Secretary to the Economic Secretary)

Mr R W MacLachlan (Customs & Excise) (Secretary)

Witnesses: Mr R P Gadd (Aerodrome Owners Association)

Mr E Pollock (Associated British Ports)

Mr D N Miller) (British Airports Authority)

Dr G Watson)

Mr J Beswick)

Mr A J Smith) (British Ports Association)

Mr F M Rees)

Mr K H O'Brien (Rush and Tompkins Group plc)

The Economic Secretary welcomed representatives of the bodies who had volunteered to give evidence. He reminded them that the working party had not been asked to consider possible sites for freeports at the present stage. He invited each organisation to summarise its views before questioning opened.

Mr Gadd (Aerodrome Owners Association) explained that his organisation represented every airport in the country, including those operated by the British Airports Authority. The Association favoured the establishment of freeports both as storage facilities and for processing. He accepted that in most cases comparable facilities were available under other regimes but thought that freeport users would benefit even if only by the removal of the low tariffs operating in the EC. He stressed that freeports had to be established in areas of economic growth associated with ports or airports. Controls should be kept to a minimum; fears had been expressed that Customs & Excise would try to impose limitations on freeport operators which would damage their cost effectiveness.

Mr Pollock (Associated British Ports) said that his organisation, formerly the British Transport Docks Board, operated 19 UK ports, representing 28% of port turnover. He supported the introduction of the widest possible range of freeport facilities. There was still a significant percentage of goods subject to high tariff rates, while even low tariffs acted as a disincentive to some extent, and involved costs in documentation. Documentation associated with the existing Inward Processing Relief also increased costs. The example of Hamburg suggested that levels of customs control and staffing could be minimised. Suitable locations could be found at ports with an assured continuing sea traffic as well as ready availability of road transport links and land.

Mr Miller (British Airports Authority) indicated that UK airports were losing traffic to continental rivals, such as Schiphol, which offered bonded warehousing and other simplified procedures. An airport based freeport would encourage distribution activity in the UK particularly of cargoes with a high value to weight ratio. He asked if the UK could afford not to try freeport benefits.

Mr Beswick (British Ports Authority) explained that his association, the representative for all seaports, were in favour of anything which encouraged free trade but could not support a system which distorted competition between ports. He suggested that a better dissemination of knowledge of existing procedures would go a long way to meet demands for freeports. There was no copyright in the use of the term "freeport" and this could be used to market facilities.

Mr O'Brien (Rush and Tompkins) described his firm's experience in US foreign trade zones (FTZs) at Philadelphia and Miami and in developing a new FTZ at New Orleans. He stated that similar facilities were available in the US as in the normal UK system but argued that smaller manufacturers had difficulties in identifying all the reliefs to which they were entitled. A successful freeport must incorporate both warehousing and manufacturing, including processing for home use. He also drew attention to the US system under which duty paid on entry to the home market after processing in a FTZ was charged either on the raw materials or the finished product, whichever was the more favourable.

Mr O'Brien explained that the cost to users of FTZ facilities was about 450 per ft², including customs facilities, security and upkeep. The FTZ at Philadelphia had been constructed to keep control costs low; the walls of the buildings themselves formed the perimeter. To satisfy doubts of institutional investors the buildings had been constructed so that any one could be placed outside the zone boundary if trading patterns, legislation etc changed. Users were able to stockpile goods pending the opening of quotas. They could also enjoy the benefits of a concentration of facilities for international trade. He suggested that it was to the US zones rather than those in Hamburg, Shannon or Hong Kong that the UK should be

looking for an example. It was however essential that zone users should have access to the European market.

Mr Mather asked whether EC ports reflected the BPA's fears of trade distortion. Mr Beswick pointed out that while EC ports in general served a large hinterland, the UK had a number of small ports allied to a very efficient internal transport network. He would prefer a system which would enable operators to set up a concentration of facilities on sites chosen purely on commercial criteria rather than selected by central or local government. The Economic Secretary suggested that such a system would itself be selective and asked whether this meant that the BPA was not opposed to selectivity provided it did not have to make the choice. Mr Beswick replied that a trade association could not favour one group of members over another. Mr Gadd suggested that economic activity generated by freeports would benefit the whole trading community. Mr O'Brien said that the US system permitted the establishment of a FPZ at each point of entry but that an operating licence was granted only to those who were prepared to finance and run them. Mr Pollock said that the intention would be to attract new traffic to freeports rather than distort the existing pattern.

Mr Field said that relief for processing for the European market was not permitted under EC legislation. He asked Mr O'Brien whether he thought UK freeports could be successful without this. Mr O'Brien replied that the mystique associated with the term "freeport" was very attractive in international marketing, both by zone operators and at national level. However he believed that EC legislation should be altered. The Economic Secretary asked whether it was also necessary that importers should be able - as in the UK - to choose between the rates applicable to components and to finished articles, whichever is the lower. Mr O'Brien regarded this as important but not essential.

Mr Moore asked whether savings in customs costs had been a significant factor in determining the attitude of organisations to freeports. Mr Gadd said that his members were more concerned that unnecessary bureaucracy did not create additional costs in the zones. Mr Smith said that from the BPA point of view it was more important that existing reliefs should be published effectively. Customs & Excise should move from their traditional revenue - collecting attitude to the more active promotion of local development and initiative.

Air Commodore Clarke asked the BAA what advantages bonded warehouses at Schiphol had over comparable UK facilities. Mr Miller replied that the NEDC "Gateway" Report had identified a number of areas where procedures at London Airport fell behind continental rivals, although he admitted that after recent customs changes there might well now be little to choose between systems. However he thought that

the UK system still required effort on the part of the traders who would therefore be attracted by the flexibility and lack of control within the freeport, particularly if warehousing and processing were available within the airport area.

Mr Octon asked what categories of traders were attracted to US Foreign Trade Zones. Mr O'Brien said that multi nationals tended not to be attracted to the zones other than where particular sectors of their activities would benefit. The main users were large companies tied to particular areas with sub-zone status (eg chemical works, car plants etc) or small traders who would otherwise be unlikely to make the best use of customs reliefs.

The Economic Secretary asked whether responsibility for promotion of the zones should rest with the operator or with central and local government. Mr O'Brien replied that in the US this was carried out at all levels. However in view of the long-term nature of the marketing which would be required he thought that in the UK it would be more appropriate to a government agency.

Mr Collings reminded Mr O'Brien that the Foreign Trade Zones must be compared with the normal US system. This did not allow relief on processing for export other than on components exported in the same state they were imported. Moreover relief was available only as a reimbursement and not as a duty suspension. Mr O'Brien agreed that this increased the attraction of the FTZs.

Mr Collings also asked about customs staff involved. Mr O'Brien said that 3 customs officers were on duty at Miami 24 hours a day. There would be no customs presence at Philadelphia until the zone was established. Gate control was the responsibility of the zone operators. The cost of customs attendance was met out of the charge to zone users. However in many cases the notional cost of using the zone was significantly below normal rented space.

Air Commodore Clarke asked if support for freeports depended on factors like derating. Mr Smith said that the structure of the rating system meant that port users could not benefit. Mr Pollock said that support was based on the lack of documentation which would permit flexibility in traffic under quotas etc. He added that evidence received by the working party that customs costs were insignificant relative to handling and other costs applied to "break bulk" cargo but much less so for unitised shipments. Charges associated with shipping were high relative to certain continental ports but account must be taken of subsidies and of differences in the incidence of charges. UK ports were not invariably more expensive.

The Economic Secretary thanked trade representatives for their evidence.

EC LEGISLATION

1. Council Directive 69/73 of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action in respect of inward processing.
2. Council Directive 69/74 of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action relating to customs warehousing procedure.
3. Council Directive 69/75 of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action relating to free zones.
4. Preliminary draft proposal for a Council Regulation on free zone arrangements.

8.3.69

Official Journal of the European Communities

No L 58/1

COUNCIL DIRECTIVE

of 4 March 1969

on the harmonisation of provisions laid down by law, regulation or administrative action in respect of inward processing

(69/73/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 100 and 155 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament¹;

Having regard to the Opinion of the Economic and Social Committee²;

Whereas the Community is based upon a customs union;

Whereas the establishment of the customs union is governed in the main by Chapter 1 of Title I of Part Two of the Treaty; whereas that Chapter contains a series of specific provisions dealing in particular with the elimination of customs duties between Member States, the establishment and progressive introduction of a Common Customs Tariff and the autonomous alteration or suspension of the duties therein; whereas, while Article 27 provides that Member States shall, before the end of the first stage and in so far as may be necessary, take steps to approximate their provisions laid down by law, regulation or administrative action in respect of customs matters, that Article does not empower the institutions of the Community to make binding provisions in that field; whereas, however, a thorough examination undertaken jointly with Member States has shown the need in certain fields for decision, by binding acts of the Community, upon measures essential for the introduction of customs legislation, which will ensure uniform application of the Common Customs Tariff;

Whereas, in all Member States, there are provisions laid down by law, regulation or administrative action enabling persons established therein to undertake, without incurring liability for payment of customs duties, of charges having equivalent effect or of agricultural levies, processing work on imported goods which do not satisfy the conditions contained in Articles 9 and 10 of the Treaty, where such goods are intended for export wholly or partly in the form of compensating products;

Whereas certain Member States authorise inward processing traffic, either generally or in individual cases, only after prior survey of the interests of national producers of like or similar goods; whereas other Member States confine themselves to investigating whether the technical conditions under which the proposed processing operations are to take place permit of supervision by the customs authorities to ensure collection of customs duties, charges having equivalent effect and agricultural levies in cases where the compensating products are not exported;

Whereas inward processing traffic directly affects the establishment and operation of the common market; whereas the creation of the customs union involves elimination of the differences existing in this connection, and the discontinuance of such traffic in respect of goods imported into the Community for processing in one Member State in order to be marketed in another Member State;

Whereas common rules applicable to goods of every kind and origin must be laid down in the Member States in respect of inward processing;

Whereas it is important to ensure the uniform application of such common rules and provide for this purpose a Community procedure whereby implementing provisions for those rules may be adopted within a suitable period of time; whereas it is necessary to set up a committee to organise close and effective collaboration in this field between Member States and the Commission;

¹ OJ No C 66, 2.7.1968, p. 12.

² OJ No C 75, 29.7.1968, p. 10.

HAS ADOPTED THIS DIRECTIVE:

Article 1

This Directive determines the rules which must be incorporated in the provisions laid down by law, regulation or administrative action in Member States in respect of inward processing arrangements.

Article 2

1. Inward processing arrangements means the customs arrangements whereby imported goods which do not satisfy the conditions contained in Articles 9 and 10 of the Treaty may be processed without giving rise to liability for payment of customs duties, of charges having equivalent effect or of agricultural levies, where such goods are intended for export outside the customs territory of the Community wholly or partly in the form of compensating products as defined in paragraph 3.

2. Under the terms of this Directive, inward processing arrangements shall apply to goods of whatever kind or origin.

3. Compensating products means products produced by one or more of the following processes:

- (a) working of goods, including fitting or assembling them or adjusting them to other goods;
- (b) processing of goods;
- (c) repair of goods, including restoring them to their original condition and putting them in order;
- (d) use of agents such as catalysts, accelerators or retarders of chemical reactions which, being employed in the course of production, disappear entirely or partially when so employed and are thereafter not distinguishable in the goods produced. This subparagraph shall not apply to use of sources of energy, lubricants, equipment or tools.

4. Where paragraph 3 (d) applies, the total or partial disappearance of such agents shall be treated as exportation of compensating products if the goods produced are exported.

Article 3

1. Exemption from customs duties, charges having equivalent effect and agricultural levies shall be granted in accordance with one of the following methods:

- (a) the goods shall be subject to a customs procedure under which the payment of customs duties,

charges having equivalent effect and agricultural levies is suspended throughout the period for which the goods remain in the customs territory of the Community;

- (b) the amount of the customs duties, charges having equivalent effect and agricultural levies applicable to the imported goods shall be deposited, and reimbursement of such duties, charges and levies shall be made on exportation of the compensating products obtained therefrom.

2. The choice of procedure shall be left to the authorities of the Member State in whose territory the proposed processing is to be carried out. (Such authorities are hereinafter called the 'competent authorities'.)

3. Where paragraph 1 (a) of this Article applies, the competent authorities may require security to be given in such form and of such amount as they shall determine.

Article 4

1. The benefit of inward processing arrangements shall be granted only to natural and legal persons established within the Community.

2. The competent authorities shall grant the benefit of these arrangements upon application either automatically in pursuance of provisions having general application or by general or special authorisation.

3. The benefit of the arrangements shall not be granted if it is impossible to identify the imported goods as having been incorporated in the compensating products or, where Article 24 applies, if it is impossible to ascertain whether the conditions contained in that Article have been fulfilled.

Article 5

1. The competent authorities may grant authorisations in all cases where inward processing arrangements would contribute towards providing the most favourable conditions for the export of goods resulting from such processing without conflicting with essential interests of producers within the Community.

2. Operations which contribute towards providing the most favourable conditions for exportation while not conflicting with essential interests of producers within the Community are those operations which are to be effected under inward processing arrangements in relation respectively to goods;

- (a) to be processed in performance of a contract to make up work from materials supplied, entered into with a person established in a third country; or
 - (b) which are not available within the Community because they are not produced there or are produced there but not in sufficient quantities, or because suppliers within the Community are not able to make them available to the user within a suitable time; or
 - (c) the use of which is requisite in order to ensure that the provisions concerning the protection of industrial and commercial property are observed; or
 - (d) the use of which is requisite by reason of the fact that those available in the Community cannot be used because, in the light of the particular requirements specified by purchasers of compensating products, they do not have the desired qualities.
3. The competent authorities may also grant authorisations upon being satisfied that goods of similar quality available in the Community cannot be used because their cost is such as to make their proposed commercial use economically impossible.
4. If so requested by the competent authorities, the applicant shall, in manner determined by them, supply the information in his possession to substantiate the existence of the circumstances referred to in paragraphs 2 and 3 of this Article.

Article 6

1. Authorisations granting the benefit of the inward processing arrangements in cases other than those specified in Article 5 (2) and (3) shall be valid for a period not exceeding nine months. The competent authorities shall inform the Commission before the tenth day of each month of the factors which led to the grant of authorisations during the previous month. The Commission shall inform the Member States thereof.
2. Member States may within six weeks of the date on which the information was notified to them by the Commission indicate the cases which appear to them not to comply with the provisions of Article 5 (1), stating the reasons for their opinion.
3. Comments put forward pursuant to paragraph 2 shall be investigated by the Committee provided for in Article 26.
4. If, two months before the end of the nine months period specified in paragraph 1, the Council

has not adopted provisions in the matter pursuant to the provisions of Article 29, the competent authorities may, at the request of the party concerned, extend the period of validity of the authorisation.

Article 7

1. Member States shall, at regular intervals, inform the Commission of the factors which led to the grant of authorisations pursuant to Article 5 (2) (b) or (d) or Article 5 (3). This shall apply only in respect of processing operations of sufficient economic importance as to warrant investigation at Community level.
2. Member States shall notify the Commission of applications which they have rejected and which relate to economically significant processing operations.
3. The Commission shall inform the Member States thereof.

Article 8

1. Member States shall communicate to the Commission the provisions having general application referred to in Article 4 (2) and any amendments of those provisions.
2. The Commission shall inform the Member States thereof.

Article 9

The authorisation shall specify the conditions under which processing is to take place, and in particular:

- (a) the exemption procedure applicable under Article 3 (1);
- (b) the period within which the imported goods are to be dealt with in manner specified in Article 13;
- (c) the rate of yield or the method whereby that rate is fixed, as the case may be.

Article 10

The holder of the authorisation shall submit to any measures of inspection or supervision prescribed by the competent authorities.

Article 11

The competent authorities shall fix the rate of yield of the processing by reference to the actual

conditions under which it is effected. The nature, quantity and quality of the various compensating products shall be specified upon fixing that rate.

Article 12

Standard rates of yield which are to be applied to all undertakings engaged in a particular type of processing may, in accordance with the procedure provided for in Article 28, be fixed on the basis of data previously ascertained, where circumstances so warrant and, in particular, as regards processing customarily carried out under clearly defined technical conditions in relation to goods of substantially uniform characteristics resulting in the production of compensating products of uniform quality.

Article 13

Processing under inward processing arrangements shall be considered as completed when, in accordance with the terms of the authorisation, the compensating products are either exported outside the customs territory of the Community or placed in bonded warehouse, in a free zone or under the Community transit procedure (external procedure) with a view to their being subsequently exported.

Article 14

The competent authorities may allow compensating products which are:

- (a) placed in bonded warehouse or free zone in the country where the processing or the most recent stage of processing was carried out, or placed under the Community transit procedure (external procedure), to be put on the market in accordance with the provisions of Article 16, if the circumstances so warrant and the duties, charges having equivalent effect or agricultural levies due were ascertained at the time of their entry into bonded warehouse or free zone or at the time of their being placed under the Community transit procedure (external procedure);
- (b) placed in bonded warehouse or free zone or placed under the Community transit procedure (external procedure) to be put on the market exceptionally, upon payment of customs duties, charges having equivalent effect or agricultural levies applicable on the date on which they were put on the market, if the amount thereof is at least equal to the amount which would have been charged pursuant to Article 16.

Article 15

1. Where circumstances so warrant and, in particular, in the case of undertakings engaged in continuous production both for the Community market and for external markets, the competent authorities may allow:

- (a) compensating products either to be put on the market or to be destroyed;
- (b) goods covered by inward processing arrangements to be:
 - put on the market or destroyed; or
 - dealt with in one of the ways specified in Article 13; or
 - put on the market in the conditions prescribed by Article 14; irrespective of whether the goods in question are in the same condition as when they were imported (hereinafter called 'goods in the unaltered state') or have not been processed so extensively as was provided for in the authorisation (hereinafter called 'intermediate products').

2. With regard to processing carried out in the course of continuous production of goods intended both for the Community market and for external markets, the conditions in which the resulting products shall be put on the market shall be determined in accordance with the procedure provided for in Article 28, in particular as regards the maximum quantity that may be put on the market and the payment of any outstanding arrears of interest due.

Article 16

Where goods are put on the market in accordance with the conditions provided for in Article 15 (1) (a) or the first indent of Article 15 (1) (b), the customs duties, charges having equivalent effect or agricultural levies to be charged in respect of compensating products, intermediate products or goods in the unaltered state, shall be those appropriate to the imported goods according to the rate or amount applicable on the date of acceptance of the relevant customs document by the competent authorities and on the basis of the value for customs purposes and other items of charge ascertained or accepted as applicable on that date, without prejudice to any outstanding arrears of interest due.

Article 17

Where part only of the compensating products or of the intermediate products are authorised to be put on

the market, the customs duties, charges having equivalent effect or agricultural levies chargeable under Article 16 shall be calculated:

- (a) where only one kind of product is derived from the processing, by reference to the quantity of the product put on the market in proportion to the total quantity of the product made;
- (b) where several kinds of product are derived from the processing,
 - if it is possible to ascertain the quantity of goods referred to in Article 2 (1) used in each of the various products in the course of their production, by reference to that quantity in proportion to the total quantity of the goods imported;
 - otherwise, by reference to the value of each of the various products put on the market in proportion to the total value, assessed as at the same date, of all the goods produced.

Article 18

1. The Council, acting by a qualified majority on a proposal from the Commission, shall prepare a list of compensating products and of intermediate products which when put on the market shall, by way of derogation from the provisions of Articles 16 and 17, be subject to application of customs duties, charges having equivalent effect or agricultural levies appropriate to them and not to those appropriate to imported goods.

2. Where, by virtue of the application of paragraph 1, compensating products or intermediate products are put on the market under exemption from customs duties, charges having equivalent effect or agricultural levies, the value thereof shall be treated as nil for purposes of application of the second indent of Article 17 (b).

Article 19

1. Destruction authorised in accordance with the provisions of Article 15 shall be effected under customs supervision.

2. Where destruction deprives compensating products, intermediate products and goods in the unaltered state of all value, no customs duties, charges having equivalent effect or agricultural levies shall be charged.

Otherwise, in so far as products emerging from the destruction are put on the market, the provisions of Articles 16, 17 and 18 shall apply.

3. Destruction due to fortuitous occurrences or to *force majeure* and recognised as such by the competent authorities shall be treated as authorised destruction.

Article 20

1. Where, at the time of a supervisory check, the holder of an authorisation is unable to produce to the competent authorities goods which should still be covered by inward processing arrangements in the form of goods in the unaltered state or of intermediate or compensating products, the customs duties, charges having equivalent effect or agricultural levies relating to the missing goods shall be charged, without prejudice to any outstanding arrears of interest due.

2. Paragraph 1 of this Article shall also apply, notwithstanding production of the goods, where the period referred to in Article 9 has expired and the competent authorities do not require them to be re-exported from the customs territory of the Community.

Article 21

The competent authorities may allow ownership of compensating products, intermediate products or goods in the unaltered state to be transferred to a third person subject to his assuming liability for the obligations of the holder of the authorisation.

Article 22

All or part of the compensating products, intermediate products or goods in the unaltered state may be temporarily exported for the purpose of further processing in a third country, if the competent authorities so authorise, subject to the limitations and conditions fixed by the provisions relating to outward processing traffic.

Upon re-importation into the Community, the products derived from such further processing shall, where appropriate, again be covered by inward processing arrangements, in accordance with the terms of exemption fixed prior to the temporary exportation.

Article 23

1. Where all or part of the re-imported products, following their temporary exportation, are put on the market under an authorisation given pursuant to Article 15, this shall give rise to the charging of:

- (a) on the one hand, customs duties, charges having equivalent effect and agricultural levies relating

to the compensating products, intermediate products or goods in the unaltered state referred to in Article 22 (1), calculated in accordance with the provisions of Articles 16, 17 and 18;

(b) on the other hand, customs duties, charges having equivalent effect and agricultural levies relating to products re-imported after processing outside the customs territory of the Community, by applying the provisions relating to outward processing traffic.

2. Products which, after their re-importation following temporary exportation, are again covered by inward processing arrangements may be authorised to be put on the market on the same conditions.

Article 24

Where the circumstances so warrant, the competent authorities may, by way of derogation from Article 2 (3), treat as compensating products, products derived from processing of goods of the same kind and quality and having the same technical characteristics as those of the imported goods.

Article 25

In cases coming within Article 24 and where the circumstances so warrant, products treated as compensating products may, under conditions determined by the competent authorities, be exported prior to the import of goods covered by inward processing arrangements. Any such proposed export shall be treated in the same way as an export within the meaning of Article 2 (1).

Article 26

1. A Committee on Inward Processing (hereinafter called the "Committee") is hereby set up; it shall be composed of representatives of the Member States; a representative of the Commission shall be Chairman.

2. The Committee shall adopt its own rules of procedure.

Article 27

The Committee may examine any matter concerning the application of this Directive raised by its Chairman either on his own initiative or at the request of the representative of a Member State.

Article 28

1. The provisions required for applying Article 2 (3) and (4), Articles 9, 10, 12, 13 and 14, 15 (2), 16 and 17, 19 (3), 21, 22, 24 and 25 shall be adopted in accordance with the procedure laid down in paragraphs 2 and 3 of this Article.

2. The representative of the Commission shall submit to the Committee a draft of the provisions to be adopted. The Committee shall deliver its Opinion on the draft within a time limit set by the Chairman having regard to the urgency of the matter. Opinions shall be delivered by a majority of twelve votes, the votes of the Member States being weighted as provided in Article 148 (2) of the Treaty. The Chairman shall not vote.

3. (a) The Commission shall adopt the provisions envisaged where they are in accordance with the Opinion of the Committee.

(b) Where the provisions envisaged are not in accordance with the Opinion of the Committee, or if no Opinion is delivered, the Commission shall without delay propose to the Council the provisions to be adopted. The Council shall act by a qualified majority.

(c) If within three months of the proposal being submitted to it, the Council has not acted, the proposed provisions shall be adopted by the Commission.

Article 29

The provisions required for the application of Articles 5 and 6 shall be adopted by the Council acting on a qualified majority on a proposal from the Commission.

Article 30

Member States shall lay down such provisions of law, regulation or administrative action as may be necessary to enable the competent authorities to apply the measures provided for in the provisions adopted in pursuance of Articles 28 and 29 with effect from the date of their implementation as fixed by those provisions.

Article 31

1. Member States shall communicate to the Commission statistical information relating to the whole of the processing operations carried out in their territory with effect from 1 October 1969. The Commission shall inform Member States accordingly.

2. The information provided, as required by paragraph 1, shall be comprehensive. It shall comprise two statements. The first statement, using Common Customs Tariff heading numbers, shall specify the quantity and value for customs purposes of goods imported under inward processing arrangements, after deduction of such quantities as have been put on the market or have been destroyed under customs supervision as provided for in this Directive. The second statement, using Common Customs Tariff heading numbers, shall specify the quantity and value of compensating products exported from the customs territory of the Community.

Information whose disclosure might prejudice industrial or commercial secrets may be given in a separate statement.

Article 32

The information and communications provided for in this Directive, other than those referred to in Article 36, shall be treated as confidential.

Article 33

Authorisations issued before 1 October 1969 shall remain valid for the period in respect of which they were issued but for not more than one year from the said date.

Article 34

The Member States shall bring into force, not later

than 1 October 1969, the measures required to comply with this Directive.

Article 35

In so far as the provisions to be adopted pursuant to Articles 12, 15 (2) and 18 have not yet been put into effect, the corresponding provisions laid down by law, regulation or administrative action in Member States shall remain applicable unless repealed by such States.

Article 36

Each Member State shall notify the Commission of the provisions it is making in implementation of this Directive.

The Commission shall communicate the information to the other Member States.

Article 37

This Directive is addressed to the Member States.

Done at Brussels, 4 March 1969.

For the Council

The President

G. THORN

COUNCIL DIRECTIVE

of 4 March 1969

on the harmonisation of provisions laid down by law, regulation or administrative action relating to customs warehousing procedure

(69/74/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 100 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament¹;

Having regard to the Opinion of the Economic and Social Committee²;

Whereas the Community is based upon a customs union;

Whereas the establishment of the customs union is governed in the main by Chapter 1 of Title I of Part Two of the Treaty; whereas that Chapter contains a series of specific provisions dealing, in particular, with the elimination of customs duties between Member States, the establishment and progressive introduction of a Common Customs Tariff and the autonomous alteration or suspension of the duties therein; whereas, while Article 27 provides that Member States shall, before the end of the first stage and in so far as may be necessary, take steps to approximate their provisions laid down by law, regulation or administrative action in respect of customs matters, that Article does not empower the institutions of the Community to issue binding provisions in that field; whereas, however, a thorough examination undertaken jointly with Member States has shown the need in certain fields for decision, by binding acts of the Community, upon measures essential for the introduction of customs legislation which will ensure uniform application of the Common Customs Tariff;

Whereas in all Member States there are provisions laid down by law, regulation or administrative action concerning customs warehouses, and the main result of placing goods therein is that customs duties, charges having equivalent effect and agricultural levies in respect of such goods are not collected;

Whereas certain differences contained in those provisions could lead to deflection of trade and of customs receipts if they were to remain operative after the customs union has been fully achieved;

Whereas certain differences contained in those provisions would impede the proper functioning of the common market;

Whereas, since the essential purpose of customs warehouses is to store goods, handling of goods during storage is only permissible if its purpose is to ensure their preservation or to improve packaging or marketable quality, and where goods in store receive other handling they are no longer eligible for the customs warehousing procedure and are thus no longer governed by the rules of this Directive;

Whereas the approximation of national provisions as provided for in this Directive is not incompatible with the existence of different kinds of customs warehouses; whereas the position would have to be re-examined if such disparities affected the proper functioning of the common market;

HAS ADOPTED THIS DIRECTIVE:

Article 1

1. This Directive prescribes the rules that must be included in the provisions of Member States laid down by law, regulation and administrative action relating to customs warehousing procedure.

¹ OJ No C 55, 5.6.1968, p. 34.

² OJ No C 58, 13.6.1968, p. 17.

2. This Directive shall apply to:

- (a) the customs warehouses referred to in the Annex; and
- (b) such customs warehouses as may be established after notification of this Directive.

Article 2

1. The effect of the system of customs warehouses (hereinafter called 'warehouses') shall be that customs duties, charges having equivalent effect and agricultural levies are not collected during the period of storage of goods.

2. When the goods leave the warehouses it must be possible for them to be cleared for home use, placed under another customs procedure or exported.

Article 3

1. Goods of every kind shall be admitted into warehouses, whatever their quantity or their country of origin, consignment or destination.

2. The provisions of paragraph 1 shall not preclude the imposition of:

- (a) prohibitions or restrictions justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property;
- (b) prohibitions or restrictions justified on grounds of special features of the warehousing arrangements, or the nature and condition of the goods.

Article 4

The establishing of warehouses shall be subject to permission from the competent authorities of the Member States (hereinafter called the 'competent authorities'). Such authorities may withdraw or suspend permission where necessary.

Article 5

1. Goods intended for deposit in a warehouse must be submitted to the competent customs authorities of the Member State in which the warehouse is situated.

Nevertheless, on condition that customs control of the goods is ensured, the competent authorities may, under conditions which they shall determine, waive that requirement.

2. Goods intended for deposit in a warehouse must be the subject, under conditions determined by the competent authorities, of a written declaration which in particular enables their position with regard to customs to be determined in accordance with Articles 9 and 10 of the Treaty.

Article 6

1. The depositor or the warehouse keeper shall:

- (a) comply with all requirements relating to warehouses and follow instructions given by the competent customs authorities;
- (b) produce the goods whenever so required;
- (c) consent to any supervision or checking of the goods.

2. The depositor or the warehouse keeper may be required:

- (a) to keep a stock-account of the goods for the use of the competent customs authorities;
- (b) to notify the competent customs authorities of any circumstances which have altered or are likely to alter the condition of the goods deposited in a warehouse.

Article 7

It must be possible for ownership of goods deposited in warehouses to be transferred under the conditions and in accordance with the procedure established by national provisions laid down by law, regulation or administrative action.

Article 8

1. It must be possible for goods deposited in warehouses to remain there for a period of five years.

2. However, for such goods the competent authorities may:

- (a) extend or shorten the period of storage for reasons connected with the nature of the goods;
- (b) shorten the period of storage for reasons connected with the type of warehouse.

Article 9

1. It must be possible for goods deposited in warehouses to undergo there, under the conditions laid down by the competent authorities, such usual forms of handling as are needed to ensure preservation or to improve packaging or marketable quality.

Not later than one year after the notification of this Directive, the Council shall, on a proposal from the Commission, draw up a common list of the usual forms of handling referred to in the first subparagraph which may be carried out in the various types of warehouses.

2. Goods which undergo treatment other than the usual forms of handling referred to in paragraph 1 shall be subject to the rules in force relating to inward processing.

Article 10

1. Subject to the provisions of paragraph 2, when goods deposited in warehouses are cleared for home use the customs duties, charges having equivalent effect and agricultural levies chargeable on importation shall be collected on the basis of the rates or amount applicable on the date of removal from the warehouse, and according to the nature of the goods, the value for customs purposes and the quantity, as ascertained or accepted for that purpose by the customs authorities.

2. Where the price paid or payable is taken into account in determining the value for customs purposes, the following special provisions shall apply:

- (a) subject to the provisions of Article 9 of Council Regulation (EEC) No 803/68¹ of June 1968 on the valuation of goods for customs purposes, the price paid or payable may be either the price on a sale related to deposit in the warehouse or the price on resale; in either case the price shall be fixed with reference to importation into the Community;
- (b) where the date of deposit in the warehouse is taken as a basis, account shall be taken of abnormal price fluctuations which, during the storage period, gave rise to the suspension, provided for in Article 10 (7) of Regulation (EEC) No 803/68, of the application of periods of grace. Where the storage period exceeds two years, account shall also be taken of other price fluctuations;

(c) where the date of removal from the warehouse is taken as a basis, the periods of grace provided for in Article 10 of Regulation (EEC) No 803/68 shall be extended by the storage period when that period does not exceed two years;

(d) the costs of warehousing and of preserving the goods while in warehouses borne by a purchaser shall not be included in the value for customs purposes where the price paid or payable by that purchaser is taken as the basis for valuation.

Article 11

1. The depositor and the warehouse-keeper must be able to enjoy complete exemption from customs duties, charges having equivalent effect and agricultural levies in respect of losses occurring during the storage period and attributable to fortuitous events, *force majeure* or causes inherent in the nature of the goods.

2. It must be possible for goods damaged during the storage period to be destroyed under customs supervision.

In that event they shall not be subject to customs duties, charges having equivalent effect or agricultural levies.

Waste and debris resulting from destruction shall be subject as such, where cleared for home use, to customs duties, charges having equivalent effect and agricultural levies, in accordance with Article 10.

3. In cases of unauthorised removal of goods, customs duties, charges having equivalent effect and agricultural levies shall be collected on the goods removed, on the basis of the rates and amounts applicable on the date of removal and in accordance with other provisions of Article 10.

Where the date of removal cannot be ascertained, the rate that shall apply shall be the highest rate or amount applicable since the date of deposit in the warehouse or, where appropriate, since the last checking of the goods, up to the date of ascertaining the shortage.

Article 12

The Member States shall bring into force not later than 1 October 1969 the measures necessary to comply with this Directive.

¹ OJ No L 148, 28.6.1968, p. 6.

Article 13

Each Member State shall inform the Commission of the provisions it is making in implementation of this Directive.

The Commission shall communicate the information to the other Member States.

Article 14

This Directive is addressed to the Member States.

Done at Brussels, 4 March 1969.

For the Council

The President

G. THORN

ANNEX

(Article 1 (2) (a))

1. *Federal Republic of Germany*
 - Öffentliche Zollgutlager (Zollniederlagen) *Zollgesetz, §§ 42 to 46*
 - Private Zollgutlager
 - Zollaufschublager
2. *Kingdom of Belgium*
 - Entrepôts publics/ Openbare entrepots *(Loi of 4 March 1846, Chapters I to VI and VIII)*
 - Entrepôts particuliers/ Particuliere entrepots
 - Entrepôts fictifs/ Fictieve entrepots
3. *French Republic*
 - Entrepôts de douane (entrepôts de stockage) *(Code des douanes Articles 140 to 162 ter)*
 - Entrepôts de douane (entrepôts industriels)
4. *Italian Republic*
 - Magazzini doganali sotto diretta custodia della dogana *(Legge doganale of 25 September 1940, No 1424, Title V, Chapters I and II)*
 - Magazzini doganali dati in affitto
 - Magazzini doganali di proprietà privata
 - Magazzini generali
5. *Grand Duchy of Luxembourg*
 - Entrepôts publics *(Arrêté grand-ducal of 20 April 1922, Article 1)*
 - Entrepôts particuliers
 - Entrepôts fictifs
6. *Kingdom of the Netherlands*
 - Tijdelijke opslag *(Algemene Wet inzake de douane en de accijnzen of 26 January 1961, Article 8 Chapter III)*
 - Voorlopige opslag
 - Fictieve entrepots
 - Fabrieksentrepots

COUNCIL DIRECTIVE

of 4 March 1969

on the harmonisation of provisions laid down by law, regulation or administrative action relating to free zones

(69/75/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 100 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament¹;

Having regard to the Opinion of the Economic and Social Committee²;

Whereas the Community is based upon a customs union;

Whereas the establishment of the customs union is governed in the main by Chapter 1 of Title I Part Two of the Treaty; whereas that Chapter contains a series of specific provisions dealing, in particular, with the elimination of customs duties between Member States, the establishment and progressive introduction of a Common Customs Tariff and the autonomous alternation or suspension of the duties therein; whereas, while Article 27 provides that Member States shall, before the end of the first stage and in so far as may be necessary, take steps to approximate their provisions laid down by law regulation or administrative action in respect of customs matters, that Article does not empower the institutions of the Community to issue binding provisions in that field; whereas, however, a thorough examination undertaken jointly with Member States has shown the need in certain fields for decision, by binding acts of the Community, upon measures essential for the introduction of customs

legislation which will ensure uniform application of the Common Customs Tariff;

Whereas in all Member States there are provisions laid down by law, regulation or administrative action the application of which has led or may lead to the establishment of zones where goods are considered as being outside the customs territory of the Community

Whereas certain differences contained in those provisions could lead to deflection of trade and of customs receipts if they were to remain operative after the customs union has been fully achieved;

Whereas such provisions directly affect the establishment and operation of the common market;

Whereas the consumption of goods, their use, handling and treatment must be effected under the same economic conditions throughout the territory of the Community;

HAS ADOPTED THIS DIRECTIVE:

Article 1

1. This Directive prescribes the rules that must be included in the provisions of Member States laid down by law, regulation or administrative action relating to free zones.

2. 'Free zone' means, whatever the expression used in Member States, any territorial enclave established by the competent authorities of Member States (hereinafter called the 'competent authorities') in order that goods therein may be considered as being outside the customs territory of the Community for purposes of applying customs duties, agricultural levies, quantitative restrictions or any charges or measures having equivalent effect.

¹ OJ No C 66, 2.7.1968, p. 12.

² OJ No C 75, 29.7.1968, p. 8.

3. This Directive shall apply to:

- (a) the territorial enclaves referred to in the Annex; and
- (b) such territorial enclaves referred to in paragraph 2 as may be established after notification of this Directive.

Article 2

1. Subject to the provisions of paragraphs 2 and 3, goods of every kind shall be admitted into free zones, whatever their quantity or their country of origin, consignment or destination.

2. The provisions of paragraph 1 shall not preclude:

- (a) the imposition of a prohibition or restriction justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property;
- (b) the right of the competent authorities to limit, for technical or administrative reasons, access to certain free zones or parts of free zones to certain goods only.

3. Goods introduced into the customs territory of the Community under inward processing arrangements and products obtained under those arrangements may be brought into and remain in free zones only if the competent authorities take charge of them to ensure that obligations incurred under those arrangements are fulfilled.

Article 3

It must be possible for goods placed in free zones to be the subject, under conditions laid down by the competent authorities, of:

- (a) loading, unloading, transshipment or storage;
- (b) the usual forms of handling referred to in Article 9 (1) of the Council Directive¹ of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action relating to customs warehousing procedure;
- (c) destruction.

¹ OJ No L 58, 8.3.1969, p. 7.

Article 4

1. Where goods placed in a free zone do not fulfil the conditions laid down by Articles 9 and 10 of the Treaty, they shall not be cleared for home use or used there under conditions other than those applicable in the remainder of the territory of the Member State in which the free zone is situated.

2. The goods referred to in paragraph 1 may be subjected in free zones to handling other than the usual forms of handling referred to in Article 3 (b) only under the conditions and in accordance with the rules applying to inward processing.

Member States may, however, in so far as is necessary, adapt methods of control to take into account conditions of operation and customs supervision in the free zones.

3. In derogation from the first subparagraph of paragraph 2, processing in the territory of the Old Free Port of Hamburg shall not be subject to conditions of an economic nature.

However, if conditions of competition in a specific economic sector within the Community are affected as a result of this derogation, the Council, acting in accordance with the procedure laid down in Article 100 of the Treaty, shall decide that the conditions of an economic nature laid down for the Community with regard to inward processing shall apply to the corresponding economic sector in the territory of the Old Free Port of Hamburg.

Article 5

1. Unless national provisions provide otherwise, goods which have been placed in free zones and which fulfil the conditions laid down in Articles 9 and 10 of the Treaty may be subjected there to handling other than the usual forms of handling referred to in Article 3 (b).

2. Where the goods referred to in paragraph 1 are intended to be cleared for home use in the Community after handling other than the usual forms of handling referred to in Article 3 (b), such handling may be carried out only after the competent authorities have taken charge of the said goods and under conditions laid down by those authorities.

Article 6

The period for which goods may remain in free zones shall not be limited. However, where necessary, in particular by reason of the nature of the goods, the competent authorities may place a limit on that period and take all necessary steps to ensure that the limit is observed.

Article 7

It must be possible for ownership of goods placed in free zones to be transferred under the conditions and in accordance with the procedure established by national provisions laid down by law, regulation or administrative action.

Article 8

1. Where goods placed in free zones are cleared for home use, the customs duties, charges having equivalent effect and agricultural levies chargeable on importation shall be collected on the basis of the rates or amounts applicable on the date of the clearance of the goods for home use, according to their nature, and their value for customs purposes and quantity as ascertained or accepted on that date by the customs authorities. However, costs of warehousing and preserving the goods during their period in free zones borne by a purchaser shall not be included in the value for customs purposes where the price paid or payable by that purchaser is taken as the basis for valuation.

2. In derogation from paragraph 1, goods which have been subjected in free zones to handling other than the forms of handling referred to in Article 3 (b) may be cleared for home use only under the conditions and in accordance with the rules applicable to inward processing.

Member States may, however, adopt measures providing for taxation of the compensating products obtained, according to their nature, and their value for

customs purposes and quantity ascertained or accepted on the date when they are cleared for home use; the amount of customs duties, charges having equivalent effect and agricultural levies collected at that time must, however, be at least equal to the amount which would have been collected under the rules in force for inward processing.

Article 9

Member States shall bring into force not later than 10 October 1969 measures necessary to comply with this Directive.

Article 10

Each Member State shall inform the Commission of the provisions it is making in implementation of this Directive.

The Commission shall communicate the information to the other Member States.

Article 11

This Directive is addressed to the Member States.

Done at Brussels, 4 March 1969.

For the Council

The President

G. THORN

ANNEX

(Article 1 (3) (a))

- | | |
|---|---|
| 1. <i>Federal Republic of Germany</i>
Freihäfen | (Zollgesetz, § 86) |
| 2. <i>Kingdom of Belgium</i>
Entrepôts francs / Vrije entrepots | (Loi of 4 March 1846, Article 26) |
| 3. <i>French Republic</i>
— Zones franches du pays de Gex et de la Haute-Savoie
— Zones franches maritimes et fluviales | (Code des douanes Articles 286 to 298) |
| 4. <i>Italian Republic</i>
Punti franchi, depositi franchi | (Legge doganale of 25 September 1940, No 1424, Article 1) |
| 5. <i>Kingdom of the Netherlands</i>
Publieke en particuliere entrepots | (Algemene Wet inzake de douane en de accijnzen of 26 January 1961, Chapter III) |

COMMISSION
OF THE
EUROPEAN COMMUNITIES
Customs Union Service
SUD/B/4

Brussels, 31 March 1982

Working paper

Doc. RZF No 10

CUSTOMS LÉGISLATION COMMITTEE

Preliminary draft proposal for a
Council Regulation on free
zone arrangements

Preliminary draft proposal for a Council
Regulation on free zone arrangements

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 113 and 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament (1),

Having regard to the Opinion of the Economic and Social Committee (2),

Whereas the purpose of establishing free zones in the customs territory of the Community is to promote the external trade of the Member States of the Community;

Whereas Council Directive 69/75/EEC of 4 March 1969 on the harmonisation of provisions laid down by law, regulation or administrative action relating to free zones (3) prescribed the rules that must be included in Member States' provisions relating to free zones;

Whereas since the entry into force of the Directive the activities authorized in free zones have increased appreciably with the growth of world trade;

(1)

(2)

(3) O.J. No L 58, 8.3.1969, p. 11.

Whereas the uniform application throughout the Community of the rules governing free zones can be achieved only by regulation; whereas the provisions relating to free zones should therefore be embodied in a legal instrument directly applicable in the Member States;

Whereas free zones constitute a territorial enclave in the customs territory of the Community where any goods admitted are regarded as being outside the customs territory of the Community;

Whereas free zones are open to all goods irrespective of their nature, origin or provenance; whereas, provision should be made for derogations from this principle to take account of certain special situations;

Whereas the free zone arrangements constitute an essential instrument of the Community's commercial policy;

Whereas it is necessary, in order to ensure the uniform application of the rules contained in this Regulation, to provide for a Community procedure for adopting implementing rules,

HAS ADOPTED THIS REGULATION :

TITLE I

General provisions

Article 1

1. This Regulation lays down the rules governing free zones arrangements.

2. For the purposes of this Regulation :

- "import duties" means customs duties and charges having equivalent effect, agricultural levies and other import charges provided for under the common agricultural policy or under specific arrangements applicable to certain goods resulting from the processing of agricultural products;
- "export duties" means agricultural levies and other export charges provided for under the common agricultural policy or under specific arrangements applicable to certain goods resulting from the processing of agricultural products;
- "competent authorities" means the customs authorities or those empowered to authorize the establishment of free zones, or the authorities responsible for administering free zones and for applying customs rules;
- "Community goods" means goods which fulfil the conditions of Article 9 (2) of the Treaty, and goods covered by the Treaty establishing the European Coal and Steel Community which are in free circulation in the Community in accordance with that Treaty;
- "non-Community goods" means goods which do not fulfil the conditions of Article 9 (2) of the Treaty;
- "undertaking" means any natural or legal person established in a free zone and duly authorized to carry out the activities provided for in this Regulation.

Article 2

1. Goods of any kind and origin may be placed in free zones. As long as they remain there, goods shall be considered as not being in the customs territory of the Community.

The placing of goods in free zones shall not give rise to :

- a) the application of import duties or export duties;
- b) the application of other measures established under the common agricultural policy, without prejudice to the Community provisions concerning the payment in advance of export refunds;
- c) the application of quantitative restrictions or of any other commercial policy measures in respect of imports or exports, without level in particular situations in respect of goods from certain non-member countries.

2. Paragraph 1 shall not preclude :

- a) the imposition of prohibitions or restrictions justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value, or the protection of industrial and commercial property;
- b) the right of the competent authorities to limit, for technical or administrative reasons, access to certain free zones or parts of free zones to certain goods only.

Article 3

1. The establishment of free zones shall be subject to the authorization of the competent authorities. Free zones shall be established in the customs territory in those places where they appear to be economically justified, taking into account, in particular, the need to promote external trade.

2. The competent authorities shall determine the geographical boundary of each zone. On the landward side, that geographical boundary shall take the form of a customs fence.
3. The competent authorities shall determine the entry and exit points for the free zones.
4. The construction of any building in a free zone shall be subject to prior authorisation by the competent authorities. Access to a free zone may be prohibited to natural persons not affording every guarantee of compliance with the provisions of this Regulation.

Article 4

1. The limits of the free zone and the entry and exit points shall be subject to the supervision of the customs authorities.
2. Natural persons and means of transport entering or leaving a free zone may be subjected to customs control.
3. Goods entering, leaving or remaining in a free zone shall be subject to customs supervision or control in accordance with this Regulation.
4. The competent authorities shall take all necessary measures to prevent any substitution when Community goods, or non-Community goods eligible for preferential treatment by reason of their special status, remain in a free zone for any time.

Article 5

1. Subject to the conditions laid down in this Regulation, all activities of an industrial, commercial or financial nature shall be authorized in free zones.
2. The competent authorities may, however, provide for certain restrictions on such activities according to the goods involved.

Article 6

1. Undertakings establishing themselves in a free zone must have obtained the prior authorisation of the competent authorities.
2. The competent authorities may revoke the authorisation referred to in paragraph 1 at any time, where the undertaking concerned no longer furnishes all the guarantees on the basis of which the authorisation was granted.

Article 7

1. Subject to the provisions of paragraph 2, each undertaking pursuing an activity in a free zone shall keep records enabling the goods to be identified and showing their movements as well as any operations they may have undergone in free zones. The goods must be entered in the said records as soon as they arrive at the premises of the undertaking concerned. Special records may be required by the competent authorities for heavily taxed goods.
2. The provisions of paragraph 1 shall not apply when goods are transferred directly from one means of transport to another in a free zone. In that case, the documents relating to the said goods must be available to the competent authorities.
3. Undertakings shall present the records referred to in paragraph 1 at the request of the competent authorities.

TITLE II

Admission of goods to free zones

Article 8

1. Subject to the provisions of paragraphs 2 and 3, the admission of goods into a free zone shall not require their presentation to the customs or the submission of a customs declaration.
2. Goods must be presented to the customs when :
 - a) they have previously been placed under another customs procedure,
 - b) they have been the subject of a request for the payment in advance of export refunds for agricultural products;
 - c) they are subject to export duties or to export restrictions or prohibitions.
3. At the request of the party concerned, the competent authorities shall issue a document certifying that the goods have been placed under the free zone arrangements in order to facilitate the possible subsequent re-introduction of the goods into other parts of the customs territory of the Community.
4. Where goods arrive on board ships or aircraft and are placed directly in a free zone, a copy of the goods manifest must be handed to the competent authorities or be kept available to them by the consignee undertaking.

TITLE III

Goods in free zones

Article 9

Without prejudice to specific time-limits set under the common agricultural policy, goods may remain in free zones for an unlimited period. Where circumstances so warrant, however, and in particular for reasons relating to the nature of the goods, the competent

Article 10

1. The usual forms of handling which may be carried out in free zones shall be those referred to in Article of Council Regulation (EEC) No of on customs warehouses.

2. Processing operations other than the usual forms of handling shall be carried out in accordance with Council Regulation (EEC) No of on inward processing relief arrangements. However, to the extent necessary to take account of the conditions of operation and of customs supervision of free zones, the Member States may adapt the supervision arrangements laid down in this matter.

3. By way of derogation from paragraph 2, processing operations in the territory of the Old Free Port of Hamburg shall not be subject to the economic conditions laid down by the said Regulation (EEC) No .

The Council may decide, however, that the derogation referred to in the preceding subparagraph shall no longer apply to a specific economic sector if the conditions of competition in the Community, in the sector in question are affected by that derogation.

4. When the activities referred to in Article 5 involve working or processing operations relating exclusively to Community goods, the undertaking concerned must inform the competent authorities in advance. The authorities shall take all measures necessary to ensure that the operations relating to the departure of these goods from the free zone are carried out in a proper manner.

5. When the activities referred to in Article 5 involve operations for the destruction of goods placed in a free zone, the said operations shall be carried out without supervision by the competent authorities.

Article 11

1. Without prejudice to the rules on the forms of handling, working or processing which the goods may undergo pursuant to this Regulation or the provisions concerning temporary importation, only goods which fulfil the conditions of Article 9 (2) of the Treaty may be used or consumed in free zones.
2. The Member States shall apply sanctions against persons not complying with the provisions of paragraph 1.
3. The provisions of paragraph 1 shall not preclude the use or consumption of goods which, if entered for free circulation, would not be subject to the application of import duties.

Article 12

Goods may be moved from one undertaking to another within a free zone without supervision by the competent authorities.

TITLE IV

Chapter I

Delivery of Community goods from free zones

Article 13

1. Except in cases where export formalities were completed prior to the admission of the goods to the free zones, the delivery of Community goods from a free zone to a non-member country shall be conditional upon the lodging at the relevant customs office of an export declaration in accordance with Council Directive 81/177/EEC of 24 February 1981 on the harmonisation of procedures for the export of Community goods (1).

(1) O.J. No L 83, 30.3.1981, p. 40

The provisions of the preceding subparagraph shall not affect the relevant provisions in force regarding the provision of stores for means of transport.

2. Delivery of Community goods from a free zone to a Member State shall be conditional upon presentation of the goods at the relevant customs office for the completion of the formalities provided for by the procedure under which the said goods are to be placed.

The undertaking concerned must provide the customs authorities at the relevant customs office with evidence of the Community nature of the goods in question. Such evidence shall consist of the document certifying that the goods were placed under the free zone arrangements, referred to in Article 8 (3).

However, where the customs authorities are able to establish by means of other evidence that the goods in question are Community goods, the document referred to in the preceding subparagraph shall not be required.

3. Where the undertaking concerned is unable to provide the customs authorities with the evidence referred to in the second subparagraph of paragraph 2 or where the customs authorities are unable to establish on the basis of the evidence referred to in the third subparagraph of paragraph 2 that the goods presented are Community goods, the goods in question shall be regarded as non-Community goods.

Chapter II

Delivery of non-Community goods from free zones

Article 14

Non-Community goods leaving a free zone on board vessels or aircraft bound for a non-member country shall not be subject to customs formalities. In other cases, non-Community goods leaving a free zone must be presented at the relevant customs office for completion of the customs formalities relating to the customs procedure under which the said goods are to be placed.

TITLE V

Final provisions

Article 15

The Committee for Customs Procedures with Economic Impact established by Article 16 of Regulation (EEC) No of on inward processing relief arrangements shall examine any matter concerning the implementation of this Regulation raised by its Chairman, either on his own initiative or at the request of the representative of a Member State.

Article 16

The provisions required for the implementation of this Regulation shall be adopted in accordance with the procedure laid down in Article 18 of the Regulation referred to in Article 15.

Article 17

The provisions of this Regulation shall not affect the provisions of Council Regulation (EEC) No 353/79 of 5 February 1979 (1) laying down the conditions for coupage and wine making in the free zones on Community territory.

Article 18

1. This Regulation shall enter into force on
2. The provisions of Directive 69/75/EEC and of the directives adopted for its implementation shall be repealed with effect from the dates on which the provisions of this Regulation enter into force. Any reference to these directives shall be deemed to refer to this Regulation.

(1) O.J. No L 54, 5.3.1979, p. 94



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