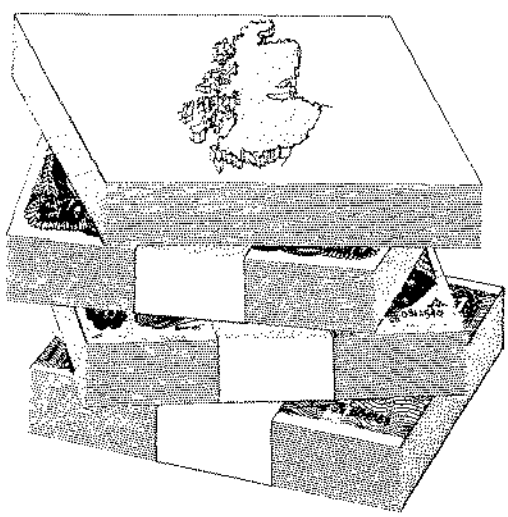
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

With the inauguration of the quarterly Scottish Business Survey (SBS) in September 1984 there are now two regular and up-to-date indicators of trends in the Scottish industrial sector. The combination of the new survey and the long-standing CBI Industrial Trends Survey provides a comprehensive assessment of trends in Scottish industry.

The two data sources are essentially complementary, but there are important differences between them. While the CBI survey provides information on trends by size of firm, the Scottish Business Survey provides a geographical breakdown of responses (see Regional Review). Equally, the CBI provides information on sectoral employment trends, while the SBS distinguishes between male and female employment, and in some sectors between full and part-timers. In addition, the number of respondents to the SBS is well over twice that to the CBI survey, and they cover not only manufacturing but also construction, distribution and financial institutions. The results from the new SBS are therefore capable of a greater degree of disaggregation that those from the CBI.

The results of the two surveys are first considered separately, and their combined verdict on Scottish manufacturing trends is then summarised. Major background events during the weeks in which the surveys were conducted (late March-early April) were the ending of the coal dispute; the March Budget in which the Chancellor raised personal tax allowances and adjusted the structure of national insurance contributions; continuining high interest rates; a modest rise of the pound against the dollar, and the controversy over rates revaluation in Scotland.

SCOTTISH BUSINESS SURVEY RESULTS

In Manufacturing, the mood of cautious optimism remarked in the January Survey has been vindicated and sustained through the April Survey; an increased balance of respondents report higher sales and orders in home and external markets in the first quarter of this year. Within Manufacturing, all sectors except Paper, Printing and Publishing, and Other Engineering (ie. excluding Mechanical and Electrical/Electronic) are on balance more optimistic about the general business situation, the most bullish sectors being Miscellaneous Manufacturing, Textiles, Clothing and Footwear, Food, Drink and Tobacco, and Chemicals.

An evident source of this optimism is higher trends in the volume of new orders and sales in the three months to April, particularly in export markets, though UK sales and orders have also been buoyant in all sectors except Paper, Printing and

Publishing. Despite these encouraging trends, capacity utilisation remains low in all sectors except Chemicals and Textiles, Clothing and Footwear, and, with the exception of the last-named sector, sales or orders are overwhelmingly seen as the main constraint on further output growth.

Most sectors (exceptions being Chemicals and Other Engineering) report higher employment in the three months to April, but only Electrical and Electronic Engineering, Textiles, Clothing and Footwear and Miscellaneous Manufacturing expect this upward trend to continue in the current quarter. Provided, however, that expected trends in sales and new orders are fulfilled, it seems probable that current levels of employment in manufacturing will be at least maintained.

SCOTTISH BUSINESS SURVEY MARCH-APRIL 1985

Balance of respondents reporting (%)

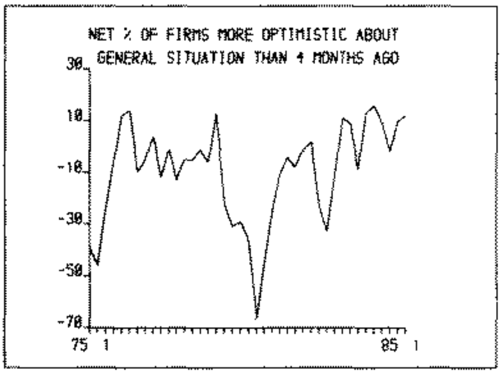
	Greater optimism	Growth in sales	Growth in new orders	Higher expected sales this quarter
All manufacturing	11	36	29	34
Metal & metal products	14	81	81	32
Chemicals	21	89	89	11
Mech.Engineering	6	19	19	-11
Elec.& Electronics	5	48	27	53
Other engineering	-28	53	11	45
Food,Drink & Tobacco	20	- 8	1	11
Textiles,Clothing & Footwear	19	43	28	77
Paper,Printing & Publishing	- 5	26	19	4
Miscellaneous	67	39	47	75

Source: FAI Scottish Business Survey, April 1985

Reflecting the improved performance and outlook, most manufacturing sectors report a net upward revision of investment intentions, particularly with respect to plant and equipment (an exception is Chemicals, slightly surprising since this sector is operating at 84% of capacity and reports a strong upward trend in new orders), though the majority of respondents in all sectors report unchanged investment intentions. Although increased efficiency is the most frequently-cited reason for new investment, the number of respondents investing to expand capacity has grown since the previous Survey.

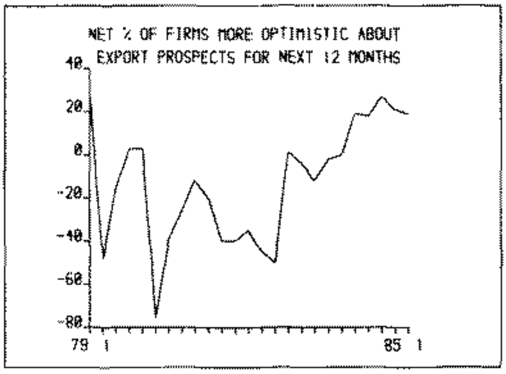
THE CBI SURVEY RESULTS

Results of the CBI Survey for Scotland, conducted at the end of March, support those of the Scottish Business Survey with respect to manufacturing as a whole. At the sectoral level, there are certain differences, though strict comparison is hampered by differences in classification, and differences in the questions put to repondents. The composition of the two samples also of course differs. Unlike the SBS, the CBI Survey implies a further (though marginal) increase in employment in the current quarter, but is less buoyant than the SBS with respect to investment intentions.



As noted with regard to previous CBI Surveys, it is firms in the medium-size category (200-499 employees) which seem to be performing most strongly, though the differences in size-groups are less marked than in earlier Surveys and in particular the larger firms (500+ employees) show stronger signs of recovery.

At the sectoral level, the CBI reports higher output and orders in all six sectors identified in the Scottish survey in the four months to April, and in all sectors except Metals a positive balance of respondents expect to increase output in the current four-month period from April. As in the SBS Survey, and as in previous survey results over the past two years, it is the Textiles sector which shows the strongest performance over the range of indicators. A significant improvement is also indicated in the Engineering sector (which in the CBI Survey includes Mechanical, Electrical and Electronic, and Other Engineering), the prospects for which are critical to industrial recovery in Scotland, particularly in West Central Scotland.



Taken together, the results of the two surveys are the most encouraging since 1981, though prospects for increased employment are much less favourable than those for output, sales and orders, implying that there is still considerable scope for increases in output per person employed. Nevertheless, there is now some firm evidence that the long-awaited halt in labour-shedding has been reached. As this and previous survey results have made clear, export demand has been a major factor in the recovery in manufacturing, and price the most important factor influencing export orders, thus emphasising the critical role of the exchange rate in promoting recovery. It is interesting to note, however, that domestic orders and sales have assumed greater importance as a source of demand for manufactures in the latest survey results, itself a reflection of the higher growth of GDP in the UK throughout the past year.

AGRICULTURE

A policy vacuum in agriculture continues. It is accepted on all sides that the declared objective of post-war policy - maximum growth of output - can be carried no further. The Government appears, however, to have no idea of what objectives should be put in its place. Yet agriculture makes as great a claim on public expenditure as the coal industry.

Given the British Government's desire to reduce public expenditure, and the necessity for the European Community to do the same, market forces are playing an increasingly important part in determining the rate and nature of change in farming. The increasing efficiency required of farmers holds out the immediate prospect of the elimination of large numbers of marginal farmers. Since marginal areas account for about 86% of Scottish farmland, forecasts that by the year 2000 some 20% of Scottish farmland will be taken out of production do not seem far-fetched. At the same time, in the south east of England, the same market forces, accompanied by the bias of existing price-support mechanisms in favour cereals, are bringing about a mono-culture of cereals, with one farmer (very heavily subsidised) for every 2,000 acres. The debate which took place at the annual SNFU meeting about whether farmers should accept reductions in public subsidy in the form of cuts in guaranteed prices or in the form of reducing production quotas was simply a debate about alternative ways of dying.

While the ostensible purpose of post-war farm policy was to expand output, it seems more likely that there was political support for subsidising agriculture as a desire to support the social life of the countryside: the rural bus service, the village post office, and school. In other words, farm support policies were recognised implicitly as having social rather than economic objectives. In France and Germany the social objectives were made much more explicit, and in these countries the common agriculture policy was, and is, seen as essentially a social policy, necessary to protect the standards of living of the population in the rural areas.

But while the town-dwelling British taxpayer may be willing to support financially the continuation of rural life, he is unlikely to wish to support financially policies which de-populate the countryside and ravage its environment. Accordingly, it is time for the government to formulate a new policy for agriculture which will recognise explicitly its role in providing a secure foundation for rural life. At the same time, a realistic policy would recognise that farming in itself, will no longer be able to develop and regenerate rural Scotland, most of which is marginal in European farming terms. Such a policy would have to embrace non-farming activities as well.

FORESTRY

In a significant development a private forestry company, Fountain Forestry Limited, announced in March that it had abandoned plans to plant 1100 hectares on the slopes of Creag Meagaidh near Loch Laggan. Although these plans had the approval of the Forestry Commission, the Red Deer Commission, DAFS, and Highland Regional Council, the opposition of the Nature Conservancy Council eventually won the day. The NCC claimed that the plantation would have interfered with an area in which the complete range of natural habitat from valley floor to mountain top was unspoiled. Fountain Forestry then "agreed reluctantly" to sell its land on the mountain to the NCC for £430,000 having bought the same land eighteen months earlier for £310,000.

FISHING

The total volume of fish landed in Scotland by UK vessels during 1984 was 542,992 tonnes, worth a total of £193.8m. In volume terms, the catch increased by almost 9% over the 1983 level, while the value of landings was almost 14% higher. The performance of the demersal, pelagic and shellfish sectors varied, with the pelagic sector enjoying the greatest percentage rise in value, though derived from a substantially higher catch. Landings of this type of fish, the main catches being herring and mackerel, rose by 30% compared to the previous year, and their total value increased by 22.6% to £24.4m. The quantity of shellfish landings rose by 5%, and higher average prices secured an increase of over 14% in the total value of the catch. Landings of the demersal species, however, were down more than 3% on the previous year's level. This was mianly due to reduced catches of cod and haddock, down by 4.4% and 11.8% respectively. Haddock has been relatively scarce in the North Sea, forcing vessels to move round to the West Coast for supplies, but this has not been enough to offset the North Sea shortages.

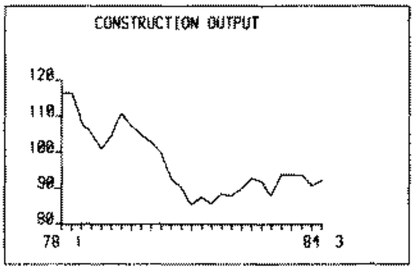
The lower quantities of cod and haddock attracted higher prices, contributing to the 12.3% increase in the value of the demersal catch, which totalled £136m. The demersal catch continues to be dominated by the five main white fish (cod, haddock, whiting, plaice and saithe), but the contribution of some of the less significant species increased during 1984, among them dogfish-spur, megrims and monks. It will be interesting to see whether such catches will come to assume more importance as the CFP encourages the industry to exploit Europe's less common fisheries.

The implications for immature white fish stocks of industrial fishing of Norway pout in EEC waters are causing concern to the Scottish fishing industry. Investigations by the Scottish Fishermen's Federation have led to the conclusion that, given the type of equipment used for such activity, it is impossible to avoid taking a considerable by-catch of both mature and immature stock. The Scottish industry's concern has an immediate focus, in the review, at the end of May, of a temporary concession from the EEC which increased the allowable by-catch of Danish vessels engaged in pout fishing. The Danes are heavily involved in industrial fishing - in 1982, they accounted for over 80% of the entire EEC catch - and there was substantial opposition to this move by Scottish fishermen at the time, because of the scale of the potential damage to stocks. The Scottish lobby will now be pressing for a return to the lower limit to safeguard stocks for the future.

One feature of the CFP which has proved popular in Scotland is the support given to fish farming activity. Under the Integrated Development Programme, £4m of EEC funds have been made available to provide grants for projects in the Western Isles. Response over the last three years has been so great that the IDP's budget for this area has been almost exhausted. To date, more than seventy projects have been funded, creating over

100 full and part-time jobs in salmon, trout and mussel farming in the Western Isles. Of the applications still under assessment, some will obtain funds from IDP, while others will be eligible for the lower rate of assistance normally given by the HIDB.

CONSTRUCTION



The total value of orders received by contractors in Scotland declined in 1984. Almost 90% of the recorded fall in orders took place in the latter half of the year and this points to a further downturn in construction activity in the course of 1985.

The overall value of new orders in 1985 was £1,245m, a fall of 6.5% in nominal terms over the preceding year and suggesting a reduction in real terms in excess of 10%. The main source of the decline was the public sector: the value of new orders placed for public sector work fell by 13.5%, measured in nominal terms, to £592m. There were large reductions for a number of work categories, including public housing (20%), public transport and energy supply (-61%), and water and sewerage (-25%). In contrast, a marked increase in capital spending on motorways and trunk roads contributed to the substantial jump in roads and harbours work, for which orders were more than double their 1983 level, at £156.6m.

Total orders from the private sector of £653m showed an increase of only 1% in cash terms over 1983, implying a cut of around 4% in the real volume of work ordered. Private housing, orders for which soared in 1983, lost some impetus in 1984. At a total value of £283m, new contracts fell by 8.4% and in all quarters were lower than in the corresponding quarter a year earlier. Sectors which enjoyed an increase in orders included entertainment venues (+21%) and offices (+22%). Private industrial contracts, a major source of construction work, made a relatively healthy recovery in 1984, rising by 19% to £150.6m, with orders gaining strength as the year progressed. This is partly due to the impact of companies' investment plans being brought forward in response to the phased removal of capital allowances.

The order figures in general present a discouraging prospect for Scottish construction activity which will be intensified by other factors. The Government's desire to exert firm control over public spending was not fulfilled in the last financial year, when actual expenditure in Scotland is estimated to be 4% in excess of planned levels (although in part this was due to inclusion of a portion of regional development grants in the totals). Last year's overspending is to be answered with greater restraint this year. In real terms, total planned expenditure, within the Secretary of State's responsibility, is scheduled to fall by just over 4%; applying the deflator used in the published data, capital expenditure is to be reduced by almost 10% in real terms. It should be noted, however, that regional development grants, estimated at £99m for 1985/6, are fully included for the first time in the financing of the Scotland programme; prior to 1984/5, when they were included for the last four months, these were identified as an additional source of expenditure in the Scottish economy. The real decline in public capital expenditure which will ensue in Scotland is, therefore, greater than seems the case at first sight, and could be well over 10%.

A second factor which could adversely affect the fortunes of Scottish construction sector is the recent revaluation of property for rating purposes. The higher rates of property valuation and the associated rates payments may act as a constraint on some firms, causing them to delay or even abandon plans for expansion which would have created work for construction. However, the impact of the new rates must be regarded as highly uncertain, because the final burden on commercial ratepayers has yet to be established and also because these rates may prove to have a relatively short life, given the Government's stated intention to replace the present system before the next election.

The total number of new dwellings started in the private sector was 3,300 in the first quarter of 1985, according to the latest figures from the NHBC. This represents a fall of around 9% compared to the same period of 1984, while there was a 6.6% reduction for Great Britain as a whole. Dwellings completed in Scotland totalled 3,000 in the first quarter, marginally up on the previous year, but setting the scene for a high level of completions in 1985. For Great Britain completions of around 37,800 were recorded for the first three months of 1985, a fall of 5% against the same quarter of 1984. The share of timber frame in new private housing in Scotland is now significantly lower, at 32% than at any time in the previous three years, indicating a growing disaffection for this method of construction.

It would seem that the high rates of expansion in the Scottish private housing market enjoyed since 1982, will not be sustained in 1985; this downturn is likely to be short-lived as in the longer term pressures of demand for housing will prevail. Rising interest rates, and the uncertainty about the movement of those rates, may have contributed to the lowering of intended activity in the Scottish market at the beginning of 1985. Mortgage rates rose in April for the second time this year and now stand in excess of 14%, their highest level since 1981-82. It is unlikely that a swift decline in interest rates generally will occur and the societies must, therefore, maintain high rates to improve their inflows of funds. High borrowing costs may require individuals to adjust their plans for house purchase, preventing some from buying in the meantime, and moving other buyers down the price scale. The Halifax Building Society reports that, while house prices have shown their normal spring upturn in most regions of the UK, those in Scotland fell in the first quarter of 1985, and activity in the housing market is generally below the levels of last spring.

The level of activity in public sector housing was very low in 1984, according to provisional figures from the Scottish Office. In total, 4,200 dwellings were completed during the year, and future completions will be even lower, given that only 3,250 starts took place in 1984. The emphasis in public sector housing, as expressed by central government, will now be to use capital spending to improve and rehabilitate the existing stock, and to provide more special needs housing. This effectively makes future housing needs in Scotland the responsibility of the private sector.

ENERGY : OIL AND GAS

In recent months we have seen major ups and downs in the world oil market. In early October last year, the Norwegian National Oil Company, Statoil, had started selling oil at a discount to some of its customers. British National Oil Company responded by lowering its term price for Brent crude from $30.00/barrel to $28.54/b. It was followed inmmediately by Nigeria which cut its own price by $2.00/b. The UK/Nigeria move upset the official oil price structure. OPEC was therefore faced with two major problems: a disorderly price structure and a buyers' market. In January this year, the spot market witnessed particularly unusual price movements. In the North Sea, Brent prices fell and, rather perversely, the spot price of WTI (West Texas Intermediates) ended up lower than Brent. Oil buyers reduced their purchases as much as they could in a speculative move induced by expectations of an imminent price collapse. OPEC production fell to 14.5m b/d and this decline was entirely due to a lack of customers. But at the end of January oil companies were forced to shift their attention away from forward speculation towards the immediate operational needs of their refineries and product markets. Demand for products was increased because of the late spell of cold weather in Europe and North America. The result of all this was a sudden increase in spot prices of $2-$3/b which brought them into parity with the new official prices.

In essence, the problems arise from a large decline in a demand for OPEC oil. In 1979 OPEC was producing more than 31m b/day. In 1984 the output level was below 18m b/day, and today it is now below 16m b/day. This dramatic fall is due to the combined effect of the following factors:

(a) a decline in world energy primary consumption of about six percent between 1979 and 1984;

(b) a proportionately large decline in oil consumption due to the growth of coal, nuclear and gas use.

In this complex market situation BNOC are being obliged to move away from conventional arrangements involving long-term contracts at published official prices and towards more flexible spot market-related rates. Among options being debated by the Department of Energy are (i) a shift from quarterly contract pricing to monthly prices set according to some spot market-based formula; (b) a reduction in the amount of crude handled by BNOC, which could be facilitated by the government in future taking its 12.5 per cent royalty on North Sea production in the form of cash rather than oil; (iii) changes in the tax arrangement on North Sea crude trading, which would be designed to prevent companies from selling their own oil on the spot-market and buying the same volume back in order to reduce tax liabilities.

Future of BNOC

In view of this changing international scene, the government in effect has abdicated its responsibilities for the pricing of North Sea oil by its recent decision to abolish BNOC. The price of oil involves a huge rental element, which is appropriated for the most part by the Exchequer in various taxes. This rent could disappear if the determination of oil prices was left to the free market operation of strongly competitive market forces. The government has allowed itself to be swayed by the arguments that "a lower oil price will stimulate the US economy and the UK will reap later on the benefits of higher US imports". Also BNOC has made trading losses of between £40 and £50m this year as the gap has widened between its official prices and those on the spot market. Some oil companies believe it represents unnecessary government interference in the market and should be wound up. But trading losses must be viewed in context. Because North Sea taxes are based on BNOC's price rather than lower spot prices, this has a positive impact on the government revenues. If this year's spot prices had been used to calculate taxes, government revenues would have been £350m lower.

Exploration activities

British firms and British-based subsidiaries of foreign firms account for some 73 percent of all North Sea related expenditures and in the process the UK economy benefits substantially. However, British firms perform relatively poorly in drilling activities. British firms have less than 23 percent of the mobile exploration rig market and less than 13 percent of the business in drilling from fixed platforms. Dutch and US contractors dominate the heavy crane barge market while US, Italian and French companies provide most of the pipeline laying services.

A total of 147 applications has come from 130 companies for the Government's latest offer of licences to explore for oil and gas. Blocks in the so-called frontier areas to the west of the Hebrides in the Rockall Trough and west and north-west of Shetland are now being opened up for exploration. Of the 195 blocks on offer, 15 in the northern North Sea have been put for auction and with about 15 cash bids having been submitted for these blocks, the Government is expected to earn about £120m. The auction blocks will be licensed about the end of next month and with the rest of the blocks currently being awarded on a discretionary basis it will be 1986 at the earliest before any drilling takes place west of Scotland. It is expected that about £580m worth of fabrication orders will be placed during the next month and Scottish yards could win a major share.

Latest assessment of the reserves in the Piper field in block 15/17 has indicated more recoverable oil than originally thought. Estimates of recoverable reserves have been revised by 53 million barrels to a total of 890 million barrels. The extra oil represents a boost of about 25 percent to remaining reserves.

Britain may have up to 150 North Sea oil discoveries which meet the criteria for commercial development over the next decade or so. Almost 90 percent of the fields would remain viable if oil dropped from the present price of about \$28 to \$25 a barrel. About 50 percent of the fields would remain viable at £20 a barrel.

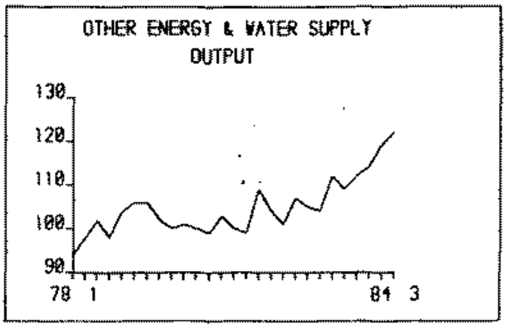
Britain's record North Sea oil output also has adverse effects on the reserves. According to the Department of Energy total proven oil reserves in existing fields at the end of last year amount to 800 million tonnes, compared with 925 million tonnes the year before. The Department also suggests that exploration in the known oil-producing areas failed to confirm earlier speculative estimates of potential. Estimates on oil still to be discovered around the UK shores were also reduced as a result of exploration experience during the last year. The total for the northern and central North Sea is put in the range of 300 million to 1.5 million tonnes compared with 450 million to 1.9 billion tonnes a year ago. The reduction is the result of the high level of exploration and drilling and data refinements. Overall, the estimates suggest that between 330 million and 2.8 billion tonnes of oil remain to be found in the UK continental shelf, including waters off the west of Scotland.

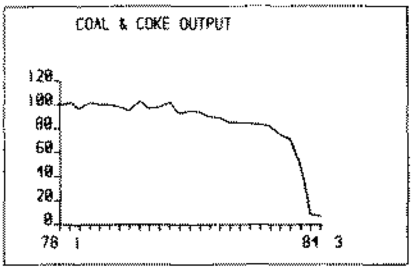
Prospects for gas in the southern North Sea are now bright. Total proven and probable reserves in present discoveries were put at 46.8 trillion cubic feet, a rise of 15 per cent over the year. The estimates also suggests that another 5.3 trillion to 16.7 trillion cubic feet of gas remain to be discovered. In view of this, the recent Government announcement of its intention to sell off gas interests seems to be an irrational step towards privatisation. While this kind of privatisation cannot lead to more competition but will create a private monopoly, any increases in gas prices will lead to more private gain in future with a net loss for ordinary taxpayers.

The orders placed by offshore oil and gas companies rose last year to a record £3.6 billion. UK firms picked up a 74 per cent share worth £2.7 billion. Strathclyde Regional Council is planning to set up a centre of excellence in oil industry technology which will concentrate on research and development of techniques to exploit the deep water fields in the North Sea that oil companies are now turning to. EEC grants may meet half of the initial £100,000 budget. When about 50 per cent of research and development in Britain takes place in south east England, this oil technology centre can give a big boost for the job prospects in the rapidly developing fields of deep water exploration technology.

ENERGY: COAL ELECTRICITY AND WATER

The index of industrial production for coal and coke fell from 8 in the second quarter of 1984 to 7 in the third quarter reflecting the continuing loss of output due to the miners' strike. In contrast, increased utilisation of the nuclear facilities at Hunterston and of the oil-fired station at Inverkip led to an increase in other energy and water supply output; up from 119 to 122. The trend in this sector over the whole of 1984 shows the Scottish index moving upwards progressively whereas the UK index is on a downward path, due to the predominance of coal-fired power stations and warnings of possible power cuts in England and Wales.





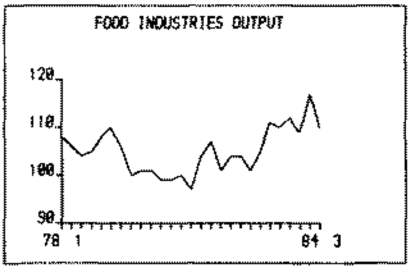
However, events in the pit strike have overtaken the index of industrial production. The dispute ended in early March with a full return to work but no settlement on the issues which caused the strike. This has left the industry in a state of flux with the NCB very firmly in command but seemingly unsure of their plans for the future. So far a number of pits and coal faces, including Polkemmet colliery which employed 1,400 workers, have been closed because of damage caused by flooding or heating during the strike. Although the Polkemmet decision was met with union anger the announcement that £20m would be invested in the Scottish coalfield this year was greeted more enthusiastically. The NCB in Scotland have also released details of the effects of the year-long strike. Coal faces in Scotland are down from 33 to 19 and the labour force now stands at 10,000 compared with 14,000 at the beginning of 1984.

The future of the industry in Scotland is assured for a number of pits in the area, especially those left operating in Lothian and Fife. The Ayrshire coalfield seems safe for at least one more year but thereafter, as reserves dwindle, its continued operation is doubtful.

Shortly after the dispute ended, miners' leaders accepted a 12.5% pay settlement covering the period from 1983 to November 1985 but a sizeable claim is likely to be made when the next round of pay negotiations start at the end of the year. Nevertheless, the short-lived peace in the mining industry may be under threat sooner than expected. NACODS have just held a ballot on the possibility of an overtime ban which, if it goes ahead, will severely cripple the recovery of output in the industry. The call for an overtime ban has been sparked by the Coal Board's attitude to pit closures which NACODS felt should be referred to their agreed pit closure agreement. If the NCB decide to ignore this agreement, their credibility as industry management will be called into even greater question.

One bright spot for the industry in the last few weeks was the decision by ICI to convert its Teeside works to coal-fired boilers from oil. This £43m project will receive £12m in Government aid (£8m in RDGs and £4 from the coal conversion assistance scheme) and marks the largest decision to convert to coal since the dispute began in March 1984.

FOOD, DRINK AND TOBACCO



According to the results of the April **Scottish Business Survey** respondents in this sector are, on balance more optimistic about the general business situation than three months previously. Overall capacity utilisation in this sector is relatively high (75%) compared to manufacturing as a whole (53%). Although a positive balance of respondents reports expectations of favourable trends in the volume of sales and orders over the second quarter of 1985, notably in export markets, 85% of respondents cited orders or sales as the most important factor likely to constrain output in the next few months.

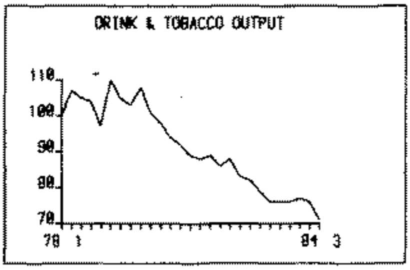
Within the food, drink and tobacco sector, the food industries have tended to be relatively buoyant. According to latest estimates, however, the index of production for the Scottish food sector fell to 110 in the third quarter of 1984, a decline of 6% over the second quarter figure which had been revised from 106 to 117. Revisions on this scale clearly make the index an unreliable guide to trends in actual production. Efforts to improve the quality of information used to construct the index, particularly with regard to fish processing, will lead to the next issue of the index also showing substantial revisions to previous quarters' estimates.

Company information reveals some encouraging developments. Freezway, the Glasgow-based food-retailing group specialising in frozen and convenience food products, plan as part of its expansion programme to open a number of outlets over the next eighteen months in the East of Scotland and south of the border. To finance this programme, Freezway intend to use the group's own profits and also funds arising from the placing of £650,000 of shares. Already heavily committed to expansion, Wm Low, the Scottish supermarket chain, announced a 3 for 10 rights issue to raise £14.92m. Although the rights issue proceeds will initially enable the company to reduce borrowing and interest charges, the rights issue is seen in the longer term as part of future investment plans. In March, United Biscuits, the Edinburgh-based restaurant, fast food and biscuits group launched a £98.2m rights issue, the proceeds from which will be used to finance further investment in product development and expansion in the growing fast food and catering market as well as allowing borrowing to be reduced. The group invested about £115m last year and expect to spend approximately £105m on investment this year.

The takeover of McKellar-Watt, the Glasgow pies and sausages manufacturer, by Freshbake, a Kent-based frozen-food group, should secure employment at McKellar Watt, although some redundancies are likely. The jobs of the 500 workforce were threatened by the severe financial problems facing the company over the last two years. Prospects for the retention of some jobs at Rowntree McKintosh's Broughton factory in Edinburgh now appear to depend on the acceptance by the company of a plan submitted by the General, Municipal Boilermakers and Allied Trades Union acting on behalf of all unions at the factory. As an alternative to the company's plan to close the factory by early 1987 with the loss of around 700 jobs, the union believes its plan, which centres on changes in the product mix at the factory, would not only satisfy the company's financial objectives but would secure approximately 340 jobs at the Edinburgh factory.

In the fish processing industry, a new body has been formed to press for action to solve the problems facing the industry and to help stem job losses. The Scottish Fish Merchants Federation, to be based in Aberdeen, will act for fish processors throughout Scotland in seeking aid from EEC and Government sources.

In the drink and tobacco sector in Scotland, the index of industrial production declined sharply in the third quarter of 1984 after having been relatively stable over the previous four quarters. The fall of 7% in the latest quarter mainly reflects a fall in whisky exports. In the UK as a whole, the index of industrial production in the third quarter of 1984 stood at 98, a fall of 1% over the previous quarter but approximately 38% above the corresponding Scottish level of 71. Again, developments in the whisky industry account for much of this difference.



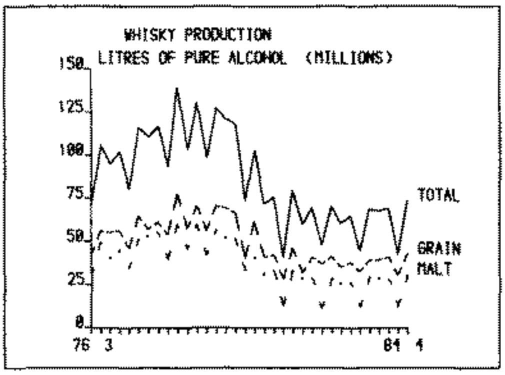
An American firm, US Tobacco International, has chosen East Kilbride as the site for a new tobacco factory for the manufacture and distribution of a moist smokeless tobacco to the European market. The product is a chewing tobacco substitute which gives the same flavour as a cigarette but can be consumed in no-smoking areas. The factory is scheduled to go into production in July, creating approximately 35 jobs initially with the prospect of an increase to around 100 over the next two years. Interbobbin UK, the Swiss-based manufacturer of cigarette filters is also moving into a new factory, this time in Alva. The company, part of the international Benkert Group, will phase out production of its outdated Tillicoultry works over the next two years. The close proximity of the new factory to the old one has enabled the company to retain the local workforce.

In the past few weeks the bid by Scottish and Newcastle, ranked sixth in the UK beer market, for Matthew Brown, the Lancashire independent, has met with strong opposition. The merger would enable the Scottish and Newcastle group to increase by around a third its number of beer outlets, thus reducing the company's relatively heavy dependence on the free trade for its beer sales. The merger would also strengthen the group's base in the North-West of England where it is currently under-represented. Blackburn-based Matthew Brown are however vigorously resisting the bid. They argue that as an independent they have a strong track record and excellent prospects which would not be enhanced by a merger with Scottish and Newcastle. They claim that not only would the addition of their 500 or so outlets to Scottish and Newcastle's existing total of 1,446 still leave Scottish and Newcastle's number of outlets far short of the 5,000 and 6,000 held by Courage and Allied-Lyons respectively but would also put the future of Matthew Brown's own breweries at risk since their production needs could be met from Scottish and Newcastle's current spare capacity. The takeover bid has now been referred to the Monopolies Commission on the grounds that the proposed merger raises issues of competition in the market for beer which merit investigation.

WHISKY

After several years of depression the whisky industry is searching desperately for signs of improvement in trading conditions. Contrasting sharply with last quarter's reports of distillery closures and redundancies, the Scotch Whisky Association has been making much of the news that sales of bottled malt whisky rose by 25% during 1984 to 5.64m litres of pure alcohol (LPA). This increase has been shared proportionately between home sales and exports, with Italy accounting for the bulk of the latter. Remarkably, almost half of all bottled malt exports is consumed by Italians.

Distilling companies are increasingly catching on to the notion of promoting single malts as an after dinner drink to rival brandy or liqueurs. Possibly with this market in mind MacDonald & Martin announced in March that they had engaged leading brand distributors Schieffelin to handle Glenmorangie in the US. Despite being a top seller at home Glenmorangie's export performance has always been rather disappointing, a situation which MacDonald & Martin have made clear they intend to rectify.



While the export news makes a welcome change, it must be seen in perspective. Most of exported malt whisky leaves Scotland in bulk form, and when this is taken into account malt exports rose in 1984 by a more modest 7.8%. This at least gives the anti-bulk lobby the satisfaction of seeing the proportion of exported malt which is bottled in Scotland rising in relation to that which is blended and bottled overseas. Perhaps more importantly, it should be noted that malt whisky represents only about 2% of all Scotch sales and **total** consumption of Scotch remained static in 1984, a 1.5% rise in exports being offset by a 3% fall in home consumption. Predictably, the budget was blamed for the fall in UK sales. This is the stock response of an industry which has been successive Chancellors' favourite whipping boy for many years. But most distillers and blenders must have felt distinctly relieved at the relatively modest 10p per bottle increase in duty imposed by Nigel

Lawson, even if the much-sought reintroduction of stock relief failed to materialise. Whisky fared better in the budget than either wine or beer - perhaps the Scotch lobby does carry some weight.

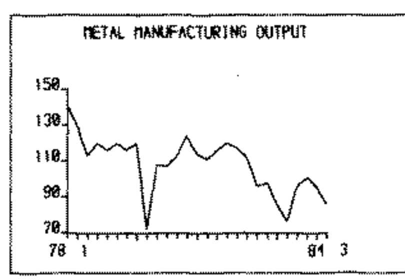
The thread of optimism continues when we turn to the figures for production of whisky. Output in the final quarter of 1984 jumped sharply to 73.8m LPA giving a total for the year of 253.4m LPA. This represents a 6% rise over the 1983 figure, the first time annual output has risen since the heady days of 1979 (when output was nearly double the present figure). This is perhaps more significant than the rise in exports mentioned earlier because it indicates that distillers are more confident of being able to sell new fillings to blenders. Given the massive stocks which have accumulated in the early 1980s a decision to increase production is not taken lightly and may augur well for the future.

Turning to individual companies, two interim results and one final result published in the last quarter make interesting reading. Highland Distillers, who produce "The Famous Grouse" saw a rise in pre-tax profits for the six months to February from £4.1m to £4.5m. Significantly, sales of new whisky are up on 1983-84, and the company's distilleries are operating at higher levels of output to satisfy the blenders' demand plus the company's own requirements. The effect of the abolition of stock relief is thrown into sharp relief in the Highland figures - the entire rise in pre-tax profits was eaten up by a £450,000 rise in the tax charge over the corresponding period last year.

Arthur Bell's half year results to the end of December failed to quicken the pulse. The rise in pre-tax profits from £19.1 to £20.7m was due largely to the inclusion of the recently-created hotels division. The fact that the "Bell's" blend maintained 20% of the home market means no more than a decline at the same rate as the industry as a whole. Overseas performance was more impressive since, in value terms, sales rose by nearly one-fifth to £25m. Meanwhile, Invergordon Distillers appear to be reaping the rewards of the acquisition last year of Glayva, and of the decision three years ago to diversify into the production of neutral spirits used in the manufacture of gin and vodka. For the year ended 31 December pre-tax profits rose by 14% to £4.1m. The only dull note was the decision to greatly reduce promotion of the "Scots Grey" blend in the US. Despite aggressive marketing for over a year the blend has failed to take off, and Invergordon have been forced to bite the bullet and admit that they will not yet be a major force in America.

As a final point, it is worth noting that not everyone shares the mood of nervous optimism. In April Amalgamated Distiller Products, a subsidiary of the Argyll Group, sold its Loch Lomond distillery plus some whisky stock to Inver House Distillers for £6.9m. This will be the Alexandria distillery's second spell of American ownership - through the 1970s it was owned by Barton Brands of Chicago - and reduces to two the number of distilleries controlled by ADP. This is not expected to affect ADP's commitment to marketing its brands both at home and overseas.

METAL INDUSTRIES



The index of industrial production for Scotland fell in both the second and third quarters of 1984. Nevertheless, despite the miners' dispute, output in the four most recent quarters for which data are available was still 6% higher than in the four immediately preceding quarters. More recent results from the April **Scottish Business Survey** provide a more encouraging picture. Net balances of 62% and 74% of respondents reported higher orders and respectively sales in the quarter to the end of March 1985. With sales and orders expected to increase, although at a slower rate, in the present quarter there are signs of a cautious improvement in optimism about the business climate.

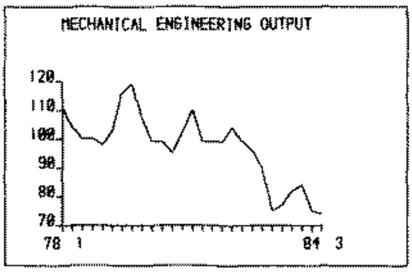
The debate over the future of BSC's Ravenscraig complex continues. In March trade unions and the Scottish Council Development and Industry called for replacement investment in the plant's coke-making facilities. As argued in previous **Commentaries**, the investment issue is crucial to Ravenscraig's survival. Should there be no investment in the near future, three of the six coke ovens will continue to deteriorate with adverse effects on efficiency and costs. Replacement of the three worn-out ovens is estimated to cost £20m. But partial upgrading of the coke-oven facility is only one, and the cheapest, of several possible options. The most expensive option at around £90m would involve renewal of the whole coke-making facility and, correctly, this option is seen as the key to securing a more secure future for the complex.

BSC has not responded to the specific demand for new investment at Ravenscraig. That comment which has been forthcoming from BSC bodes ill. In mid-March Mr Bob Scholey, BSC's chief executive, restated the Corporation's long-standing view that there remains one strip mill too many in the UK. All previous indications have been that BSC regards Ravenscraig as the prime candidate for closure. Against that, a number of factors seem to be operating in favour of retaining Ravenscraig. Record producitivity levels have been achieved in the recent past and important customers have expressed approval of product quality. Moreover, the continuation of production during the miners' dispute appears to have generated much political goodwill. While the delay in producing the new BSC Corporate Strategy has been blamed largely on the uncertainties generated by the miners' dispute, decisions may have been delayed also by differences between BSC and Government Ministers.

Pressure is also mounting on BSC over the Corporate Strategy from the European Community. Negotiations have been proceeding on the EEC arrangements for subsidies, production quotas and prices to take effect from the beginning of next year. Under the Davignon Plan it had been intended that EEC producers should be operating without subsidies from the end of 1985 but that now seems unlikely. Last year in response to the severity of the recession in steel markets, operating subsidies were permitted for 1985. A further round of subsidies to the end of 1985 has now been permitted. Italy and France are the countries most likely to take advantage of these additional subsidies in exchange for further cut-backs in capacity.

It is widely agreed that the capacity cutbacks negotiated in 1983 will not be sufficient to balance European supply and demand. The question now is not whether market regulation will continue next year but what form that regulation will take. Countries such as West Germany, particularly, and the UK, which have been successful in reducing capacity, seek the retention of controls to avoid any advantage accruing in a free market to countries such as Italy and France, which have not reduced capacity. The latter countries wish to continue with controls to permit orderly completion of their restructuring programmes. Negotiations are schedules to be completed during the summer and will determine the UK's production quota. One possibility is that in return for previous compliance with targets for capacity reduction BSC may obtain favourable treatment in quota allocation. if so, some of the BSC pressure on Ravenscraig may be dissipated.

MECHANICAL ENGINEERING



The index of production for mechanical engineering in Scotland remained at a very low level in the third quarter of 1984. Production was only three quarters of the volume reached in 1980. The low level of activity in this sector was confirmed by the 53 mechanical engineering firms responding to the most recent **Scottish Business Survey.** They reported that during the first three months of this year their average rate of capacity utilisation was only 31%, the lowest rate reported by any manufacturing sector.

The slump in the index of mechanical engineering between the first and second quarters of 1984 does not reflect the conditions faced by most firms in this sector. According to the Scottish Engineering Employers' Association, production in most mechanical engineering firms has now stabilised. There is even a general feeling that trading conditions have begun to show a slight improvement, although, because of slack capacity, this is not expected to feed through into new jobs.

The drop in the index can be explained by a slow down in just three sectors of mechanical engineering. The miners' strike hit a number of firms in Scotland, among them Anderson Strathclyde, Wallace Town Engineering, NEI and Joy Manufacturing. Most of these firms sub-contract to small businesses who were also hit by the strike. NCB orders have still not returned to their pre-strike levels, both because the NCB stockpiled equipment during the strike, and because they are apparently still considering the future of a number of pits. Most firms are confident, however, that by the end of the year orders will have returned to their earlier levels.

A second sector which saw a slump in production during 1984 was fabrication for the offshore industry. According to the Industry Department for Scotland, mechanical engineering employment in Scotland wholly associated with North Sea Oil was down to 12,470 in December 1984. This was almost 3,000 below employment in June and 6,000 down on December 1983.

The decline in offshore production was apparently a temporary phenomenon as a number of orders were completed and workers were laid-off. During 1984, however, there was a very substantial increase in orders placed with offshore fabricators, and most Scottish yards now have healthy order books. With production on these orders under way, we may expect employment and production in mechanical engineering to show considerable improvement. The effect has already fed through to UK figures. The UK index of production for fabricated steelwork rose by 13 points in the fourth quarter of 1984. This followed a slump of 19 points between the second and third quarters. A recent report by the NEDO Joint Offshore Committee predicts that the demand for fabrication work from the offshore sector should remain strong over the next few years, although the type of technology required will change as smaller fields are exploited.

The third area of Scottish mechanical engineering facing problems is production for the power supply industry. Redundancies by Babcock Power were reported in the last **Commentary.** Babcock Power is suffering from a world-wide fall in demand for new power generators and has warned that a further 700 jobs could be lost from the Renfrew plant if the Sizewell Inquiry rejects pressurised water reactors (PWR). Weirs had also hoped to receive sub-contract work from Babcocks on the PWR.

Babcock's prediction of large scale job losses at Renfrew if the Sizewell PWR does not go ahead is controversial. Babcock Power's plant at Renfrew manufactures boilers for both conventional coal-fired power stations and gas cooled reactors. Their association with nuclear power goes right back to the first UK nuclear generators built in the 1960s. Along with GEC, Babcock Power was one of the principal shareholders of the British Nuclear Development Corporation (BNDC), which was responsible for the construction of a gas cooled reactor at Heysham I. Babcock have recently received orders worth approximately £90m for the construction of the Advanced Gas Cooled Reactor (AGR) at Torness. Around £34m of these ordrs went to Renfrew, providing 200 jobs over 4 years.

A report by the University of Cambridge Department of Applied Economics, based on the CEGB's own figures, estimates that the construction of a coal-fired power station at Sizewell would result in £324 million (1982 prices) worth of orders to mechanical engineering firms, compared with £188m if a PWR was built. Of this

£255m would be for boilers, compared with only £161m spent on boilers for a PWR.

At the moment the Renfrew plant is exporting more than 80% of its output and has orders for power plants in Hong Kong, India and South Africa. All of these orders are for coal-fired plants. Since Babcock's have previous experience in constructing boilers for both coal-fired stations and AGR's, it is difficult to understand why they are arguing that they would not receive contracts unless a PWR was built at Sizewell. In fact, because the PWR is a new design to the UK, a significant proportion of the components would have to be imported from France, whereas a Drax B or AGR could be entirely manufactured within the UK. It is estimated that Babcock's Renfrew plant would only receive £30m worth of orders for Sizewell PWR, whereas they have already received £34m worth of orders for the Torness AGR. Howden's in Renfrew, who specialise in the manufature of fans which circulate gas, also received about £40m worth of orders for the AGR at Torness.

There is no doubt that Babcock, and many other heavy engineering firms which supply the electricity supply industry, are suffering from a shortage of orders. The UK electricity industry built a number of new stations in the 1960's and 1970's using forecasts for electricity demand before the recession hit hard. The CEGB now finds itself with spare generating capacity. Indeed, it is very questionable whether **any** power station is needed at Sizewell, regardless of the fuel it uses.

Many engineering firms, including Babcock Power and Howden's built special facilities to supply the programme of power station construction. It is understandable that they have now moved into a defensive position, and are exerting pressure for the maintenance of a programme of UK power station construction. At the end of the 1970s Babcock managed to persuade the Government to bring forward the order for Drax B boilers in order to maintain jobs at Renfrew. The pressure for a PWR could be seen as a similar strategy. If the Government rejected the CEGB proposal for a PWR at Sizewell, then the planning inquiry would have to go back to the starting board, and, as a result, any orders that Babcock might receive for either a coal-fired station or an AGR at Sizewell, must be delayed for several years.

Babcock have another reason for preferring the PWR to the AGR. At the moment the reactor pressure vessel of a PWR could not be manufactured in the UK. If Sizewell goes ahead then this component would be purchased from Framatone in France. Babcock believe that they could build these vessels if new capital investment was injected into the Renfrew factory. This investment would not yield a recoverable return unless the UK power industry undertook a major PWR building programme over the next few years. Babcock would seem to benefit from the selection of a PWR at Sizewell only if the CEGB then committed itself to constructing several more PWR's in the near future.

The question remains as to whether Babcock's policy of pushing for early ordering of PWR's is the best strategy in the long-term. Even if Sizewell is built, it is certain that UK demand for new power stations will remain very low until the end of this century. There seems little prospect of export orders picking up either. Many other countries have found themselves in the same position as the UK with excess generating capacity and a power station supply industry without enough work. All of these firms are competing hard for overseas orders.

If Babcock Power is to survive it will surely have to diversify production. It cannot continue to rely on orders from the CEGB. There is no doubt that diversification is not easy for heavy engineering firms in the present economic climate, but Babcock have shown their versatility before. They transferred from constructing boilers for the declining shipbuilding industry into the then growth industry of construction for nuclear power plants. Babcock cannot expect to continue bending the UK's power plant construction programme to their own needs. If they are to survive, they must find new markets.

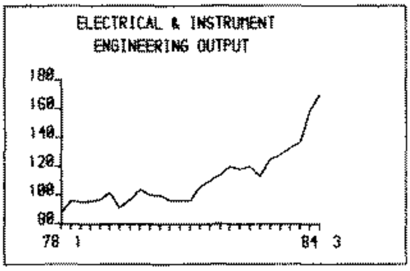
Excluding the three sectors just considered, there seems little doubt that mechanical engineering is enjoying a limited but welcome recovery, fuelled by overseas orders following the decline in sterling. New export orders for UK mechanical engineering firms were 29% higher in the last quarter of 1984 compared with the first quarter. Machine tools, in particular, seem to be finally climbing out of a deep recession. The Engineering Employer's Federation is predicting that sales by the UK industry should rise by 6% this year. Although this figure is well below predictions for other engineering sectors, it would still be an improvement on mechanical engineering's recent performance.

Until recently there has been little sign that producers in Scotland were participating in the growth in export orders. The recent **Scottish Business Survey**, however, indicates a slight improvement in overseas orders. 51% of respondents reported a rise in export sales during the first quarter of 1985 and only 19% had suffered a fall. More respondents (48%) had seen a rise in new export orders than had seen a decline (26%). The future looks less optimistic. Only 27% of respondents expect new export orders to rise over the next three months.

One of the mechanical engineering sectors showing the strongest growth in recent months has been construction and earth moving equipment. The UK index of production rose by 9 points between December 1984 and February 1985. This sector was badly affected as construction slumped in the early 1980's. Terex Equipment of Holytown was among the firms which almost disappeared. When its German parent, IBH, collapsed last year, Terex was put into receivership and the workforce of 1,400 was cut to less than 200. Terex was rescued by its former owners General Motors. Since then the workforce has risen to 550 and 350 new jobs are planned during 1985. Meanwhile, General Motors, which always viewed the acquisition of Terex as a short-term rescue operation, are once more offering Terex for sale.

ELECTRICAL AND INSTRUMENT ENGINEERING

The index of industrial production for Scotland showed strong growth in the third quarter of 1984 for the electrical and instrument engineering division. It rose from 159 in the second quarter to 170 in the third compared with a total UK figure of 126. The year-on-year figure indicated a 23% increase in output in contrast to a UK increase of 13%.



The April **Scottish Business Survey** continued to show electrical and electronic engineering as a fairly buoyant sector of Scottish manufacturing. New orders looked particularly healthy (especially export), with 43% of respondents indicating an actual increase in volume over the past three months with and only 16% experiencing a fall. The expected trend is even more encouraging with 37% indicating an increase and none predicting a fall. A low rate of capacity utilisation of 60% in the sample as a whole reflects the current world-wide depression in the semi-conductor market. The semi-conductor end of the market accounts for around 20% of employment in the Scottish electronics industry.

In the first quarter of 1984 bookings (orders) in the US semi-conductor industry topped $1,200m. By January 1985 orders had slumped to around $600m in the worst market fall in the industry's history. There is at present no sign of an upturn in production and redundancies and short-time working have abounded in the US industry. The slump was caused by massive excess demand in the face of the predicted boom in personal computers As the PC makers increased orders, lead-times on the supply of microchips also increased. This caused other producers, such as mainframe computer makers and telecommunications suppliers to re-order early thus exacerbating the position. When the expected boom failed to materialise excess demand quickly shifted to excess supply and, even with cuts of 40%-50% in the price of a single chip, the market collapsed. Industry experts forecast that the earliest date for a market recovery is likely to be 1986 with 1985 being a very depressed year.

More encouragingly, the SDA have been able to announce new inward investments to Scotland in the last few months by firms setting up to service the semi-conductor industry. Swiss companies, Alphasen (Livingston) and Sphinxwerke Muller (East Kilbride), and US firm Hunt Chemicals (East Kilbride) are the new arrivals. In addition, Hewlett-Packard have announced a £6m investment to create an automated facility manufacturing printed circuit boards. This is expected to add 15 jobs per year until 1989.

The electronics picture was clouded somewhat by the winding-up of Bathgate firm Arcotronics. A late bid by a consortium of firms was not enough to stop the liquidator auctioning off the assets of the company. At its height Arcotronics had 90 employees and its closure comes as a further blow to the badly hit Bathgate area.

TRANSPORT EQUIPMENT

The last two **Commentaries** have reported major revisions to the index of production for transport equipment. Figures released for the third quarter of 1984 reveal yet another revision of the figure for the previous quarter. Although this latest revision is much less drastic than occurred in earlier quarters (the second quarter was adjusted from 91 to 93), it continues to highlight the problems inherent in measuring production in a sector dominated by manufacturers producing a small number of very large items.

In the rest of the UK the transport equipment sector includes a considerable number of vehicle manufacturers, but in Scotland this group has been almost squeezed out of existence. The remaining firms, notably shipbuilders and aircraft manufacturers, specialise in very large products.

The shipyards are apparently the main culprits for the frequent revisions in the index. Quarterly estimates of production in the shipyards are arrived at by dividing the tonnage of a completed ship by its expected production time. Consequently, whenever a shipyard announces a revised delivery date, the index must also be revised, and the adjustments may have to go back to when work first started on the order. Production in the warship yards (Yarrows and Hall Russell) is especially difficult to estimate because completion dates are often not revealed until the ship is ready for delivery. As a result, estimates of quarterly production in these yards can be very wide of the mark. All in all, it would seem inadvisable to rely on the index as an indicator of performance in this sector.

The Scottish transport equipment sector is very closely tied to Government expenditure. Apart from a very small number of truck and specialist car manufacturers, nearly all the employers in this sector were, until recently, nationalised industries, ie British Shipbuilders, British Aerospace, and British Rail. This is changing as the Government continues its push towards privatisation of the first two industries. Even after the Government has sold off its share, however, a large part of this sector will still remain heavily dependent on Government defence contracts.

Unlike British Shipbuilders' merchant and offshore divisions, the warship division has been making steady profits over the last few years. A major factor has been the secure market enjoyed by these yards in the form of Ministry of Defence contracts. They have not had to face the very stiff competition from Far Eastern yards faced by the commercial divisions.

Yarrows has been especially successful in winning orders for the Navy's Type 22 and 23 frigates, and looks assured to win further orders after the next round of tenders for the Type 23 frigates. Consequently, Yarrows proved a very popular purchase when put up for sale, and in March the Government accepted an offer from GEC for the yard. GEC, through its subsidiary Marconi, is the main supplier of electronic equipment used on Navy ships.

The announcement of the sale to GEC immediately prompted an occupation of the yard by workers who were angry that they had not been consulted over pay and conditions under GEC before the sale was agreed. The occupation ended after one week when 5 suspended shop-stewards were re-instated. GEC and the unions are still negotiating over conditions under the new owners.

Although Yarrows' order books are healthy and future prospects look good, it is recognised that the yards' almost total reliance on UK Government defence contracts could prove a weakness in future. The yard is planning to branch out into submarine building for both home and overseas buyers and has already put in a bid for three Type 2400 Royal Navy submarines. It is hoped that GEC's long experience of the export market will help the yard to build up more overseas custom.

Hall Russell, the Aberdeen warship yard, has proved a much more difficult sale than Yarrows. This is because Hall Russell is now working on its final order from the Ministry of Defence and the Ministry has refused to commit itself to placing future orders for the Navy's offshore patrol vessels with the yard. Although Hall Russell has shown good profits in recent years, only one bid for the yard has been announced. This was made by a Consortium headed by Ross Belch, former managing director of Scott Lithgow and former Conservative MP, Mr Ian Sproat. Their initial offer for the yard was believed to be only £0.5m, less than Hall Russell's profits of £765,000 for the year up to March 1984. The Government found this offer unacceptable and the Consortium has since made a second offer believed to be in the region of £2m, which is still considerably less than the Government's own valuation of the yard.

In April the Government announced plans for the privatisation of the Naval dockyards at Rosyth and Devenport by 1987. The Green Paper proposed that the Government remain the dockyard owners, but that management of the yards be handed out to private contractors. The Government's argument is that the costs of naval ship repairs and refits should be considerably reduced as a result of this move. The unions are understandably concerned that the source of any possible cost reductions must be a reduction in their own jobs and pay. The unions at Rosyth responded by calling a half-day stoppage in protest. Mr Heseltine has announced that 350 jobs must be lost at Rosyth over the next two years, before management contracts are handed over to private companies.

The Green Paper proposed that each dockyard would be guaranteed a "core" of refit and repair orders, but that a significant proportion of Naval work would be put out to tender on the open market. These proposals, along with the recent award of a submarine refit to a private shipyard, and the Ministry's refusal to commit themselves to placing future orders with Hall Russell, suggests that the Government is steadily moving towards a position of completely open competition for defence contracts. The question remains as to whether the Government would go as far as placing defence orders with overseas yards. If this occurred, the recent success of Scottish warship yards must be under threat.

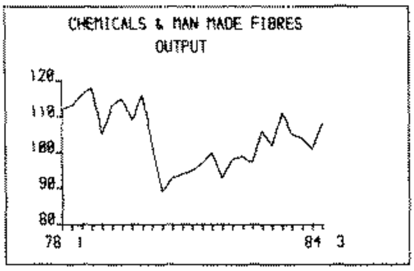
In contrast, British Shipbuilders' merchant shipbuilding division, which has been decimated by both the world-wide glut of ships as foreign trade has declined, and severe competition from Far Eastern yards, has begun to show signs of recovery in recent months. British Shipbuilders have recently announced their largest ever merchant ship order, for a £45m heavy-lift crane ship to be built in Sunderland, and this brings the gross tonnage for merchant ships ordered in the year 1984/5 to double the previous year's orders. Both Govan and Ailsa-Ferguson have been benefiting from this recovery in merchant ship orders, and Govan has recently announced that it had succeeded in its bid for the P & O's North Sea ferry worth £40m. This will bring the building of passenger ships back to the Clyde for the first time in 15 years.

The shedding of the most unprofitable yards, the introduction of flexible working practices and new investment, have all helped British Shipbuilders to face up to the competition from the Far East. Another factor, however, has been the steady decline of the pound against the Yen since 1980. In contrast, orders won by Japanese shipyards for the year ending March 1985 fell by 42% in tonnage terms on the previous year. Although the year 1983-84 was exceptionally active for the Japanese industry, the size of the fall suggests that Japan's domination of shipbuilding may finally be weakening.

British Aerospace is also heavily dependent on government contracts, and like shipbuilders, has found military contracts more profitable than civil aircraft. British Aerospace's operation at Prestwick has, however, been the exception. Their small executive aircraft Jetstream 31, has proved very profitable. It has won £90m worth of orders, nearly all from overseas. As a result Prestwick was one of five Scottish companies to win the Queen's Award for export achievement in April.

Prestwick also had hopes of moving into military aircraft. It had put in a bid for 130 basic trainer aircraft for the RAF, an order expected to create over 1,000 jobs. The competition was narrowed down to Shorts Brothers of Belfast and British Aerospace. In March the Government announced that the contract was to go to Shorts. Defence Secretary Michael Heseltine insisted that Shorts was chosen on the basis of cost alone and not for political reasons. This has been disputed by local MPs and unions at Prestwick who claim that the Shorts tender was £5m dearer than Prestwick's. They have called for an inquiry into how the decision to place the order with Shorts was reached.

CHEMICALS AND MAN MADE FIBRES



Scottish output rose strongly in the third quarter of 1984 with a 7% increase over the second quarter. This represented a faster rate of growth than in the UK as a whole where a 4% increase brought the index to 118. In the first nine months of 1984 output in the UK was nearly 6.5% higher than in the corresponding period of 1983 and provisional figures for the year as a whole indicate a similar rise. Most sectors have shown substantial growth throughout 1984; the bulk chemicals sector has shown a dramatic recovery with organic chemicals and synthetic resins and plastics materials showing rises of 10% and 13% respectively in the first nine months of the year compared with the same period a year earlier.

The Chemicals Industries Association expects the recovery to continue in 1985, albeit at a more moderate rate. Slower output and trade growth are expected as demand declines and competitive pressure increases from Middle East producers. In the UK chemicals output is forecast to rise by 2% and export volume by 3% but this could be affected by exchange rate movements.

The Chemicals Industries Association Investment Intentions Survey for 1985 has estimated that a sharp rise (28%) in the volume of capital spending by the chemical industry will occur in 1985. But a slight decline is predicted for 1986 followed by a significant drop in spending in 1987. Most of the capital (52%) will be employed in replacement and modification of existing facilities, and a further 41% will be allocated towards the development of new products and production facilities in 1985.

The future growth of the Scottish chemical industry is under threat from substantial rates increases and changes in regional development grants, according to the President of the UK Chemical Industries Association. The high level of rates was becoming an increasing burden on Scottish industry which was paying two to three times more for industrial sites than for comparable sites in England. In Scotland, one major chemical company, ICI, alone faces a massive rates increase of £750,000 for its three manufacturing sites at Ardeer, Dumfries and Grangemouth.

Scotland's share of new capital investment in the UK last year was 17% - almost double that for England in relation to population. Investment is expected to drop to 11% this year, but uncertainty remained whether the level of investment could be maintained. Scotland is well placed in the area of innovation because of the growth of the electronics and high technology industries, which need specialised chemicals and chemical services.

Following the disaster at Bhopal, Union Carbide's proposal to build a £6 million speciality gas mixing plant, with employment for 90 people in Livingston has been rejected by Livingston New Town Development Corporation. Despite the fact that methyl isocyanate would not have been used and that there was no evidence of a risk involved in the handling of toxic gas at the proposed plant, there were genuine local fears which led to unprecedented public opposition to the project.

Union Carbide's plans were to supply very small (gram) quantities of fine gas mixtures to the Scottish semi-conductor industry in Silicon Glen. The company has recently announced that it is considering alternative sites for the plant in the vicinities of micro-electronics plants and at least five applications have been made by local authorities. A suitable site will be selected in the near future and the development looks set to proceed.

Fermentech is to invest £2 to £3m in a new factory employing 60 people at Livingston for the manufacture of the important biological substance Protein A. This product has several scientific uses, including the production of antibodies which help the body fight infection and in turn themselves have a wide medical use. Production costs of Protein A have been drastically reduced by new techniques developed by scientists at Heriot-Watt University. Production is expected to commence in the Autumn and first year sales are estimated to be £3 million.

A massive £40 million investment has been announced by Beecham to expand production of antibiotics at their site in Irvine. The investment, the biggest in new plant made by the company, will lead to increased capacity for the manufacture of penicillin and create about 150 new jobs. Beecham is one of the world's biggest penicillin producers and concentrates much of its basic production of penicillin at Irvine.

A world leader in blending chemicals for the semi-conductor industry is moving to East Kilbride. EKC Technology Inc. of California is to spend more than £1 million over the first two years of its operation at East Kilbride and will provide employment for about 25 people.

The major company news is focussed on ICI's £1,034 million trading profit for 1984 - a 67% improvement on their 1983 results. Since the slump in 1982 when profits fell to £259 million, the group has made a spectacular comeback, rationalising the heavier end of some of its businesses, cutting staff levels and making determined advances in pharmaceuticals, particularly, and agrochemicals. The remarkable breakthrough in 1984 owed much to a turn-around for petrochemicals and plastics in which costs of £100 million have been eliminated over the past few years. ICI's UK exports are rapidly approaching parity with home sales and now contribute more than 50% of total profits.

Continued strong growth is predicted for pharmaceuticals and agrochemicals, but the petrochemicals and plastic division in particular is braced for the expected cyclical downturn and the arrival in Europe of imports from the Middle East. The downturn for this sector is not expected to be as severe as in 1981/82 and with its rationalised structure, ICI believe that the division should be able to sustain itself.

ICI's bid in the High Court to force the UK Government to remove tax concessions to rival petrochemical producers has failed. Though Mr Justice Woolf, presiding over the case, ruled that such concessions existed, he was unwilling to order the Government to abandon them. In January Mr Woolf ruled that the UK Inland Revenue placed too low a taxable value on the ethane piped ashore from the North Sea at Moss Morran by Shell and Esso for conversion to ethylene. The Judge has now rejected an appeal by ICI to back-date the declaration. However, he did rule that it was forbidden to value ethane below the 1982 market price in future. ICI is appealing against the order because it is determined to seek a solution to a situation which could allow its three oil company competitors to enjoy an unfair and unlawful tax advantage on their feedstocks for petrochemicals manufacture.

BP Chemicals has also shared in the improved prosperity of the chemical industry where it had been making losses since 1979. The turnaround in chemicals in 1984 was from an £81 million loss in 1983 to a profit at the operating level of £70 million. Subject to Main Board approval BP Chemicals plan to modify an 80,000 tonnes per annum linear low density polyethylene (LLDPE) plant at Grangemouth to gas phase technology and to increase capacity to 100,000 tonnes/annum.

New laboratory facilities, costing £380,000, are due to be built at BP Grangemouth's site to test plastic packages in accordance with new international regulations for the transportation of hazardous substances which become effective from May 1985.

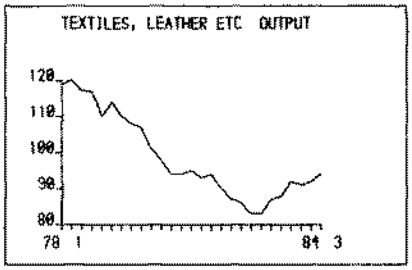
Allegations that the waste disposal operations of ReChem at Bonnybridge led to dioxin poisoning are groundless, according to the independent review ordered by the Government. The review team led by Professor John Leinhan reported "there is nothing unusual about the general health of people in the Bonnybridge-Denny area". The link between discharges from the Bonnybridge plant and ill-health of cattle in the area was also dismissed. In addition, the report states that there did not appear to be any unusual medical problems among the workforce at the plant which might be attributed to unsatisfactory working conditions.

Although the report notes no above average incidence of congenital eye defects (six cases recorded in the Forth Valley Health Board area between 1981 and 1984), it suggests that the more recent cases are worthy of further investigation. While no evidence of abnormal levels of the offending contaminants were found around the plant, high levels of PCB's were discovered in soil and lichens in some areas.

This latest report is likely to represent only one more chapter in the ReChem saga; there is little indication that the controversy surrounding the company's plant at Bonnybridge will be stilled. The plethora of analyses and inquiries to date have merely fuelled rather than quelled the debate.

TEXTILES

The Scottish index of production for clothing and textiles recovered in the third quarter of 1984 following a levelling off at the beginning of the year. The circumstances behind this recent rise were discussed in the last **Commentary.** To summarise, two factors have been at work. A further slide in sterling from the middle of 1984 benefitted the heavily export-orientated wool textile and quality knitwear producers. Meanwhile, a boom in UK clothing sales began in the second quarter of 1984 and has brought increased orders to manufacturers serving the home market.



The **Scottish Business Survey,** which covers the Aberdeen, Dundee, Edinburgh and Glasgow Chambers of Commerce, does not cover the high quality knitwear and wool textile manufacturers located in the Borders. Even so, the 43 respondents to the April survey reported that they were operating at 99% capacity, well above the rate reported for any other manufacturing sector in Scotland.

Further proof of the recent buoyancy in the cheaper end of the Scottish knitwear and clothing industry comes from the National Association of Tailor and Garment Workers. The Association report that following large-scale redundancies at two out of four of Levi-Strauss's Scottish plants in February, nearly all of their members have been able to find alternative employment. In fact firms are now finding it so difficult to fill machinists' jobs on day-time shifts that, for the first time in many years, two Scottish firms, Bairdwear in East Kilbride and Castle Blair in Fife, have introduced evening shifts.

Short-term prospects still appear good for Scottish exporters of quality textiles and knitwear. Although sterling has recently been appreciating against the dollar, it has only returned to the rate prevailing in August of last year when the industry was achieving substantial sales in the US. The Hawick Knitwear Manufacturers Association reports that orders have held up well in the early months of 1985. The prospects for manufacturers serving the home market look less promising. At the beginning of this year the seasonally adjusted UK sales of clothing and footwear began to fall back, although they were still well above the early months of 1984. The April **Scottish Business Survey** also suggests a slackening of demand in the UK. In the January survey 49% of textile and clothing repondents had reported that new orders from Scotland were up. This figure was down to 13% by April. Similarly 57% of January's respondents had increased orders from the rest of the UK compared with only 37% in April. Export orders remain good, however, with 68% reporting an increase in January and 61% in April.

Longer-term prospects for quality Scottish knitwear and textile manufacturers remain uncertain. Hawick knitwear manufacturers are heavily dependent on the US market. More than 60% of their sales go to the US. The Scottish Woollen Industry, which has 45 members, and represents almost the entire Scottish wool textile and yarn industry serves a more diversified market. In 1984 73% of the industry's output was exported. The EEC was the major recipient, but second was the US which absorbed 11% of output and was the major growth area.

Unfortunately, Scottish manufacturers are not the only ones expanding into the US market. The US balance of trade deficit on clothing and textiles rose by 53% in 1984 to a record of $16.4bn (£13.1bn). Not surprisingly, US manufacturers are putting pressure on their government to introduce further restrictions on imports. The Multi-Fibre Arrangement (MFA) has afforded the US some protection against low-cost producers, but last year, with the rise in the value of the dollar, European countries made major inroads into the US. Italy achieved outstanding success with an 82% rise in the volume of its sales to the US. The Fibre, Fabric and Apparel Coalition for Trade (FACT), a coalition of US clothing and textile manufacturers, are presently pushing a trade protection bill in Congress.

Given the present US Government's preference for free trade, it is thought unlikely that the bill will succeed. It should, however, serve as a warning to Scottish manufacturers who are becoming increasingly dependent on the US market. This is not only because they may in future find themselves facing even higher barriers in the US market than already exist (tariffs are presently as high as 45% on wool textiles), but because products diverted from the US market will also increase competition in Europe.

The MFA still remains the major concern in the textile and clothing industry. The GATT secretariat meets in July to discuss the renewal of the MFA which is due to end in June of next year. The EEC must agree its joint approach before the GATT meeting, and European ministers will be meeting shortly to decide on their approach.

At the beginning of April representatives of Scotland's textile and clothing manufacturers and unions met with the Trade Minister, Paul Channon, to press for renewal of the MFA. Mr Channon gave them no indication of the Government's thinking on this matter, but during a recent speech at the Royal Institute for International Affairs, he indicated that the Government was in favour of further trade liberalisation.

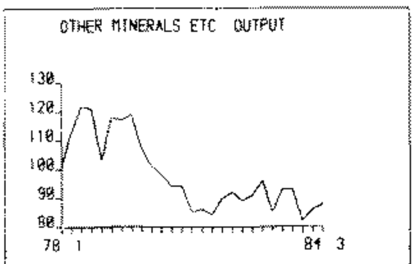
The Scottish textile and clothing industry should be better prepared for an end to the MFA than other parts of the UK industry. The effect of the MFA is to restrain imports from developing countries, which up to now have tended to produce for the cheaper end of the market, and should not be a threat to Scotland's high quality wool textile and knitwear products. The Hawick Knitwear Manufacturers Association points out, however, that the MFA places an upper limit on the import of cashmere sweaters from China. If the MFA is not renewed, China's knitwear may become a major threat to Hawick's manufacturers.

It should also not be forgotten that although Scotland's quality producers are responsible for the majority of Scotland's output by value, they do not provide an equivalent proportion of the jobs in the industry. Hawick, for example, accounts for well over 50% of the value of Scotland's knitwear sales, but only about a third of employment in knitwear manufacture. The majority of employees in Scotland's textiles and clothing industry produce medium quality knitwear and clothing for the large retail chains. Marks and Spencers is a major customer.

These are the jobs which will be most threatened when the UK market is flooded by low cost imports if the MFA is not renewed. Much could then depend on whether Marks and Spencers and other large retailers decide to continue with their "buy British" policies.

OTHER MINERALS AND MINERAL PRODUCTS

In the three months to September 1984, production of other minerals and mineral products in Scotland rose by 2.3% to an index level of 88 (1980 = 100). Output was 5% lower in the year to September 1984 than in the previous year, and the Scottish sector's performance was relatively worse than that of the UK as a whole. For the latter, output levels in the year to September 1984 were unchanged from the previous year. The final quarter's figures for 1984 will no doubt confirm that 1984 was a bad year for the minerals and mineral products sector in Scotland.

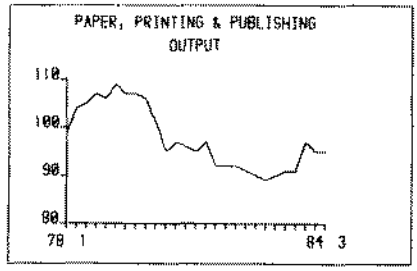


Blue Circle Industries, the largest cement producer in the UK, are commissioning new kilns at Dunbar and in Staffordshire in the final stages of a major refurbishment of the UK works. The group's cost-saving exercise last year involved over 1,000 redundancies within the UK.

The Aberdeen Construction Group have reduced their cement manufacturing capacity to stave off further losses in this side of their operations. Losses made in their last financial year were attributed to over-capacity in the industry.

PAPER, PRINTING AND PUBLISHING

The latest estimates of the index of industrial production for paper, printing and publishing indicate that output in Scotland remained stable in the second and third quarters of 1984, while it fell in the UK by 1% in the same period. For the year to September 1984 production in Scotland and the UK rose at an annual rates of 5% and 4% respectively.



In the March 1985 Budget, the Chancellor announced his intention to raise £50m in a full year by imposing VAT at 15% on press advertising only. Whilst this will have some detrimental effects on parts of the industry, the decision to leave cover prices alone will have been greeted with relief. As a result of the VAT changes, some reduction in the volume of press advertising and also some substitution of other forms of advertising is anticipated. Those advertisers who are registered traders will be able to reclaim VAT paid on advertising. Most affected, therefore, will be those advertisers who are already outwith the VAT system eg businesses who are below the tax threshold, individuals who place personal classified advertisements and also advertisers in the financial community such as banks and building societies which are exempt from the VAT system. These groups will have to decide whether to pay the additional cost of advertising in the press or to reduce the amount of advertising space purchased. Newspapers and other publications which specialise in meeting the needs of these groups of advertisers are most likely to suffer as a result of the VAT changes to advertising. Other forms of advertising which were already subject to VAT eg television and radio, may now be relatively more price competitive and some switching from press advertising will occur where other criteria such as ability to reach a target population can also be satisfied.

On balance, respondents to the April **Scottish Business Survey** were slightly less optimistic about the general situation in paper, printing and publishing than they were previously. Not surprisingly perhaps, given exchange rate movements this year, a smaller proportion of firms expected export orders and sales to be more buoyant in the second quarter of 1985 than in the previous quarter.

Noble Grossart, the Edinburgh merchant bank, has been appointed to assist in the public flotation later this year of the Mirror Group's Scottish papers, the Sunday Mail and the Daily Record. After the flotation, Mr Maxwell will remain publisher and chief shareholder of the papers, currently the only papers in the group making profits. Meanwhile, Mr Maxwell has added Solicitors' Law Stationery Society, a firm specialising in providing office supplies and services to the legal profession, to his Pergammon empire.

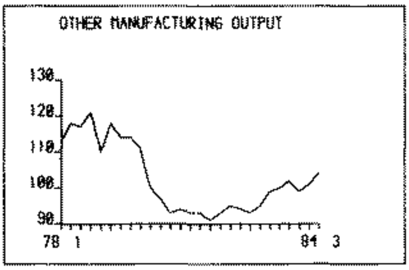
Elsewhere, the sale of the Greenock Telegraph, Scotland's oldest, and still family-run, evening newspaper has yet to be completed. However, the list of potential buyers appears to have narrowed to two, the Scottish-based consortium led by journalist Ian Archer and Fleet Holdings, publishers of the Daily Express. The Greenock Telegraph which sells around 23,000 copies a day in two editions is likely to be sold as part of a package, complete with a block of Reuters shares, for over £3.5 million.

The Scottish paper industry received a welcome boost with the announcement that G-P Inveresk is to undertake an £8m investment programme over the next 12 to 18 months to modernise and update its three Scottish paper mills as well as its mill in Somerset. Meanwhile, the £22.5m expansion programme at Thomas Tait and Sons' paper mill in Inverurie is on target for completion in August this year. The structural steel framework of the building which will house the company's new West German paper-making machine on a site adjacent to the company's existing mill has already been finished.

A Scottish company has been chosen to print an encyclopaedia of Scots Law for the Law Society of Scotland. M & A Thomson Litho of East Kilbride are to print the encyclopaedia, the first of its kind for over 50 years. Publication of the twenty-five volume set will start in September 1984 and will take two years.

OTHER MANUFACTURING

In the third quarter of 1984, the index of industrial production for other manufacturing in Scotland was 3% higher than the previous quarter's figure, bringing the level up to 104, the highest since the first quarter of 1984. Scottish output has also been rising faster than in the UK as a whole, with the Scottish index some 6% above the UK level for the latest quarter.



More recent information derived from the latest **Scottish Business Survey** suggests that confidence amongst respondents has continued to strengthen in 1985. A positive balance of 67% of respondents is now more optimistic about the general business situation in the industry than three months previously. A substantial balance of respondents reported increases in the volumes of sales and orders in the first quarter of this year and expect these trends to continue. Underutilisation of capacity remains a serious problem in this sector. Nevertheless, reflecting the diverse nature of firms in this sector, a positive balance of respondents has revised investment intentions upwards compared to three months ago, particularly with regard to investment for replacement purposes.

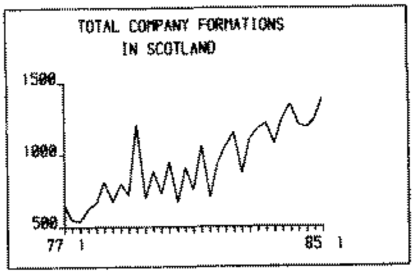
The Scottish ski industry, however, has received a setback with the collapse of the UK's only firm of ski manufacturers, Vielhaber Skis, based at Aviemore. A series of problems, including under-capitalisation and unfulfilled sales expectations in major markets, has dogged this attempt to build a viable ski-manufacturing business in Scotland and hopes now rest on the receiver finding a buyer for the firm.

As part of rationalisation plans, approximately 90 jobs are to be shed by Nairn Floors of Kirkcaldy who currently employ around 700 people. The firm, now the UK's only manufacturer of linoleum, hope the job losses can be achieved over a period of 18 months mainly through voluntary redundancies, retirement and some reduction in temporary employment. Some compulsory redundancies may, however, be unavoidable.

In recent years there has been continuing debate on how to balance the timber requirements of the economy from a domestic source and the land-use interests of other groups such as farmers and conservationists. Currently, less than 10% of the UK demand for wood and wood-related products is met from domestic reserves of growing timber. In addition, the role of the Forestry Commission in expanding the forest base of the economy has also been questioned. The Forestry Commission has direct control of approximately 3 million acres producing more than 60% of the timber in the UK. Given this concentration of ownership, it has recently been argued that all further expansion of forestry should now be undertaken by the private sector. Government support to the private sector takes the form of special tax treatment and the provision of grants, and it is this latter aspect which is now the focus of attention. Generally, it has been the case that grants to landowners wishing to undertake planting of upwards of half an acre have been given subject to prior acceptance of their plans by the Forestry Commission. This has afforded the Commission opportunity to exert its authority on forestry issues. A chink in this system of control was highlighted by the recent sale in the Borders of hill-land which is now being planted with trees without grants or Forestry Commission approval. Under the present system, therefore, it is possible for forestry developers, who don't pursue grant aid and are, consequently, not bound to consult with the Forestry Commission, to plant free of planning restrictions. Concern now is that, if more developers choose this option, mandatory planning controls may have to be brought in to maintain order in land-use development.

COMPANY FORMATIONS AND DISSOLUTIONS

The upward trend in company formations continued in the first quarter of 1985, with 1,385 new companies being registered in Edinburgh. Put in perspective, this figure represents almost twice as many formations as occurred in the first quarter of 1981 which was itself high by historical standards.



More noteworthy is the record number of dissolutions between January and March. The figure of 1,451 is more than three times higher than the corresponding figure last year, and it is the first time dissolutions have exceeded formations since 1970. However, this does not mean that Scottish companies are going into liquidation at an unprecedented rate. In 1984, for example, only one quarter of dissolved companies were actually wound up; the remainder were dormant companies which the Companies Registration Office unilaterally dissolved for consistently failing to file annual returns. It seems likely that the "get-tough" policy explains the massive jump in the quarterly figure.

What is not known is how many of the new formations will never be anything other than dormant companies, which employ no-one and create no wealth. As has been mentioned in previous **Commentaries**, great caution must be exercised in using these figures as a basis for conclusions on the level of economic activity and enterpreneurship in Scotland.

The Service Sector

FINANCIAL SECTOR

After the intense activity of the last two years and the dramatic changes proposed or agreed in respect of investor protection, the organisation of the stock exchange, the liberalisation of building society regulations and the emergence of financial conglomerates, the last quarter has been remarkable only for the absence of major initiatives in the sector. The period has been one of consolidation with preparations for the stock exchange's 'big bang' continuing apace, and considerable wrangling over the details of investor protection and other proposed changes.

The lobbying by particular interest groups has highlighted a serious danger to the guiding principle of increased competitiveness that has motivated the government's reforms. It has emphasised the importance of the regulatory authorities retaining the flexibility to amend their proposals if it is probable that regulations will operate so as to create new rigidities in the system. An example is provided by the provisions for disclosure of life assurance commissions. The Government has made it plain that commissions must be disclosed to clients unless the life assurance broker or agent is tied to an assurance company. A tied agent does not have to disclose commission payments provided the agent is properly controlled by the company and, in addition, makes it clear in any transactions that it is not acting as an impartial adviser. Maximum commissions for tied agents, set by the Registry of Life Assurance Commision (Rolac), are considerably lower than for independent brokers. However, the commission payments may still be substantial and amount to several hundred pounds for the typical house buyer using an endowment scheme. Independent brokers fear that the commission disclosure provisions will either dissuade potential investors from purchasing assurance or cause investors to insist on a substantial reduction in the current level of commission charges. An incentive will exist for high commission companies that are losing business to replace independent brokers with tied agents and to evolve methods of tying agents to companies which satisfy the letter of the legislation (and the Marketing of Investments Board) but violate the spirit of the Act. It is important for the regulatory authorities to make it clear that any such moves designed to thwart the intentions of the legislation will not be tolerated. In this instance, one solution would be to ensure that companies disclose payments to tied agents and provide a comprehensive breakdown of the extent to which a client's premiums are absorbed by administration and other costs.

Banking automation continues to be a topic of some concern to the financial sector. Viewed from the perspective of generating new business, the possibility of expansion into England through a home banking network, as an alternative to the acquisition of branch offices, is an inviting prospect. Leaving aside the difficulties of tapping a market composed of vast numbers of computing illiterates and bedevilled by technical hitches associated with the use of modems and the telephone system, such an initiative may have a significant cost. The recently announced rights issue, the second in a year, by the Bank of Scotland to raise £81m, half of which is to be used for capital expenditures, points to the very substantial expenditure involved in banking automation. Such expenditure coincides with a recent report by Touche Ross International that the banks and financial institutions are disappointed with the benefits of automation. Neither reduced operating costs nor the gains from increased competitiveness over their rivals have been as significant as expected.

The lure of lucrative profits from expansion tends to hide the very real problems faced by the banks in Scotland. The emergence of the TSB has opened the way to much greater competition in the Scottish retail market, a market already under seige from the building societies and susceptible to further attacks from non-Scottish banks such as Barclays. Barclays, now shorn of its shareholding and, hence, commitment to the Bank of Scotland, is in a position to expand into the more profitable areas of the market. Outright attack from the London-and foreign-based banks through the acquisition of extensive branch networks is out of the question but selective investment in profitable areas is inevitable.

On the commercial front, the Royal Bank has greatly strengthened its merchant banking arm with the acquisition of Charterhouse Japhet although none of the Scottish banks is really of a size to compete with the new international groupings that are emerging, able to offer large loans and complex financial packages with little difficulty. The 'boutique' approach to finance is unlikely to be adequate for clients with substantial capital and currency needs. Indeed, the current vogue in Scotland for the concept of specialist financial services would be more acceptable if the record of many Scottish financial houses had shown them to be alive to the possibilities of growth and expansion in the past. The poor representation in the unit trust market does not encourage one to believe that the majority of Scottish financial institutions are capable of responding rapidly to new markets and opportunities.

The transfer of the Barclays shareholding to Standard Life does offer some hope of an improved range of services and strengthening of the indigenous financial institutions. It would be surprising if Standard Life did not attempt to use the bank's branch network to increase its presence in the local assurance and investment market. The shareholding must bring the integration of assurance and the rest of the investment and deposit taking industry one step closer. Until recently the insurance industry has appeared to view the changes taking place in financial markets with almost Olympian detachment but the move into unit trusts by General Accident and the involvement of Standard Life with the Bank of Scotland suggests that at last the industry is realising the need to compete in a broad spectrum of financial markets. The boom in pension fund business, further fuelled by the possible abolition of the state earnings related pension scheme (Serps), provides the companies with the means to finance considerable expansion and extension of their activities and to play an active part in the rejuvenation of Scotland's financial markets.

DISTRIBUTIVE TRADES

In responses to the **Scottish Business Survey** (SBS), a net 30% of wholesalers indicated a rising trend in sales during the first quarter of 1985, a continuation of the improved performance shown by this sector towards the end of 1984. Considerable optimism over short-term prospects was indicated by the fact that a net 58% of wholesale respondents expected further sales growth in the second quarter of this year. The most recent CBI/FT survey suggests that recent performance and short-term prospects in UK wholesaling as a whole are also good, but indicates that wholesalers supplying the retail trade have been much more buoyant than other segments of the industry, such as builders' merchants.

In contrast to previous SBS findings, the most recent responses suggest that actual and potential increases in wholesale sales are beginning to be reflected in employment growth in the sector, albeit of modest dimensions. A net 1% of wholesalers reported increases in total employment over the first three months of 1985 and a net 3% expect to increase employment in the second quarter.

Overall, wholesalers felt distinctly more optimistic about the general business environment in April than they had done in December. However, the high cost of credit clearly remains a worry, with 20% of respondents claiming this could hinder sales growth in the next few months.

At a regional level the results of the April SBS suggest that wholesalers in

Glasgow and Edinburgh had a particularly good first quarter, in contrast to those in Dundee, whose first quarter sales actually fell (see Table 1). These differences in actual performance are reflected in differences in expectations of future prospects.

Table 1 Geographical responses to April 1985 SBS Survey: wholesaling

Item		Balance of responses in: G %	E %	D %	A %
Overall confidence	UP	+43	+77	+21	+15
Actual sales	UP	+72	+72	-55	+58
Expected sales	UP	+77	+86	+40	+52
Actual employment	UP	+ 8	+36	-20	+ 9
Expected employment	UP	+12	+36	- 5	- 4
Investment intentions	UP	+51	+50	0	+10

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen

The Scottish retail sector remains buoyant, with a net 50% of SBS retail respondents reporting increased sales in the three months to end-March 1985. Moreover, a net balance of 62% of retailers expected sales growth to continue in the second quarter. The CBI/FT survey indicates that retail performance in the UK as a whole in the first quarter was also good, though February results were adversely affected by poor weather.

The strong sales performance is continuing to create additional employment in the retail sector, with a balance of 12% of SBS respondents reporting increased employment in the first three months of 1985, and a net 28% expecting further employment growth in the second quarter. However, the actual and expected employment growth is entirely composed of additional part-time jobs. On balance, full-time employment actually fell in the first quarter and was expected to continue to do so.

Of SBS retailers 29% felt that any constraint on short-term sales growth would arise through lack of floor-space and, in view of this, it is not surprising that a balance of 25% of respondents had revised their intentions to invest in premises upwards between January and March.

Regionally, the most notable feature of the results is that, as in wholesaling, Dundee retailers had a distinctly poorer first quarter than those in the other areas (see Table 2). Probably because of this, Dundee respondents were also much less optimistic about short-term future prospects.

Table 2 Geographic responses to April 1985 SBS Survey: retailing

Item		Balance of responses in: G %	E %	D %	A %
Overall confidence	UP	+43	+77	+19	+19
Actual sales	UP	+52	+72	+12	+71
Expected sales	UP	+83	+86	+21	+61
Actual employment	UP	+ 7	+36	- 4	+12
Expected employment	UP	+47	+36	+ 3	+15
Investment intentions	UP	+34	+50	+ 3	+41

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen

The CBI/FT survey for UK motor trades indicated that sales in March 1985 were higher than a year previously, but did not grow as quickly as had been expected in February. A net 15% of motor traders expected sales to increase in April.

TOURISM

Historic and natural heritage is the basis of Scotland's tourism appeal witness the vast bulk of attractions listed in the Scottish Tourist Board's "1001 Things to See". The basic dilemma facing heritage providers is how to exploit tourist markets while at the same time safeguarding the character and dignity of the buildings, scenery and flora and fauna under their care. From its inception in 1935, the National Trust for Scotland (NTS) has been conspicuous for its successful combination of **presentation** and **conservation** tasks. Moreover, it has fulfilled its national role without being any way part of the formal apparatus of government.

In managing its estate of 97 properties covering 100,000 acres, the Trust's strategy is to 'welcome and inform', while at the same time avoiding pressures to 'Disnefy'. It has pioneered developments in interpretaion and ranger services, and it liaises closely with the travel trade and agencies such as STB and the HIDB. The Trust's Marketing Services Department comprises 24 executive posts. In comparison with NTS, national and level government are only just beginning to evolve active marketing policies for the management of their heritage and conservation interests. With this in mind, it will be interesting to record the progress of the newly formed Historic Buildings and Monuments Directorate of the Scottish Development Department.

The combination of the NTS to Scottish tourism can be judged from the total of over 1.5m people who in 1984 visited the 47 properties at which a head count is recorded annually. The trend in gross numbers is encouraging, with successive annual increases over the past decade, save for small falls in 1982 and 1979, serving to push the total figure upward from 1m to circa 1.5m - a substantial marketing achievement. At least the same number annually visit the country-side and other properties managed by the NTS where no count is taken.

In respect of individual sites, a 'jewel in the crown' effect is discernible in which nine properties play host to nearly two-thirds of the gross annual total of visitors. Culzean Castle, with its surrounding country park, alone accounted for 19% of the total. It is one of the six most visited heritage sites in Scotland, the others being the Burrell Collection (the country's only one million plus attraction), Edinburgh Castle, Glasgow's Museum of Transport, the Palace of Holyroodhouse, Stirling Castle, the National Gallery, and the Argyll and Sutherland Highland Museum. The pure NTS heritage centres at Glencoe, Culloden, Killicrankie and Bannockburn were responsible for 24%, while the gardens/castle sites at Inverewe, Crather, Brodick and Theatre accounted for a further 18%. The remaining 39% of visits in 1984 were distributed over 37 other properties, ranging from Falkland Palace and Gardens (49,000) to Kintail and Morvich area (2,000).

According to a market survey of nine National Trust properties undertaken in 1983 (viz, the gardens at Inverewe and Theatre, Culzean Country Park, the castles at Brodick and Crathes, Falkland Palace, and the heritage centres at Glencoe, Ben Lowess, and Bannockburn), **visitors** tended to be car-borne, family-based, holiday-makers rather than trippers, and middle class. The white collar bias was striking with 76% of visitors to the nine attractions being in social categories A, B and C. Individuals from categories D and E comprise 29% of the UK population, but made up only 4% of the visitors' total. The Trust's 125,000 members are also overwhelmingly middle class, with 60% being drawn from the ranks of the AB's, with only a tiny 2% coming from the C2's and DE's. Visitors were shown to come mainly from the UK (53% Scottish, 44% English), with overseas tourists forming the residual 12% (5% North Americans, 2% Australasian, 1% Germans, 4% Rest of World).

The NTS's latest **Annual Report** indicates that while approximately 60% of Trust income derives from members in the form of subscriptions, donations, legacies etc, 24% is attributable to visitor spending on admission fees (£457,000) and shop sales (£1,276.00). This provides a graphic illustration of how tourism can furnish a powerful cash contribution to conservation. Perhaps this financial reality is reflected in a recent policy shift announced by the Trust to the effect that there is to be "a likely reduction in the rate of acquisition of further properties in favour of consolidation and improved presentation of existing assets".

The Labour Market

DEVELOPMENTS IN INTERNAL LABOUR MARKETS

Because of the costs associated with hiring and firing, employment tends to adjust very sluggishly to changed circumstances. Firms tend to respond to changes in demand initially, at least, by making adjustments within their **internal** labour markets. These adjustments can take the form of: reduced short-time working; increased overtime working; and/or increased effort per hour. Internal labour market adjustment mechanisms permit firms to vary their output without varying the number of people employed. There are limits to the extent to which firms can resort to increased effort or to reduced short time working, and overtime working significantly increases the cost of labour services, so that ultimately disturbances do spillover into the external labour market. So, for example, a stimulus to demand might initially be met by adjustments in the internal market, but if sustained it is likely eventually to feed through into higher vacancies and employment. Developments in internal markets may consequently be a useful **leading indicator** of likely future activity in external labour markets.

Firms' use of internal labour market mechanisms are reflected in productivity measured as **output per person** employed. Reduced short-time working and/or increased effort per hour and/or increased overtime hours all increase output at any given level of employment and so increase measured output/person. A measure of this for Scotland can only sensibly be constructed for the Scottish manufacturing sector (using data which are seasonally adjusted, albeit on a fairly crude basis). As the accompanying graph shows, output per person continued to exhibit considerable growth through the first three quarters of 1984. The suspicion is, however, that the scope for further significant productivity gains is diminishing as the manufacturing sector gradually eliminates labour now judged to be excess to requirements.

If this process of adjustment does indeed underly recent productivity changes (and the pattern of employment changes are certainly compatible with this interpretation) then completion of this process would be expected to result in a moderation of manufacturing sector employment losses.

The contribution of the various mechanisms to overall internal labour market activity can be seen by inspection of the other graphs. **Output per person hour**, a crude indicator of variations in the effort expended by the labour force increased in the third quarter of 1984, but at a rather lower rate than output per person. As would then be expected, short-time working per person fell in the same quarter and overtime working per person increased, reflecting the fact that both of these contributed to the productivity increase, measured as output/person.

Short-time working per person and overtime working per person registered further decreases/increases respectively - additional evidence to suggest that at least a part of recent developments in the manufacturing sector reflect substitution of "hours of work" for employment. The combination, at the aggregate level, of increased use of overtime hours and declining employment (which is characteristic of the UK as a whole) has been one stimulus to the union movements' pressure for reduced hours of work. The success of this pressure and other "work-sharing schemes" in achieving their declared objective of stimulating employment depends to a large extent, however, on precisely how the scheme is implemented. In particular, if the costs of labour to the employer are increased as a consequence, then the anticipated employment stimulus may never be realised.

DEVELOPMENTS IN EXTERNAL LABOUR MARKETS

EMPLOYMENT

Table 1 presents some recent employment data for Scotland. As compared to

December 1983, total employment in the same period for 1984 increased slightly (19,000 or 1% of the December 1983 workforce). The pattern of the change was indicative of general recent employment experience in Scotland in that: male employment fell over the period (albeit, by only 2,000 in this particular instance); the more than compensating (in terms of numbers at least) increase in female employment reflected a growth in part-time employment (of 19,000); employment losses occurred in the production and construction industries (8,000) and especially in manufacturing (6,000); employment gains were registered in the service industries (25,000).

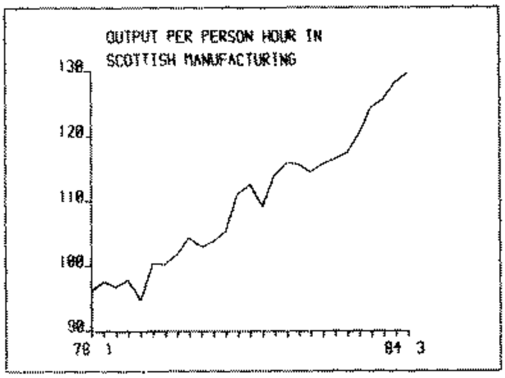
Table 1 Employees in Employment in Scotland (000s)

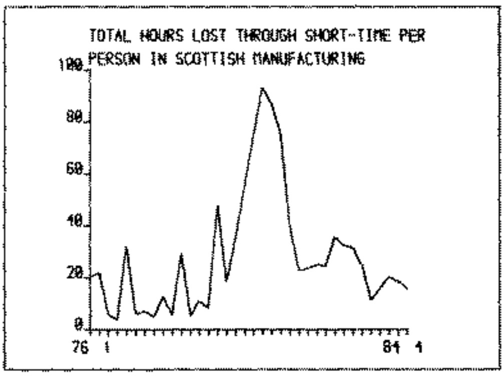
	Male	Female All	Female part-time	Total	Mfg. (2-4)	Prod & Const. (1-5)	Services (6-9)
1979 Jun	1,209	898	332	2,107	606	837	1,222
1983 Sep	1,067	853	362	1,920	445	647	1,229
Dec	1,053	862	374	1,914	440	640	1,232
1984 Mar	1,048	858	373	1,906	436	633	1,230
Jun	1,049	878	383	1,928	437	634	1,252
Sep	1,056	873	384	1,930	436	635	1,251
Dec	1,051	881	393	1,933	434	632	1,257

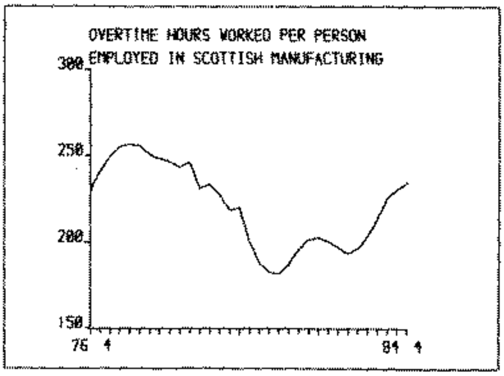
Source: Department of Employment Gazette

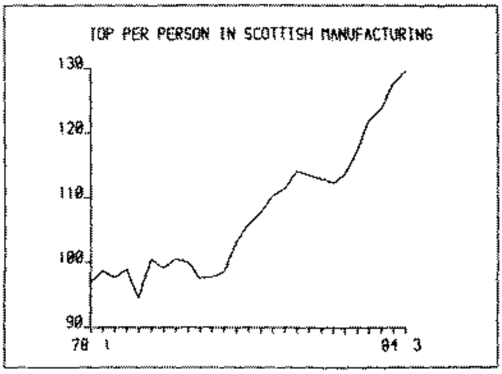
A similar pattern emerges when the previous (moderate) peak year for employment, 1979, is used as the basis for comparison. Male employment has been comparatively heavily hit by the recession (87% of peak level by December 1984), whereas females have fared rather better (98% of previous peak level). However, this latter figure conceals a significant shift in the composition of female employment: part-time female employment actually increased by 18% over the period.

Total numbers employed remain around 8% below their June 1979 level, despite a rise of about 3% in total service employment over the same period. The employment losses have been concentrated in production and construction industries, where employment is only 75% of the June 1979 figure, and especially in manufacturing.









Clearly, it is a matter of considerable concern to identify the factors which influence the level of employment and to determine whether any of these factors could and should be influenced by Government in an effort to stimulate employment and, thereby, render unemployment lower than it otherwise would have been. Many view organised labour in the UK as "setting the price" of labour services, and firms' as determining the level of employment at that price. However, there are a number of conflicting views of what the key factors are in employment determination. In particular, there is considerable controversy concerning the relative importance in current circumstances of the real wage and the level of effective demand for firms' output (See **Briefing Paper**).

The Government takes the view that there is no deficiency of demand. Stimulating demand outwith the nominal limits of the Medium Term Financial Strategy ultimately would have no real effects in their judgement. Rather, the only lasting effect would be higher inflation. Critics respond that in current circumstances of excess capacity, the inflationary consequences of expansion would not be serious (and some argue that such inflationary effects as might otherwise occur can be offset by some form of "incomes policy").

The Government's recent White Paper on employment suggests a number of alternative ways of stimulating employment, all of which can be construed as types of "supply management" policies (to be contrasted with the management of effective demand which is a central element of the Keynesian response to unemployment). First, the flexibility of the labour market, and the balance of power in bargaining are improved by the industrial relations legislation which Government has already in part implemented. (This is a controversial area which we leave aside for the present.) Secondly, labour costs should be moderated and workers should "price themselves into jobs". However, no mechanism has been suggested by which workers can be persuaded to reduce wage claims and/or stimulate productivity. The Government hopes, though, to reduce wage pressure through the recent Budget's increase in personal allowances (which tend to increase take home pay for any given gross wage). Thirdly, and closely related, the reform or abolition of the Wages Council System is intended to push wages in the desired direction and again increase the flexibility of the labour market. Some would question whether even the direction of the effects would be as expected (see **Briefing Paper**) and others object simply on distributional grounds. Fourthly, regulations on unfair dismissal have been eased slightly with a view to minimising the disincentive effect this has on employers. Fifthly, the Government intend to improve the quality of the labour force by means of an extended Youth Training Scheme (YTS). Finally, a number of schemes which are intended to assist the unemployed to adapt, and so make them more attractive to employers, are to be extended.

In view of the importance attributed to earnings by the Government, it is instructive to examine recent Scottish trends in this variable. There are two main sources of Scottish earnings data: the Department of Employment's October and New Earnings (April) Surveys. The latter, which we concentrate on for the present, covers all industries and services with a one per cent sample of employees in employment. The results are therefore subject to sampling errors.

The average weekly earnings of manual and non-manual workers (in current prices) over the period 1974 to 1984 are given in Table 2. Whilst some fluctuations are apparent in the non-manual - manual **differential** prior to 1979, since that date (the last cyclical peak which Scotland experienced) it has exhibited a marked increase. (This is reflected in Table 2 in the declining proportion of non-manual earnings which manual earnings represent). This seems to be a little inconsistent with the Government's emphasis on the all-important role of the cost of labour since it is very likely that non-manual employment has been hit harder than manual employment in the current recession. It is, however, consistent with the view that the contraction in demand has had a differentially adverse effect on manual workers which in turn has **caused** a widening of the earnings differential. This is what we would expect if, as seems likely, non-manual labour possesses a higher "degree of fixity" than manual labour (ie is subject to higher fixed costs of employment).

Table 2 Males (21 and over) average weekly earnings in Scotland (£) at April (current prices)

	Manual	Non-manual	Manual as % of non-manual
1974	42.9	51.8	82.8
1975	56.7	67.1	84.5
1976	66.2	80.8	81.9
1977	72.5	88.0	81.9
1978	81.4	99.8	81.6
1979	93.6	113.0	82.8
1980	112.2	139.8	80.2
1981	124.8	161.8	77.1
1982	136.9	179.9	76.1
1983	145.8	196.6	74.2
1984	152.2	208.6	74.9

Source: Scottish Economic Bulletin

Table 3 Males (21 and over) average real weekly earnings in Scotland (£) at April (1980 prices)

	Manual	Non-manual
1974	101.7	122.8
1975	108.4	128.3
1976	109.4	133.6
1977	104.3	126.6
1978	107.5	131.8
1979	109.0	131.6
1980	112.2	139.8
1981	112.2	145.4
1982	113.6	149.3
1983	115.1	155.2

The price deflator employed was that for UK consumers' expenditure in the 1984 Blue Book.

Source: Scottish Economic Bulletin

Table 3 presents some estimates of "real (consumption) earnings", obtained by applying the UK consumption deflator to the earnings figures in Table 2 (no Scottish price data exist). The Table 2 data reflect "current price" earnings, and, so, for most purposes, have to be interpreted with considerable caution. For example, current price manual earnings grew by a factor of 3.4 times over the ten year period to 1983, but Table 3 indicates that the real purchasing power of these earnings grew only by a factor of 1.13 over the period. The vast difference reflects the impact of general wage-price inflation. Since 1979 the real earnings of manual workers have grown very slowly, whereas those of non-manual workers have shown a much more marked increase. In part this may be a consequence of: the decline in overtime working observed in the sample over the 1979-83 period - which has a differential impact on manual workers; the greater preponderance of (automatic) incremental scales among non-manual workers. This evidence, though, does seem difficult to reconcile with the official view.

However, considerable caution should be exercised in relating these simple measures of the real earnings to recent employment experience. First, the "real wage" measure employed is highly imperfect in that: it is influenced directly by hours of work; it is deflated by an index of consumer rather than producer prices; and the deflator applies to the UK as a whole. Secondly, the "real wage" may be one of a number of determinants of employment, so that it is illegitimate to focus on the relationship between only these two variables. Thus, it could be that the loss of manual workers jobs since 1979 would have been even more severe had real wage growth been any higher. (However, productivity growth over the period is certainly sufficient to more than offset the effect of real wage growth on unit labour costs). Thirdly, the relation between the real wage and employment is likely to be subject to quite complex lags in view of the costs of adjusting the stock of employment and the possible role of expectations. A recent study which investigated the sensitivity of Scottish manufacturing sector employment to a measure of the real product wage, whilst attempting to allow for these complicating factors, produced rather mixed results, and found rather limited support for the Government's position on this issue. (Holden and McGregor, 1985; see **Briefing Paper**).

Finally, it should be noted that even a Government opposed to incomes policies has direct control over an increasingly important element in the total price of labour, namely the "tax on jobs" element of the National Insurance Scheme. The burden on employers of the lower paid was reduced in the recent Budget, but at the cost of some increase for the employers of the higher paid.

Recall that the other major elements of the Government's strategy for jobs were: the emphasis on training, with the YTS as the central mechanism; and assistance for the unemployed through a variety of schemes. Table 4 shows the numbers involved in these schemes in Scotland in recent years. The total numbers have shown a growth throughout the 1980s. 1985 appears to be an exception, but the total here is questionable because of the need at present to "estimate" the numbers currently affected by YWS and JSS (since the official data refer to cumulative approvals).

To provide some perspective on the scale of these schemes, it is worth noting that the 72.2 thousand covered in June 1984 represented only some 3.7% of total Scottish employment at that date. Furthermore, the employment **created** by the schemes is likely to be less than this since some of those covered would have been employed irrespective of the schemes' existence. The recent trend towards presentation of cumulative approvals of YWS and JSS seems to conflict with this view. However, it seems rather more "neutral" to assume that (especially for YWS) a **temporary** subsidy has a **temporary** employment effect. The impact of the schemes on unemployment is likely to be even less than these figures suggest since some of those covered by the schemes may be ineligible to claim benefit.

The biggest single scheme (accounting for about 52% of total numbers) is the Youth Training Scheme (YTS) which replaced the Youth Opportunity Programme (YOP). This provides training and work experience lasting up to a year, and includes at least 13 weeks off-the-job training or further education. From April 1986, YTS is to be extended to provide 2 years training for 16 year-old school leavers, and 1 year for unemployed 17 year-old leavers in their first job. Naturally, to the extent that firms themselves have to fund this extension one would anticipate employment losses among older workers. This is the major mechanism through which the Government hopes to improve labour force quality, although adult training schemes are to be encouraged and provided with some financing of a pump-priming nature.

The next largest scheme is the Community Programme (CP) which accounts for around 25% of the total numbers covered. The CP provides temporary employment for long-

The next largest scheme is the Community Programme (CP) which accounts for around 25% of the total numbers covered. The CP provides temporary employment for long-
term unemployed adults on projects of benefit to the community. It is also due for a major expansion (2.3 times its current scale), as part of the Government's employment strategy. Whilst this looks like a straight employment stimulating device, the Government might wish to emphasise the importance of employment experience for maintaining the quality of the labour force and in maintaining its "employability". (However, much the same could be argued for any policy of employment-stimulation, including those involving stimulation of aggregate demand).

The Enterprise Allowance scheme (EA) which helps unemployed people who wish to start up a business by paying them a weekly allowance for up to a year is also to be extended. The Young Workers and Job Release Schemes (YWS and JRS, respectively) which currently account for about 15% of the total numbers covered are both due to end in March 1986. The former pays a subsidy to employers to encourage the employment of young people and the latter provides a financial incentive to retire a year early, provided this results in replacement by an unemployed person.

UNEMPLOYMENT

Table 5 shows recent movements in seasonally adjusted unemployment rates. The figures mask small reductions in the seasonally adjusted numbers unemployed in April, October and November 1984. Nevertheless, they do reflect the continuing upward trend in unemployment. Even on an unadjusted basis unemployment rose by 4,126 (excluding school leavers) in April as compared to March 1985. On an adjusted basis unemployment increased by 6,100 over the month and by 17,900 as compared to the same month in 1984.

Even if the assumptions underlying the Government's White Paper on employment were to be accepted, it seems unlikely that the measures proposed there could have a very significant, or rapid, effect on unemployment.

Table 4 Number of people in Scotland covered by special employmentand training measures (000s)

	1981 June	1982 June	1983 June	1984 June	1985 June
TSTWCS	17.1	2.7	5.3	0.7	-
JRS	4.5	5.3	6.2	6.8	5.2
CI	1.5	1.5	1.4	1.4	1.5
YOP	22.6	30.0	24.7	-	-
YTS	-	-	0.5	32.7	36.6
CP	3.6	6.4	10.4	16.1	17.8
TI	1.1	1.6	1.4	0.9	0.7
YWS	-	8.2	11.7	10.5	5.3*
EA	-	0.1	0.3	2.9	3.4
JSS	-	-	0.2	0.2	0.1*
Total	50.4	55.7	62.1	72.2	70.6+

Key: TSTWCS = Temporary Short-time Working Compensation Scheme
JRS = Job Release Scheme
CI = Community Industry
YOP = Youth Opportunity Programme
YTS = Youth Training Scheme
CP = Community Programme
TI = Training Places supported in Industry
YWS = Young Workers Scheme
EA = Enterprise Allowance
JSS = Job Splitting Scheme

* These are crude estimates of those **currently** under the respective schemes. The official data are now presented in the form of the **cumulative total** of those applications approved since the outset of the schemes. For YWS this total was £35,683 and for JSS 270. The figures in the table were obtained simply by subtracting the sum of past years' approvals.

\+ This figure is of course affected by the approximations referred to in the preceding note.

Source: Scottish Economic Bulletin
Department of Employment Press Notices

Table 5 Seasonally adjusted unemployment rates in Scotland (excluding school leavers)

		Rate	Male Rate	Female Rate
1984	April	14.2	17.4	10.0
	May	14.3	17.6	10.0
	June	14.3	17.6	10.0
	July	14.3	17.6	10.0
	August	14.4	17.6	10.2
	September	14.4	17.7	10.2
	October	14.4	17.7	10.2
	November	14.4	17.7	10.2
	December	14.4	17.7	10.2
1985	January	14.5	17.7	10.3
	February	14.6	17.8	10.3
	March	14.7	18.0	10.4
	April	15.0	18.4	10.5

INDUSTRIAL RELATIONS IN SCOTLAND

The ending of the miners' dispute did little to eradicate the air of despondency that pervades much of industrial relations in Scotland. Fears of redundancy and the adoption of arguably 'hardline' management techniques continue to dominate relations between employers and employees in both traditional and new industries, and, with few exceptions, have been the main causes of disputes in Scotland.

Fears of a significant reduction in the scale of operations in Scotland by the NCB grew despite the ending of the miners' dispute. Plans to halve output and employment, noted in the last **Commentary**, assumed greater significance with the NCB's announcement of a decentralisation of management authority to the divisional level. This will further isolate Scotland as a peripheral mining area with low levels of investment and lead to the progressive decline of the industry in Scotland.

The return to work left unresolved the fate of miners dismissed during the strike. It is unclear why the Scottish region chose to refuse to reinstate all of the 180 miners dismissed during the strike. Managements in other NCB regions had adopted a policy of reinstating those dismissed for minor charges, such as breach of the peace. However, in Scotland appeals from community leaders including senior police officers and churchmen, for a more considerate approach were ignored. The majority of miners, either those charged with breach of the peace or whose charges were dropped, may well win reinstatement/re-engagement orders from Industrial Tribunals under the Unfair Dismissals legislation. As yet, there is no indication of how the NCB will respond to such an outcome. Nevertheless, despite the possible legal remedies, the adoption of a tough stance by management adds a degree of credibility to the NUM's view that inclusion of a significant number of union officials in the 180 dismissed represents an attempt to weaken the union.

A 'hardline' approach by management, albeit far less successful, is also clearly recognisable as a major feature in the teachers' dispute. The first step, requiring local authorities to provide alternative teaching arrangements and to take disciplinary measures against striking teachers, was an utter failure. Local authorities, recognising that teachers can only be legally suspended on full pay, declined to implement the Minister's request. Likewise, the issue of a letter, by the Minister for Industry and Education at the Scottish Office, indicating that any agreement on pay and conditions would have to be based on detailed job descriptions setting out professional and other duties relating to curricular development and reform, discipline, preparations for examinations, utilisation of non-class hours, and links with parents, was subsequently clarified by the Secretary of State as not representing a 'set of pre-conditions for negotiation'. However, the rejection of an independent pay reveiw plus the announcement of contingency plans for both examination arrangements this year and education provisions for next year indicate the preparedness of the Government to withstand a long dispute rather than actively seek to resolve the major issues facing Scottish education, including those relating to levels of renumeration.

An indication of a longer term problem surfaced in Strathclyde Region in the discussion on whether the existing arrangements for the transfer of teachers should be modified to allow transfer between divisions. By 1986 there will be more than 150 secondary teachers surplus to requirements in schools. The patterns of declining and changing school rolls will markedly exacerbate this problem in future years.

The underlying problems facing education (see last **Commentary**) may spread, given the publication of Strathclyde's Policy report on pre-school provisions. The merging of some social work and nursery provisions raises possible differences over staffing, the professional status of nursery school staff, transfers and possible reductions of staff. Whether the contents of the SED report on education up to six will follow the same policies as the Strathclyde Report, and hence widen these issues, is not yet known.

The possibility of an overtime ban, non-cooperation and reduced servicing of new cash tills by bank staff in support of a wage claim above the 5.5% currently offered represents the exception to the overriding concern with redundancies elsewhere. In shipbuilding the announcement of 600 compulsory redundancies at Scott Lithgows raises yet again questions as to the long-term future of the yard and to Trafalgar House's reasons for purchasing the company. Initial reports suggest that the company will not obtain voluntarily the mix of skills it seeks to lose, although it would achieve the required numbers. The terms offered to those employed to make up for shortages in particular skills may give some indications as to future size of the labour force. The future of the Hall Russell yard is even more in doubt as it will not receive any defence orders to retain jobs until possible privatisation. At Yarrows the skirmishing with GEC, the future owners, over terms and conditions of employment did not deter British Shipbuilders from seeking 490 redundancies, nor GEC from seeking to change work practices and reduce bonuses, pension and redundancy conditions. Whilst at Rosyth 400 redundancies plus the privatisation of the yard were announced. The arrangements for leasing the yard and competitive bidding for work resemble the system of 'agency agreements' established in the second world war, but do little to secure the long term future of the yard or to allay fears that upwards of 1000 jobs will be lost.

The proposals by British Rail to cut 1250 jobs at Springburn led to a one day stoppage and raised the question of whether British Rail would use the new employment legislation and sue the unions. Again employees feared that the announcement was not only part of a wider cutting of BR engineeering work but also the initial stages of denuding the railway network north of Edinburgh and Glasgow.

The sense of uncertainty and fear of possible reduncancy is discernible in new industries. The postponing of investment plans, temporary layoffs, and short-time working in sectors of the electronics industry suggest the possibility of redundancies later in the year and question the optimistic view of the industry among government ministers. Equally the stoppage by NALGO members at the medical records centre in Aberdeen over payment for using new technology is indicative of a number of similar disputes in local government related to the introduction of new technolopgy. The increasing rate at which such equipment is being introduced will soon lead to the possibility of significant manpower reductions in what has been a growth area of employment.

Regional Review

April's record unemployment figure for Scotland as a whole was accompanied by a marked deterioration in the figures for most Scottish regions. In Highland, for example, an additional 2,507 people were unemployed as compared with a year earlier, adding 3 percentage points to the unemployment rate. The next largest increases occurred in Fife (+1.6%) and Central (+1.0%). Only Shetland, Orkney and the Western Isles enjoyed some improvement, albeit marginal.

Strathclyde and the Western Isles now top the unemployment league with rates of 18.8% which can be compared to a figure of only 6.2% for Shetland. There is some variation amongst the remaining regions but in general they tend towards the upper limit of this range. While there is evidence of stability in the ranking of regions by unemployment rate, Dumfries and Galloway and Tayside have shown some relative improvement whilst the opposite applies to Highland and Strathclyde.

Table 1 Unemployment by Scottish region: seasonally adjusted

	April 1985	April 1984	April 1985	April 1984	Change %
Borders	3,642	261	9.5 (10)	8.9 (10)	+0.6
Central	18,803	1,198	16.2 (3)	15.2 (3)	+1.0
Dumfries & Galloway	8,016	373	14.0 (7)	13.3 (6)	+0.7
Fife	20,813	2,163	15.6 (5)	14.0 (5)	+1.6
Grampian	17,657	1,332	8.0 (11)	7.4 (11)	+0.6
Highland	13,353	2,507	16.2 (3)	13.2 (7)	+3.0
Lothian	45,802	2,000	12.6 (8)	12.1 (8)	+0.5
Strathclyde	196,878	6,185	18.8 (1)	18.2 (2)	+0.6
Tayside	26,407	1,322	15.2 (6)	14.4 (4)	+0.8
Western Isles	1,832	- 23	18.8 (1)	19.0 (1)	-0.2
Orkney	756	- 10	11.4 (9)	11.5 (9)	-0.1
Shetland	733	- 22	6.2 (12)	6.4 (12)	-0.2
Scotland	354,692	17,286	15.7	14.9	+0.8

Source: Department of Employment

Examination of the figures for individual travel to work areas (TTWA) reveals that every region is experiencing a wide range of rates. Not surprisingly, this range is highest in Grampian where the differential between the TTWA's with the highest and lowest rates is 15.5%. It is at its narrowest in Fife with a range of 5.3%. Looking beyond regional boundaries, the differential of 19.5% between Irvine and Aberdeen helps to illustrate the disproportionate burden that unemployment is placing on some communities. Of sixty TTWA's, only seven have an unemployment rate below 10% but twenty-nine have a rate in excess of 15%.

Table 1(a) TTWA with highest and lowest unemployment rates in each region

	TTWA	%	H-L
Borders	H Berwickshire	15.5	
	L Galashiels	7.6	7.9%
Central	H Alloa	19.2	
	L Stirling	11.6	7.6%
Dumfries & Galloway	H Cumnock & Sanquhar	24.3	
	L Dumfries	10.8	13.5%
Fife	H Kirkcaldy	16.9	
	L North East Fife	11.6	5.3%
Grampian	H Forres	21.8	
	L Aberdeen	6.3	15.5%
Highland	H Sutherland	23.1	
	L Inverness	12.1	11.0%
Lothian	H Bathgate	21.9	
	L Haddington	8.6	13.3%
Strathclyde	H Irvine	25.8	
	L Ayr	14.1	11.7%
Tayside	H Arbroath	18.1	
	L Perth	10.3	7.8%

Source: Department of Employment

Any policy to reduce unemployment must be targetted on those TTWA's which are hardest hit, if it is to have maximum success. There is little doubt that there exists a need for such a policy and in past **Commentaries** can be found suggested measures which would go a long way to making lower unemployment a reality. Instead, the probability is that the situation will deteriorate further, helped little by the insignificant job creation measures of the last Budget and the forecast reduction in employment opportunities as a result of recent changes in regional policy (see February **Commentary**). It would appear that the political will is still sadly missing.

Male unemployment rates continue to exceed those for females in all regions (see Table 3). This can be accounted for by a number of factors, eg the tendency for a larger proportion of unemployed females to fail to register and the predominance of women among those employed only part-time. The differential is lowest in Shetland and Grampian partly as a consequence of lower unemployment rates and partly because of differences in the structure of labour demand and the undoubted influence of the oil sector.

Table 3 Regional unemployment rates for males and females

	Male	Female	M-F
Border	10.7	8.0	2.7
Central	19.1	12.3	6.8
Dumfries & Galloway	15.5	11.9	3.6
Fife	17.9	12.5	5.4
Grampian	8.3	7.6	0.7
Highland	18.9	12.3	6.6
Lothian	15.9	8.8	7.1
Strathclyde	23.8	12.3	11.5
Tayside	18.3	11.4	6.9
Western Isles	24.3	11.4	12.9
Orkney	13.3	8.6	4.7
Shetland	6.6	5.5	1.1

Note: Year on year changes may contradict those for the total figures in Table 1. This is because the percentage rates are calculated using different estimates of the number of employees.

Source: Department of Employment

The number of vacancies reported is lower than for the previous year. The largest changes have been in Western Isles (-57.2%), Tayside (-33.9%) and Fife (-21.5%). Only Lothian (2.5%), Grampian (+21.2%) and Borders (+49.7%) experienced increases (see Table 4). Reported movements in vacancies and unemployment are reflected in the deterioration of unemployment vacancy ratios for almost all regions and in particular Western Isles (131%), Tayside (+59%) and Fife (42%). Again Borders (-28%) and Grampian (-11%) prove to be exceptions to this general trend.

Table 4 Vacancies by Scottish region

	Total Apr 85	Change since Apr 84	% Change
Borders	557	185	+49.7
Central	852	-102	-10.7
Dumfries & Galloway	373	- 13	- 3.4
Fife	824	-226	-21.5
Grampian	2,458	+431	+21.2
Highland	1,023	- 67	- 6.1
Lothian	2,165	52	+ 2.5
Strathclyde	7,302	-424	- 5.5
Tayside	452	-232	-33.9
Western Isles	68	- 91	-57.2
Orkney	55	- 12	-17.9
Shetland	62	- 3	- 4.6
Scotland	1,691	-502	- 3.0

Notes:

(i) The statistics for vacancy figures are distorted this month because of a change in the MSC's Employment Division's administrative arrangements. This has resulted in delays in the records of notifications of vacancies and of vacancies which have either been filled or withdrawn by employers and has led to an artificial increase in the April level of the stock of vacancies.

(ii) Vacancies include those notified at Career's Offices and the Employment Services Division. This leads to overcounting and thus a marginal overestimation of the true number. However this is more than compensated for by the expectation that reported vacancies represent around one third of actual totals.

Source: Department of Employment

Whilst we expect the number of reported

vacancies to underestimate the true total, these ratios do give an indication of labour market conditions. In no region of Scotland can unemployment be described as exclusively voluntary. All have a significant number of unemployed persons (the range is 76.54 in Borders to 58.42 in Tayside) for every available job.

Table 5 Unemployment/vacancy rates

	April 1985	April 1984	% Change
Borders	6.54	9.09	- 28
Central	22.07	18.45	+ 20
Dumfries & Galloway	21.49	19.80	+ 9
Fife	25.26	17.76	+ 42
Grampian	7.18	8.05	- 11
Highland	13.05	9.95	+ 31
Lothian	21.16	20.73	+ 2
Strathclyde	26.96	24.68	+ 9
Tayside	58.42	36.67	+ 59
Western Isles	26.94	11.67	+131
Orkney	13.75	11.43	+ 20
Shetland	11.82	11.61	+ 2

Measures taken to improve the mobility of the labour force would have little impact unless they act to encourage migration abroad or to other parts of the UK. Similarly, retraining can only scratch the surface of the unemployment problem. What is required is some means to boost the demand for labour services either via direct increases in Government expenditure and/or measures to reduce the relative factor cost of labour. Amongst the latter, further reductions in employment taxes or direct subsidies to employment would have beneficial effects. But most emphasis should be placed on the former as it is only by boosting aggregate demand that there is any possibility of a more rapid recovery in the labour market.

REGIONAL TRENDS

Grampian

The main cause for concern in Grampian this quarter has been the uncertainty surrounding the future of Hall Russell the Aberdeen shipbuilders and their 800 strong workforce. Despite the fact that the closing date for bids was 15 February, the merchant bankers acting on behalf of the government, Hazard Brothers, are actively seeking out interested parties prepared to offer more than the only existing bid to date of £1m. This bid was made prior to the original closing date by a consortium headed by former Scott Lithgow managing director Mr Ross Belch and ex-Tory MP Mr Iain Sproat. The workforce and Mr Belch fear that while Hazards hold out for the best possible price for the yard the chances of any other prospective buyer maintaining shipbuilding, which the consortium has sworn to do, becomes increasingly slim. Furthermore, they view the likelihood of anyone placing an order with Hall Russell as extremely small while this uncertainty concerning the company's ownership continues. This further uncertainty comes in the wake of the rejection by the Yarrows workers of a deal, which required the consent of both workforces, to a private buy-out of the two yards.

March brought further bad news for the industry when the Aberdeen ship repair firm Wood and Davidson announced plans to slim down their workforce by a further 30 jobs. This latest contraction comes on top of the 29 jobs lost in 1983, and is due to overcapacity in the industry and a decline in the number of boats needing repaired.

Grampian's other two traditional industries, fish processing and whisky, also experienced job losses this quarter. In February 5 jobs were lost in Fraserburgh with the closure of Kleen-cut Fillets and 21 job losses anticipated by Runsboro last June became final at the beginning of March. March also saw the announcement that up to 200 employees, of which 140 are engaged in direct production, will be made redundant at the MacFisheries Fraserburgh fish processing plant. The factory which is currently losing £1m a year was sold by Unilever to Clippers Seafoods (Aberdeen) on 1 March this year. It is proposed to introduce short-term working in an attempt to bring the factory back to profitability and safeguard the remaining 400 jobs.

The whisky industry will lose 90 jobs in Grampian Region by the end of May following an announcement at the end of January by Scottish Malt Distillers (a subsidiary of the Distillers Company - the largest producer of Scotch whisky) of their intention to close 5 of its malt distilleries in Moray District and of the partial closure of 2 others.

However, there is some respite in the Grampian non-oil related economy. A Fraserburgh company British Fish Canners intends to sell mackerel fillets in olive oil to Italy, and so many major British stores are interested in their latest product, canned rainbow trout, that they have expanded their workforce by 10 to 85.

Textiles too, retains its buoyancy in Grampian. G & G Keynock of Keith have converted a £14,000 (1983) loss into a £91,000 profit in their accounts for last year just recently published, by increasing turnover by 51%. A new company Lasa Gael exhibited a new range of skirts made from suiting and clothing fabrics produced by Keynock's at the Scottish Development Agency's annual design show.

Also, Illingworth Morris plan to capitalise on their transatlantic success, by mounting a major sales drive in the US for their new menswear collection in Crombie cloth. Traditionally the Aberdeen cloth was used for making overcoats.

Highland

Highland Fabricators have seen off competition from Fife yard Robb Caledon Construction to win a £25 million order from BP to build a steel jacket and modular support frame for the south-east extension of the Forties field.

The order will guarantee a further 15 months work for the Nigg yard and mean an increase in the workforce from the present level of 500 to 1,000 at peak production in Spring 1987. Work started after the Easter holidays on the contract which is due for completion in late 1986 with load-out in Spring 1987.

However, more contracts like this are needed to reduce the very high unemployment levels facing the area. 500 redundancies were announced at McDermotts Ardesier oil yard in March and Hi-Fab themselves employed 3,000 hourly-paid workers only one year ago. It is to be hoped, therefore, that Hi-Fab are successful and fulfill their expectations of winning further orders on the strength of their reputation and this contract.

The downturn in oil-related industry in Easter Ross and, in particular, the contraction of Highland Fabricators was the deciding factor in Newtons Coaches' decision to move their operations from Dingwall to Inverness. Newtons previously provided the services to the Nigg yard but the decline in the workforce to present levels has meant that management no longer supply free bus travel for workers. Although the move will mean the transfer of more than 40 jobs to Inverness, Newtons believe that the sale of their headquarters will result in a net increase in jobs for the Dingwall area. The prospective buyer whose name is as yet unknown, is believed to be a property developer. Inverness accounts for 90% of their coach hires and Newtons see this as an excellent base from which to expand the company. They hope to take on new staff in all departments and expand their express coach service, Continental short stay breaks and private hire.

A further jobs boost for Inverness comes in the form of a new Wimpey restaurant with takeaway service which has been granted planning permission by the local council. The restaurant will provide 40-50 new jobs, almost all for school leavers.

However, across the region in Wester Ross, there is much anger and dissatisfaction at the Government's decision to defer the first hydro electric power scheme for 20 years. The £10 million project near Kinlochewe would have produced a total of 9.5 megawatts from 2 stations situated on the Grandie and Talladale rivers, both of which flow into Loch Maree, and was to have served as a prototype for a further 5 schemes in Ross-shire. All 6 schemes would have provided 400 jobs and guaranteed employment for 10 years for a total cost of £150 million.

The Grundie-Talladale Scheme itself, which would have given 2 years employment to around 60 construction workers, was announced 2 years ago in April, but was delayed by the Secretary of State for Scotland while environmental and fishing interests were considered. it was only this March, however, that Allan Stewart, Minister for Industry, announced that the

Government believe the scheme to be outwith the Hydro Board's capital expenditure programme over the next few years.

The Hydro Board as a nationalised industry are prevented from raising finance commercially for what they regard as an economically justifiable and environmentally acceptable scheme. The Board, which currently produces the cheapest electricity in Britain at a quarter of the cost of the best alternative, believed that the Grundie-Talladale Scheme, producing electricity at 1.05p per unit, would have played an important role in bringing industry to the Highlands.

Better news for the west coast of the Highlands could come if a new plan to open up the long awaited new ski area of Aonach Mor by 1988 gets the go ahead from Highland Regional Council. Up until now, the major problem facing both Lochaber District Council and the Nevis Range Development Company who will run the centre, has been raising the £5,200,000 necessary to build a 600ft access road to the slopes. However, the new proposals involve taking the road up to only 450ft and then running gondolas (the most likely option) or a giant chair lift to the slopes. This would cut up to £2m off the cost of the project and avoid the problems of clearing snow from the higher hairpin bends.

If consent is granted, work could start on the road next April and ski-ing begin by 1988. It is estimated that 182 seasonal jobs would be created, rising to 272 in 5 years time. The possibility of ski-ing is likely to trigger off other multi-million pound developments at An Aird, the land at Fort William reclaimed by the SDA. At present 30 companies are understood to be interested in projects which include hotels and winter sports facilities in this area.

Tayside

The textile industry in Tayside appears to have maintained its recovery over the last quarter, with the news that the British polypropolene industry based largely on Tayside is increasing production to pre-recession levels of 4 or 5 years ago. In addition, figures out in April show raw material processed and tonnage of cloth sold up by 8% over 1983. However the industry warn, through their chairman Mr Graham Scott that profits do not yet allow large scale investment in new jobs, and a further recession by the end of 1985 or early 1986 is likely.

Further evidence of the resurgence in the textile industry is the new scratching mill in Arbroath run by Tayside Flax and Linen Co Ltd which will no doubt take up some of the 700 acres of flax planted in the UK last year. The Flax and Linen Association plan to market medium and heavy flax yarns and fabrics which have identical properties to finer linens to cash in on recent fashion trends.

Dundee-based company Low and Bonar announced plans to build a £5 million non-woven textile plant in the city. This follows their purchase of 51% of the equity in US textile company, Carolina Formed Fabrics Corporation. The American company which is a leader in this form of technology will provide Low and Bonar with a route into the US market and allow then to produce materials for the home and European markets when they bring the technology to Dundee.

Low and Bonar are presently consulting with the SDA over plans to build a factory similar to that in the US. Apart from the basic factory, each line of the manufacturing process, of which there may be two or three, costs £1.5 to £2m. So expenditure could be around £5 million over the next few years. Unfortunately, the process is mainly capital intensive so there will not be a great many permanent jobs created.

Other major industrial news concerning Low & Bonar - although a different part of the company, is the sale of Bonar-Long Ltd to Norwegian Industri A/S of Norway for £3.65 million. National Industri A/S one of Europe's major manufacturers of transformers and water wheel generators, intend to increase plant investment programmes at Dundee and promote communications and expertise channels within the Group. No organisational or structural changes are envisaged at the Dundee company.