

# Funding the Future

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*This post by me was also on [Left Foot Forward](#) this morning:*

Boris Johnson is proposing that the UK should, post-Brexit, have at least ten freeports. So it's worth examining what they do.

The first thing to say is that just as tax havens come in many shapes and forms so too do freeports. It's not wholly clear what the UK has in mind. In this case, the types need explaining.

## ***From warehouses to laundering-zones***

Some freeports are little more than what are called 'bonded warehouses'. These have existed for many years and are locations where goods may be temporarily imported to a country without tariffs, excise duties and other taxes being paid before the goods are shipped on again. It's hard to argue against the usefulness of such facilities if, and this is the key point, the goods are never intended to stay in the place where they have been landed, temporarily. The arrangement avoids double tax, and double taxation has no more virtue than no tax. Such warehouse can be at either sea or airports.

From here the story goes downhill. Another form of freeport are those described by Oddný Helgadóttir of Copenhagen Business School, with whom I have worked, as 'luxury freeports'. These are usually located at airports. By far the most common item held in such places are works of art, although other small, high value items might also be found there. The one in Geneva is thought to hold more than a million such works of art, long unseen by their owners or anyone else, come to that.

Why do that? The attraction might be tax. Luxury freeports are usually exempt from all taxes, whether that be import tariffs, value added tax, capital gains tax or other charges that could be levied on the owner of art. And if that art is held through an anonymously owned offshore company (and the evidence is that it very often is) then it is also highly likely that the artwork will also be outside the scope of wealth taxes, and other rules on inheritance because its ownership will simply not be declared.

## ***Hiding in plain sight***

Economist Gabriel Zucman has suggested the ultra wealthy might be the biggest tax evaders in the world. Freeport activity of this sort is a way to achieve that, apparently legitimately.

That's not the only attraction of such places though. Mobile, and untraceable, goods of inherently uncertain value can be very useful indeed for another purpose, and that is money laundering.

Any old copy artwork can mysteriously inflate in value when a dodgy certificate of provenance is attached to it in such a place, and what went in as a poor canvas comes out as the way of turning illicit funds into legitimate cash, and all very often behind very opaque doors that mean no one can trace what is going on.

### ***Something stinks***

The hint of corruption has always hung over such freeports as a consequence, and who knows if recent law changes in the EU requiring improved money laundering controls upon such places will apply in a no-deal Brexit Britain? If not, any such locations in the UK would be very popular indeed.

What else do freeports do? Between the useful and the illicit as already described, there is the downright dodgy. These are the often quite sizeable freeports where businesses are encouraged to relocate themselves within a country. The incentive to move is a range of pretty dubious tax and regulatory incentives. These might be in the form of lower or no import tariffs; lower rates of tax on employing staff; an absence of business rates; reduced corporation tax, and more besides — including direct subsidies. The aim is to supposedly incentivise new business activity.

There is no real evidence from developing countries, where such arrangements are commonplace, that this ever works. All that happens is that existing business relocates into the freeport and their owners get richer.

This point is important, because the regulatory relaxations that goes alongside these tax reliefs often relate to employee protection; exemption from minimum wage and other employment rules; relaxation of health and safety requirements and even relaxed rules on product standards. All of those are a licence to abuse of course, and not just employees but consumers as well. Who takes advantage of all this? Get-rich-quick employers, of course.

And is there any chance of 'trickle down'? Almost ***none at all, research suggests: that's another spurious claim for such relaxations of tax and regulations for which evidence is remarkably lacking.***

### ***The real motive***

So why establish freeports? To aid and abet the free and possibly corrupt flow of wealth

around the world is one answer. And to help capitalists of the worst sort make a quick buck is the other possible answer.

And that's about it, because no one else in society really benefits. But they do pick up the costs, in supporting low pay; having less tax revenue flow into the economy; seeing the wealth divide increase; and suffering the type of 'fly-by-night' regulatory abuse that government should exist to stop, and not encourage.

Freeports are almost always a step in the wrong direction for any country. For the UK they will be another leap into the post-Brexit dark.