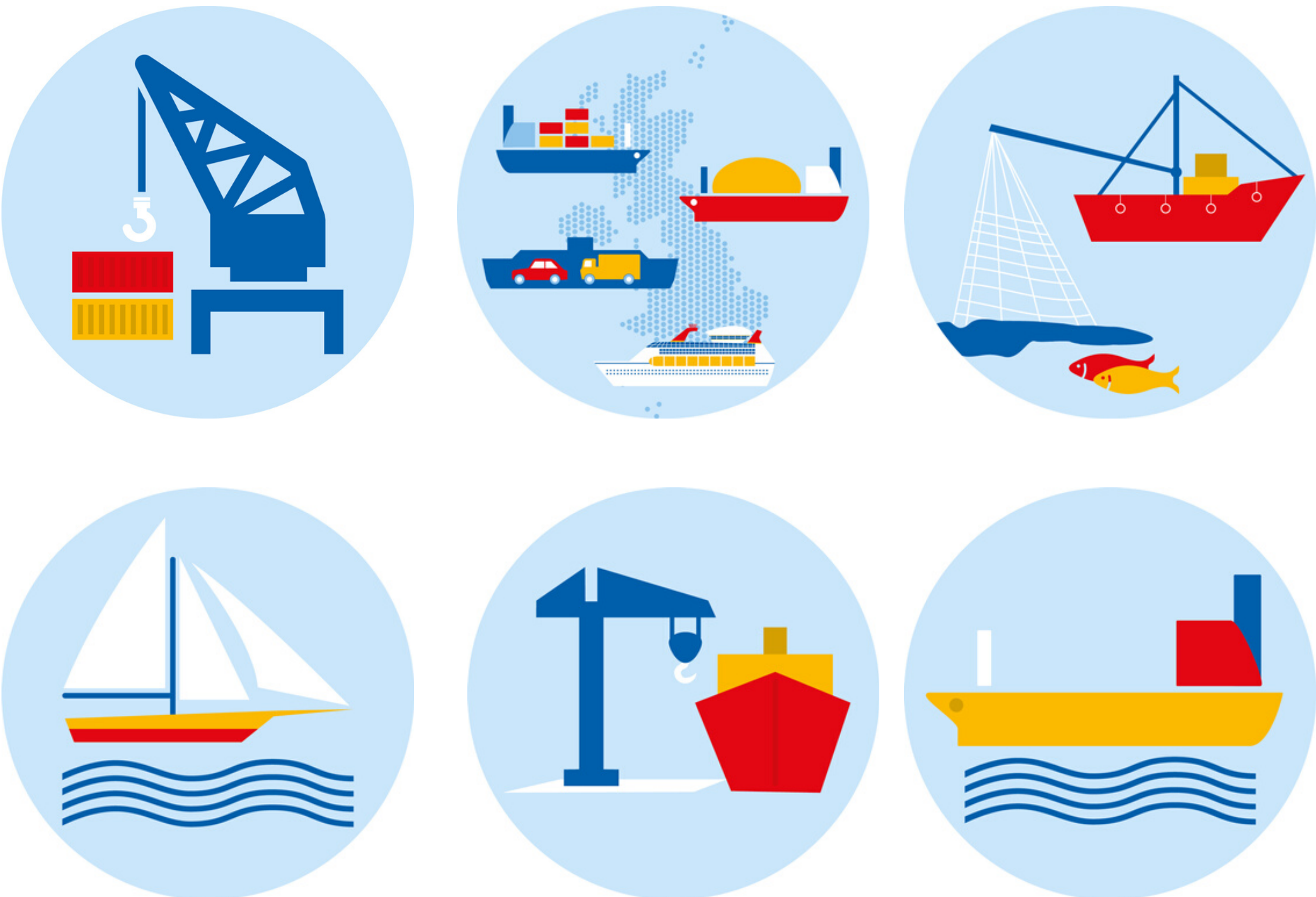
British
Ports
Association

UK PORTS: CORONAVIRUS ECONOMIC RECOVERY PLAN

2020 AND BEYOND



SHORT, MEDIUM AND LONGER-TERM IDEAS TO REIMAGINE AND REFORM THE PORTS INDUSTRY POST CORONAVIRUS, PROPOSED BY THE BRITISH PORTS ASSOCIATION.

This paper sets out some dynamic options in which the UK **ports industry could unite to lead** and generate prosperity in the long term. In this the British Ports Association (BPA) have summarised the policies we believe can light the fire of **opportunity** at ports around the country and protect and promote **sustainable growth** in our sector. The BPA is an inclusive network and we want all ports to be able to **realise their potential** in what is likely to be the most challenging economic climate for a generation. Ports have the **ambition** to lead the country to a new future. **Let's make it happen.**

1. Continued medium-term cash flow and business support

2. A massive scaling up of the UK’s infrastructure ambitions

3. A bold and broad-based inclusive Freeports policy

BACKGROUND: THE UK'S MARITIME INDUSTRY IS A FOUNDATION FOR WIDER PROSPERITY

- Ports are critical to the UK economy, **handling 95% of the UK's international trade** and providing **vital gateways** for economic success in the energy, tourism, recreation and fishing industries.
- The UK ports industry **contributes £29.0bn** in business turnover and £9.7bn in GVA to the UK economy as well as 115,000 jobs. Each year the sector provides approximately £2bn to the Exchequer and invests around £600m in infrastructure. The aggregate impacts are much higher: it is estimated that the ports industry supports a total of £70.0bn in annual turnover, 822,000 jobs and £10.8bn through the compensation of employees each year.
- Ports are important **economic hubs** in their own right and are intricately linked to their hinterland economies, boosting employment and prosperity in both coastal communities and the country. Furthermore, ports provide the **foundation** for the entire maritime sector, supporting not just logistics sectors but also offshore energy, fishing and leisure and tourism.
- Coastal communities are often in deprived areas and ports can be engines for **growth** and development in those regions.
- The UK ports sector is diverse, independent of Government - both financially and administratively - and highly competitive.
- Ports will facilitate the offshore energy revolution but will require some help to get there.

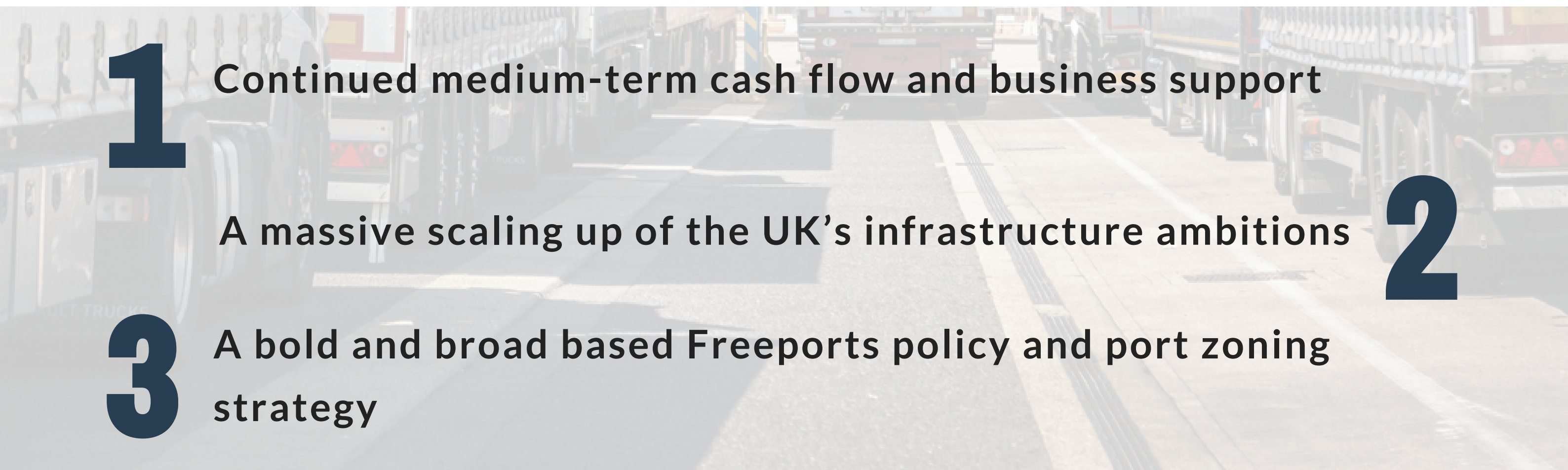
SHORT AND MEDIUM-TERM ISSUES

- Ports have significant **fixed costs** and wider **statutory responsibilities** to fulfil, from handling cargo and passengers to navigational safety and flood prevention. These costs **cannot be easily or quickly scaled down** – the costs for running a port at low capacity are not typically different from running one at near full capacity.
- From cargo to cruise and ferries to fishing, many **port customers and tenants** have seen a dramatic reduction in their activities which has an implication on port income. Responding to the BPA's Covid-19 impact survey, 86% of ports reported either substantial or severe impact on customer activity. Marine revenue has slowed substantially across the sector and ports are also losing out on rental income which has traditionally provided a steady and stable source of revenue. Government programmes to help businesses with rent have passed on liquidity challenges to landlords and unpicked complex contracts.

- Ports operate on long-term time scales, investing significant sums in infrastructure every year. Overall port volumes tend to track GDP, with cargo volumes relatively predictable over the long-term, allowing ports to plan **long-term investment**.
- The Covid-19 crisis has been unprecedented in both the speed at which it has hit and the depth. Many ports have seen significant drops in volumes of activity which were impossible to predict and the impact is likely to be felt over the medium-term as the health crisis eases but the **economic impact** bites. Just 36% of UK ports feel confident about their business outlook over the next 12 months.
- Most ports will have used a significant amount of their cash reserves or lending facilities, which will have an impact on the availability and cost of future borrowing as well as existing covenants.
- The reduction or termination of port operations will have a direct impact on **UK logistics chains** as well as the **coastal communities** in which they are based. In short, if ports cease operations there would be wider knock-on impacts to the economy. Brexit preparations have highlighted this.
- As ports delay or downgrade projects as a result of the above, there will be a long-term knock-on impact on the sectors' ability to meet the grand **sustainability challenges** of this century – tackling climate change and overcoming an ageing workforce and skills gaps by investing in the next generation.

OUR PROPOSED SOLUTION

Ports are **critical** to helping the UK economy get back on its feet as well as supporting long-term sustainable growth and prosperity. The Government's Freeports programme recognises the potential for ports to play a wider role in the economy by supporting **manufacturing and logistics**. However, data collected by the BPA shows that over half (55%) of ports are not satisfied with the mechanisms and funding available from government during the Covid-19 pandemic. Therefore, the UK ports sector is proposing the following three packages focused on helping the sector through short-term difficulties and then supporting long-term growth.



1 **Continued medium-term cash flow and business support**

2 **A massive scaling up of the UK's infrastructure ambitions**

3 **A bold and broad based Freeports policy and port zoning strategy**

1. CONTINUED MEDIUM-TERM CASH FLOW AND BUSINESS SUPPORT MEASURES

SUPPORTING INVESTMENT IN THE SHORT TERM

The British Ports Association welcomes the unprecedented level of **support** the Government has provided to businesses during the pandemic crisis. Most UK ports will have expended significant reserves in keeping operations going whilst revenue has collapsed.

Some ports may find that these exceptional circumstances mean that banking covenants become restrictive or difficult to meet. This will have an impact on some ports' ability to access capital. Those that have invested in order to meet existing and future needs of their customers may now find themselves in difficulties. Those that had planned similar investment may find it now needs to be deferred or even cancelled.

Many ports are of course involved in existing investment programmes and have borrowings. 32% of ports are now concerned about borrowings and banking covenants. Their lenders understandably want to protect their investments and might be reluctant to show **flexibility** on covenants or allow ports to take on additional 'recovery' loans despite their capital assets being fixed. A Government Covid-19 debt underwriting scheme (for all types of business across the UK) would support businesses of all sizes get back to a position to continue investing in people and projects. This would need to help banks be inclusive and not restrictive.

EMPLOYMENT AND SKILLS SUPPORT

Port workers are **key workers**. The Government's furlough scheme has been critical in supporting businesses through the lockdown. 66% of ports have taken advantage of the Coronavirus Job Retention Scheme. We have therefore welcomed its extension. A longer-term initiative is indeed welcome but flexibility over working practices that fit with the Job Retention Scheme would help our sector by enabling impacted businesses to continue to employ staff. Also, part of our vision is a wider package to support **skills** development to ensure retaining and developing people is not a cost burden.

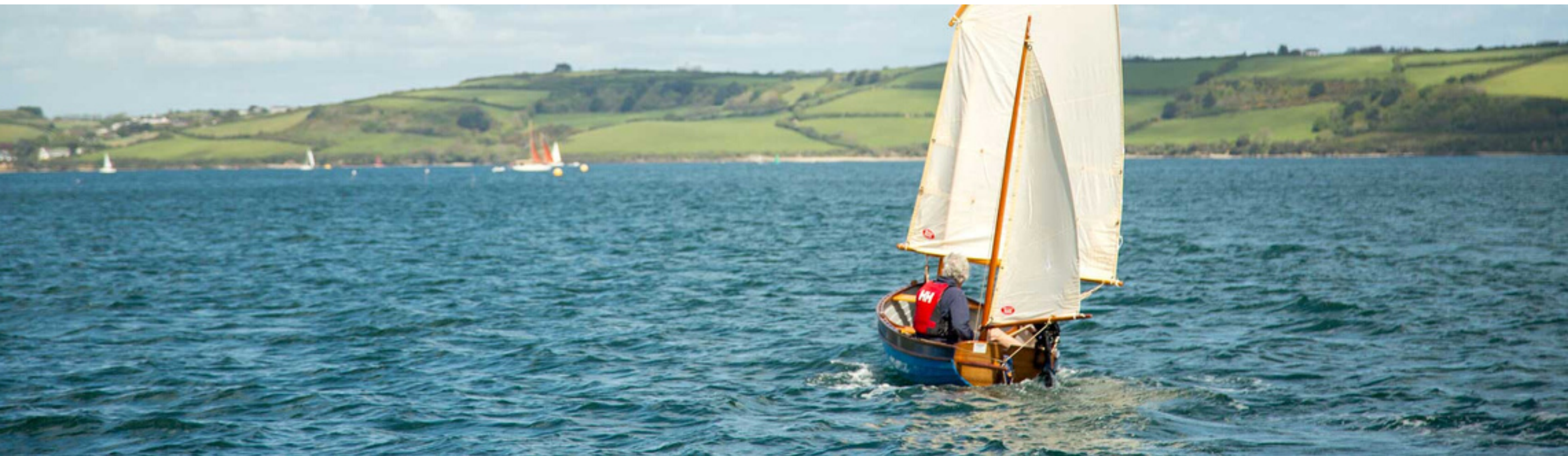
CASH FLOW

A recovery package should include innovative measures to support cash flow, such as a **Government factoring service**. This would allow ports and other businesses to raise funds in the short term. A **deferral of business rates** backed by central Government would also free up capital to help cash flow. This is being used in some parts of the UK and would fit in with the wider government measures. Those ports that have income related to seasonal activities and particularly around leisure and tourism are effectively losing the summer season, which is where much income is generated.

Many ports have seen their **revenues collapse** since the pandemic took hold. Whilst many ports will have diverse income streams, almost every type of revenue that ports typically have will have been hit hard: harbour dues from vessels, rental income from tenants, income from services and goods provided to port users. Further support to businesses must also take account of this: rental holidays might appear an attractive policy proposal but have in effect shifted issues to landlords who are now facing unexpected cash flow issues. Also other Government measures around the recent tax categorisation of **red diesel**, which is expected to have a large impact on costs for port operations, could be **postponed** indefinitely.

BUSINESS, INVESTMENT AND TRAVELLER CONFIDENCE

Moving forward we would encourage the Government to **work with industry** to provide the confidence for certain activities which have been particularly hit by Coronavirus. This could include promoting maritime tourism such as the cruise, ferry and recreational sectors which have been particularly hit by the Coronavirus lockdown and will need messaging to help **revive** these sectors. Also, many ports have a wide variety of plans and projects which they would like to progress but could now have to put on hold either for investment or market changes. Quarantine measures may offer a sense of security but enabling travel and maritime tourism will be vital.



2. A MASSIVE SCALING UP OF THE UK'S INFRASTRUCTURE AMBITIONS

The UK ports sector welcomes the Government's **focus and commitment** to infrastructure and has been anticipating the publication of a bold National Infrastructure Strategy this year. We need to build **resilience** and enable growth.

A three-pronged approach tackling publicly-owned assets, providing support for private investment and direct funding to help **accelerate green funding** is proposed. This would unleash a boom in investment that would generate jobs and prosperity directly. but also indirectly by building and renewing more world-class UK projects and putting the **UK in a leading position** on climate change.

This comprises of:

(1) an expansion and acceleration of the Government's spending on public infrastructure projects such as roads and rail;

(2) a UK Infrastructure Bank to provide consistent credit and anchor investments;

(3) a green maritime fund to support the specific and significant challenges to meeting the sector's decarbonisation and environmental commitments and aspirations.

EXPANSION OF THE GOVERNMENT'S INFRASTRUCTURE PROGRAMME

The BPA welcomed the 2020 Budget's infrastructure announcements. Given developments since then and the economic circumstances we will soon find ourselves in, this is important as ever. Infrastructure supports **productivity** and the direct spending itself generates economic activity. Counter-cyclical Government spending will be important in reviving the economy in the short term whilst providing long-lasting productivity gains. Hinterland connectivity is important for ports and freight and **drives efficiencies** in maritime activities and opportunities.

A UK INFRASTRUCTURE BANK

Infrastructure grants and loans directly drive investment in infrastructure. A **UK Infrastructure Bank** of a model similar to the European Investment Bank (EIB) – which has loaned over £100bn to UK infrastructure projects – would be an important source of cost-effective capital. This should be tasked with supporting schemes of all sizes, replacing EU lending and ensuring ports have somewhere to borrow money at decent rates. This can help achieve our sustainable growth ambitions. Projects could have blended funds as well and include grants to kick start development. Renewables and carbon capture have real potential, **let's fund this**.

As the UK leaves the EU and access to this significant and important source of capital, as well as other EU grant and lending schemes, it is critical that an alternative is in place as soon as possible and has the muscle to make a difference to invest up to £5bn a year to UK projects, one third of total UK infrastructure spending. For example over the past 12 years the EIB it has lent on average £4.3bn a year to the UK.

A GREEN MARITIME FUND

The BPA welcomes the Government's **ambitions on sustainability**, however some of these are extremely challenging. Port plant, equipment and vessels themselves can have a 30+ year lifespans, meaning investments being made now may still be in use by 2050 – the UK's target to be 'net zero'. The combination of urgency and uncertainty mean a specific fund is needed to support the sector, **unlocking capital** through direct anchoring investments, demonstrating new technologies, de-risking investment, and scaling new technologies and innovation. Such spending would help the economy at a difficult time and tie-in with one of the Government's most critical long-term policy aims. **Tax incentives** could also enable climate change investments to support the recovery and provide future economic and environmental resilience.

Investment in green maritime projects from Government have so far been fairly limited and small scale. These have been welcome but are dwarfed by the scale of investment in green vehicles, for example. Renewables projects are prime for cash.

BREXIT PREPARATIONS

Many ports will need help preparing for Brexit. New **physical and digital infrastructure** will be needed for those ports with European traffic as well as potentially for ports in and on Northern Irish routes. This is an area where Government funding could help. We would like Government to look at extending the **Port Infrastructure Resilience and Connectivity** (PIRC) scheme. The PIRC allocated grant funding to ports in 2019 and was heavily oversubscribed.

Alongside this, the UK's replacement schemes for the EU's **TEN-T project** and funding for fisheries infrastructure, which both previously helped transport and ports projects, are not likely to be as comprehensive. This is a concern for the industry and European ports will have a competitive advantage.

3. A BOLD AND BROAD BASED PORT ZONING AND FREEPORTS POLICY

Ports of all type and size are **economic hubs;** stimulating activity and jobs. Any recovery can be aided by enabling ports to flourish as the centres of development and growth. This isn't necessarily about Government spending but political decisions about planning, transport, tourism and infrastructure could help stimulate growth in coastal regions.

FREEPORTS

The BPA and much of UK ports sector supports the introduction of a bespoke and inclusive **ambitious** UK Freeport model. Freeports are a mechanism to drive trade and investment around zones and the UK Government is in the process of developing a UK-wide strategy. The initial proposals we have seen are welcome but there are some concerns about competition and the limitations of the policy.

To overcome this, the cap on the number of certain measures must be removed, such as planning easements and tailoring each designation to the port that applies. We would urge the Government **not to limit its ambition** to the previously suggested 10 site proposals as there is a real danger of the leaving some regions behind by limiting the scope.

PLANNING

We must plug **port master plans** into regional and even national transport and growth strategies. The Government have understandably postponed some aspects of the Freeports programme until potentially 2022. However, some measures, such as those around planning could still be implemented on the original timescales.

Reclassifying ‘port zones’ with improved **planning, fiscal and regulatory** status as set out in the industry’s 10-point plan to improve the planning framework and the BPA’s Freeports response will propose a regulatory environment which makes it easier for existing and new businesses to operate, invest and employ people. With a strengthened presumption in favour of **development**, UK governments could lower developer risk, by shortening development time frames and lowering project costs.

As well as dealing with challenges in landside planning, ports of all type have experienced issues with marine consenting. It is now over ten years since the introduction of many current marine licensing and planning arrangements. Let's review the effectiveness so that ports can achieve their ambition. The industry welcomed the announcement of **Port Economic Partnerships** as part of Maritime 2050 and would like to see more of these rolled out, both as part of the Freeports programme and as standalone entities. It is a useful model for improving communication and support between Government and strategic ports.

Alongside this we would urge a **rapid regulatory review** to enable ports to grow and develop which fits with the Government’s manifesto commitments but could be fast tracked given the circumstances. Whilst fiscal support measures have rightly received much attention, there are a host of regulatory changes which could be enacted quickly and without public expenditure. From planning and consulting processes outlined above to revoking European sourced port services regulations and statistical categorisation for trust ports would help the sector flourish.

The BPA represents over 100 members, who own and operate over 400 ports and terminals, facilitating in one form or another 86% of port tonnages and 85% of all vessel calls. We also represent all the UK's passenger ports and all the main energy gateways, 19 of the top 20 fishing ports and an extensive network of ports and harbours that facilitate over one million leisure craft and yachts.

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