

Agenda Item	9
Report No	ECI/30/20

THE HIGHLAND COUNCIL

Committee: Economy and Infrastructure

Date: 4 November 2020

Report Title: Opportunity Cromarty Firth

Report By: Executive Chief Officer - Infrastructure and Environment

1. Purpose/Executive Summary

- 1.1 This report seeks to highlight the work of a recently formed consortium of businesses and cross-sector organisations who are jointly promoting a new strategy – known as Opportunity Cromarty Firth - to stimulate significant economic activity and employment and attract inward investment. The aim is to capture economic and regeneration opportunities that are unique to the area, and which arise from a £multibillion, 50 year pipeline of renewable energy projects in the Moray Firth.
- 1.2 This report also seeks to update the Committee on the consortium’s anticipated bid for Freeport status to help realise these aims. No decision is sought on the merits or otherwise of the Freeport at this point.

2. Recommendations

- 2.1 Members are asked to:
 - i. note the work being undertaken by the consortium in seeking to work together for businesses and communities in the area, and the potential Highland-wide benefits as outlined in the Council’s approved indicative Regional Spatial Strategy (irrespective of the Freeport element);
 - ii. note the engagement that has been undertaken to date;
 - iii. agree for officers to continue to engage with the Opportunity Cromarty Firth project to help realise the ambitions for the area;
 - iv. agree to continue to assess the merits or otherwise of seeking Freeport status subject to further dialogue with Scottish Government and consideration of the results from socio-economic analysis.

3. Implications

- 3.1 Resource: Officers will continue to advise and contribute to the Opportunity Cromarty Firth project and, at the appropriate time bring further information to Committee to ensure any bid for Freeport status is aligned with Council ambitions.

- 3.2 Legal and Risk: There are no legal implications arising from this report but further consideration of the implications will be required at key stages moving forward. At this point the Scottish Government has not announced a formal view on its approach to the policy of Freeports in Scotland.
- 3.3 Community (Equality, Poverty and Rural): One of the UK Government's key measures of determining Freeport bids is the contribution towards regeneration. Further work on the project will need to ensure that Opportunity Cromarty Firth maximises socio-economic benefits for not only the Easter Ross area, which suffers from areas of multiple deprivation, but also for the wider Highland region.
- 3.4 Climate Change / Carbon Clever: The Opportunity Cromarty Firth project is centred around supporting the offshore wind energy projects planned for the Moray Firth and maximising the benefits for the local area. Taken together with the potential creation of a green hydrogen hub in Highland, it would help to deliver the Council's decarbonisation targets and transitioning to a green economy.
- 3.5 Gaelic: None arising from this report.

4. Context

- 4.1 Opportunity Cromarty Firth is a collaborative partnership of private and public sector organisations which formed earlier this year. Its aim is to capture the unique economic and regeneration opportunities arising from a £multibillion, 50 year pipeline of offshore wind energy projects planned for the Moray Firth, as set out in paragraph 5.2 below.
- 4.2 As part of their strategy, the consortium is currently preparing a bid for Freeport status, which forms a key part of UK Government's post-Brexit economic growth strategy. Within a Freeport, goods can be imported, manufactured and re-exported without paying customs duties. They also offer a range of other tax advantages, together with streamlined planning controls and bureaucracy. The UK Government believes that Freeports will become pivotal in promoting global trade, stimulating both economic activity and investment and driving forward regeneration.
- 4.3 Due to certain devolved powers, the establishment of Freeports in Scotland requires the UK and Scottish governments to work together to set suitable frameworks from which they can operate. The Scottish Government has confirmed that it is open to exploring the policy and its benefits/risks, but that further economic and regulatory information from HM Treasury is awaited. As soon as the necessary details of the Freeports offer is provided, the Scottish Government will take a view on its approach to the policy in Scotland. It is understood that the UK Government is looking to designate around 10 Freeports, with at least one in each nation of the UK. The competition is expected to open later this year and successful bids will likely be announced early next year. A copy of the letter received from Ivan McKee MSP, Minister for Trade, Investment and Innovation which sets out the Scottish Government's position is attached as **Appendix 1**. The commonly raised Pros and Cons of Freeports can be summed up in the following table, and it is important that further work is undertaken to determine how any Freeport proposal in Highland may impact them. However, it is noted that the Opportunity Cromarty Firth consortium has advised that the anticipated bid will respond directly and proactively in avoiding or mitigating any potential negative effects, and further commentary on these is outlined below.

Potential Positives	Potential Negatives
Could be more attractive for businesses	Could lead to only limited economic benefits
Could lead to a quicker turn around of import/exports	Could provide a haven for illegal activities
Could stimulate economic development	Could lead to some displacement of economic activity
Could incentivise innovation	Might only provide low paid, low skilled employment

- 4.4 The Opportunity Cromarty Firth bid is currently focused around Nigg, Port of Cromarty Firth, Highland Deephaven and Inverness Harbour. The consortium believe that Freeport status for these ports will make the area more competitive which in turn will lead to a more sustainable and consistent pipeline of work, strengthened supply chains, job creation and training opportunities and support the transition to clean energy. The transformational economic development potential of future renewables and low carbon technology for the Highland region has formed an important part of the [Council's indicative Regional Spatial Strategy](#) that Highland Council approved at the 2 September Economy and Infrastructure Committee and is now promoting as part of the Scottish Government's new National Planning Framework 4. The Opportunity Cromarty Firth project may therefore have potential, therefore, to not just promote business growth and strengthen communities within Highland but make a significant positive impact on the national economy.
- 4.5 As set out in the table above, there are potential drawbacks of certain Freeport models. The UK's previous Freeports (a total of seven existed between 1984 and 2012) were typically large freight and transport ports which were often criticised for promoting low paid and low skilled employment and led to a prevalence of illegal activities, such as money laundering. It was also argued that they simply displaced economic activity from other parts of the country.
- 4.6 For the Opportunity Cromarty Firth bid, these may not be as significant, as the customer base of the ports is more focused than many other ports in the UK and the projects which the consortium is prioritising are based on new and emerging industries which would deliver value-added growth and high quality jobs and training.
- 4.7 It is understood that the greatest risk of displacement facing the area would be if another port(s) on the east coast, or indeed within England only, was successful but that none were awarded in Highland. This could pose a significant risk to the economic development of area as it could lead to a large amount of the subsea and renewables energy business relocating from the area.
- 4.8 It is recommended that the Council continue to engage with the consortium and that the merits or otherwise of a Freeport bid continue to be assessed in the run up to any bid submission, taking into account the emerging position from Scottish Government. This will include assessment of the impacts of permitted development rights, environmental regulations and implications for infrastructure. It is considered that

these can be managed appropriately, and the Council will have opportunity to influence them further should the Council reach a decision to formally support a Freeport bid in due course.

5. Progress to date

5.1 The consortium has continued to grow in number, with a wide range of both private and public sector organisations working in partnership on the project. This includes:

- port operators - Cromarty Firth Port Authority, Global Energy, Highland Deephaven and Inverness Harbour Authority;
- other businesses - Semco Maritime, Anderson Strathearn and Northeast Nutrition; and
- public agencies - Highlands and Islands Enterprise (HIE), Skills Development Scotland (SDS), University of the Highlands and Islands (UHI) and HITRANS.

5.2 Four major, interlinked projects are being prioritised:

1) offshore wind pipeline and floating offshore wind developments;

Crown Estate Scotland (CES) announced the ScotWind Leasing round in June 2020 which offers multi-billion pound investment opportunities in offshore sites across Scotland. Of the 17 development sites identified, 15 are in close proximity to the Cromarty Firth and a recent CES report (September 2020) found the firth is ideally placed to support the delivery of the projects, including for manufacturing processes.

2) an advanced manufacturing plant at Nigg;

Creating an advanced manufacturing plant at Nigg is a long-held ambition as it will ensure a more sustainable and consistent pipeline of work and employment. It will also build on the £100m already invested in the Cromarty Firth ports over recent years. The scale of offshore wind energy projects together with Freeport status will make it easier and more attractive to invest in and set up such a facility.

3) green hydrogen hub (utilising energy created from offshore wind);

The opportunity to create a green hydrogen hub in the area has gained considerable momentum. The development would utilise renewable offshore wind energy to produce green hydrogen as a source of clean fuel for local industry, transport, communities and for export.

As part of the Council's shift towards a carbon neutral Highland, it is likely to become a significant consumer of hydrogen over the next 5 to 10 years. To that end, officers will be developing a hydrogen strategy over the coming months to prepare the Council for this change.

It is anticipated that a hydrogen hub of the size and scale proposed as part of the Opportunity Cromarty Firth proposal will require large 'anchor customers' to ensure the viability of the business. There is therefore a key opportunity for the Council to anticipate this requirement and support this particular part of the bid as a high-value local consumer.

4) The Powerhouse: future global technology centre.

This is an ambitious plan to establish a world leading technology centre which will bring together specialist groups to develop innovative, high level research and integrate them with industry at the point of deployment. This will be

delivered by joined-up, strategic education and academia facilities which feed into supporting school children, through to continued professional development and stimulating business incubators.

- 5.3 Relevant Council officers have been inputting in an advisory role to both Working Groups, which are focused on progressing each project, and the Steering Group, which takes a strategic decision making role.
- 5.4 In July 2020, the consortium made a submission to a UK Government consultation on the potential framework for Freeports. This provided an important chance to share the views of the consortium and help influence how Freeports will work. The UK Government's [response to the consultation](#) was published on 7 October.
- 5.5 To date, the consortium has engaged with a wide range of stakeholders. This has included meeting local Councillors, MSPs and MPs to brief them on the project and answer questions. A public launch event was held on 20 August which was followed by an invited stakeholders workshop on 26 August. The consortium has recently held hydrogen hub strategy and masterplanning workshops with energy experts, industry bodies, energy developers and potential consumers.

6 Next Steps

- 6.1 The next main milestone is the submission to the Freeport competition. Whilst the timescales have yet to be formally revealed, it is understood that it may open during late October/early November and run for several months. An announcement of the successful bids will possibly be made in early Spring but, for Scotland, this depends on alignment and agreement between the Scottish and UK Governments. At this point a further report will be brought to this Committee seeking formal support for the Bid, should the benefits of supporting such a bid be clearly aligned with overall benefits to the region and to the national economy.
- 6.2 The consortium is focused on undertaking a socio-economic and skills impact assessment for the project. This will be used to inform the Freeport application but also help steer the efforts of the consortium and individual organisations to realise the priority projects. Discussions are ongoing to determine the parameters for this work but it expected to commence in the coming weeks. It is considered essential that relevant Council officers continue to support the process, given the longer term benefits (irrespective of the Freeport application).

Designation: Executive Chief Officer - Infrastructure and Environment

Date: 14 October 2020

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Background Papers:

- [Council's indicative Regional Spatial Strategy](#)
- [Opportunity Cromarty Firth webpage](#)
- [UK Government consultation response](#)
- [Crown Estate Scotland report - "Ports for offshore wind: A review of the net-zero opportunity for ports in Scotland", 2 Sept 2020](#)



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15 October 2020

Update on the Scottish Government approach to Freeports

I am writing to thank you for the valuable contribution you have made to the discussion on the potential of Freeports in Scotland to drive inclusive growth. As you will be aware my officials and I have conducted extensive engagement with Scottish stakeholders including four recent 'roundtable' calls with key sectors. We have also engaged with local authorities and our enterprise agencies. Those discussions identified a number of potential opportunities, and some risks, around the adoption of this policy, along with a number of questions around the specifics of how Freeports would be supported and operated. I felt it helpful to take this opportunity to write to update you on the current situation and to keep you abreast of the Scottish Government perspective on this policy.

As you will be aware the Scottish Government has extensive engagement with the UK Government on this issue since the Freeports policy was first announced. I recently spoke with the Chief Secretary to the Treasury, Steve Barclay MP, to discuss the policy and the implications for Scotland and we read with interest the UK Government's [response](#) to its public consultation on Freeports. Officials have held regular discussions with their UK Government counterparts to ensure we are abreast of the most up to date information available. We do find ourselves unfortunately in the position where key information we have requested, including on economic modelling and the specific tax, finance and regulatory levers the UK Government intends to apply, has yet to be shared. As a result we are unable to make a full assessment of the risks and opportunities of the policy for Scotland, or to calculate the likely impact on Scotland's economy and finances at the current time.

Last week, I attended the UK Parliament's International Trade Select Committee session on UK Freeports to give evidence on behalf of the Scottish Government. I made it clear to the Select Committee that the Scottish Government has not yet taken a decision on Freeports. I stressed that we are open to exploring the policy and its potential benefits further, while also being cognisant of potential detriments such as economic displacement, which was also highlighted as a concern by many at the four roundtable stakeholder sessions.

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In the UK Government's response to its consultation, it notes that Scotland and the other devolved nations will not be included in the forthcoming competitive bidding process, likely to be launched by the end of this year. As soon as we receive the necessary details of the Freeports offer from HM Treasury, we will take a view on our approach to the policy in Scotland. The UK Government have made clear to us that any process for selecting Freeports in Scotland would be agreed upon and undertaken jointly by both the UK and Scottish Governments. This would allow for a process that is better suited to the particular needs and geography of Scotland than a UK-wide process.

In the meantime we will continue to engage with stakeholders and I would invite you to continue to share your views and the evidence you have on the opportunities and risks attached to Freeports.

The Scottish Government's primary focus remains navigating our way through the global pandemic. Our [Programme for Government](#), published last month, sets out the actions we are taking to ensure Scotland's economic and social recovery. It sets out a range of measures towards building a stronger, more resilient and sustainable economy with a clear focus on creating new, good and green jobs.

The Scottish Government's opposes a damaging hard Brexit and we are clear that Freeports will not undo the damage caused to Scotland's economy by the UK Government's decision to take us out of the world's biggest single market.

Finally, let me assure you that the Scottish Government is entirely focused on delivering sustainable, inclusive economic growth in Scotland and driving forward a green recovery.

Yours sincerely,



IVAN McKEE

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