BRITISH PORTS ASSOCIATION

Public Investment in Ports

Principles for the National Wealth Fund and other public investment in ports

Working Paper

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Version control

Status	Version	Author	Date	Changes
Draft	0.1	M. Simmonds	16/08/24	Initial rough draft
Draft	0.2	M. Simmonds	10/09/24	Updated following feedback from BPA Council. Reorganised and renamed, NWF reflections annexed and sections on specific public investment added and expanded.
Working Paper	1.0	M. Simmonds	12/09/24	Minor additions on local issues, historic structures and corrections in the introduction. Addition of BPA representation on boards. Some minor corrections. Added short conclusion and 'next steps'.
Working Paper	1.1	M. Simmonds	12/09/24	Minor formatting changes.
Working Paper	1.11	M. Simmonds	13/09/24	Additional minor changes from stakeholder feedback.

Introduction & Summary

Ports are critical to the UK, handling nearly 500 million tonnes of cargo every year and investing around £600m of private capital in infrastructure every year. The UK ports industry is market-led and highly competitive.

The British Ports Association is the national trade association for the ports industry, promoting the whole sector. Our longstanding position has been that the role of government is to provide a stable policy framework and investment in enabling infrastructure such as good road and rail connections. We have taken the view that direct public funding is inefficient, unnecessary and likely to distort a well-functioning market. Our starting position for the justification of systematic public funding for UK ports has always therefore been that it must address specific market failure and not deter private investment.

The energy transition represents an enormous opportunity for UK ports, given the abundance of renewable energy found around our coasts and seas. As well as playing a huge role in our transition to net zero, it should bring highly skilled jobs and prosperity to our coastal communities. UK ports are optimistic about the transition. The BPA recognises however that the scale and speed of the investment needed to meet ports' offshore energy ambitions is of a once in a generation scale. In recent years we have made the case for public support to help tackle some specific investment barriers, for instance by setting longer-term targets for wind generation and some public funding to develop supply chains and infrastructure for the next generation of offshore wind, which brings additional challenges such as more specialised port infrastructure.

We welcome the Government's commitment to 'renewable ready ports'. Investment in ports from the National Wealth Fund, alongside proposals for The Crown Estate and Great British Energy to invest in supply chains including ports, is a fundamental shift in UK ports policy and must be carefully managed in coordination with industry.

This working paper offers some reflections on how public funding could be deployed in a way that crowds-in private capital and addresses market failures and specific barriers to investment whilst minimising market distortion. If managed well, this will help drive the energy transition in pursuit of our shared ambitions for offshore wind and support the next generation of high-quality jobs in coastal communities across the UK.

Our position can be broadly summarised as:

- Public funding must have a clear aim and be designed to address specific investment barriers or market failure. A range of financing products should be offered to meet specific needs.
- Government should recognise that public funding is one tool to supporting private investment. The wider public policy framework must support private investment and the planning system in particular needs serious and urgent reform, particularly in relation to port development.
- Support should be available in the same way to all types of ports, regardless of size or ownership (as far as is possible) but should generally only support viable projects that crowd-in investment.
- The National Wealth Fund should work alongside other sources of public funding with a clear idea of what each one is for. **We have set out some initial thoughts on how different sources of funding could work alongside each other in Annex B**. The industry must be properly consulted in how funding from the NWF or GB Energy is directed. Industry should be represented by the BPA on management or advisory boards for these organisations.

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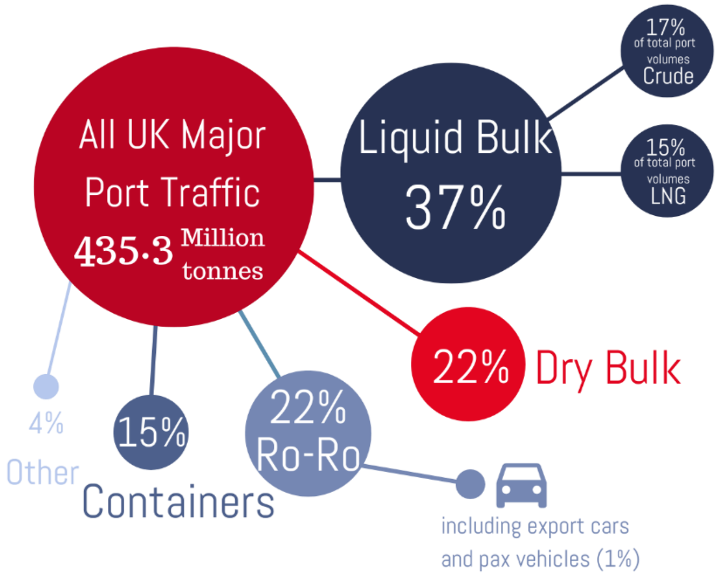
The Ports Industry

The success of the UK's thriving ports industry is not an accident; it is the result of a long-term policy framework that has provided stability and encouraged investment.

The UK ports industry operates on a commercial basis and independently of government in terms of its administration and financing in a highly competitive market. Ports invest significant sums every year into infrastructure at no cost to the Exchequer and are the foundation of a wide range of industries including trade and logistics, energy, fishing, and leisure.

There are three main types of Statutory Harbour Authorities (SHA) in the UK – private ports, municipal ports and trust ports, as well as a handful of smaller ports owned by parts of government. Many harbour authorities will also operate landside operations at terminals within the port and it is also common to have terminals that are operated by third party businesses. No two ports are the same, but all have various duties and responsibilities.



Source: Department for Transport, Port Freight Statistics 2022

Private ports are owned by shareholders or private entities and municipal ports are owned by local authorities. Trust ports do not have any equity, shareholders, or owners and are both strategically and financially independent of Government. All ports compete in a competitive market place and operate on a commercial basis. Each model has its own strengths but all work and this mixed model has delivered a competitive and thriving industry that contributes £2bn to the Exchequer each year.

The Policy Framework

Policy is as, if not more, important to public funding to achieving the government's mission on net zero.

Public investment must be accompanied by a policy framework that supports the competitiveness of UK ports. We agree with the National Wealth Fund Taskforce's report that identifies some key areas for immediate reform, including the planning system, tackling the skills gap, and strengthening the UK carbon price (alongside other demand-pull measures).

The BPA has set out its views on terrestrial planning and will publish a paper on marine planning in September which set out options for reform. We also maintain a map of the policy and regulatory framework that UK ports operate within that identifies areas that need urgent attention. Our regulatory mapping exercise underlines our view that a competitive regulatory environment is not about the number of regulations but about how effective they are at achieving their policy aims, how proportionate they are and about the ability of public agencies and bodies to how well resourced public bodies are to enforce them.

Support for Infrastructure

Any new support for infrastructure must target specific barriers to investment and these should be clearly and publicly stated. Public funding should not create more port capacity than is necessary.

The British Ports Association want to see a just transition to net zero, a transition that sees the UK capture as much of the social and economic benefits as possible. UK ports compete with each other and against other European ports for work and investment. Building the right policy framework is the primary way in which government can boost UK ports' competitiveness, but we recognise that some funding will be necessary to overcome some short-term investment barriers.

The Floating Offshore Wind Taskforce estimated in 2023 that up to 11 ports would need to be built or transformed into "industrial hubs" to meet our floating offshore wind ambitions, and that this would require up to £4bn in investment. This does not include investment in any additional or upgraded port infrastructure for fixed bottom wind deployment, which government targets will account for around 90% of offshore wind generation in 2030. The Taskforce estimated that the 5GW UK target for floating offshore wind would require £4bn of investment in port infrastructure.

Our view is that the bulk of this investment, and investment in port infrastructure more widely, should be made up of private capital and that public money should only be used – whether it be grant funding, debt or equity financing, or some other form of funding support or guarantee – for specific and limited aims. These should address specific investment barriers or specific market failures, including local issues such as low rents/values and longstanding issues such as third party environmental degradation or historical/listed structures.

Government must not target over-capacity as a policy aim and must guard against it as an accidental byproduct of public investment. Port infrastructure supporting the offshore wind sector can also be used to support other cargo and non-cargo sectors, and artificially creating additional 'strategic' capacity for the energy sector could have broader impacts. Market forces have underpinned investment in the ports industry for decades and any artificial distortion could have unintended and farreaching consequences, such as undermining investor confidence in the viability of UK ports'.

Debt and Equity Financing

As a principle, all forms of support should be available to all ports regardless of size or ownership model. Specific financial products might need to be tailored to meet the needs of trust ports and local authority owned ports, however, but this should not confer either advantage or disadvantage.

Government should consider a wide variety of financial products to address specific barriers to investment. Whilst most ports do not generally have issues securing debt financing for projects, public investment from the National Wealth Fund could be used to enhance investment viability by taking, for instance, first-loss positions.

The NWF could also offer equity financing for private ports where there is a higher risk profile for a project or a long-term investment horizon is required. Quasi-equity schemes could be used to support trust ports and local authority ports.

Development Expenditure

We understand that the government is keen for public investment to generate revenue for the Exchequer, the primary goal should be to lower barriers to private investment.

Public investment could help 'roll the pitch' for private investment in port projects with funding for gap appraisals, feasibility studies, surveys, consenting, remediation or other development and pre-commercial expenditure. Uncertainty and delays around consenting are a barrier to investment. GB Energy or The Crown Estate could help pre-consent or support studies or surveys for projects that have yet to attract private funding because of such uncertainty. This could have broader benefits than supporting the offshore energy sector and could be repaid or take a share of revenue from any projects that go ahead.

Many ports have contaminated land both on the seabed and on the terrestrial side. This is often the result of historical industrial activity or from modern pollution sources into rivers that ends up in harbour areas. Remediation of these areas both improves the environment and supports sustainable port development as well as improving ecosystem services. We strongly support the polluter pays principle, enshrined in UK law, and would support environmental liability scheme where polluters contribute towards the costs of remediation through a dedicated grant fund. In the immediate term, such a fund could be seeded by government or funded on a case-by-case basis, especially where the seabed is owned by the Crown Estate, which has the power to invest to improve the value of its estate. More broadly, government should allow ports the option to use strategic compensation and biodiversity gain schemes.

Public funding could also usefully be put to use improving historical or listed structures in and around ports, which are often dilapidated but protected. This can be a barrier to investment/development, given the high costs of repairing or restoring them.

Revenue Guarantees

The National Wealth Fund Taskforce report suggested that a 'cap and floor' scheme could help boost investment into port projects for offshore wind. Whilst the ports sector is confident that there are a large number of offshore wind projects in the pipeline to meet the government's 2030 targets, there is a lack of visibility about what comes next.

We are open to discussing a cap and floor scheme with the NWF or whichever organisation might implement it. The success of such a scheme would depend on how it is managed and details such as where the cap and floor are set and the timeframe over which it would apply. We believe that a shorter-term scheme could be effective. Rather than providing a cap and floor for the lifetime of the asset or a significant proportion of it, a similar scheme could provide revenue/rent gap guarantees for a much shorter period of time, just beyond the current project horizon. Whilst most ports are confident that there will be work and revenue from new assets developed for forthcoming offshore wind projects beyond what is currently in the pipeline, a short-term revenue guarantee scheme would boost investor confidence and project viability whilst in all likelihood not needing to call on public funds.

Supply chain support

A broad, long-term and stable industrial policy and longer term targets would, in time, boost investor confidence.

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Catalytic public investment in offshore energy supply chains will create positive spillover effects such as private investment in port infrastructure and should be expanded. Anchoring key supply chain capabilities in ports helps crowd in private investment into the port infrastructure that is needed to support deployment. The governments Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS) plays a similar role although the overall pot is relatively small and implementation has been slow.

Subsidy Control (formerly state aid)

All public investment into ports must have clearly stated and robust policy aims that address specific barriers to investment.

New, large-scale investment into UK ports presents risks for both funders and those receiving it. New funding must be fully compliant with the subsidy control regime with robust management in place and clear policy aims. Each financial intervention must be linked to the removal of identified barriers to investment.

Other Investment Support

There are several other broad areas in the port ecosystem that will require investment in coming decades.

Energy Connectivity

Port energy connectivity is the biggest barrier for most ports in decarbonising their operations and supporting the decarbonisation of tenants and customers. We recognise that the previous government has put in place two action plans to improve the process for securing or upgrading connections, but investment is needed by government to enable further private investment in electrification and generation and other uses, including the potential generation of new marine fuels.

Grants or blended finance models could be used to fund new connections or upgrades for both demand and generation. This could be a key enabling role played by GB Energy. Where investment in energy networks is necessary as part of new development or expansion, the costs could be unbundled or segregated from and financed by either GBE - or the NWF - either on a grant basis (possibly up to a certain size) or with a loan at a below market rate of return to improve the investment viability of the wider port development.

GBE and TCE could also support industry with applications, studies and guarantees where uncertainty around actual connection/upgrade cost reduce broader investment certainty.

Grant funds should continue to include support for grid connections or network upgrades, or energy management and storage systems below a certain cost threshold where additional energy capacity is required to support investment in port electrification or other green projects, such as synthesising new fuels.

As energy generation becomes more distributed, ports are moving from being at the end of a centralised network to energy hubs. Many ports are currently constrained in how much energy they can generate from solar, wind and other renewables by planning and grid barriers. Policy has a huge role to play in improving this, but public investment could also support additional generation capacity at ports. Alongside removing network barriers, the NWF could support investment in generation capacity by providing debt financing and possibly revenue guarantees for generation projects that support the UK's net zero targets. It could also co-invest in downstream assets to stimulate offtake and reduce uncertainty and/or underwrite risk.

Innovation

Government must continue to support technological innovation in the maritime sector with new funding for the Department for Transport UK Office for Reducing Emissions (UK SHORE).

The Clean Maritime Demonstration Competition (CMDC) has been successful in supporting the commercialisation of new technologies. A future or renewed fund could be improved with longer lead-in, application and overall project timescales. It should also support projects that are closer to commercialisation as the Zero Emission Vessel and Infrastructure (ZEVI) has done successfully. Specifically, there should be a new, rolling, long-term grant fund for high TRL solutions that reduce emissions at berth until there is sufficient demand for the market to respond to. Should a consistent demand for high voltage shore power begin to develop in future that is not met by the market, the NWF could support roll-out with debt financing and revenue support schemes could be deployed to help grow capacity in the longer term.

Future UK SHORE funding programmes should also have a dedicated focus on grant funding to support the development of low emission fuels for shipping. When demand signals materialise, the NWF could provide debt financing for high TRL projects or explore revenue guarantee schemes whilst the market for different fuels matures.

Skills & Training

Government support for skills will remain critical to the competitiveness of the ports industry in the future. Our colleagues at Port Skills & Safety can advise government on how best it can ensure the industry has the people it needs to deliver the energy transition and that coastal communities across the country prosper in rewarding maritime careers.

Conclusion & Next Steps

Investing billions of pounds of public money in and around ports is a significant change in approach for the UK government. Whilst there have been schemes such as FLOWMIS and some limited support for major projects in the past, systematic support for infrastructure is a fundamental shift in policy. There are significant risks if it is managed badly or proper guardrails are not established. There must be a relentless focus on addressing specific market failures or barriers to investment and these must align with clear and transparent policy aims. The NWF and others must be ready to deploy a range of products designed around each specific aim.

There are a wide range of views across the ports sector and the BPA will continue to consult with ports and develop the ideas and thinking in this paper and use it to inform our discussions with government.

ANNEX A: Reflections on National Wealth Fund Taskforce Report

Policy

Policy is as, if not more, important to public funding to achieving the government's mission on net zero.

We agree strongly with the taskforce's view that public investment must be accompanied by a stable, aligned, and competitive policy environment. It identifies some key areas for immediate reform, including the planning system, tackling the skills gap, and strengthening the UK carbon price (alongside other demand-pull measures). The BPA has set out its views on terrestrial planning and will publish a paper on marine planning in September which set out options for reform.

Role of the fund

The NWF should be a sovereign-backed 'green catalytic fund' with a goal to mobilise private capital to drive the energy transition rather than a traditional sovereign wealth fund, which focus solely on financial returns.

We believe there is a role in tackling some barriers to investment and de-risking private sector investment in ports and we agree with the NWF Taskforce that the fund should be 'catalytic', and carefully managed to ensure it does not crowd-out private investment or distort what is a well-functioning market.

We support the taskforce's recommendation that the overarching objective of the NWF should be to drive UK competitiveness by (i) driving the UK's transition to a low carbon economy, to (ii) crowd in private capital (iii) and create growth and new jobs across the UK.

Products offered

The NWF should offer a range of financial products depending on the specific investment barriers and needs, including revenue support mechanisms, but a cap on revenue needs further consideration

We agree with the taskforce that the NWF should offer a broad range of financial products tailored to need, but that this should stop short of grant funding. We have set out our initial view of how and what the NWF could cover in Annex A.

The UK ports industry is made up of private port operators, trust ports (which are established in statute but have no shareholders or owners), and local authority owned ports. We agree that equity financing could be a useful product for the NWF to offer, in specific circumstances such as longer-term investment horizons or higher risk profiles. The NWF should be aware of this and consider quasi equity or other types of support mechanisms. As a broad principle, it will be better if as many ports as possible are able to compete.

We note the proposal for a 'cap and floor' revenue support scheme that could support investment in port infrastructure. This would require careful design to be successful. If developed, there should be alternative offers for ports to help de-risk investment. A long-term ceiling on the revenue of a particular port asset could have unintended consequences and requires further examination.

Supporting the best investment opportunities and working in coordination with other public funding bodies with a clear mandate

We support the recommendation from the taskforce that the fund should pursue the best investment opportunities in terms of strategic significance, impact on emissions, and ability to crowd in private capital. We have set out specific areas the fund should and should not cover in Annex A. We agree that it should not be a grant making body and that it should demonstrate higher risk appetite and accept lower rates of return.

The taskforce suggested that the NWF could provide debt financing for portside infrastructure at larger "strategic" ports and equity financing for smaller ports. Our view is that government could quickly get bogged down in trying to define what constitutes small (is a small port owned by a larger group large or small? Is a small terminal inside a larger harbour authority a small port?). It would be better to concentrate on tackling specific issues or barriers to investment, some of which might affect smaller or larger ports more, and deciding what kind of financial products to offer would be better based on the aim of the intervention rather than the size of the recipient.

It is important that the Government set out how the NWF will work alongside anticipated investment in energy generation and supply chains from a reformed Crown Estate (TCE) and newly created Great British Energy (GBE). The new partnership between TCE and GBE needs to be complementary to the NWF and the roles of each must be distinct and clear to industry. We see a broader role for TCE/GBE in supporting ports' competitiveness by helping overcome some of the broader barriers to development reported by ports. This could include support for pre-application or development expenditure. The NWF role could be in enhancing investment viability through first-loss positions and revenue guarantee schemes, where appropriate.

Assuming the UK Infrastructure Bank continues to operate as it does now, it should continue to work with the ports industry in offering products to ports where securing equity investment is an issue.

Design Principles

The NWF should look different to previous government interventions and must be seen by investors as credible

We agree with the taskforce's recommendations on the design principles of the fund, namely that it be, catalytic (mobilising private capital, additive (filling a gap in existing provision), fast to market, and operationally independent, simple and able to work alongside other types of support.

We understand the taskforce's reasoning for supporting an investment mandate instead of fixed allocations of the NWF to specific sectors. However it is important for industry and investors to have an idea of the scale of the government's ambition and plans for public investment in ports. Our view is that the £1.8bn allocated to ports should be protected and supplemented by support from TCE/GBE and other sources.

More broadly, we support the taskforce's recommendations for the operation of the fund, such as initially crowding-in investment on a deal-by-deal basis.

Investment Need	Public Funding Sources: National Wealth Fund	Public Funding Sources: GB Energy / The Crown Estate	Public Funding Sources: UK SHORE (CDMC etc)	Other	Political & Regulatory Changes
Port Infrastructure / Expansion	✓ Debt financing that enhances investment viability, including first-loss positions and revenue guarantee schemes. Equity financing where there is a higher risk profile or a long-term investment horizon is required. UKIB, or the NWF, should continue to offer facilities to ports where equity investment is an issue. Further consideration is needed as to how NWF equity financing could support trust ports and local authority owned ports, such as quasi-equity	✓ GB Energy and/or The Crown Estate could help 'roll the pitch' for private investment in ports projects that will benefit the roll-out of offshore wind with grant funding for feasibility studies, licensing and consenting and other 'devex' expenditure.		✓ Fisheries funding should continue to support fishing port infrastructure, given that this is common amongst European competitors and the difficulty in privately funding infrastructure because of necessary quotas placed on catching.	Terrestrial and marine planning reform, including an action plan on HROs

Investment Need	Public Funding Sources: National Wealth Fund	Public Funding Sources: GB Energy / The Crown Estate	Public Funding Sources: UK SHORE (CDMC etc)	Other	Political & Regulatory Changes
Offshore Wind Supply Chain Capability	✓ Learning lessons from the sector's experiences with FLOWMIS and OMIS, the NWF should help improve port investment viability by also investing in supply chains. Establishing strong supply chains in and around UK ports will help draw in the investment and skills needed to anchor jobs and prosperity in the UK.	✓ Given the scale of investment needed to meet the Government's offshore wind targets, and the timeframe, GB Energy and TCE funding should also be used to back FLOWMIS-style supply chain projects that support investment viability of port projects. Investment in supply chain capability (i.e. ports) should be considered a key part of the role of GBE and TCE in supporting energy security and guaranteeing the security of supply of energy, which will be written into GBE's articles of association	✓ Grants for grid connections or network upgrades, or energy management and storage systems below a certain cost threshold where additional energy capacity is required to support investment in port electrification or other green projects, such as synthesising new fuels.	✓ There remains a role for government in planning and funding broader capacity upgrades.	"Terrestrial and marine planning reform, including an action plan on HROs Longer term energy generation targets Clear and distinct roles for the NWF and TCE/GBE in this area"

Investment Need	National Wealth Fund	Public Funding Sources GB Energy / The Crown Estate	UK SHORE (CDMC etc)	Other	Political & Regulatory Changes
Grid Connections & Energy Storage & Management		✓ Grants or blended finance models could be used to fund new connections or upgrades for both demand and generation. Where investment in energy networks is necessary as part of new development or expansion, the costs could be unbundled or segregated from and financed by either GBE - or the NWF - either on a grant basis (possibly up to a certain size) or with a loan at a below market rate of return to improve the investment viability of the wider port development. GBE and TCE could also support industry with applications, studies and guarantees where uncertainty around actual connection/upgrade cost reduce broader investment certainty.	✓ Grants for grid connections or network upgrades, or energy management and storage systems below a certain cost threshold where additional energy capacity is required to support investment in port electrification or other green projects, such as synthesising new fuels.	✓ There remains a role for government in planning and funding broader capacity upgrades.	Relentless focus on delivering connections action plan and transmission acceleration action plan Reform of standing charges regime and consideration of specific barriers for some harbour authorities Better energy planning that recognises the role of ports as energy hubs

Investment Need	Public Funding Sources: National Wealth Fund	Public Funding Sources: GB Energy / The Crown Estate	Public Funding Sources: UK SHORE (CDMC etc)	Other	Political & Regulatory Changes
Shore Power	✓ If and when a market for shore power begins to develop, debt financing and revenue support schemes could be deployed to help it grow in the longer term.		✓ There should be a new, rolling, long-term grant fund for high TRL solutions that reduce emissions at berth until there is sufficient demand for the market to respond to.		If government considers regulation necessary, it should consider a mechanism that is flexible, technology neutral, and increases demand for emissions reduction at berth
Alternative Fuel Provision	✓ Debt financing for high TRL projects when demand signals materialise. Government could explore revenue guarantee schemes whilst the market for different fuels matures.		✓ Future UK SHORE funding programmes should have a focus on grant funding to support the development of low emission fuels for shipping.		Policy must be technology neutral and focus on international efforts to increase demand
Renewable Energy Generation	✓ Debt financing and possibly revenue guarantees for generation projects that support the UK's net zero targets. Co-investment in downstream assets to stimulate offtake and reduce uncertainty and/or underwriting of risk	✓ The production, distribution, storage and supply of clean energy is one of GBE's objectives in its articles of association and this role should include supporting the development of ports as energy hubs with a range of financial products depending on investment barriers.	✓ UK SHORE programmes should offer grants to support low TRL or innovative use cases for new generation capacity.		

Investment Need	Public Funding Sources: National Wealth Fund	Public Funding Sources: GB Energy / The Crown Estate	Public Funding Sources: UK SHORE (CDMC etc)	Other	Political & Regulatory Changes
Surface Connectivity				✓ Government must not downgrade road and rail capital funding, which remain critical to port competitiveness	Delivery on port connectivity work, freight corridors and other measures in the Maritime 2050 'infrastructure' pillar
Zero/Low Emission Port Equipment			✓ UK SHORE should offer grant funding programmes for decarbonisation across a range of TRL, on a competitive basis	✓ Other industrial decarbonisation and efficiency schemes should not exclude ports on the basis that they fall within the purvue of the Department for Transport and should offer the same level of support to different types of ports	Keep promise to retain full expensing as a permanent incentive to investment
Training & Skills				✓ Government support for skills will remain critical to the competitiveness of the ports industry in the future.	