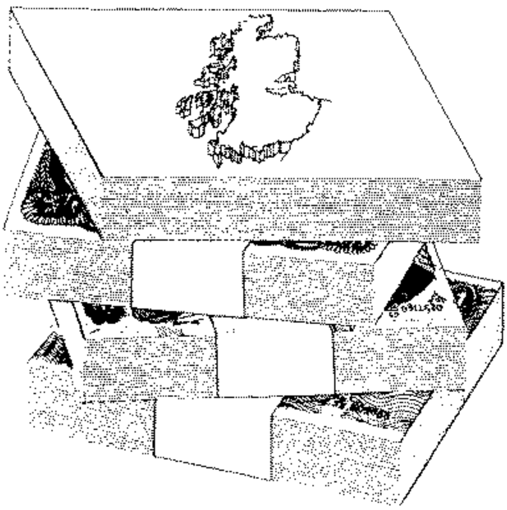
The Scottish Economy

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. Equally, the CBI provides information on sectoral employment trends, while the SBS distinguishes betwen 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 than 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 June - early July) were continuing appreciation of sterling, relatively high (nominal and real) interest rates, and an increase in the annualised rate of inflation above that forecast in the March Budget.

SCOTTISH BUSINESS SURVEY RESULTS

In Manufacturing, the pattern of cautious optimism (optimists exceed pessimists, but not by a large margin) noted in the January and April Surveys is sustained. A positive balance of respondents report higher orders and sales in the past three months, in both home (Scottish and UK) and export markets, and expect this trend to continue over the next three months. Within manufacturing, the most buoyant sectors with respect to general business optimism, orders and sales are Chemicals, Electrical and Electronic Engineering, Textiles and Miscellaneous Manufacturing; those least optimistic include Metal Manufacture; Other Engineering and Paper, Printing and Publishing, though even in these sectors there are positive signs of improvement. Higher export orders and sales continue to be a major determinant of growth in output in most sectors, so that the recent sharp rise in sterling must be regarded with some concern.

Improved sales and orders over the past twelve months or more have resulted in higher overall capacity utilisation, from 53% to 57%, but this remains dangerously low in Mechanical Engineering (at 28%), Other Engineering (at 29%) and Miscellaneous Manufacturing (at 41%). In contrast, capacity utilisation is 97% in Textiles, Clothing and Footwear, and 81% in Chemicals.

SCOTTISH BUSINESS SURVEY JUNE-JULY 1985

Balance of respondents reporting (%)

	Greater optimism	Growth in sales	Growth in new orders	Higher expected sales this quarter
All Manufacturing	8	30	25	36
Metal & Metal Products	-47	-4	8	-8
Chemicals	41	22	15	29
Mechanical Engineering	7	24	16	22
Electrical & Electronics	35	62	25	57
Other Engineering	-2	65	20	62
Food, Drink & Tobacco	14	8	13	20
Textiles, Clothing, Footwear	12	42	42	42
Paper, Printing & Publishing	-10	1	-7	7
Miscellaneous	34	40	58	73

Source: FAI Scottish Business Survey, July 1985

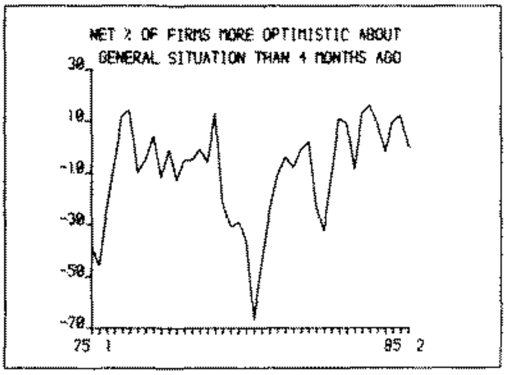
In seven of the nine sub-sectors of Manufacturing (the exceptions are Metal Manufacture and Other Engineering), a positive balance of respondents report upwards revisions to investment intentions, most strongly in Electrical and Electronic Engineering, and in Textiles, Clothing and Footwear. Unlike earlier Surveys in which the major reason for new investment was to increase efficiency, a majority of respondents in the present Survey cited replacement as the principal reason. Increased efficiency however, remains an important factor.

Employment in manufacturing rose in the three months to June 1985, and is expected to rise further (both males and females) in the next quarter. Within Manufacturing, all sectors except Other Engineering and Food, Drink and Tobacco reported an increase in the past three months, but a lesser number expect an increase in employment over the next three months. Except in Electrical and Electronic Engineering, and Textiles, the balances are relatively small and unlikely to make a significant impact on the overall employment total.

Orders or sales remain the dominant constraint on output growth over the next three months for all sectors, though in Textiles plant capacity and the availability of skilled labour also appear as significant potential constraints.

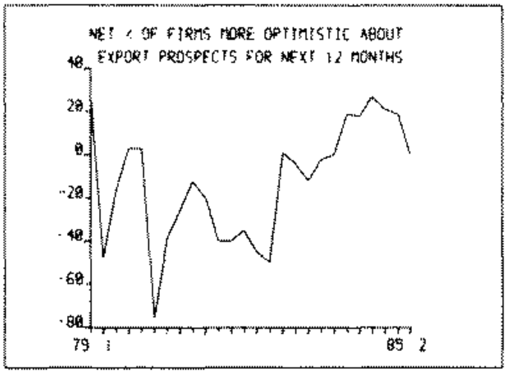
CBI SURVEYS

Results of the Scottish component of the CBI Survey, also conducted at the end of June, are broadly consistent with the Scottish Business Survey with respect to manufacturing as a whole. A small but positive balance of respondents report greater optimism about the general business situation: with regard to export prospects, however, the balance falls in the direction of less optimism, and this is supported by the results of questions on expected export orders and deliveries over the next four months. In contrast, a positive balance of respondents expect continued growth in domestic orders and deliveries.



Like the SBS, CBI respondents report an increase in capacity utilisation over the past few months and an upwards trend in numbers employed; unlike the SBS, this employment trend is expected to be reversed over the next four months, and this may well reflect the greater degree of pessimism regarding export markets on the part of CBI respondents.

Although earlier CBI Surveys seemed to suggest differences in performance and expectations between small (0-199 employees), medium (200-499) and large (500+) firms, with medium-sized firms showing stronger signs of recovery, the present Survey reveals a similar picture across firm-size classes. Results for the larger firms are slightly more optimistic than those for small and medium-sized firms, but the differences are hardly significant.



All sectors except Food, Drink and Tobacco report higher output in the four months to June, but in only two sectors (Engineering and Textiles) do a positive balance of respondents expect a higher volume of output over the next four months. Except for Textiles, and to a lesser extent Chemicals, the overwhelming constraint on output is seen to be orders or sales, and pessimism with regard to orders and deliveries on home and export markets is particularly marked in the Metals and Metal Manufacturing sector.

Investment intentions in plant and machinery have been revised upwards in Chemicals and Textiles, but downwards in all other sectors, reflecting the generally more cautious view of market conditions over the next few months. There are, however, distinct differences between sectors, with Chemicals, Engineering and Textiles recording a strong upward trend in output, and in the case of the latter two, expectations of a continuing upwards trend. In Metals, although output, sales and orders rose sharply over the past four months, an equally sharp downwards trend is expected over the next four months. In Food, Drink and Tobacco, although a small balance of respondents report greater optimism with respect to the general business situation and export prospects, expectations of future output, employment and sales are on balance negative.

Commenting on the earlier (April) SBS and CBI Surveys, the previous issue of this **Commentary** noted the importance of exports in sustaining the recovery in manufacturing output. Results of the current Surveys lend further emphasis to this factor, in that there is a somewhat less optimistic view of export prospects and, hence, in comparison with the April Surveys, a less buoyant view of trends in output, employment and investment. Although recovery has been maintained, macro-economic and external developments, particularly movements in interest rates and in the sterling exchange rate, are likely to be critical between now and the next Survey.

AGRICULTURE

Farmers, farm workers and other members of the rural community in Scotland will have been surprised by a Scottish Office News Release dated 25 June which claims that "overall Government expenditure per head of population in 1983/84 on direct support to the major sectors of economic activity is estimated to have been £225 in rural Scotland compared with £125 in Scotland as a whole". Rural Scotland is defined by district council areas, and comprises the whole of Scotland less the Central Belt and the cities of Aberdeen and Dundee.

Against a background of declining real farm incomes, it is evidently desirable for the Government to be seen to be supporting the rural community. And if it were true that the rural population, just over one quarter of the Scottish total on the Government's definition, received almost twice as much Government expenditure per head as the urban population, that would be remarkable indeed. But, of course, it is not true.

Despite the phrase "overall Government expenditure", the fact is that the items of expenditure defined in this instance as "direct support to the major sectors of economic activity" account for only £125 out of more than £2,000 of public expenditure per head of the population in Scotland.

The Scottish Office has a long history of convenient statistical omissions. Their annual statistics for public expenditure in Scotland omit one of the largest components - defence spending. Ten years ago it became apparent that it would be politically embarassing to include within the statistics of Scottish production the value of output of oil from Scottish waters. Consequently, definitions were changed so that while wages and salaries earned offshore were included in the definition of Scottish output, rents, taxes and profits (some 95%) were omitted.

Now selective definitions have once again been used to bring about politically desirable results. The phrase "direct support to the major sectors of economic activity" has been defined to exclude net lending to the nationalised industries in Scotland, a figure which was running at some £300 million in 1981/82, (the figures for 1983/84 are not available). If the payment of £22 million in regional development grants to Britoil in Easter Ross and to BP in Shetland are also subtracted from "rural Scotland's" share of Government funding, then the rural and urban spending figures come closely into line, and the basis for the Government's claim disappears. Needless to say, the figures quoted by the Scottish Office exclude such major components of Government spending as housing and social security.

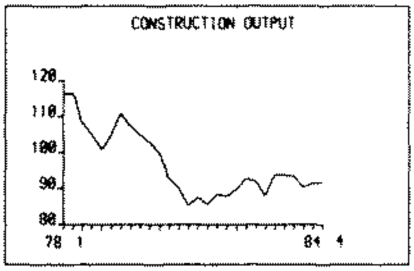
FISHING

Total landings of fish in Scotland in the first five months of this year were 167,099 tonnes, and their value was £80.6m. Landings were 4.6% higher than in the same period of 1984, while their value rose by 16%.

Although the overall volume of fish landings in Scotland has risen, the demersal catch has fallen relative to the 1984 level. The volume of demersal species brought to Scottish ports by UK vessels in the five months to May was 108,571 tonnes, a reduction of around 10% compared to the same period of 1984 which this is due to scarcity of stocks, particularly from the North Sea. This decline was spread over the main white fish catches, including whiting, plaice and haddock, but landings of cod were marginally higher. In contrast, the pelagic catch has increased considerably since last year, with landings in the five months to May up by almost 80%. Both the mackerel and herring catches were significantly greater, boosting total revenue from the pelagic catch by over 100% compared with 1984.

The extension to Scalpay Pier, a project carried out under the Integrated Development Programme for the Western Isles, was completed recently. The extension provides extra berths to accommodate the island's fleet of twelve boats.

CONSTRUCTION



In the first quarter of 1985, orders for new construction work in Scotland totalled £346.2m, of which £175.9m came from the public sector and £170.3m from the private sector. Following their usual seasonal pattern, the orders for new work were a substantial 21% above those received during the winter months, while there was a rise of 2.4% over those received in the first quarter of 1984. However, these figures are recorded in nominal terms, and do not take accouut of inflation. The nominal increase of only 2.4% is likely to result in a drop in real output compared to the same period of last year.

Contracts from the public sector were up by 29% on the previous quarter's total but were lower than the exceptional level of the same period of 1984. The strength of the public sector as a source of construction demand has been slipping in Scotland, but its first quarter contribution both this year and last were considerable. In both instances, the resurgence was mainly due to above-average levels of roads and harbours contracts. For the first three months of this year these were worth a total of £57.9m, compared to just £15.66m in the preceding quarter and £71.4m in the corresponding period of 1984. In the other categories of work, housing orders of £29.65m were higher than at any time last year, but still lower than in previous years; public transport and energy supply work gained contracts totalling £17.74m, again higher than the average for 1984 but less than in some previous quarters.

Private sector orders, worth £170.3m, were 13% higher than in the preceding quarter and roughly 27% greater than in the first quarter of 1984, when demand for most work was relatively depressed. The single most important category of private sector work is housing, for which orders received in the three months to March were £69.6m, up by 20% on the low level of the same quarter last year. The commercial sector, consisting of offices, shops, garages, entertainment and miscellaneous categories, provided new orders with a total value of £61.3m, compared with £50.9m for the corresponding period of 1984. Finally, contractors received £39.4m in orders for new industrial work, well up on the abnormally low figure for the first quarter last year, and maintaining the improvement in these orders evident since then. Taking all non-housing work together, the value of construction work has increased relative to the preceding quarter, but it is difficult to judge whether this will continue, because of the fluctuations evident in quarterly orders in the past.

The latest Scottish Business Survey, reporting on business conditions in the quarter ending June 1985, suggests that the construction industry anticipates renewed decline in coming months. 67 firms responded to the survey nationally, and on balance, they were more pessimistic about business conditions than three months previously. The greatest constraint on future activity is seen to be a lack of orders or sales. The outlook for new orders for the July-September period was judged to be relatively poor - a net 19% of respondents expected a decline in orders from central government, while a net 39% anticipated a reduction in other public sector work. In contrast, the outlook for private sector work continued to look favourable, with a net 9% response subscribing to this view. Further job losses are expected. Compared to the previous survey, a higher proportion of respondents expect to cut back on labour and a lower proportion hope to increase employment.

Official estimates of employees in employment show that the number of people working in Scottish construction in March of this year was 116,000, approximately 1.7% lower than the December total. A comparable decline took place in Britain as a whole, where employment dropped to 942,000 in March. The level of construction employment in Scotland in that month was 4% lower than at the same time last year, which means that employment contraction in Scotland was worse than the average reduction of 2.7% in Britain; only two English regions. the North and North West, recorded more severe rates of decline over the period.

Of the eleven standard 'regions' beloved of official statistics, Scotland's level of employment in construction ranks third, behind those of Greater London and the South East. Indeed, Scotland has a relatively high share of British construction employment - over 12% is located in Scotland, compared to a 9% share in all production and construction employment.

The industry's faith in the private sector has been rewarded lately with some large contracts being awarded in Scotland. The £15m contract for the underground cable system commissioned by Clyde Cablevision has been given to Balfour Kilpatrick. 670km of cable will be laid north of the river in Glasgow, and the cable TV service is expected to be in operation in some areas by October. Balfour Kilpatrick are investigating possibilities for using some of the city's old infrastructure, such as tramway ducts which carried cable, disused rail tunnels etc, for part of the system. It is expected that the contract will provide around 150 jobs.

Morrison Construction's subsidiaries in Scotland have secured a number of building contracts, worth in total £4.5m. Projects in the north of Scotland include remedial work to warehouses at Brora Distillery, Sutherland, a £2.5m contract for 101 houses at Montrose and a petrol filling station at Inshes, Inverness. Costain has received a £2.5m contract for the construction of a service station, near Stirling, for Granada Motorway Services. A purpose-built distribution centre is to be built at the Motherwell Food Park, and the company who commissioned the work will lease the centre to UB Distribution Services. The £1.5m contract has been won by Clarke Design & Build.

Of the contracts placed by the public sector. the largest, worth £15m, has been won by Press Construction of Renfrew. Scottish Gas has contracted the firm to lay and maintain gas distribution mains around Scotland. and the work will provide 60 new jobs. Two contracts for work on sewage systems have been announced recently - Fairclough Scotland have gained the £4.6m contract for sewerage works at Stevenston in Ayrshire, while Shanks & McEwan have taken on a £2.8m job of improving a sewage system at Coatbridge, which includes the construction of a replacement sewer in the town. Finally, Miller Construction has gained a contract worth £5.7m to build a secondary school for Fife Regional Council. The school will accommodate nearly 1,300 pupils in the Lochgelly area and is scheduled for completion by the end of 1985.

The NHBC estimates that the number of intended private housing starts in Scotland rose to 3,600 in the second quarter of this year, a rise of almost 9% over the preceding three months. The total number of intended starts in the first half of the year was 6,900, 10.5% lower than in the corresponding period of 1984, when a record number of starts was registered with the NHBC. The downturn in Scottish private housebuilding contrasts with activity in the rest of Britain, where national figures indicate a slight increase for England and a considerable rise in starts in Wales. For Britain as a whole, the total number of intended starts in the first half of 1985 rose fractionally to 86,000.

There were some differences in the pattern of activity among the Scottish regions. While a decline in proposed new building took place in most of the regions in the six months to June, the reverse was true of Central and Fife. In the latter two regions the growth in private housebuilding had peaked in 1983, preceding the other regions, and the level of starts in 1985 so far represents a recovery from the decline which took place in 1984

The number of dwellings completed for the private sector is estimated by the NHBC to be 3,300 for the second quarter of 1985, bringing the total for the half-year to 6,300, the highest level of the 1980's to date. Information on the public sector covering the same period is not yet available, but the Scottish Development Department has produced final details for 1984, showing a drop of over 5% in the number of dwellings started during 1984. This signals further decline in completions during 1985, to follow the 1.7% reduction in new houses built for the public sector last year.

House price inflation in Scotland has remained relatively low this year, according to the results of both the Halifax and Nationwide Building Societies' surveys of house prices. They concur that for Scotland as a whole, the average rise in house prices in the year to the second quarter of 1985 was 7%, a lower annual rate than was experienced last year. The reason for the slowing down of price increases, in what is normally the busiest season for housing, is generally regarded as high mortgage rates, which had, until very recently, shown no signs of coming down.

ENERGY: OIL AND GAS

International development and oil prices

Demand for oil has continued to fall in the world market leading to disarray in the Organisation of Petroleum Exporting Countries. Oil consumption in the OECD countries in the second quarter is running about 2% below the same quarter of 1984. In the first quarter of 1985 the demand was 35.8m barrels/day, which is 1.6% less than the corresponding figure in the first quarter of 1984. According to the International Energy Agency's forecast the OECD oil demand for this year will be 34.4m barrels/day. The corresponding figure for 1984 was 34.6m barrels/day.

Last year oil demand increased by only 1.9%, the first increase since 1979. About 0.5% of this increase was a direct result of the UK miners' strike and took place against a background of a 4% increase in overall energy demand. The US, the largest consumer, now requires only 0.65 units of energy for each unit of growth in gross domestic product. This compares with 0.85 units in 1970. Demand has been cut by the combined effects of world depression, fuel conservation and substitution. In power generation nuclear and coal-fired plant rules the day. Traditional oil burning industries have disappeared and the remaining industries are much more fuel efficient than before. So although there has been some recovery in the world economy, world oil consumption remains about 9% down on 1979*.

Economic recovery in the developed countries may not significantly increase the future demand for OPEC oil. According to the Royal Dutch/Shell's forecast, oil demand could be stagnant during the next decade but the most likely prospect is of a slow rate of growth. According to the International Energy Agency, however, western countries could face 'massive oil price increases' if they become complacent in the face of the current weakness in the oil market. The Agency argues that its members' oil production has reached its peak and will soon decline while the IEA's dependence on oil imports is set to increase by 10.5% to 855m tonnes a year by the end of the decade.

Potential supply has increased from the non-OPEC countries. New areas such as Alaska, Mexico and China have replaced a substantial part of OPEC's trade. Europe produces nearly 4m barrels/day compared with less than 500,000 barrels/day in 'marginal' fields with reserves between 1974. In less than a decade China and Russia have grown to the point where they now produce 39m barrels/day. North Sea oil, despite costing three to four times as much to produce as OPEC's, has been a major factor in slashing OPEC's share of the total oil market. That share is down to only 31% last year. Part of this loss of market share was a deliberate creation of the OPEC countries. To achieve some measure of control over prices, the producers sought to restrict output by means of agreed production quotas. OPEC last year cut its output ceiling to 16m barrels/day. In May this year production was 14.5m barrels/day compared with 16.2m barrels/day in April and 17.2m barrels/day during 1984.

The spot market price of Arab Heavy has been around $25.25 recently. The price of Arabian light is $28 at the official rate, although lately its spot market price stood at $26.80. This undercut is the result of overproduction and underpricing by some OPEC members. Saudi Arabia has threatened to boost its output to 9m barrels/day from a 20 year low of about 2.3m barrels/day (its OPEC output quota is 4.3m barrels/day). This would probably mean oil prices falling to between $18 and $19 a barrel, creating more pressure on prices of North Sea oil. Non-OPEC producer Mexico has cut the price of its heavy crude blend from $25.50 to $24. China has reduced the price of its light oil by 60 cents to $26.75 a barrel. The price of Britain's Brent crude for July delivery fell 20 cents to $25.90 a barrel on the spot market recently, although it has recovered in future markets for August by 10%.

According to Britoil, North Sea oil projects are unlikely to be upset by the prevailing uncertainty about future oil prices. Although production and exploration may not be affected by this uncertainty (mainly because huge sums of money have already been spent, so potential gains still outweigh the financial risks), development of existing finds, particularly those which are

*World gas use grew by 6% with Japan in particular switching from oil to gas. Total world coal consumption was up by 4% despite a 30% reudction in the UK caused by the pit strike. There was a 17% rise in the electricity generated by the nuclear plants. This displaced over 40m tonnes of fossil fuel and reduced the demand for fuel oil.

50m and 200m barrels, is most at risk. A study by Wood, Mackenzie on a series of oil prices ranging from $27 to $20, suggests that for a range of oil prices between $27 and $20 very few of the current development contenders would stand a chance of seeing the light of day. But the industry remains convinced that in the longer run prices are likely to rise again. Another reason for optimism is that the present North Sea tax regime is constructed in such a way that for individual operators it is worthwhile to develop fields with a negative present value.

Britain has officially withdrawn from the business of setting official North Sea oil prices. The British National Oil Corporation has announced that it will wind down most of its participation agreements with oil producers. Under these agreements BNOC used to receive more than 1m barrels/day of oil. The handful of smaller companies will receive whatever price the corporation's traders are able to realise, cargo by cargo, in the open market. BNOC will go on trading the remnants of its contract oil along with about 250,000 barrels/day of oil received by the Government as royalty from North Sea fields until its abolition in October.

The BNOC move may reflect a coming to terms with the reality that Government income from the off-shore activities are due to peak during the next financial year. From then on the flow of funds to the Treasury will begin to decline. The gradual fall is partly the result of some early North Sea oilfields passing peak output. Another factor is higher development costs of future fields which will leave less of a taxable margin between production costs and selling prices. The Government faces a loss of between £500 million and £550 million a year in revenue for every fall of $1 in the barrel prices of oil.

Privatisation of gas and oil

British gas is forming a special task force to analyse various aspects of the corporation's proposed privatisation. The key issues are (a) the type of performance target against which the application for future tariff increases can be judged. The options appear to be a financial return target or some kind of productivity measure or a mixture of the two: (b) deciding on the formulae to be used to set tariffs. The preference is to follow an inflation linked indicator; and (c) deciding whether to regulate both bulk industrial and domestic tariffs and how rigid the regulations should be. The Treasury is not yet convinced that the proposed abolition of the special tax on gas in some of the low cost North Sea fields can increase the market value of British Gas. The main question is whether the translation of a big public monopoly into a big private monopoly is consistent with the ideals of increased competition and liberalisation. Along with privatisation the Gas Consumers' Council for Scotland will be abolished.

Britoil is expected to push ahead with the development of gas fields in the southern North Sea. The latest well was drilled in 70 feet of water to the North-west of the Amethyst gas find. Tests produced a flow reaching 30.6 million cubic feet a day. It will give a boost to the Government's planned sale of its 49% holding in the corporation.

Licencing

The Government has attempted to favour the UK's independent oil companies in the ninth round of offshore oil and gas licences. The major international companies appear to have been directed into the deepwater 'frontier' areas. A total of 93 blocks have been awarded. Burmah Oil has been awarded 15 blocks while Britoil received 18 blocks. Enterprise Oil will operate offshore for the first time with 7 blocks. British Petroleum, however, was not awarded a single block, although it has been awarded a 50% stake in the ninth round's most sought after block, 98/6 offshore Dorset, which may contain about 40m barrels of low cost oil.

The Government is to drop controversial 'buy British' clauses from the conditions applied to future North Sea oil licences. The European Commission seemed to indicate that the UK Government was discriminating against firms based in other member states who have failed to give assurances that they would make a contribution to the UK economy in return for the granting of drilling permits.

Almost the whole of the UK has been opened up to the onshore search for oil and gas under new licencing arrangements. Companies first have to acquire: an exploration licence, which will last for six years, to search and drill for oil and gas; followed by an appraisal licence, lasting five years, to enable them to establish the extent of any discovery; and, finally, a full development licence for 20 years to extract the oil or gas.

In the ninth round the Department of Energy allocated 18 blocks west of the Hebrides, but the geological message was that the Rockhall Trought blocks lie in very deep water for which the required technology does not yet exist.

Output and exploration

Exploration of the deep waters west of Shetland is only just beginning and no finds suitable for commercial development have been made. A large gas field was discovered by Chevron, about 50 miles north-west of Scotland which could increase the UK's gas reserves by up to a fifth. If this gas field is of very poor quality, recoverable reserves could be no more than one trillion cubic feet. If, however, the reservoir is of good quality, recoverable reserves could reach 8 trillion cubic feet. This compares favourably with the Norwegian Sleipner field with its 7 trillion cubic feet of gas. British Petroleum has drilled a well off the South Coast of Ireland which may be an important gas find. A test drilling achieved a flow of 13.7 million cubic feet a day from a single layer of gas, which is several times more than the initial flow rate achieved for some commercial fields in the North Sea.

The Anglo-Norwegian Frigg gas field which supplies the UK with a third of its gas could be exhausted more than two years earlier than expected. The field did not contain as much as the original estimate of 227 billion cubic metres and the actual figure might be no more than 170 billion. The gas corporation is afraid that it will not have enough gas to meet domestic demand in the second half of the decade.

Phillips Petroleum has warned that winter supplies of gas may be cut sharply because of rapid sea-bed subsidence beneath the central platform of its Ekofisk oil and gas field. The field supplies about 5% of West Europe's natural gas consumption with output between 960 million cubic feet/day and 1.2 billion cubic feet/day. European buyers will be able to meet the shortfall by purchasing gas from suppliers such as the Netherlands or the Soviet Union.

Other developments

BNOC revealed that it had lost almost £86 million in a Government-imposed attempt to shore up world oil prices. The Government told BNOC that the national interest demanded that the corporation refrain from cutting its official prices while spot prices tumbled. As a result BNOC lost its contract customers and was obliged to sell most of its entitlement of 51% of North Sea oil on a depressed spot market.

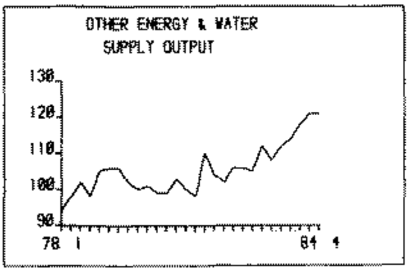
Shell has revealed plans to spend £2-5 billion developing a cluster of five North Sea oil and gas fields. Four of the fields form the Gannet cluster, lying 112 miles east of Aberdeen. The fifth lies 26 miles north west of the Gannet cluster. Total recoverable reserves of the five fields are estimated at 220 million barrels of oil and 600 billion cubic feet of gas. The construction of the jackets and topsides for the Gannet platforms will provide more than 1,000 jobs over about three years. The equipment and facilities obtained from suppliers could provide several thousand more jobs.

British Petroleum has made a gas discovery in the Dutch sector of the North Sea. The well in the Dutch block P/2 tested gas at a stabilised rate of about 10.5 million cubic feet a day.

A number of companies, including Shell and British Petroleum, have terminated production from a number of fields for extensive maintenance work, taking advantage of the current break in world demand. The major oilfield losses of production stoppage are: Fulmar (150,000 barrels/day) Minian (74,000 barrels/day), Beryl A (26,000 barrels/day), Thistle (20,000 barrels/day), Staffordise (19,000 barrels/day) and Forties (16,000 barrels/day). Production in June averaged 2.2m barrels/day compared with 2.6m barrels/day in the previous month.

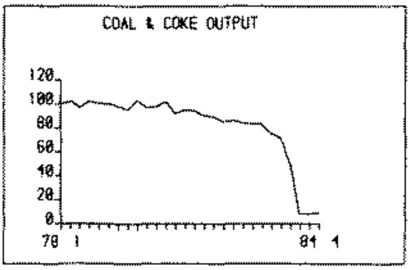
Shell is to establish a market price for liquified petroleum gas. North Sea LPG production totalled 3m tonnes in 1983 and is expected to rise to about 5m tonnes in 1990. Shell produces about 800,000 tonnes annually from its Brent, Cormorant, Dunlin and Fulmer fields. Further production will come from the development of North Sea fields such as Clyde, Tern, Edder and the Gannet complex. LPG is an important petrochemical feedstock and is used extensively to heat homes. Demand for LPG in North West Europe is expected to rise from 16 million tonnes a year in 1983 to about 22.5 million tonnes a year by the end of the decade. Shell's market price will differ crucially from BNOC's, in that it will vary slightly to take account of the extra costs involved in handling the small quantities from independent North Sea producers. This has given some impetus to the efforts of smaller companies to set up a co-operative that would aggregate and sell the crude oil and LPG.

ENERGY: COAL ELECTRICITY AND WATER



The index of industrial production for coal and coke in the fourth quarter of 1984 continued to reflect the effects of the miners' dispute. It stood at 9 in that quarter as compared with 27 in the UK as a whole. There was no change in the Scottish index for other energy and water supply at 121 although the UK index had increased from 120 to 125. The reasons for this can be attributed to the fact that the Scottish power industry had approached full capacity and was supplying the CEGB with "export" electricity in order that the latter could conserve its coal stocks. Nevertheless, as the traditionally high power usage fourth quarter came round UK production would automatically have had to increase to meet demand.

Figures released from a number of nationalised industries and public utilities in the past few weeks have demonstrated the enormous cost of the coal strike to the nation. In all it is estimated to have cost over £6,000 million (including policing costs) of which the CEGB has contributed £2,000m, British Rail £250m, British Steel £180m, the NCB £2,225m, the SSEB £86m and the North of Scotland Hydro Electric Board £30m. As was argued in the **Commentary** at the start of the dispute even this massive sum, spread over all of the country's taxpayers during the next few years, will not be overwhelmingly evident in increased prices and taxes. Hence, the reason that Mr Scargill's strategy was not significantly and immediately harmful to the people whose discomfort (financial or physical) would have helped him most - the general public. Nonetheless, these costs will have to be met and, somewhat ironically, it is just this fact which may give Mr Scargill the last laugh.



The public sector losses caused by the dispute in the last financial year will have to be made good somewhere and sometime. This may result in reduced scope for tax cuts in the next, and possibly the following, budget. Consequently. by the next general election, the Government's plans to reduce taxation and, by so doing, stimulate demand and jobs (simultaneously increasing the incentives for the supply of low-wage labour) may have had too little time to work through the system. Public opinion surveys are showing an increased regard for unemployment as the most important economic ill - the Government's hopes of it falling in the run-up to the next election may have been thwarted by Mr Scargill's frontal assault.

In the Scottish coalfield the last three months have produced a mixed bag of news. First, there are hopeful signs of a slackening in the hard line taken by the NCB management over the reinstatement of sacked miners. Only in the Scottish and Kent areas have no miners sacked during the dispute (for offences ranging from industrial misconduct to criminal activity) been given their jobs back. Since the end of the dispute it has been very obvious that the NCB (and the Government) have taken the opportunity of the miners' surrender to impress on the NUM and other miners' bodies just who is in charge. Confidence in the industry is at a low-ebb and suspicion is running high. A reappraisal of the Scottish Area's policy on sacked miners would be the first indication that management in the industry was thinking again in terms of good industrial relations and not just the necessity to relate to one's industrial partners whether one likes it or not.

Secondly, investments totalling £18m were announced for certain Scottish pits in July. Bilston Glen (£2m), Monktonhall (£9m), Castlehill (£3m) and Seafield (£4) are the main beneficiaries and this pattern provides a clear indication of how the NCB views the future of the two Ayrshire pits, Killoch and Barony. Moreover, relative to the size of investments announced in the UK as a whole (£2,000m - which is intended to create 7,000 jobs), the figures for Scotland are also a clear indication that the NCB regards Scotland as a wholly marginal, peripheral area. The long-term future for coal in the Scottish economy will remain bleak as long as planned output levels remain in the hands of a centralised UK board.

Thirdly, the short-term future for Scottish coal mining was given a slight boost by the publication of the SSEB's Annual Report for 1984-85. The coal-burn at SSEB power stations is expected to be £6.5m tonnes per annum until 1987-88 (over 2m tonnes up on the 1983-84 figure) when the Torness power station is expected to start operation. Thereafter, demand for coal in the power stations will fall to £5m tonnes per annum and the future of coal capacity will become more dependent on the ability of the SSEB to 'export' electricity through the national grid to the CEGB which may become increasingly difficult, given developments in the Channel cable link with France (see below).

Fourthly, the long-awaited decision to convert Kilroot power station in Ulster from oil to coal was finally ratified on 22 June. Ayrshire coal will be used to supply the station (800,000 tonnes per annum) but will come from opencast sites and not the two remaining pits (the NCB's investment criteria announced a fortnight later merely confirmed that the pits had no future). This will bring the total supply of Ayrshire opencast coal for Northern Ireland power stations to 1.3m tonnes per annum (500,000 tonnes already being delivered to Belfast power station) and will mean further development of opencast sites as well as developments at the port of Ayr.

Finally, the NCB launched a job creation scheme for the 900 Polkemmet workers made redundant after the pit's closure due to flooding. Free training, advice and assistance were on offer for those who wished to set up in business or invest their redundancy money. This scheme was announced, coincidentally the NCB claim, with the independent public inquiry set up by West Lothian District Council into the closure of the pit. The inquiry's findings were that it was "technically feasible" to re-open the pit. The NCB refused to take part in the proceedings. Although anathema to the NUM, the litmus paper test of these findings would be to open the doors for a possible private takeover of the pit. It would seem sensible to allow the possibility of saving some jobs at the mine, since the coal board clearly has no intentions of re-opening Polkemmet. At the same time such a move would test the reaction of private mining concerns as to whether they are willing to invest in the industry.

On the 'other energy' front, as referred to above, both the North of Scotland Hydro Electric Board and the SSEB announced losses because of the coal dispute although both held price increases lower than the rate of inflation for the fourth year running. Whether cheaper electricity in real terms will be again possible next year remains to be seen.

In the February **Commentary** a further threat to indigenous energy production in the form of an under-Channel cable linking the French electricity network to the British national grid was mentioned. In June it appeared that Britain (the CEGB) had rejected the offer of cheap French nuclear electricity (as currently enjoyed by Italy) because of fears for its effect on the coal industry and on power industry unions. However, it later became clear that all the CEGB had done was to refuse to sign a formal contract and that it would indeed buy cheap electricity from France on a day-to-day basis. Undoubtedly, this rather unsatisfactory position will prove temporary and, as the French believe, two to three month contracts will soon replace the proposed day-to-day purchases. The effect of this deal on the ability of the SSEB to continue supplying the CEGB with electricity generated from Scottish coal is not clear at present.

In another joint project, this time involving both France and Germany as well as the UK, Dounreay has been chosen as the UK's proposed site for a £200m nuclear fuel reprocessing plant. This plant is expected to handle fast breeder reactor waste from the three countries involved in the deal although only UK waste will eventually be stored in this country. It is expected that the UK Atomic Energy Authority (rather than British Nuclear Fuels who run the much criticised Sellafield reprocessing plant) will manage the facility. George Younger has taken charge of the planning decision in order to consider fully environmental concerns (as he did when rejecting the Loch Maree hydro proposals).

The Government has also announced in recent weeks that it is to continue to back research into various forms of renewable energy power generation. Passive solar energy, biofuels, geothermal hot dry rocks and wind are the main technologies chosen for further funding (as well as waste heat usage) whereas research into geothermal aquifiers and wave power is to be progressively abandoned. The sum involved for this year is £14m (around £20m when the energy efficiency office and EEC projects are included) which is little different from last year (thus representing a fall in real terms) and down on the £17m allocated in 1981-82. The Government takes pride in pointing out that research funding for renewables totalled £68m between 1980-85 as opposed to £16m between 1975-80. What it fails to mention is that most of this large increase was due to the panic reaction to the last major rise in oil prices during 1979-80. Indeed, figures from the International Energy Agency show that research into renewable and alternative energies is highly sensitive to the price of oil and reflects short-sighted reflex reactions by most governments rather than long-term commitment to the development of alternative energy sources.

Unlike France, the United States and many small developed countries, the British Government pays little more than lip-service to developing the massive energy potential embodied in renewable and conservation sources. The US Department of Energy has recognised that renewables could eventually supply 80% of the country's energy needs and France has a major, and specific, programme of action on applications of conservation and renewable sources. In Scotland actual hydro power, one of the best known and tested renewables, stands at only half its potential supply and yet it is cheaper and cleaner than nuclear-, coal- or oil-fired electricity generation. A longer-term perspective, incorporating the positive environmental considerations associated with many renewable technologies, would show the Government to be concerned with a cleaner environment as well as a commitment to the well-being of future generations.

To this end the Government's share of the £500,000 viability study into the prospect of a combined heat and power system for Edinburgh is money well spent. If the 18-month study into the possibility of waste heat from Cockenzie power station being pumped to the city and eventually used for central heating purposes proves successful, then the ensuing £500m project lasting 10-15 years will provide thousands of jobs and create a strong lifeline for Bilston Glen and Monktonhall pits.

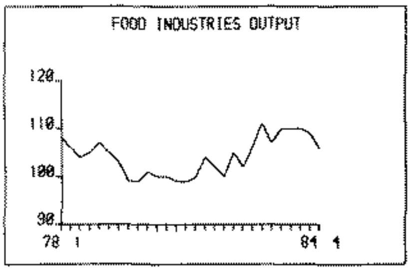
Similar projects have been proven to work cost-effectively throughout North-Western Europe.

Finally, on the issue of cost-effectiveness, a report presented to a conference of electricity users and producers in June shows the UK as having the highest-cost electricity generation and power station building of the six countries included in the study (West Germany, Italy, the Netherlands, Belgium, France and the UK). Nuclear and coal plant building costs are much higher than in many of the other countries (eg coal-fired power stations in the UK cost 1,366 ECUs per KW, almost double the cost in Italy and France) and actual generation costs are also the highest. Labour costs, welfare charges, lack of standardisation and frequency of design changes were blamed for many of the differences. The report concluded on an unhappy note for the future of the coal industry. It noted that nuclear power was the most cost-effective option for European electric utilities and that its economic advantage over coal was widening.

FOOD, DRINK AND TOBACCO

According to the results of the July Scottish Business Survey, respondents from the Food, Drink and Tobacco sector are on balance slightly more optimistic about the general business situation than they were three months ago. 39% reported an increase in the volume of new orders in the last three months and 32% expect this trend to continue in the current quarter. 40% also experienced an increase in the total volume of sales in the last quarter, with 34% anticipating further increases in the next few months. Almost half of the survey respondents expect higher export sales and orders in the next quarter. Although 62% forecast an unchanged employment trend during the next three months, 25% intend to increase employment whilst 13% anticipate reduced employment.

The index of industrial production for the food industries has been subject to substantial revisions which have made trends in output difficult to identify. For example, the estimate for the second quarter of 1984 has been given as 106, 117 and 110 in three successive news releases. The latest figures suggest that output declined by approximately 3% in the last quarter of 1984 after a period of relative stability since the fourth quarter of 1983 when the index stood at 110. In the UK as a whole, the corresponding index stood at 105 for the fourth quarter of 1984, unchanged from the previous quarter but 2 percentage points down on the estimate of 107 for the same quarter the previous year.



According to Ministry of Agriculture figures, family expenditure on food in Britain in the first quarter of 1985 averaged £37.32 per week. Compared to corresponding figures for the first quarter of 1984 spending has risen by around 3% in nominal terms but is lower in real terms once food price rises are taken into account. Competition, particularly among supermarkets, for a share of this expenditure has led to some interesting developments in the food retail trade. The Argyll Group. the food and drinks chain, is to bring its 1,100 grocery shops under two names only, Presto and Lo-cost, chosen to reflect a more modern image for value products than trading names currently in use. The names change, which is only one part of a major expansion programme, is expected to boost net trading margins. In 1984-85 the chain increased its market share of the retail food market from 5.5% to 6% and its operating profits by 36% to £44m. The group's 81 Templeton stores in Scotland will be trading under the Presto name by the end of this year. Ultimately, a national chain of 380 supermarkets incorporating also the bigger Liptons, Galbraith and Hinton stores will be formed. The smaller Hinton and Lipton stores will be assigned the Lo-cost name.

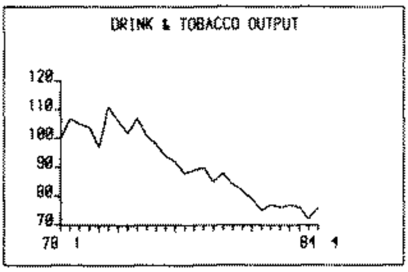
Fine Fare, the supermarket chain currently sponsoring Scottish League football, has also announced details of an investment programme which will lead to the creation of approximately 7,500 jobs in the UK as a whole and 1,655 in Scotland where fourteen additional stores are planned. Freezway, the Glasgow-based retailing group, has agreed the takeover of Norfrost Freezer Foods, the Newcastle freezer firm. The £130,000 takeover will provide Freezway with a base of four retail outlets in the North-East of England where Freezway intends to pursue further expansion.

With the rejection of a union plan to save some of the 660 jobs at risk at the Rowntree Mackintosh factory in Edinburgh, closure remains scheduled for 1987. Less than five years ago the factory employed more than 1,000 people. Meanwhile, the company are moving some of their operations involving bulk supplies of local milk for West Cumbria to Girvan in Ayrshire.

The Martin Retail Group, a subsidiary of Guinness the brewing giant, has bought Southland-McColl (UK), the holding company for the chain of R S McColl newsagents, confectioners and tobacconists shops. 245 of the 370 R S McColl shops are located in Scotland.

Output in drink and tobacco industries rose in the final quarter of 1984 to 76, an increase of 6% over the previous quarter, mainly reflecting an improvement in the output and sales of the whisky industry. For the year as a whole, the index level of 75 was 2.6% below the level for the previous year and almost 28% lower than the pre-recession level of 104 in 1978.

Imperial Tobacco, the parent company of W D & H O Wills have announced that 200 jobs at its Alexandra Palace factory in Glasgow are to be axed over a period of two and a half years. Approximately half of the redundancies are to come from the cigar production division, 50-60 from the hand-rolled tobacco section and 25-30 from the pipe tobacco division. Declining trends in cigarette consumption and high taxation are cited as the main factors behind the job losses. Elsewhere in the tobacco sector, US Tobacco International is gearing up to produce sachets of smokeless tobacco for the European market. Initially 35 people will be employed in their East Kilbride factory. The product, however, has already attracted the attention of health and anti-smoking campaigners who claim that use of the product could increase the risk of developing cancer of the mouth. The company argue that a link between smokeless tobacco and disease had not been established.



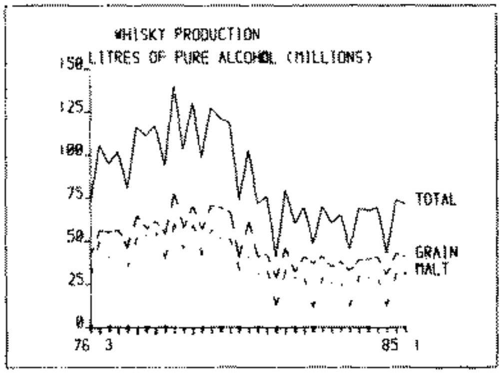
Scottish and Newcastle has given an undertaking to the Secretary of State for Trade that it will not increase its share of Matthew Brown over 15% while the Monopolies Commission investigation of S & N's bid for the Blackburn brewing company is in progress. S & N currently hold a 14.9% stake in Matthew Brown. Results for the year to April 1985 show that S & N's profits grew by 14.2% from £56.9m to £65m at the operating level and margins also improved. The acquisition of Matthew Brown still appears to figure prominently in future plans for long-term growth of S & N's beer activities and it seems certain that S & N will go ahead with the bid, assuming that the Monopolies Commission gives the all-clear. S & N currently show no inclination to become involved in the takeover battle between Guinness and Arthur Bell, the Scottish whisky company. Given the growth of its hotel division with profits doubling from £5.5 to £10.7m in the last financial year, S & N may well develop an interest in the hotel side of Bell's business should it be hived off at some stage. Ladbroke Hotel Group meanwhile has already declared an interest in the ultimate ownership of Bell's hotels by buying a 3.25% stake in Bells in August. The performance of S & N's wines and spirits division has not been so impressive with profits falling from £700,000 to £100,000. Hoping, however, to benefit from the market trend towards wine drinking in Scotland, S & N launched through its subsidiary, the Canongate Beverage Company, its Castaway wine cooler, a drink consisting of wine, carbonated water and fruit juice.

WHISKY

Whisky production in the first quarter of 1985 was 71.2m litres of pure alcohol, up 5% on the corresponding period last year, and the highest first-quarter figure since 1981. Given the recent export success of bottled malt whisky, it is perhaps not surprising that most of the increase came in this area. Malt production rose by 8.9% compared with 2.3% for grain. The apparent contradiction between the numerous distillery closures announced in recent **Commentaries** and increasing output is easily resolved. Those distilleries which have remained open are now operating at higher levels of capacity than of late, although by today's standards any distillery working at more than 50% of capacity is reckoned to be doing well. It is less clear what effect the increased production will have on the already overstocked industry (see below).
Total whisky exports for the first six months of 1985 fell by 2.3% over the same period in 1984. However, this modest fall masks wide variations in the performance of different types of whisky. The most dramatic changes occurred in malt whisky, where exports of bottled malt rose by 34% and bulk exports fell by 38%. While the rapid rise in exports of bottled malt is unambiguously good, there will be mixed feelings about the fall in bulk exports. The dramatic decline, some 5.0 million LPA, is mainly accounted for by problems being experienced in the Japanese whisky industry - the Japanese are the biggest importers of bulk malt whisky which they admix with the local product for home consumption. Those companies which have long felt bulk exports to be against the long-run interests of the industry will no doubt feel that the chickens are coming home to roost in this market, while the bulk exporters will be hoping that the problems in Japan are short-lived.

Encouragingly, bottled blended exports, the mainstay of the industry, have also risen. While the 5.5% increase is much more modest than that achieved in bottled malt, it is nevertheless very welcome for the sector of the market which has been worst hit by the recession.

The biggest single item of news in the last quarter is, of course, the bid by Guinness for Arthur Bell. With the possible exception of Highland Distilleries, Bell is the most fanatically independent of whisky companies, a trait which springs largely from the dominant personality of Chairman Raymond Miquel. Guinness must have known they were in for a fight when the bid was announced. The bid took the form of an offering of 9 Guinness shares in exchange for every 10 of Bell's with a 225p per share cash alternative. The whole package is worth around £300m. The fact that acceptances for 5% of Bell's ordinary shares were received by the first closing date, coupled with the unsurprising decision not to refer the bid to the Monopolies and Mergers Commission, must make the Guinness directors feel confident of success. By the time this **Commentary** goes to press it is expected that Guinness will have improved their initial offer in an effort to obtain the 75% of Bell's share held by the financial institutions.



One intriguing element in the Guinness/Bell battle was the announcement that the Kuwait Investment Office (KIO) bought over 5m Bell shares (3.8% of the issued capital) just after the bid was announced. The Kuwaitis are still smarting from Bell's success in buying the Gleneagles Hotel which they badly wanted, and it is now known that the KIO shares represent the bulk of the 5% acceptances initially obtained.

Should Bell's apparently invincible independence finally crack, more than one independent distiller would be casting anxious glances over its shoulder. Even the mighty Distillers Company is rumoured not to be immune, although its size alone would dampen the ardour of all but the most serious of suitors. DCL's pre-tax profits for the year to March look fairly impressive - up by almost a quarter to £236.2m. Admittedly, much of this increase in profits is due to the slide of the pound against the dollar during the last financial year. Nevertheless, the group can reasonably point towards its attempts at large-scale rationalisation over the last year in both distilling and bottling, and can claim that it is doing as much as anyone to get supply of whisky back into line with demand. DCL has still failed to develop the necessary new products, and is a long way from shedding its "dinosaur" image, but it is at least trying.

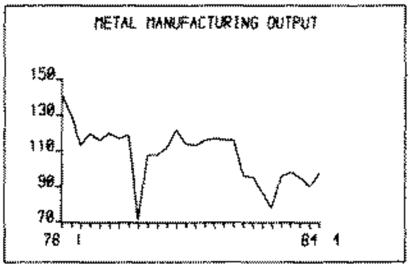
One other item of company news neatly illustrates the sort of problems facing the industry at the moment. In July Macallan-Glenlivet, whose single malt "The Macallan" is the world's fifth top seller, announced its intention to raise £5.8m via a rights issue of unsecured loan stock. The idea is to eliminate the increasingly onerous interest charges on bank borrowing which would have reached £800,000 in 1985 in the absence of the issue. With demand for single malts growing rapidly Macallan-Glenlivet has to find the cash to keep laying down stocks of new whisky, which lie unused for at least ten years, as well as to cover the expense of existing stocks. In this company's case the problem is exacerbated by its insistence on having "The Macallan" mature only in casks which have already been used for sherry. This practice, once widespread in the industry, has all but died out - most whiskies today are coloured by the addition of caramel.

The massive overstocking which besets the industry at the moment has been the subject of comment by a numer of parties. One of the more interesting proposed solutions came recently from a Grampian Region councillor who suggested that the excess supplies of malt and grain whisky should be rectified into neutral "white" spirit for the production of vodka and gin as well as for use as industrial alcohol. Before purists faint at the idea of "the cratur" being transformed into baser spirits, it should be pointed out that Invergordon Distillers has been involved in the production of white spirits for three years and by all accounts is doing very nicely out of it.

The objection to this plan is that it is simply not cost-effective. White spirit produced in this way would be two or three times as expensive as that produced commercially at the moment, which suggests that a ready market would be difficult to find. Nevertheless, the fact that both Scottish Malt Distillers and Chivas Brothers were prepared to pass comment on the proposed scheme illustrates the degree of concern about stocks within the industry.

METAL INDUSTRIES

The index of industrial production for metal manufacturing is now available but, as for all other sectors, only up to the fourth quarter of last year. Such lateness seriously detracts from the use of the index as an indicator of current developments. This deficiency is compounded by the near certainty that the index, which stood at 91 in the fourth quarter of 1984, will subsequently be revised. Substantial revision is evident in the indices for earlier quarters. The index for the first quarter has been revised downwards from 101 to 98 while that for the third quarter has been raised from 86 to 90. Comparisons with the corresponding indices for the UK indicate that the Scottish results are subject to considerably greater revision.



Respondents to the July Scottish Business Survey report considerable pessimism. On balance, 47% of respondents are less optimistic about trading conditions than three months ago. While there were slight increases in both new orders and sales in the last quarter, these are expected to be reversed over the next three months. Overwhelmingly, orders and sales are identified as the major constraint on output in the near future. With firms already operating with much spare capacity, investment intentions in this sector have tended to be revised downwards.

In early August BSC announced its plans for the steel industry. Despite considerable lobbying by Scottish groups in recent months, BSC is not undertaking new investment in coke ovens at Ravenscraig, nor indeed elsewhere in the UK. Increasingly, although debate in Scotland centred on the nature of new investment, it had become apparent that the option of not replacing coke ovens was the likely outcome. Much more unexpected was BSC's decision to close the Gartcosh rolling mill in March 1986, with the loss of 800 jobs. These decisions probably signal the end of the Scottish steel-making industry by the end of the decade.

The Gartcosh mill rolls and finishes a high proportion of Ravenscraig's coils of wide strip steel for use in the manufacture of vehicles and domestic appliances. After March 1986 those coils will have to be transported to other BSC mills for finishing, the most likely destination being the Shotton works in North Wales. This loss of an adjacent customer and lower planned output will put Ravenscraig's production at a cost disadvantage relative to the output of the Welsh plants at Llanwern and Port Talbot. That disadvantage will almost certainly be held against Ravenscraig in the next comprehensive review of BSC's operations in 1988.

Prospects of the Gartcosh mill being sold to a private company are remote. The option of a private sale was not pursued for the Glengarnock plant which closed at the end of March. That option is constrained by the need for capacity reductions, an end which is not achieved by sale to a private company.

It has been known throughout the 1980's that BSC wishes to close Ravenscraig. The complex has been protected since the last major crisis in late 1982 by the undertaking made by Patrick Jenkin. That undertaking has been reinforced recently by the considerable political goodwill generated by the Ravenscraig workers' refusal to support the NUM in the miners' dispute and by the positive response to exhortations to raise productivity levels.

The new strategy is a convenient arrangement for both BSC and the Government. It satisfies BSC's desire not to provide any guarantees for Ravenscraig's survival beyond 1988 and the Government's wish to confirm its political commitment to the main complex during the lifetime of this Parliament. The timescale involved also suits BSC's current commercial requirements since Ravenscraig's output will be needed while the Redcar blast furnace is rebuilt next year and until refurbishment projects are completed at Llanwern and Port Talbot.

Thereafter, unless there is a marked change in policy, Ravenscraig's future is extremely precarious. A number of influences point to closure. Perhaps most fundamentally, BSC is charged with making the industry commercially viable and with preparing the industry for privatisation. BSC has repeatedly maintained that, given likely market demand, it cannot achieve these objectives with three strip mills (see previous **Commentaries**).

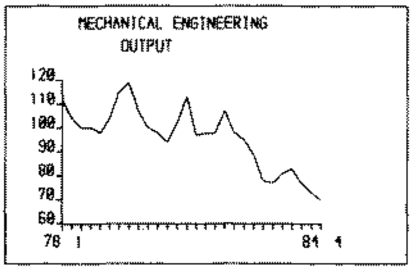
It is clear from Norman Tebbit's comments on the new BSC strategy that market and privatisation considerations will prevail. Social and regional considerations which played an important part in the 1982 defence of Ravenscraig have no place in such thinking.

The European policy dimension also has an important bearing. Negotiations are currently underway on the restructuring of the European industry. Although the exact outcome of those negotiations is unclear at this stage, the EEC has already announced that by 1990 capacity reductions similar in scale to those of the past five years will be required to balance supply of and demand for European steel. The EEC has also for some time been of the view, perhaps inspired by BSC's own position, that one of the three UK strip mills should be closed. In the near future, therefore, BSC may be seeking further capacity reductions in line with EEC restructuring.

By 1988 Ravenscraig's long-standing locational disadvantage will be compounded by a dire need for new investment in not only coke ovens but also by then a blast furnace. At that state the commercial, privatisation and EEC restructuring objectives could be simultaneously satisfied by Ravenscraig's closure.

MECHANICAL ENGINEERING

An interesting feature of this sector has been the conflicting message coming from the Scottish Index of Production and the Scottish Business Survey (SBS). The index of production has continued remorselessly downward throughout 1984, falling from 83 points in the first quarter to 70 in the final quarter. The final quarter results were by far the lowest recorded since this index started in 1980. In contrast, of the 42 mechanical engineering respondents to the January 1985 Scottish Business Survey, 35% reported that sales were up in the final quarter of 1984, 54% reported sales steady, and only 11% had suffered a drop in sales.



Why were the index and SBS pointing in opposite directions at the end of 1984? Presumably the answer lies in the fact that the SBS sample does not cover all the firms included in the index of production. It was noted in the last **Commentary** that only certain sectors of mechanical engineering appeared to be in decline in Scotland, namely mining equipment, offshore fabrication, and power supply. Firms in these sectors are generally large and will have a considerable effect on the index of production. If, as seems likely, most are not included in the SBS sample, then it is not surprising that the SBS is painting a more optimistic picture of mechanical engineering than the index of production.

To some extent, although the index is very out of date, it may give a more accurate picture of overall trends in the industry than the SBS, but in the process it may miss out important changes among the smaller mechanical engineering establishments.

In the last **Commentary** it was reported that many mechanical engineering firms in Scotland were feeling cautiously optimistic about conditions, and undoubtedly this was a reflection of improved export prospects following the slide in the pound. Mechanical engineering is one of the most export-orientated sectors of UK manufacturing. A little over 40% of UK sales went abroad last year (equivalent figures are not available for Scotland).

It seems surprising then that improved export sales had not fed through to either Scotland or UK production by the end of last year. This is in distinct contrast to another highly export-orientated Scottish industry, textiles and knitwear. The difference apparently lies with the much longer production time for mechanical engineering products. Most mechanical engineering firms are producing investment goods, and a recent survey of Scottish mechanical engineering firms found that 69% of the sample "were producing units to requirement". Unlike clothing and texile firms, mechanical engineering firms can rarely simply increase production of an existing product when demand improves.

UK statistics only began to show a noticeable increase in export orders by November 1984 and export sales did not rise until February 1985. March 1985 saw a catastrophic fall in new UK export orders, however, as the pound began to rise, and the impact of this rise has shown up clearly in the SBS. For the quarter ended June 1985 only 42% of respondents reported that export orders were up compared with 30% suffering a fall in export orders. This contrasts noticeably with the SBS results for the quarter ending December 1984 (before sterling began to strengthen) when 60% of firms reported a rise in new export orders and only 3% had experienced a fall in export orders in the last quarter of 1984. The evidence suggests that the nature of mechanical engineering is such that it was able to derive only a limited and very short-lived boost from the decline in sterling in 1984.

One interesting consequence of last year's fall in sterling has been the decision by Caterpillar, the US construction equipment manufacturers, to switch production from the US to Britain. Caterpillar have been having a very hard time in recent years because of the world-wide slump in construction projects. Their losses have been rising for several years to a record $428m in 1984. Caterpillar have closed down and consolidated a number of plants in the US as well as their factory in Newcastle.

In the past few months Caterpillar have reversed the decision to continue production of crawler tractors and loaders at Davenport, Iowa. Instead the crawler tractor production will be added to Caterpillar's existing plant in Glasgow, while the loaders will be produced in Grenoble. The Glasgow workforce has been increased by 130 in the last year and more new jobs are now expected. Caterpillar claimed that in October 1984 the cost of manufacturing in Iowa "was 23% higher than in Glasgow, and the subsequent strengthening of the dollar has moved this to 40%". Sterling's value, at approximately $1.4 is now well above its October 1984 figure of $1.2. It will be interesting to see if Caterpillar once again reverse their decision as a result of the rise in sterling.

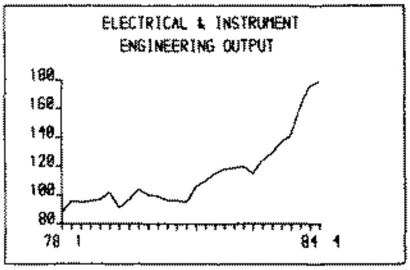
Conditions have remained uncertain among the three Scottish mechanical engineering sectors which were singled out as facing difficulties in the last **Commentary**. Mining equipment manufacturers had been expecting a boom in orders from the NCB once the Board had recovered from the strike. This boom has so far not materialised. One positive result of the strike was that UK mining equipment suppliers managed to increase exports by 66%, from £130m to £200m in 1984. Anderson Strathclyde of Motherwell is one of those firms which has had considerable export success and has recently won more orders from China.

Offshore fabricators are also suffering from delays in orders for two of the major offshore contracts expected to be awarded this year. Three Scottish yards, Howard Doris, Highland Fabricators and McDermott have had to re-submit tenders for the Sedco Forex floating production vessel after Sedco failed to reach agreement with Highland Fabricators over possible delays or defaults on the construction schedule. Conoco's order for platforms for gas production from its Valient, Vanguard and Vulcan fields off Great Yarmouth has also been delayed because Conoco and British Gas have failed to agree on a price for the gas supplies.

Meanwhile, arguments over the relative merits of PWR and AGR reactors have continued to emanate from potential suppliers (see last **Commentary**). At Weir's AGM, Lord Weir suggested that Weir's would reap substantial benefits from a PWR choice for Sizewell. Babcock have also continued to campaign for a PWR. A survey by stockbrokers Hoare Govett argued that Babcock would need to invest £10m in equipment at their Renfrew plant in order to complete the PWR contract. The stockbrokers believe that Babcock would only do this if it was sure that a series of PWR's were to be ordered. Although Babcock has well established facilities for the construction of conventional coal and oil fired plants, it is apparently keen to move into a completely new area, at great investment costs, because it hopes to then become the sole UK supplier.

Howden in Renfrew received money from the electricity board towards the cost of building its Renfrew plant for manufacturing gas circulators for AGR's. This time the CEGB has made it clear that it does not intend to fund any investment by British firms if it is allowed to go ahead with a PWR at Sizewell.

ELECTRICAL AND INSTRUMENT ENGINEERING



The index of industrial production for Scotland is now beginning to show signs of the slowdown in growth which badly hit parts of the electronics industry in late 1984. The index for the fourth quarter 1984 increased to 179 (3 points up on that of the third quarter) but represented the slowest quarter on quarter increase since 1982. For 1984 as a whole output in the Scottish industry increased by 30% over the previous year whereas figures for the UK showed only a 14% rise. The difficulties of the semiconductor industry notwithstanding, the Scottish index can be expected to continue to outperform the UK's as the industry North of the Border appears to be weathering the current confidence crisis in the industry rather well.

The July Scottish Business Survey gives rise to cautious optimism regarding the future of electrical and electronic engineering. Whereas the number of net respondents experiencing actual increases in the total volume of new orders over the previous three months has fallen from 60% in January to 27% in April to 25% and then in July, a net 43% of respondents expect increases in the next three months. One particularly bright feature of the expected trend in new orders is that orders from the Scottish sector itself are seen as growing by 50% of respondents.

The capacity utilisation rate has increased in the industry to 77% from 60% in the previous Survey and stands 20 percentage points above the rate for all manufacturing industries. A net 51% of respondents experienced increases in employment over the last three months, with the increase in female employment slightly ahead of that in male employment While this trend seems set to continue, it looks likely that the increase will be at a much slower rate, a net 27% of respondents expecting an upward trend in the next three months.

The news of 450 job losses at National Semiconductor in Greenock at the beginning of June brought the troubles in the world semiconductor industry home to the Scottish populace in a splash of media anguish. These redundancies, added to the 200 people already shed in natural wastage, brought employment in the factory to around 1,100, with production running at about 40% of the 1984 level of output. However, the company insist that their £100m investment plan announced last year will still be implemented resulting in an eventual workforce level of 2,500. While it is pleasing to contemplate the eventual arrival of these jobs in the depressed Tail O' The Bank, and no-one doubts the sincere intentions of the National Semi management to implement the plans when an upturn does occur, they are chickens which may be far from being hatched. Two factors suggest the need for caution about the future. First, when the upturn in demand for semiconductors does come (and there is little evidence that it is going to be before early to mid-1986, if then) the price of each microchip is likely to be substantially below the level of 18 months previously. While, as demand increases, prices can be expected to regain some of this lost ground it is going to take some time before revenues return to levels which will allow major projects to be financed. Internal funding is likely to be especially important given the present attitude of investors to high-tech companies trying to raise funds on the stock exchange (see below). Secondly, the spectre of Japanese competition in the high-volume microchip field (in which National Semi and Motorola are two of the current market leaders) is rising in the background. Hitachi and NEC have been investing heavily in chips which will compete directly with some of the existing basic products. Depending on when and how they make their push for a larger market share, the prospects for a recovery of the major US producers will be determined.

It is certain that the peak of orders reached in early 1984 will not be repeated for a while yet. This peak was achieved mainly through over-ordering by home computer makers, around twenty of whom expected to supply between 20%-50% of the market each. Many of these firms have since fallen by the wayside eg Dragon and Oric, and a number of others are unlikely to reach 1983's peak production figures ever again eg Acorn and Sinclair, over supply of the latter's products being the main cause of Timex's 400 redundancies announced in June.

Scotland's semiconductor industry may have sneezed but the cold had been raging on the other side of the Atlantic for a number of months. 3,000 jobs have gone at Texas Instruments since December, 900 at Intel, around 1,000 at National Semiconductor, 600 at Micron Technology not to mention further redundancies at computer systems firms such as Wang and Apple. The fact that the US semiconductor presence in Scotland has not been reduced more suggests that these firms do not view Scotland as a staging post, as some commentators have suggested, but rather as an integral and important part of their corporate organisations.

As mentioned above, the stock market does not seem to be favouring high-tech business at the moment. Companies quoted on the Stock Exchange have seen their share prices fall substantially this year; none more so than the big guns of UK electronics - GEC, Plessey, STC, Thorn-EMI, Racal and Ferranti. The reasons for this loss of confidence by the market are many and varied but one which must be considered extremely worrying is common to a number of firms in the US and UK. Apple, Texas Instruments, Sinclair Research, Acorn, Thorn-EMI, Inmos, STC and Scotland's Future Technology Systems have all been subject to boardroom reshuffles or management oustings.

One of the major worries over the last few years has been the ability of Scotland, and the UK generally, to supply suitably qualified technicians and graduate engineers to meet the rising quality manpower requirements demanded by inward investing and indigenous firms. Indeed, the success of the SDA's somewhat amorphous strategy of "critical mass" hinges on an indigenous supply of innovative entrepreneurs. What clearly must also be addressed is the supply of quality managerial talent. Whereas the ability of high-tech entrepreneurs to supply technically excellent products is not in doubt, examples of poor management have abounded in a number of spheres. "Late products, poor reliability and atrocious service and back-up" are cited as being the norm rather than the exception in the home computer industry. While an increasing supply of technically skilled people is an obvious requirement for Scotland's future success in the electronics industry, this must be complemented by similar developments in our flow of business and management skills people. The present Government's squeeze on higher education does not augur well for fulfilment of these needs.

The job losses at National Semiconductor and Timex apart, the last three months have seen further major investments in the Scottish high-tech sector. ACT are expected to hire 50 more staff at their business computer operation in Glenrothes and Novatech Microsystems have announced a major expansion to their business with the opening of a new branch plant at Kilmarnock. Further to these developments, two new inward investments have been announced in the past few weeks. Damon Biotech, which produces man-made proteins, are to set up a £30m bio-pharmaceutical facility in Livingston which will provide up to 300 new jobs and DEC are to invest £82m in a new microchip plant at Butlaw, near South Queensferry. This investment is expected to create 400 jobs by 1988.

TRANSPORT EQUIPMENT

The failings of the index of production for transport equipment were discussed in detail in the last **Commentary**. Unfortunately, the special nature of this sector makes it difficult to find any alternative guide to trends in the industry.

Transport equipment in Scotland is dominated by a small number of large establishments, notably the shipyards, British Aerospace at Prestwick and British Rail's Engineering unit in Springburn. Any sample survey of the sector is therefore likely to be distorted because it will miss out a few very important establishments. The Scottish Business Survey does not distinguish transport equipment from other engineering, and even if it did, the inevitably small number in the sample would mean that it would be unwise to draw any general conclusions from the results.

Transport equipment is, in any case, composed of four different industries, ie shipbuilding, aerospace and manufacture of vehicles and trains. There is no reason to expect each industry to be experiencing similar conditions. It therefore makes sense to look at each industry separately. As usual, this sector is dominated by news from the shipyards.

British Shipbuilders have recently announced resuts for 1984 which reveal that trading losses last year were down to

£25.2m, compared with £161m in 1983. The warship sector is continuing to make good profits, and the losses come from the merchant shipyards. As noted in the last **Commentary**, however, there is growing evidence that UK merchant shipbuilding is finally showing signs of recovery.

Lloyds Register reported that in the quarter ended 31 March 1985 the gross tonnage of steamships and motor ships under construction in the world was down by 703,323 on the previous quarter. New orders were also down to 3.8mgt, 0.8mgt less than the previous quarter. What is interesting is that it is the major producers, Japan and South Korea (who between them received 73% of the world's new shipbuilding orders in 1984), who are bearing the brunt of this loss in orders. Meanwhile, the UK and certain Eastern European countries, Romania, Poland and Yugoslavia, have won increased orders in the first months of 1985. The UK's total order book (including warships) rose by 27% (gross tonnage) between the end of 1984 and 31 March this year.

UK merchant shipbuilding should also be boosted by a recent EEC decision which allows the Government to raise subsidies to state-owned yards from 17% to 22.5% of the price of the contract (27.5% for Harland and Wolff). Italian and Dutch yards were also given permission to raise subsidies. France is still negotiating with the Commission over the rate for its subsidies. The Government had asked for a 35% subsidy for British yards, and there was disappointment at the small rise agreed by the EEC. This higher rate should, however, help the merchant yards, to compete against the lower prices offered by Japan and South Korea.

The Government's policy of privatising commercially profitable sectors of nationalised industries inevitably led them to offer British Shipbuilders' profitable warship yards for sale, while holding on to the lossmaking merchant yards. This policy proved successful when Yarrows was bought by GEC. GEC have finally reached agreement with Yarrows' workforce in an arrangement which gives the workers a pay rise of approximately 5%, plus a one-off payment of £1,000, £600 of which is compensation for loss of the British Shipbuilders' (BS) redundancy scheme.

In contrast, the scheme for privatising Hall Russell in Aberdeen has run into considerable difficulties. In recent years the yard has specialised in offshore patrol vessels for the Royal Navy and last year made a profit of £765,000. The problem is that Hall Russell's future profitability is by no means assured. The yard has work to take it through to the autumn of 1986, but no more orders from the Royal Navy are expected in the near future. Michael Heseltine announced in June that defence estimates for 1985/6 did not include allowance for any expenditure on offshore patrol vessels.

Only three organisations have shown interest in buying Hall Russell. The first, a consortium headed by Ian Sproat, withdrew claiming that the Government had spent too long deciding on their offer. British Aerospace, who have worked in conjunction with Hall Russell on the design of a new offshore patrol vessel, appeared interested for a while, but apparently lost interest when it became certain that there would be no new orders from the navy in the near future.

Only one interested party remains, a consortium headed by accountant Ian Philips and including former Labour Energy Minister Dr Dick Mabon. The same problem seems to be arising for this consortium as with the Sproat group, ie given the uncertain future of the yard, the consortium is not willing to offer anything like the £5m the Government is believed to be asking for Hall Russell.

Increasing concern is being expressed by the Hall Russell workforce, Aberdeen Council, and local MP's over the long delay in deciding the future of the yard. The Government has been called on by several interested parties including the Philips consortium to end privatisation plans and retain Hall Russell as part of BS. Indeed it has been pointed out that although Hall Russell has recently received a stream of naval orders, it was never seen as a purely warshipyard. Hall Russell was included among the warshipyards to be sold off.

The decision to place Hall Russell in the warship department of BS has put the yard at a considerable disadvantage. Under BS regulations warship yards may not tender for merchant orders. Hall Russell is consequently also excluded from benefitting from the EEC subsidy (intervention fund) for merchant shipbuilders. The long delay in selling Hall Russell and freeing it from the restraints it faces under BS, has exacerbated this situation and has hampered Hall Russell in its search for new orders.

Government plans to privatise the naval dockyards has also run into considerable opposition. The all party report of the Public Accounts and Defence Committees argued against privatisation of the yards, but this was ignored by Michael Heseltine, who confirmed in July that Rosyth and Devenport will be put under commercial management within 2 years. He predicted a loss of 400 jobs from the 6,300 presently at Rosyth. The workforce immediately held a 24 hour protest strike.

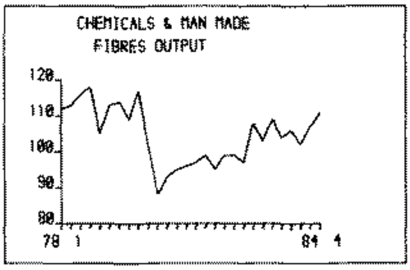
One of Scotland's few remaining vehicle manufacturers, BL's Bathgate factory, which produces engines for the Roadrunner series, looks increasingly set to close next year. BL has already announced plans to close the plant in the summer of 1986 unless a buyer can be found. Two potential buyers, tractor manufacturers Marshalls of Gainsborough (who use the BL engine in their tractors), and JCB excavators, have both abandoned plans to take-over the plant. There are no other buyers on the horizon and shop stewards are afraid that BL will be happy to sell the plant to property developers who are interested in building a hyper-market on the site.

In contrast, the small specialist car manufacturer, A C Scotland of Glasgow, have recently signed a £2m deal with Alfa Romeo for the manufacture of the new AC Ecosse car, and hopes to add 60 people to its workforce as a result.

CHEMICALS AND MAN-MADE FIBRES

Output of chemicals and man-made fibres in Scotland rose by 4% in the final quarter of 1984 mainly as a result of greater output in the organics sector. The index of industrial production is now at its highest level since the first quarters of 1980.

The volume of output in the UK chemicals industry rose by 6% in 1984 as a whole even though there was only a modest rise of 0.5% in the fourth quarter compared with the previous quarter. This was the second year in succession that output rose substantially. The rise in output continued in the opening months of 1985 but the latest provisional data suggest that there was a pause in growth in the three months to May. Significant gains were achieved in all sectors of the industry during 1984, with organics and plastics performing particularly well and with substantial increases in production of fertilisers and agrochemicals.



The volume of exports showed a big increase in 1984 (10%) and this trend continued in the first quarter of 1985 when exports benefitted from strong overseas demand and the relative weakness of sterling against other international currencies. Home demand showed a significant rise (2%) in 1984 with the result that the ratio of exports to home sales now stands at 44%. The increase in output in 1984 combined with fairly stable employment indicates a further rise in productivity in 1985.

Following close on the heels of Fermentech (see last **Commentary**), a £30m technology plant is to be built at Livingston by Damon Biotech of the US. The plant, claimed to be the biggest of its type in the world, will manufacture monoclonal anti-bodies, man-made proteins used by the drug industry. The plant is to be built and paid for by the SDA and the Government is to contribute towards the cost of job training and research and development. The project is expected to create 300 jobs over the next four years.

The new Livingston plant is to be the principal production centre for Damon's monoclonal anti-bodies. The company's existing plant in Boston, Mass, with production capacity of only 10% of that planned for Livingston will be used as a pilot plant for research and development. Work on the site will commence in January 1986 and production should start towards the end of 1986. The first stage of operation will be the recruitment of 25 to 30 school-leavers and graduates who will undergo training at Damon's plants in the US at the Government's expense. BP Chemicals is to invest £12m in a new plant at Grangemouth to product 4-methyl pentene-1, a co-monomer used in the production of linear low density polyethylene (LLDP). The plant will have a capacity of 25,000 tonnes/annum. Construction is expected to begin in the Autumn and is due for completion in 1987. An arrangement has been made between BP Chemicals and Neste Oy the Finnish chemical company, whereby the latter will use part of the new plant to make co-monomer for their own polyethylene and have access to BP Chemicals' 4-methyl pentene-1 technology.

According to the MEP for mid-Scotland and Fife, Mr Alex Falconer, Scottish companies' waste disposal costs have soared since the closure of the Re-Chem plant at Bonnybridge. The MEP claims that ICI's Grangemouth plant has incurred additional costs of £175,000 per annum in transporting noxious chemicals to England for disposal. Mr Falconer is concerned that this increase in costs could place jobs at risk and could also lead to a build-up of toxic waste materials in his constituency. In an open letter to the Scottish Secretary, Mr Falconer has asked Mr Younger what action he proposes to take for the disposal of dangerous chemicals, and if he will ensure that incinerators for the safe disposal of these chemicals will be built in Scotland.

A Glasgow-based chemicals supply company - Power Service Products - established in 1983 is forecasting an increase in turnover from £600,000 to £1.5m in 1985. The products handled by the company range from simple detergents to specialist coatings for the oil industry. Recently a new product has been added to the range, called Power Steel, which, it is claimed, converts rust back into steel and can be used as an undercoat primer that can be applied under wet conditions. Although the product has only been on the market for a few weeks, it is already accounting for some 10% of total sales. The company has at present 35 employees and is expected to double the workforce within 2 years.

The major company news is centred on ICI's disappointing half-yearly results, when profits before tax at £535m were only £3m above last year's comparable figures. The company attribute the results to sterling strength against the Deutschmark rather than the US dollar. Sterling's appreciation against the Deutschmark is believed to have eliminated most of the improvement in competitiveness against the West German Chemicals industry achieved by the group since 1980.

Despite all the re-structuring of the past six years, ICI still generates almost 50% of its sales in two areas - petrochemicals and plastics and general chemicals - where UK capacity is comfortably in profit at a sterling exchange rate of DM3.50 and barely profitable at DM4.00. ICI's experience was exceptionally unfortunate since during the second quarter processing raw materials purchased with expensive dollars earlier in the year and selling the finished product in expensive pounds.

Division results for the first six months showed a distinct gap between the performance of commodity chemicals and that of more specialised, high-valued products. The petrochemicals and plastics division suffered a 37% fall in trading profit compared with the previous year; fertilisers were down 16%; and general chemicals profitability fell by 5%. The more highly specialised agrochemicals business turned in a 37%

improvement in profit; pharmaceuticals were 15% ahead; and speciality chemicals (including a three month contribution from their latest US acquisition - Beatrice) almost doubled their profit.

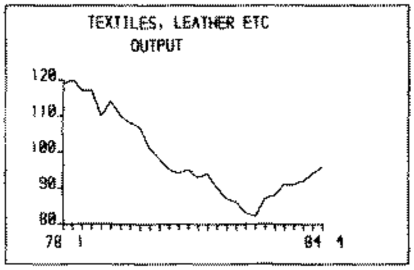
Financial forecasters believe that the third quarters results from the company may be even worse.

BP Chemicals International have also reported poor trading results with an operating profit of £4m for the first quarter compared with £26m a year ago. The company laid the blame on a weak market for its products and significantly increased production costs because of bad weather.

TEXTILES

Textiles and clothing is perhaps one of the few Scottish sectors for which the index of production does provide a reasonably accurate indication of general trends in the volume of production. This sector proves suitable for indexing for two reasons. First, most of the output is easily measured in volume terms. eg so many yards of a certain quality of textile, so many pairs of wool socks. Secondly, the industry is spread across a large number of relatively small establishments. Thus, even if a few establishments do not complete their returns, enough establishments, should be covered by the sample to provide a reasonable impression of what is happening in the industry.

It is not surprising, therefore, that the index of textiles and clothing has been fairly consistent during the last year. There has been only marginal revisions of estimates from one quarter to the next, and the index has followed a path that has been confirmed by all the other evidence coming from the industry, ie a noticeable expansion of output throughout 1984.



The index does, however, have one major drawback. It is always several months out of date. It also provides no information on the sources of changing demand (home or overseas), nor trends in employment. In these respects the Scottish Business Survey (SBS) comes into its own.

Unfortunately the SBS is limited in its geographical coverage. It only takes in firms within the boundaries of the Aberdeen, Dundee and Tayside, Edinburgh and Glasgow Chambers of Commerce. Significant sections of the Scottish textile industry, most noticeably the quality knitwear manufacturers, but also to a considerable extent wool textile firms. operate in the Borders. These firms will not be included in the SBS, which suggests that the survey will be biased towards made-up clothing manufacturers and the production of the cheaper quality knitwear and textiles. For this reason it seems advisable to refer to both the SBS and the index of production when following the fortunes of clothing and textile production.

The last few **Commentaries** have reported a massive rise in export sales among knitwear and wool textiles manufacturers. This has been particularly true among Scottish firms, but has also occurred elsewhere in Britain. It may seem surprising. therefore, that the British Textile Confederation has recently announced that 1984 saw a record UK deficit on trade in textiles and clothing, 29% higher than 1983. This result is not as depressing as it first appears. Export earnings were in fact well up, but they were outweighed by the growth in the value of imports. Much of the rise in expenditure on imports is explained by the fall in sterling and the consequent rise in the sterling value of imported items. The growth in the volume of imports was in fact fairly limited. The Confederation report that the **volume** of textile imports only rose by 10% during 1984 and the volume of clothing by 9%. This matched the rise in the volume of British retail sales over the year and, in fact, import penetration has remained fairly stable. The most interesting result is the slow-down in the growth in the volume of clothing imports throughout 1984. By the first quarter of 1985 the volume of clothing imports was actually 1% down on the same quarter in 1984.

Previous **Commentaries** have discussed at length the boost in exports that Scottish wool textiles and knitwear have received from the decline in sterling. The impact of the falling pound has been slower to feed through to the clothing sector which mainly serves the home market, but there is no doubt that clothing manufacturers throughout Britain were benefitting from a switch away from imports by the end of last year.

It is very difficult to obtain an impression of what is happening in the Scottish clothing industry. Unlike knitwear and wool textiles, there is no umbrella body for Scotland which can provide an overall assessment. Furthermore, the majority of clothing manufacturers in Scotland are subsidiaries of English or overseas firms, and so it is often impossible to obtain information on their performance distinct from their parent company.

Information drawn from a few of the larger firms does, however, indicate a consistently good performance during the last year. For example, Baird Textiles, which owns a number of clothing factories in Scotland enjoyed a 17% rise in turnover in 1984. Vantona Viyella reports good progress by their Scottish subsidiaries Welch Margetson and F Miller. Daks Simpson in West Lothian have recently announced that they are to add 100 jobs to their present workforce of 165. Alexandra Workwear, which has the majority of its manufacturing based in Scotland, increased profits by a massive 82.6% in the year ended January 1985. Meanwhile, Clothland, a manufacturer of sweatshirts and jogging suits, which already operate a plant in Dalkeith has announced the opening of a second plant, employing 30 people, in Livingston.

These casual impressions of a recovery among Scottish manufacturers are reinforced by the results reported in the SBS, which, as we have already noted, will be biased towards coverage of clothing firms. At the end of December 1984, 65% of the clothing and textile respondents reported that the volume was up, none reporting falling sales. A rise in both UK and export sales was equally responsible for this improvement.

All sectors of the Scottish clothing and textile industry will now be under considerable threat from the rising pound, which has been appreciating since February. It is very noticeable that optimism in this industry has declined since the Survey at the end of 1984. At that time 44% of respondents felt more optimistic about the general business situation but by the June survey this figure had fallen to 26%. In December 67% of respondents said that the volume of new orders had risen during the previous three months, while by June only 48% had experienced increased orders.

There is no doubt that the slump of the pound at the end of 1984 brought short-term benefits to Scottish clothing and textile manufacturers, but there must be some doubt as to whether the disruption of such rapidly fluctuating exchange rates is really in the long-term interests of the industry.

The Glasgow-based textile, yarn and clothing firm, Coats Patons, saw profits rise by 26% for the year ended December 1984. The company estimated that about half of this rise in profits was a direct consequence of the falling pound. The improved profits result from the increased sterling value of the earnings from overseas subsidiaries as well as higher export earnings by UK plants. Even with these good results, the Chairman, Sir William Coats, comments as follows on the fluctuating exchange rates:

> "Long-term planning becomes almost impossible, and it seems unsatisfactory to have an international exchange system in which rates are dictated by money flows and not by the fundamental competitive situation. The speed at which exchange variations are taking place creates a heavy adjustment burden on industry."

A recent report by Euromonitor Publications does, however, provide some hope that the recent decline in clothing imports is not entirely determined by the value of the pound. According to Euromonitor, British clothing tastes are moving "up-market". They are becoming more distinctively British, with imported styles, such as those using denim and Asian cloths, losing popularity. These changing tastes give British firms the advantage when it comes to responding quickly to new styles.

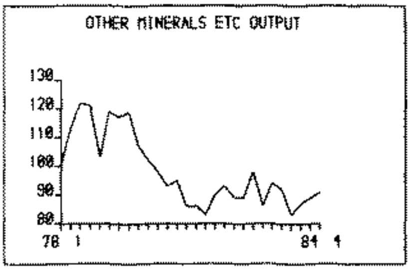
Multi-Fibre Arrangement

The Government has announced that it intends to argue for renewal of the MFA when it meets with other EEC representatives to decide on an overall EEC approach. The Government statement, by Paul Channon, Minister of Trade, was, however, noticeably vague on the long-term prospects for the MFA. He commented "the renewed MFA, which should be designed to carry on from July 1986 into the wider GATT negotiations, would be more liberal than the present one".

Channon's statement appears to imply three things (a) that the next MFA will reduce import restrictions into the EEC; (b) that the new MFA will only exist for a short period until the next GATT round, expected to open within a couple of years; and (c) that probably the UK Government will argue for the scrapping of the MFA in the GATT round. This last point has not been made clear by the Government, but is indicated in other statements by Government ministers, along with the May Treasury "Economic Progress Report" which extols the virtues of both the Silberston Report (which advocated short-term renewal of the MFA pending a complete phasing out of the Arrangement) and free trade. The British Textile Confederation and other Knitting and Clothing Manufacturers' Associations remain very unhappy with the Government's position.

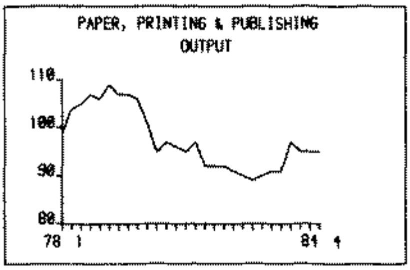
OTHER MINERALS AND MINERAL PRODUCTS

The index of industrial production for this sector shows, provisionally, an increase of just over 2% in production levels in Scotland in the fourth quarter of 1984. For the year as a whole, however, a 5% fall in the level of output was recorded, bringing production down to a level comparable with 1981, the worst year of the recession. The Scottish sector's performance appears to be relatively worse than that of the UK as a whole, where the level of production has been stable over the three years to end-1984. However, it is advisable to view the initial results of the index with caution, as they are usually subject to revision in subsequent quarters.



Sales of building materials in Scotland have been relatively weak up to April this year, and their performance is discouraging because a more buoyant market is usually expected of that time. According to the Builders Merchants' Federation, whose members distribute more than £3b of construction supplies annully in Britain, materials sales in Scotland for April were 16.2% lower than in the same month a year previously, while cumulative figures for the year ended April were 9.3% down on the preceding year. Most of the BMF's ten regions suffered declining sales in the same period, but the Scottish results were the worst.

PAPER, PRINTING AND PUBLISHING



In the final quarter of 1984, the Scottish index of production for paper, printing and publishing industries at 95 (1980=100) stayed unchanged from the previous two quarters. It was however up on the level of 91 recorded in the corresponding quarter the previous year. For 1984 as a whole, output in Scotland was 6% higher than in 1983, compared to a rise of 4% in the UK in the same period.

More recent information from the Scottish Business Survey indicates that a significant proportion of respondents experienced a flat trend in orders and sales volumes in the second quarter of this year and an even higher proportion (84%) expect little change over the next three months. However, a positive balance of respondents are pessimistic about prospects for sales and orders to the domestic market, particularly with respect to the rest of UK. Employment prospects have been revised downwards with only 5% of survey respondents anticipating some increase in employment over the next few months.

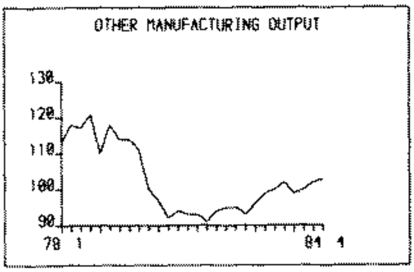
Paul Harris investments (Edinburgh) Ltd, trading as Paul Harris Publishing, has gone into liquidation following an unsuccessful share flotation in April on the over-the-counter market. The failure of the flotation left the company with the burden of the costs associated with the flotation and inadequate capital with which, amongst other things, to complete the acquisition of the Thistle Publishing Group, publishers of Scottish Portrait. Notice of complaint regarding the organisation of the share flotation has been filed by the company to the National Association of Security Dealers and Investment Managers. The liquidation has resulted in the loss of ten jobs.

John Menzies has bought Early Learning, a company which specialises in the sale of childrens' books and educational toys, from Fine Art Development, the greeting card and mail order group. In a deal costing £8.44m, Menzies acquired the company's 96 stores, nine of which are located in Scotland.

Recent announcements by Dundee-based Low and Bonar underline its strategy of specialising in three main areas of activity; packaging, textiles and electronics. It is negotiating the sale of Bonar Langley, the last of its engineering interests, in a management buy-out deal costing over £2m. The company also announced plans to invest £3.4m in its UK packaging division with the aim of keeping the group ahead of its rivals in two film markets, pearlised polypropylene and linear low density polyethylene. Low and Bonar also went into the market place to purchase shares in Cole Group, the Surrey-based plastics and electronics company. By mid-July, Low and Bonar had increased its shareholding in Cole to 24.76%, thus strengthening its hand should it wish to become involved in a takeover bid for Cole.

Finally, a £1.7m investment in new premises by M & A Thomson Litho of East Kilbride will lead to the creation of 40 new jobs there. The company with interests in legal and educational publishing and, more recently, the printing of computer manuals has taken over a 15,000 sq ft factor unit next to its existing factory, a move which the company say will also safeguard existing jobs.

OTHER MANUFACTURING



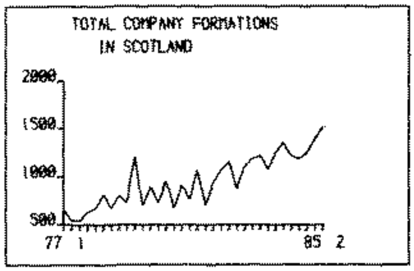
The index of production for other manufacturing in Scotland rose for the fourth consecutive quarter to stand at 103 in the final quarter of 1984. In reversing a 3% decline which occurred in the early part of 1984, the index is now at its highest level since the first quarter of 1980, although still some 13% below its pre-recession peak of 118 in the second quarter of 1979. For the UK, the corresponding index remained stable at 99 thoughout 1984.

Receivers were appointed to timber merchants Riddoch of Rothiemay in July. There is however some optimism that the company could be sold as a going concern. At risk are the company's three sawmills; Kilmallie near Fort William, Kinnoir near Huntly and Mosstodloch near Elgin which employ in total 250 people. The Kilmallie plant, the largest of the three, employing approximately 100 people, had undergone a £5m modernisation programme in 1981. Inability to get together a refinancing package to resolve the company's more immediate financial difficulties seems to have been the factor which precipitated the company's crisis.

Elsewhere in the sector, Brownlee, the Glasgow timber merchant has bought W Lang of Paisley, a soft-wood timber merchant. Brownlee who in the year to March 1984 made pre-tax profits of approximately £2.6m on a turnover of over £34m, acquired Lang for £700,000.

COMPANY FORMATIONS AND DISSOLUTIONS

The second quarter of 1985 saw company formations rise to an all-time record for a three month period of 1515. The strong upward trend in start-ups therefore continues unabated.



At 896 dissolutions have fallen to something like the historical norm after the last quarter's unprecedented peak of 1451. Previous **Commentaries** have mentioned. however, the dangers of reading too much into this raw data with regard to the level of entrepreneurship and economic activity in Scotland.

The Service Sector

FINANCIAL SECTOR

The Government's plan for the ending of the State earnings-related pensions scheme (SERPS) has not been greeted by the Scottish institutions with the enthusiasm which might have been expected. Several of them have argued that the low level of the minimum contribution and the competition for business from other institutions suggest that the business is unlikely to be attractive. It is clearly the role of management to assess the prospects and response appropriate for different markets but on the surface at least the comments are not those of an aggressive, expanding industry but rather those of a protected oligopoly. Fortunes have been, and surely will continue to be made, by devising schemes to tap small savings. Institutions that fail to embrace such opportunities are unlikely to have a secure, growing future and such comments inevitably raise questions about their record with regard to innovation and competition.

Numerous comments have been made in recent months about the renaissance of the investment trust movement together with suggestions that their future is now more secure. The cause of such optimism is not hard to find. A variety of announcements by the trust have suggested that management has recognised profitable opportunities and has plans to exploit them. Typical of such announcements is the possible tie up between the Scottish Northern Investment Trust (SNIT) and the aggressive and small but growing Stanecastle Assets. Following the initial announcement, at least three other groups, Baillie Gifford, Britannia Arrow and the Investment Bank of Ireland, have entered into negotiations with SNIT. Such negotiations raise a number of interesting issues about the rights of shareholders, the duties of the Board and the role of management in investment trusts.

There is now considerable academic evidence showing that the market in investment trust shares is efficient. Put simply this means that investment trust shares respond quickly to new information. Announcement of a takeover, unitisation or liquidation, for example, results in an immediate appraisal of the news and induces an appropriate response in the share price. Despite such reassurance investment trust shares continue to trade at a discount to net asset value. The size of this discount far exceeds, for the vast majority of investment trusts, the cost of liquidation or unitisation* and begs the question: why aren't more trust liquidated or unitised? Surely rational investors will find it profitable to induce investment trusts to liquidate and realise for investors the difference between the discount and the value of assets (less the costs of liquidation)? A variety of possible explanations may be advanced to explain this conundrum of an efficient market but apparently irrational behaviour on the part of investors.

The one that best fits the facts is based on the fast expanding area of Agency theory which examines the relationships between owners, managers and debt holders. It suggests that the source of the problem is the nature of the management contracts between the shareholders of an investment trust and its managers. Managers may be expected to tie up their management in such a way as to make its termination difficult. Recognition that investment trusts with valuable assets cannot easily be dismembered in the face of management opposition implies that the price of a trust must reflect the return appropriate

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*Draper, P, Gibson, H & Stevens J "UK Closed End Funds, Liquidation Costs and Market Efficiency". Paper delivered to the Western Finance Association, Arizona, June 1985. Mimeo. Department of Economics, University of Strathclyde.

for the risk assumed and not the value of its assets. Management costs reduce the return available to shareholders so that trusts trade at a substantial discount. Far from being irrational, shareholders realise the difficulties in realising a trust's book value and value the shares accordingly.

The tieing up of management contracts by investment trust management has become, for some, an art form. Possibly the easiest path to follow is to become part of an investment group. The independent trust is alone and exposed. Takeover or liquidation can be forced on it by its major shareholders. In contrast, the same trust as part of a larger management group may be cushioned by the existence of a network of share holdings in the trust held by associated companies, funds and trusts. A simple example is provided by a group of three trusts each of which holds 25% in each of the other two trusts. The group, and hence the managers, control 50% of the shareholdings and votes. Any change detrimental to the managers can be stopped.

The example is extreme but illustrates the possibilities. It helps explain the substantial reduction in the number of independent trusts and the desire of SNIT to become part of a management group rather than remain independent. Some of the motives for other moves such as the recent formation of Dunedin Fund Managers are also laid bare. It seems plausible to suggest that further such moves may be on the way.

The main contribution of the Agency argument is not however concerned with these moves. It is interested in the relationship between shareholders and managers. The managers want to protect their management contracts. The interests of the shareholders are secondary to the managers' own interests of prolonging their own stream of income. Becoming part of a group may enable them to hang on to these contracts longer than would otherwise be possible. The losers are the shareholders. Liquidation or unitisation would almost certainly be a more profitable alternative to the continued existence of a trust trading at a substantial discount. Shareholders in SNIT and any other trust with similar schemes should consider carefully any proposals laid before them. Indeed, ideally they should persuade their managers to lay out the financial implications to the shareholders of alternative possibilities including unitisation and liquidation. The existence of substantial unlisted securities in a portfolio or loan stock is unlikely to make unitisation or liquidation an unprofitable alternative for shareholders, although it may be for the managers! It is timely to remind Boards of investment trusts that their role is to represent the interests of shareholders instead of protecting managers and doing their bidding.

DISTRIBUTIVE TRADES

The July Scottish Business Survey (SBS) reported a further increase from last quarter in the level of optimism of wholesale traders. This would appear well founded, for although net sales are marginally down on the previous survey a net 28% of respondents enjoyed improved sales and 47% expect this to continue over the next 3 months. Judging from the most recent Distributive Trades Survey from the CBI/FT (end of June 1985) the Scottish experience reflects UK trends, as wholsalers' sales volumes in the last quarter continue to exceed those of earlier this year. However the Survey does point out that builders' merchants and agricultural machinery wholesalers are fairing less well compared to other wholesalers. They blame this on the imposition of VAT on some building works; and milk quotas and tax changes.

Unfortunately last quarter's suggestion that actual and potential increases in wholesale sales might result in employment growth in this sector have not been substantiated. The latests SBS found that respondents had exerienced falls in employment and expect further job losses. Some part-time jobs have been created but these were far outweighed by the number of full-time job losses.

At the regional level, sales are up on the last quarter in all areas except Dundee (see Table 1). The substantial increases in actual sales coupled with the rise in expected sales in all four areas help explain the increasing confidence of wholesalers. Glasgow traders appear to have more cause for optimism than those in other areas. Overall, the most probable constraint on a further increase in sales has been identified as insufficient floor space, which has prompted revised investment decisions. Credit facilities and stock shortages are also mentioned significant constraints.

Table 1 Geographical responses to April 1985 SBS Survey: wholesaling

Item		Balance of respondents in: G %	E %	D %	A %
Overall confidence	UP	+25	+ 4	+ 3	+ 5
Actual sales	UP	+35	+51	N	+30
Expected sales	UP	+78	+75	+ 3	+39
Actual employment	UP	+21	+18	- 5	-19
Expected employment	UP	- 5	N	- 5	-18
Investment intentions	UP	+21	+44	+ 2	+ 5

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen
N = No change

Scottish retailers like their counterparts throughout the UK enjoyed a particularly prosperous three months to end June 1985. Scottish Business Survey respondents reported a net 62% increase in sales over the period with a further rise of 66% expected over the next quarter. Meanwhile, the most recent CBI/FT survey found last quarter's retail sales improvement to be well in excess of those for the first three months this year. However, June's retail sales, although 43% up on those of June 1984, were slightly below expectations.

Nevertheless, both the SBS and CBI/FT surveys are in line with estimates released earlier this month by the CSO which suggest that consumer spending is beginning to improve after an eighteen month period of stagnation. Consumer spending was 2% greater in the second quarter of this year than the first. This together with the announcement of half a percent cut in the bank lending rate to 12%, can only serve to justify the improving confidence of the retail sector. Improving conditions in the industry will help achieve the increased employment forecast by SBS respondents, thereby consolidating last quarter's 17% employment gain. However, in Scottish retailing, as in the wholesale sector, there has been a distinct shift in employment from full to part-time working which would seem likely to continue.

The regional pattern in retailing is illustrated in Table 2. This quarter, like last, Dundee appears to have fared distinctly less favourably than other regions, and again this has probably contributed to the lower level of optimism among Dundee retailers than in the rest of Scotland. However, Dundee retailers report a marked increase in the intention to invest. Insufficient floorspace and stockshortages are once more identified as the factors most likely to inhibit sales growth in each of the Scottish areas.

The CBI/FT survey for motor traders indicates that sales volumes were broadly in line with June expectations, at 1% higher than sales a year ago. A slight improvement (7% up on July 1984) is expected for the July figures but, of course the most interesting figures are for August when the new C registration comes out and sales reach their annual peak.

Table 2 Geographic responses to April 1985 SBS Survey: retailing

Item		Balance of responses in: G %	E %	D %	A %
Overall confidence	UP	+31	+35	+18	+32
Actual sales	UP	+89	+93	+26	+85
Expected sales	UP	+86	+93	+26	+90
Actual employment	UP	+24	- 2	N	+27
Expected employment	UP	+37	+11	+ 9	+10
Investment intentions	UP	+14	+ 2	+13	+29

Key: G = Glasgow E = Edinburgh
D = Dundee A = Aberdeen
N = No change

TOURISM

The Scottish Tourist Board's 16th Annual Report for 1984-85 was published in July containing its verdict on last year's performance by this sector of Scotland's economy. This is largely based upon the National Survey of Tourism in Scotland (NSTS), a 'volume and value' survey of domestic tourism (by GB residents only) in Scotland introduced by the STB last year. The Board has withdrawn its support for involvement inthe British Home Tourism Survey (BHTS) which it felt did not give an accurate reflection of domestic tourism in Scotland. The BHTS will continue to be published by the British Tourist Authority (BTA) and to be supported by the National Tourist Boards for England and Wales. Although it will continue to collect data relevant to Scotland, these data will not be included in the annual report. The 1984 BHTS results will be published later this year. The STB will maintain its support for the International Passenger Survey (IPS) published by the Department of Trade and Industry which provides information on overseas visitors to the country. Its summarised findings are normally released each September.

The Chairman of the STB, Mr Alan Devereau, OBE, states that the new Scotland only NSTS invalidates any comparisons with former all-British studies of previous years. Nevertheless, he confidently reports that 1984 was "another record year for Scottish tourism with sales exceeding £1,400m". The STB claims the NSTS indicates that tourism in Scotland now generates a per capita income of about £270 compared with £180 for England (see Table 1) although how these comparative figures were arrived at is not explained.

Table 1 The volume and value of tourism in Scotland, 1984

	Trips millions	Bednights millions	Expenditure £ millions
GB residents	13.2	6.3	1,161
Overseas visitors*	1.2	1.4	292
Total	14.3	7.7	1,453

*Provisional figures

Source: STB's National Survey of Tourism in Scotland

If the NTS is more accurate in its estimates of the volume and value of tourism to Scotland then it must be welcomed as an improvement in the data base on tourism in Scotland. However, STB resources might have been better utilised in further encouraging improvements to the BHTS rather than declaring UDI. It is not possible, for instance, to compare the relative importance of tourism in Scotland to England and Wales and observers and planners will have to wait years before NSTS will be useful for discerning trends in tourism in Scotland. The real data requirements for those involved in tourism in Scotland are not at the national (macro) level but at the local (micro) level. Planners and potential developers in tourism are continuously frustrated by the lack of adequate information and are faced with generating it themselves in expensive one-off surveys for specific projects. This constitutes a serious detriment to investment in Scottish tourism. The STB could provide a real service to the development of tourism in Scotland by fulfilling this basic requirement.

The STB believes that estimates of expenditure by British tourists contained within the NSTS suggest that the contribution of tourism to Scotland's economy has beeen considerably undervalued in the past (the 1983 BHTS estimated that GB resident tourists made 11 million trips to Scotland generating 50 million bednights and £600 million expenditure).

The STB's 16th Annual Report places great emphasis on marketing activities, particularly the newly acquired ability to promote Scotland directly overseas (rather than through the BTA as was the case before the passing of the Tourism (Overseas promotion) (Scotland) Act 1984). Much to the contrary of conventional wisdom, the STB's Chairman does not believe that the relatively strong value of the US dollar during 1984 had any major benefit to Scottish tourism. He puts his faith in the hardwork of his staff and the cost effective use of the STB's £200,000 overseas promotions budget. He still awaits the Secretary of State for Scotland's deferred decision regarding the recommendation by the Scottish Affairs Committee on the Highlands and Islands Development Board (HIDB) that the HIDB should cede its tourism marketing functions to the STB. This, he argues, will further enhance the cost effective marketing of Scotland as a tourist destination. The STB's outgoing Chief Executive, Dr D A Pattison (one time lecturer at Strathclyde University and former head of the HIDB's Tourism Division), states that "during 1985/86 the Board will continue to establish a strong business foundation to enable the positive and aggressive marketing of Scotland in the future. The STB's energy and resources would then be devoted to tackling the more intractable problems of Scottish tourism, such as seasonality, extending the overseas markets, broadening the market base and the uncommitted market". This apparently constitutes a change in the STB's marketing strategy which coupled with the introduction of its verification classification and grading schemes for tourist accommodation represent the Board's major objectives.

Dr Pattison will be leaving STB shortly to take up an appointment with Arthur Young McLelland and Moore the accounting and management consultancy group. Like a number of other consultancy companies they are seeking to establish a stronger presence in Scottish tourism. This coincides with the recent launch of the Scottish Development Agency's (SDA) Tourism and Leisure Division which has also been recruiting staff. It will be interesting to note how many companies maintain their interest in Scottish tourism once the SDA has completed its investment programme in that sector.

Two major reports on tourism in Britain have been published in the last few weeks. Lord Young's Interministerial Committee of Enquiry was set up to look at ways of removing obstacles to development of tourism which exist within the public sector. This report was published too late for any serious discussion of its findings to be included in this **Commentary**. An assessment of its findings will be included in the next issue. The Confederation of British Industry's (CBI) report on the challenge and opportunity of travel and tourism was published early in July. The CBI commissioned Professor Medlik of the University of Surrey to survey the whole field of tourism in Britain and to make recommendations about its future development. The report entitled 'Paying Guests' is clearly a lobbying tool addressed to the Government. Its recommendations reflect this and can be summarised as follows.

(i) There is a real need for a policy to state the Government's position on tourism and what its commitment entails in order to provide clear guidelines for the machinery of Government and its many agencies concerned with tourism. A senior minister in the Department of Trade and Industry should have tourism as a major responsibility, with those

Government departments whose activities relate to tourism being represented on a permanent senior interdepartmental committee chaired by him/her to co-ordinate their approach to tourism.

(ii) Early decisions are required on the future statutory responsibilities for tourism promotion, development and co-ordination. The report makes specific reference to Scotland in this respect and to other regions where in addition to tourist boards, other statutory agencies are increasingly involved in tourism. Their respective roles need to be reviewed and clarified.

(iii) Since the sterling exchange rate is an important influence on the volume of overseas visitors and their expenditure (as well as on GB residents' travel abroad) the Government could assist the tourism sector by ensuring the establishment of a realistic exchange rate and the maintenance of its stability.

(iv) The BTA should be given increased funding to enhance its promotional efforts of Britain to overseas markets.

(v) Tourism is about the movement of people and is dependent upon an efficient transport network (also vital to manufacturing industries moving goods to both the British and overseas markets). The Government should review its current stance on investment in transport along with other infrastructure investment. Tourism depends for much of its resource base on public investment in conservation, environment and national heritage. An adequate level of public funding has to be sustained in order to maintain and improve the fabric of Britain both for its own people and as a place to visit.

(vi) There is scope for the review of criteria for financial assistance towards tourism projects under Section 4 of the 1969 Development of Tourism Act with greater prominence being given to smaller businesses which predominate in the tourism sector. The Government should also consider extending regional development grants to the tourism sector thereby enabling tourism to increase its contribution to some of the areas of greatest economic and social need, whilst at the same time removing one of the last remaining cases of discrimination against tourism investment in this country.

(vii) Other recommendations include reducing VAT to zero rating on services purchased by overseas visitors in line with retail purchases, simplifying planning procedures and rationalising building regulations, withdrawing restrictions on shop opening hours, relaxing licencing hours in line with the successful reform in Scotland, and abolishing some legal constraints on gambling to increase foreign earnings. The report's recommendations end with a call for Government action in the field of employment protection legislation concerning controls over pay, hours of work and other conditions of employment which are seen as impediments to increasing the number of jobs in the tourism sector.

These recommendations bear remarkable similarlities to those made in a series of feature articles on tourism published in the **Commentary** during the last year.

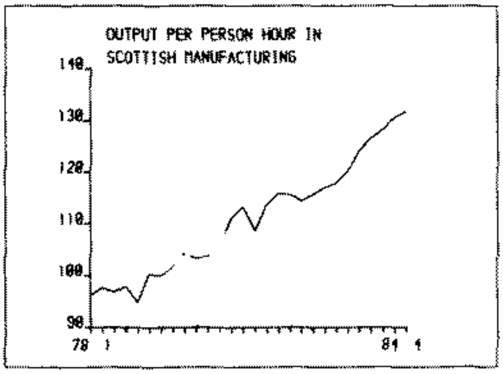
The Labour Market

DEVELOPMENTS IN INTERNAL LABOUR MARKETS

Internal labour markets are markets for labour services which exists **within** the firm. A given stock of employees can generate a wide variation in the flow of effective labour services depending on its utilisation rate. Against the background of some "spare capacity" in the use of existing labour, an increase in demand is likely to be met initially by increases in the utilisation rate of the existing labour force through: reduced short-time working; *increased effort per hour; and* increased overtime working. In the assumed circumstances this is a much cheaper way of increasing output than increasing the size of the labour force: for increases in employment can be expensive to implement, and such decisions tend to be very costly to reverse.

Since all increases in internal labour market activity increase productivity measured as **output per person,** the latter series provides a potentially useful indicator of overall internal labour market activity. The accompanying graph indicates that this measure of productivity has exhibited marked increases over the 1980s. However, past **Commentaries** have noted the ambiguity in interpretation of this productivity boom. In particular, its association with declining manufacturing sector employment suggests the need for scepticism of the official view that this is "good news".

Recent changes in the various components of changes in internal labour market activity are documented in the accompanying graphs. The **output per person hour** measure of productivity provides a crude (seasonally adjusted) measure of fluctuations in effort per person hour since it takes into account the effects of both short time and overtime working. Hours lost through short-time working per person again show some reduction, and overtime hours per person continues to exhibit an increase. The co-existence of short-time and overtime working most likely reflects heterogeneity of experience across industries and different skill groups.



Economists have for some time been aware of the potential significance of the hours dimension, of the labour input, and in particular, the role of overtime hours as a buffer used to absorb unanticipated fluctuations in demand. However, many institutionalists have tended to regard overtime hours as part of the overall wage-employment bargain and as not necessarily reflecting especially productive activity.

Tables 1 and 2 summarise recent trends in average working hours for Scottish male and female manual workers respectively. The second column shows average overtime hours worked over all manual workers while the fourth column indicates average overtime hours among those actually working overtime.

Average overtime hours for male manual workers exhibit a pro-cyclical pattern (keeping in mind that the last cyclical peak occurred in 1979), as would be expected if the "buffer" view of overtime hours was valid. However, the range of variation is fairly limited and this is not inconsistent with an institutionalist view of the role of overtime working.

Table 1 Average working hours in Scotland: full-time male manual workers

	Normal basic	Over-time	O/time as % of basic	Percen-tage receiv. o/time pay	O/time hours of those work-ing o/time*
1976	40.0	5.9	14.8	55.3	10.7
1977	39.9	6.1	15.3	57.3	10.6
1978	40.0	6.5	16.3	57.3	11.3
1979	40.1	6.7	16.7	57.8	11.6
1980	40.0	6.1	15.3	54.0	11.3
1981	39.9	5.0	12.5	48.1	10.4
1982	39.5	5.3	13.4	50.2	10.6
1983	39.3	4.9	12.5	48.4	10.1
1984	39.4	5.4	13.7	51.3	10.5

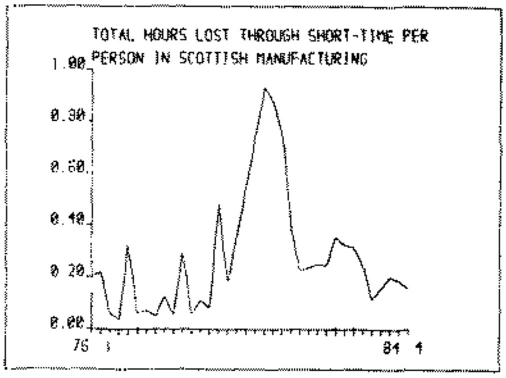
* (overtime/per cent receiving o/time pay) x 100

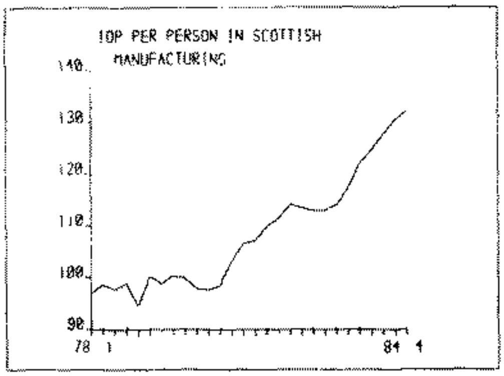
Table 2 Average working hours in Scotland: full-time female manual workers

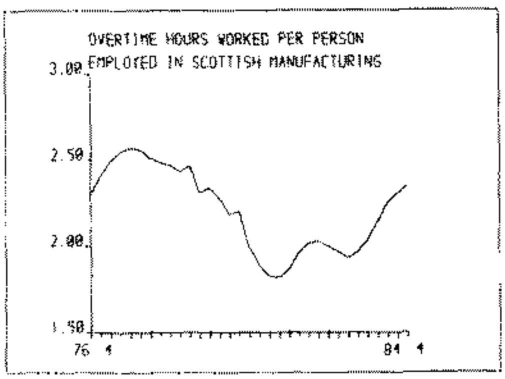
	Normal basic	Over-time	O/time as % of basic	Percen-tage receiv. o/time pay	O/time hours of those work-ing o/time*
1976	38.7	1.2	3.1	17.8	6.7
1977	38.9	1.2	3.0	16.8	7.1
1978	38.8	1.5	3.9	22.1	6.8
1979	38.8	1.3	3.4	17.6	7.4
1980	38.8	1.2	3.1	16.9	7.1
1981	38.8	1.0	2.6	14.4	6.9
1982	38.5	1.1	2.9	16.2	6.8
1983	38.3	1.3	3.4	19.1	6.8
1984	38.3	1.4	3.7	21.0	6.7

*(overtime/per cent receiving o/time pay) x 100

Given the comparative constancy of normal basic hours (which is considered below), overtime as a percentage of these basic hours also exhibits a procyclical pattern. Inspection of the final two columns of Table 1 suggests that adjustments to overtime occur primarily through fluctuations in the percentage of male manual workers who are working overtime rather than through fluctuations in the number of overtime hours per overtime worker. This might reflect the







specialised nature of some overtime tasks or perhaps the allocation of overtime in discrete blocks in accordance with seniority.

Overtime working is much less prevalent among female manual workers both in terms of the percentage receiving overtime pay and the number of hours worked per overtime worker. Thus in 1984 51.3% of male manual workers were working overtime whereas only 21% of their female couterparts did so. However, since reaching a minimum in 1981, overtime working has tended to increase, especially in terms of the percentage of female workers receiving overtime pay.

Normal basic hours over the period have been comparatively stable (particularly when it is recalled that the **New Earnings Survey** is based on only a 1% sample, so that no significance can be attributed to minor year to year fluctuations in estimatesd basic hours). This is what would be expected given that basic hours tend to be institutionally determined, and so are not subject to short-run adjustments by either employers or employees. However, over the longer term standard hours can be altered through the collective bargaining mechanism and, indeed, over the course of the century basic hours have fallen by over a third. This probably largely reflects the importance of increased real incomes increasing the demand for leisure. This in turn generates supply side pressure for a shorter working week and less working weeks per year (since there are advantages to employees and employers alike to leisure being taken in discreet blocks).

DEVELOPMENTS IN EXTERNAL LABOUR MARKETS

EMPLOYMENT

The composition of changes in employment over the year to March 1985 are generally in line with longer term trends as Tables 3 and 4 indicate. However, total numbers employed over this year did in fact increase by around 12,000. Whilst any increase in employment is, of course, welcome news, this figure should be viewed against the background of an estimated increase in **part-time** female employment over the same period of 21,000 and an estimated fall in male employment of 10,000. Given the industrial composition of the changes, full-time equivalent employment seems unlikely to have increased noticeably (and could even have fallen). Over the period since the last (moderate) cyclical peak (June 1979) to March 1985 numbers employed actually fell by 187,000 despite an increase in part-time female employment of 64,000. The fall in full time equivalent employment is thus almost certainly significantly greater than a simple head count of those in jobs suggests.

The trend towards part-time employment has, of course, been apparent over a much longer period. Thus the total number of part-time workers in Scotland increased by over 100,000 between 1971 and 1981 (Source: **Labour Force Surveys**). Part of this increase simply reflects the relative growth of those industries in which part-time female employment is most concentrated. However, it has recently been estimated that over two thirds of the increase in part-time employment **cannot** be attributed to a pure industrial composition effect (McNie and Carmichael,1985), and so reflects a substitution effect in favour of part-time workers. Previous **Commentaries** have suggested that this could in part reflect the firms' desire for a more flexible workforce in the presence of a more uncertain business environment.

As already noted, the industrial composition of employment changes in the year to March 1985 broadly reflects longer term trends. Thus employment in manufacturing industries fell (by 5,000 - see Table 3), whereas it rose in the energy and water supply industries by 2,000, and employment in agriculture, etc. and the construction industries also fell (by 2,000 and 5,000 respectively). Total service sector employment increased over the year by 22,000, although virtually all of this must have consisted of part-time female employment. Transport and communications was the only service sector to register a fall in employment over the period (see Table 4). The trend contraction in predominantly male, full-time employment in the production and construction industries continues then, as does the trend increase in service sector employment (especially part-time employment for females).

Table 3 Employees in employment in Scotland (000s): production and construction industries (1980 SIC)

	Agri, forestry & fishing (0)	Energy & water supply (1)	Metal manuf. & chemicals (2)	Metal goods, enigneering & vehicles (3)	Other manuf. (4)	Construction (5)	Manuf indus.[1] (2-4)	Prod indus. (1-4)	Prod. & construct indus. (1-5)
1979 Jun	48	73	80	260	266	157	606	679	837
1983 Dec	42	77	50	186	203	124	440	517	640
1984 Mar	42	77	50	184	202	121	436	512	633
Jun	42	77	50	183	204	119	437	514	634
Sep	43	79	50	181	206	120	436	515	635
Dec	40	80	49	181	205	118	434	514	633
1985 Mar	40	79	48	180	204	116	431	510	626

[1] Minor discrepancies between this column and the sum of (2), (3) and (4) are due to rounding errors in the official data.

Source: Department of Employment Gazette

Table 4 Employees in employment in Scotland (000s) service industries and total employment (1980 SIC)

	Wholesale distri. hotels & catering (61-63,) (66-67)	Retail distri. (64/65)	Transp. & communi. (7)	Banking insce. & finance (8)	Public admin. & defence (91-92)	Education health & other serv. (93-99)	Total service indus. (6-9)	Total employment. all indus.
1979 Jun	197	196	133	124	177	395	1,222	2,107
1983 Dec	191	207	115	134	172	415	1,234	1,917
1984 Mar	190	202	117	136	172	416	1,232	1,908
Jun	203	206	114	138	172	420	1,253	1,928
Sep	204	209	113	143	172	414	1,254	1,933
Dec	197	220	112	143	171	416	1,259	1,932
1985 Mar	198	209	111	143	172	420	1,254	1,920

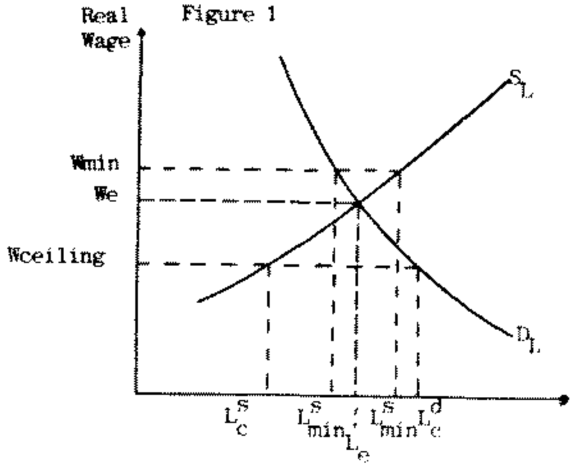
Source: Department of Employment Gazette

EARNINGS

Earnings have figured prominently in the news during the last quarter as a consequence of two Government decisions. First, the Government announced its intention to reform Wages Councils by excluding those under 21 from the Council's protection and by restricting their powers to the setting of a minimum hourly rate and single overtime rate. Secondly, the Government decided to implement the recommendations of the Plowden Report on top peoples' salaries in the public sector.

It is difficult to reconcile either of these decisions with the Government's stated intention of increasing the flexibility of the labour market, and its continuing emphasis on the need to price workers into jobs. The Government's view is that labour markets are generally competitive except for the frictions imposed by intervention (such as through Wages Councils and incomes policies) and the power of trade unions. Figure 1 provides a simple illustration of the Government's perspective of a typical labour market.

Figure 1



The demand curve for labour is negatively sloped reflecting an inverse relation between the real wage and employment demanded, (see the last issue of the **Commentary** for a detailed exposition and evaluation). The supply curve of labour is positively sloped reflecting an assumption that more labour is supplied as the real wage rises. Equilibrium, which would be attained automatically in the absence of "frictions" occurs at real wage We and employment level Le.

In the Government's view Wages Councils set minimum wages at a level above the equilibrium level We -for example at Wmin in Figure 1. They consequently induce an excess supply of labour at Wmin, and, given that workers cannot persuade firms to employ more than they would wish at the prevailing real wage, employment will be Emin - which is less than its equilibrium level. Wages Councils therefore reduce employment and, given that displaced workers are eligible to claim benefits, increase registered unemployment. Abolition of Wages Councils would, of course, reverse these effects. However, even given present assumptions an adverse distributional effect is possible.

What is surprising in the light of this analysis is that Wages Councils were not abolished altogether. It seems unlikely that distributional considerations were of paramount importance (especially given acceptance of the Plowden Report), and in any case it is not clear why any such considerations would not extend equally to the young. Exclusion of those under 21 combined with retention of Wages Councils' power over other workers seems curious. Retention of the Councils seems to indicate an acceptance of the view that some "protection" is necessary (and thus that markets do not operate in the competitive way assumed in Figure 1). Higher youth unemployment, on the Government's view, is attributable to too small a differential between the under 21s and others. But, given that the Government has decided that protection is necessary, the logical reform would have been to introduce a two tier minimum wage system which enforced a minimum age differential.

It is perhaps worth noting, however, that minimum wages for the under 21s could have created problems for the proposed extension of the Youth Training Scheme.

The Plowden Report's recommended substantial increases in top peoples' pay is not necessarily inconsistent with the Government's view that people should be "priced into" jobs. For suppose persistent informal public sector incomes policies had forced top peoples' real wages below the market clearing rate to Wceiling in Figure 1. The excess demand that results would push employment to L^s_c given that employers cannot induce employees to part with more labour services than they would wish at the prevailing real wage. In such a context an increase in real wages to We would increase employment.

However, as Brittan (1985) has argued recently, it is extremely difficult to "justify" the Plowden Report in these terms. The implied threatened exodus to the private sector has not manifested itself in actual movement and comparability is the principle that lies at the heart of the report - and yet this is precisely the principle that the Government has apparently been seeking to undermine both directly via its industrial relations legislation and attitudes to other groups of public sector workers, and indirectly through its macroeconomic policy stance.

The reform of Wages Councils is, it is true, likely to moderate youth unemployment slightly, but largely at the expense of other workers if, as the Government now apparently believes, employers who are covered have some degree of market power. Implementation of the top peoples' pay awards must make it rather more difficult for the Government to continue to deny the relevance of comparability elsewhere in the public sector.

Table 5 summarises recent average weekly earnings of male employees in Scotland. The most striking feature in recent years is the very marked increase in the non-manual-manual differential from 20.7 percent in 1979 to 33.5 per cent in 1984. (The differential is defined as [non-manual less manual earnings/manual earnings] times 100). The impression is that manual workers' employment has suffered comparatively more over this period, and in itself this seems difficult to square with the notion that the price of labour is an all-important determinant of employment. It is however consistent with the recession exerting a differential impact on the demands for skilled and unskilled labour which in turn caused a widening of the differential.

Table 5 Average weekly earnings of male employees in Scotland (at April)

	Average weekly earnings manual* (1)	non-manual* (2)	Non-manual/manual differential (3)	Average weekly weekly earnings excluding over-time Manual (4)	(4)-(1)x100 (5)
1976	66.2	80.8	22.1	56.4	85.2
1977	72.5	88.0	22.1	61.7	85.1
1978	81.4	99.8	22.6	68.7	84.4
1979	93.6	113.0	20.7	78.4	83.8
1980	112.2	139.8	24.6	95.0	84.7
1981	124.8	161.8	29.6	107.8	86.4
1982	136.9	179.9	31.4	117.2	85.6
1983	145.8	196.6	34.8	126.4	86.6
1984	156.2	208.6	33.5	133.4	85.4

* Up to April 1983 earnings related to males aged 21 and over and females 18 and over but from April 1984 earnings are for males and females on adult rates.

Sources: New Earnings Survey
Scottish Economic Bulletin

Not surprisingly the percentage of total earnings attributable to basic hours only is counter-cyclical as column (5) of Table 5 makes clear. This is what we would expect given the procyclical nature of overtime hours.

Male-female earnings differentials in Scotland are presented in Table 6. The most striking feature of this differential is its absolute size. In April 1984, for example, male manual workers earned a total of 71.1% more than their female counterparts and the differential for non-manual workers was 76.9%. Admittedly, once overtime payments are omitted from the calculation the male-female differential for manual workers is reduced significantly to 53.5% in 1984, a fact which reflects the concentration of overtime working among males which was noted earlier.

Over the 1976 to 1984 period the differentials for both manual and non-manual workers do seem to exhibit a slight upward trend, and there is some evidence of a pro-cyclical pattern with peaks of 72.4% and 79.4% in 1979.

Table 6 Male-female earnings differentials in Scotland (April 1985)

	Average weekly earnings			Average weekly earnings excluding overtime
	Manual differential (1)*	Non-manual differential (2)	(2)/(1) (3)	Manual differential (4)
1976	68.0	71.9	1.1	48.4
1977	65.9	71.9	1.1	46.2
1978	62.2	76.3	1.2	44.0
1979	72.4	79.4	1.1	51.1
1980	69.2	78.8	1.1	49.4
1981	70.3	74.9	1.1	52.5
1982	72.9	78.1	1.1	54.0
1983	68.8	78.6	1.1	53.2
1984	71.1	76.9	1.1	53.5

* Up to April 1983 earnings related to males aged 21 and over and females 18 and over, but from April 1984 earnings are for males and females on adult rates.

Sources: New Earnings Survey
Scottish Economic Bulletin

Table 7 Manual male-female earnings differentials by region (April 1984)

	Male manual	Female manual	Manual differential	Female as % of male
Gr.London	169.8	109.4	55.2	64.4
Remainder of S.East	153.3	93.2	64.5	60.8
E.Anglia	146.2	(94.5)	(54.7)	(64.7)
S.West	142.9	89.9	58.9	62.9
W.Midlands	148.6	92.4	60.8	62.2
E.Midlands	147.9	88.1	67.8	59.6
Yorkshire & Humber	150.4	89.2	68.6	59.3
N.West	151.1	92.3	63.7	61.1
North	152.0	90.8	67.4	59.7
Wales	148.9	94.0	58.4	63.1
Scotland	156.2	91.3	71.1	58.4

Source: New Earnings Survey 1984 (Part E)

Table 7 provides estimates of the manual worker male-female differential for regions of the UK economy. Whilst Scotland ranks second in terms of male earnings, it ranks only seventh in terms of female earnings for manual workers. The male-female differential is in fact greater in Scotland than elsewhere. Naturally this implies that female earnings as a percentage of male earnings is lower than in all other regions (58.4%). Whilst the absolute level of the manual worker differential is, of course, reduced by netting out overtime payments, the broad pattern of differentials is not much affected.

However, considerable caution should be exercised in the interpretation of these figures. In particular both the manual and non-manual categories cover a very heterogeneous group of workers, and different regions have very different industrial structures.

UNEMPLOYMENT AND VACANCIES

Table 8 summarises Scottish unemployment totals for recent months. The seasonally adjusted figure rose each month from November 1984 until June 1985, but fell slightly in July 1985. However, the unadjusted total of 352,262 in July 1985 represented an increase of 15,100 over the preceding July and in fact was the worst July total since 1933 (although comparisons over such long periods must be made rather cautiously since a number of changes have been made in measurement methods.) The accompanying graph indicates the continued upward trend of quarterly seasonally adjusted unemployment.

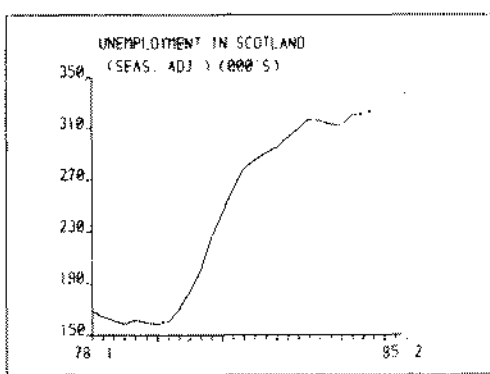


Table 8 Scottish unemployment

	Seasonally adj. excluding school-leavers number (000s)	rate (%)	Unadjusted including school-leavers number (000s)	rate (%)
1984				
July	323.5	14.3	336.7	14.9
Aug	324.4	14.4	336.8	14.9
Sept	326.4	14.5	349.2	15.5
Oct	326.2	14.4	343.1	15.2
Nov	325.9	14.4	343.4	15.2
Dec	326.3	14.4	343.1	15.2
1985				
Jan	328.0	14.5	362.2	16.0
Feb	329.2	14.6	357.2	15.8
March	331.6	14.7	351.9	15.6
April	338.1	15.0	354.7	15.7
May	338.7	15.0	349.9	15.4
June	339.3	15.0	345.6	15.3
July	338.6	15.0	352.3	15.6

Source: Department of Employment Press Notice

Furthermore, whilst the number of people covered by special employment and training measures is small as a proportion of total employed, it stood at end June 1985 at 100,854 - 28.7% of current unemployment. However the actual effect on registered unemployment is likely to be far less than this since, for example, some of those on schemes would have been employed anyway.

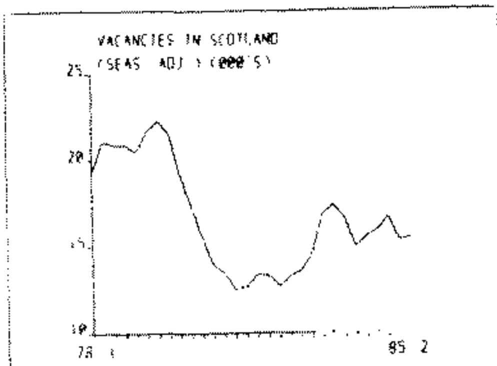
Recent trends in vacancies are summarised in Table 9. Although there is some distortion to the April and May figures in particular, the number of unfilled vacancies appears to have increased each month since March 1985 on a seasonally adjusted basis and since February on an unadjusted basis. Assuming that problems of matching the skills required by employers have not increased this could be indicative of a slight improvement in conditions on the demand side of the labour market, which might subsequently be reflected in employment and, possibly, in a reduction in unemployment. The accompanying graph of quarterly adjusted vacancies registers a rise in the first quarter of 1985.

Table 9 Scottish vacancies unfilled at Jobcentres

		Seasonally adjusted number	Unadjusted number
1984	July	15.2	15.7
	Aug	16.1	16.4
	Sept	16.3	16.9
	Oct	17.7	18.0
	Nov	16.7	16.6
	Dec	15.6	14.6
1985	Jan	15.8	13.8
	Feb	15.2	13.8
	Mar	14.8	14.2
	April*	15.3	15.9
	May*	15.4	16.7
	June	15.8	17.4
	July	17.2	17.6

* The statistics of vacancy stocks were distorted during April and May because of a change in the MSC Employment Division's administrative arrangements. During the month to April there were delays in the recording of notified vacancies and of vacancies which had either been filled or withdrawn by employers. This resulted in an artificial increase in the April level of unfilled vacancies. The distortions in April have been substantially offset in the month of May and the recorded stocks for May should not be minimally affected.

Source Department of Employment Press Notice



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INDUSTRIAL RELATIONS IN SCOTLAND

Scottish industrial relations continues to be dominated by fears of insecurity of employment and uncertainty as to the future.

The privatisation of the Royal Navy Dockyards, noted in an earlier **Commentary**, with the likely loss of more than a thousand jobs at Rosyth, is but the first stage of contracting out a range of Ministry of Defence work. A further 1086 jobs are threatened (576 on the Clyde, 440 Rosyth, and 70 at Kyle of Lochalsh) by suggestions to privatise the Ministry of Defence's marine services work which includes harbour berthing, ferry services, moorings, salvage, tank cleaning and oil pollution control). The announcement by BSC to close Gartcosh with a loss of 800 jobs will virtually dictate the closure of Ravenscraig by 1990, threaten the security of employment at a number of private steel plants and end production steel on any significant scale in Scotland.

The sporadic action by NUR members in Glasgow arose over British Rail and Strathclyde Regional Council plans to introduce single manning, or driver-only operators (DOO) to reduce the Council's subsidies covering loss-making lines. However, underlying the dispute are British Rail's attempts to restore progress on productivity improvements. To date both the NUR and ASLEF have recommended that members refuse to co-operate until a full agreement has been reached. This issue was, by agreement, avoided in the annual pay talks in April 1985. The cumbersome negotiating procedures, the impracticability of adapting the driver-only operating practices agreed for freight traffic to passenger traffic and the issue of regional subsidies are likely to make this matter, along with other productivity proposals including reducing manning levels at stations and ticket offices, feature in localised disputes for some time to come.

The instruction to Scottish Health Boards to cut ancilliary budgets by 5% for the current financial year and to make savings of 10% in 1985-6 has extended fears of job losses already raised by the requests to put a range of services out to tender. Together these proposals will, in the long term, imply more than 1000 job losses.

As yet the introduction of new technology in printing and the attendant problems of redefining demarcation and recognition lines has not been a feature in Scotland. However, it is unlikely that the national Scottish papers will avoid such problems especially if the satellite printing, planned, by Eddie Shah, is successful.

Uncertainly characterises both the teachers' and bank staff's disputes. The rejection by the EIS of the latest Scottish Office proposal followed the earlier rejection by the teaching unions in England and Wales of the proposal by the Secretary of State for Employment. The Scottish Office offer implied an additional 2.5% to the, as yet unspecified, awards for the four years from 1986/7. It is clear that the management side envisage a degree of staging in any increase, possibly linking payments to changes in the contract of employment. The EIS plans to intensify the work to rule, curriculum boycott, examination boycotts and selective disputes. However, closing some schools for up to a month will be difficult to sustain for a second year especially if it requires the doubling of the twice monthly levy. The lack of a genuinely new offer from the Government suggests that their policy, unlike that of the management side of the Scottish Negotiating Committee, is based on wearing down rather than negotiating with the EIS.

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Regional Review

The announcement in July of record unemployment figures for Scotland as a whole is reflected in the seasonally unadjusted totals for individual regions. All regions, with the exception of the Western Isles. experienced an increase in the numbers registered as unemployed during this period. The most significant increases were in Fife (1.3%) Central (1.0%) and Highland (0.9%). Strathclyde now tops the unemployment rate, 18.8%, and is closely followed by the Western Isles with 17.8%. Grampian and Shetland remain relatively isolated from rising unemployment with rates of 7.8 and 5.6% respectively, (see Table 1).

Table 1 Unemployment by Scottish region: seasonally unadjusted

	Total July 1985	Change since July 1984	Rate % July 1985	July 1984	Change %
Borders	3,521	+ 175	9.2	8.8	+0.4
Central	18,717	+1240	16.1	15.1	+1.0
Dumfries & Galloway	7,601	+ 335	13.3	12.7	+0.6
Fife	20,677	+1756	15.5	14.1	+1.3
Grampian	17,062	+ 913	7.8	7.3	+0.5
Highland	12,410	+ 769	15.1	14.2	+0.9
Lothian	46,130	+1572	12.7	12.3	+0.4
Strathclyde	197,077	+7534	18.8	18.1	+0.7
Tayside	25,939	+1341	14.9	14.2	+0.7
Western Isles	1,738	- 124	17.8	19.1	-1.3
Orkney	732	+ 57	11.0	10.1	+0.9
Shetland	658	+ 27	5.6	5.3	+0.7
Scotland	352,262	+15595	15.6	14.9	+0.7

Source: Department of Employment

Cumnock and Sanquhar has replaced Irvine as the travel to work area (TTWA) with the severest unemployment problem. But for every region there is a wide range of unemployment experience. This is greatest for Grampian where the difference between the TTWA with the highest (H) and lowest (L) unemployment rates is 17.0% (see Table 2).

Table 2 TTWA with highest and lowest unemployment rates in each region

	TTWA	%	H-L
Borders	H Berwickshire	13.6	6.0%
	L Galashiels	7.6	
Central	H Alloa	19.2	
	L Stirling	11.6	7.6%
Dumfries & Galloway	H Cumnock & Sanquhar	26.1	
	L Dumfries	10.3	15.8%
Fife	H Kirkcaldy	16.9	
	L North East Fife	11.4	5.5%
Grampian	H Forres	23.1	
	L Aberdeen	6.1	17.0%
Highland	H Sutherland	21.7	
	L Inverness	11.5	10.2%
Lothian	H Bathgate	21.5	
	L Haddington	8.6	12.9%
Strathclyde	H Irvine	25.8	
	L Ayr	8.6	12.9
Tayside	H Arbroath	18.1	
	L Perth	10.0	8.1%

Source: Department of Employment

Male unemployment rates continue to exceed those for females. In the absence of more definite information, it is difficult to say how much this is due to the greater propensity to register among male members of the workforce.

The differential is greatest in Strathclyde (10.9) and the Western Isles (11.6). However, in the relatively low unemployment areas of Grampian and Shetland the differential is negative with figures of -0.1 and -0.5 respectively. This can probably be partly explained by the preponderance of male-dominated jobs amongst those offered by the North Sea oil industry The positive differential explained by the observed increase in mainly part-time female employment over the past two years or so in Scotland as a whole, (see Table 3).

Table 3 Regional unemployment rates for males and females

	Male %	Female %	M-F
Border	10.0	8.3	1.7
Central	19.0	12.3	6.7
Dumfries & Galloway	14.5	11.3	3.2
Fife	17.6	12.7	4.9
Grampian	7.7	7.8	-0.1
Highland	17.9	11.0	6.9
Lothian	15.9	8.9	7.0
Strathclyde	23.6	12.7	10.9
Tayside	17.8	11.4	6.4
Western Isles	22.8	11.2	11.6
Orkney	12.8	8.5	4.3
Shetland	5.4	5.9	-0.5

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

Table 4 charts the reported vacancies for July 1985. These show some overall improvement, especially in Tayside, Borders and Strathclyde. But, by calculating unemployment/vacancy ratios, it can be seen that these changes have had only a slight influence on the employment prospects for the existing unemployed. In five regions there are more than twenty unemployed persons per reported vacancy, (see Table 5).

Using data derived from the computerised count of unemployed claimants, the analysis of past **Commentaries** can be repeated allowing a fuller picture of unemployment experience in the Scottish regions. It is assumed throughout the following analysis that (i) the labour force is homogeneous (ii) that no

Table 4 Vacancies by Scottish region

	Total July 85	Change since July 84	% Change
Borders	478	118	+24.69
Central	822	- 75	- 9.12
Dumfries & Galloway	403	- 2	- 0.50
Fife	994	-194	-19.52
Grampian	2419	172	+ 7.11
Highland	895	- 64	- 7.15
Lothian	2415	112	+ 4.64
Strathclyde	8325	1645	+19.76
Tayside	1009	263	+26.07
Orkney	47	- 30	-63.83
Shetland	72	11	+15.28
Western Isles	83	- 12	-14.46
Scotland	17,962	1,944	+10.82

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.

Table 5 Unemployment/vacancy rates

	April 1985	April 1984	% Change
Borders	7.37	9.29	-20.7
Central	22.77	19.48	16.9
Dumfries & Galloway	18.06	17.94	0.7
Fife	20.80	15.93	30.6
Grampian	7.05	7.19	- 1.9
Highland	13.87	12.14	14.3
Lothian	19.10	19.35	- 1.3
Strathclyde	23.67	28.37	-16.6
Tayside	25.71	32.97	-22.0
Western Isles	20.94	19.60	6.8
Orkney	15.57	8.77	77.5
Shetland	9.14	10.34	-11.6

Source: Department of Employment

individual has entered, left and then re-entered the register in the period under study, and (iii) that unemployment was constant throughout the period under study. Although these may be thought to be restrictive and unrealistic assumptions they are necessary to allow the calculation of measures of average expected unemployment experience. Given the lag between the reporting and analysis of the data and its availability, the latest period for which figures are available is the first quarter of 1985.

Table 6 tabulates the median duration of unemployment spells of those on the register in April 1985. This is accompanied by information on the percentage of the stock of unemployed attributable to each spell length. In Table 7 this information is given in cumulative format, allowing direct calculation of the total percentage of the unemployed for less than the period shown.

Table 6 Median duration of unemployment spell and distribution of unemployment duration (weeks)

	Median weeks	% experiencing duration (weeks) 0-4	4-13	13-26	26-52	52-105	104 & over
Borders	25.82	5.93	25.03	19.29	20.48	12.81	16.45
Central	34.07	6.76	19.64	19.29	21.76	16.66	19.95
Dumfries & G/way	34.06	4.98	18.61	17.45	22.42	15.99	20.55
Fife	31.96	7.11	20.16	16.61	21.82	16.52	17.77
Grampian	24.5	7.39	25.54	19.16	22.01	12.22	13.68
Highland	28.86	7.05	19.47	20.21	26.17	13.25	13.85
Lothian	35.88	5.15	19.32	17.78	20.81	15.34	2.58
S/clyde	42.09	4.73	17.49	14.01	19.72	16.62	2.43
Tayside	33.88	5.15	19.32	17.78	20.81	15.34	21.58
Orkney	35.62	3.71	16.95	17.09	23.18	15.50	23.58
Shetland	22.75	8.74	22.81	24.59	22.95	10.11	10.79
Western Isles	31.50	6.55	18.23	18.89	23.58	15.01	17.74

Source: Department of Employment

The median durations all exceed twenty weeks, and in most cases are almost double this. In Strathclyde, for instance, median duration is 42.09 weeks. Given that the majority of Scotland's unemployed register in Strathclyde, this gives some indication of the seriousness of the problem of long term unemployment. Even in the relatively low unemployment areas of Grampian and Shetland, the median durations exceed 5 months.

Table 7 % Unemployed per duration (weeks)

	< 4	<13	<26	<52	<104
Borders	5.93	30.96	50.25	70.73	83.54
Central	6.76	26.40	41.63	63.39	80.05
Dumfries & G/way	4.98	23.59	41.04	63.46	79.45
Fife	7.11	27.27	43.88	65.70	82.22
Grampian	7.39	39.93	52.09	74.10	86.32
Highland	7.05	26.52	46.73	72.90	86.15
Lothian	5.78	24.3	40.16	61.25	78.10
S/clyde	4.73	22.22	36.23	55.95	72.57
Tayside	5.15	24.47	42.25	63.06	76.43
Orkney	3.71	20.66	37.75	60.93	76.43
Shetland	8.74	31.55	556.14	79.09	89.20
Western Isles	6.55	24.78	43.67	67.25	82.26

Source: Department of Employment

In 9 out of 12 regions, more than half of those on the register had been unemployed for more than 6 months. In 8 out of 12 more than 30% had been on the register for 6 months to 1 year and in 5 out of 12 regions more than 20% unemployed had been registered for more than 2 years. Not surprisingly, regions with a relatively lower unemployment rate suffer less from longer term unemployment spells. For instance, in Shetland and Grampian more than 30% of those on the register have been unemployed for less than three months

Data on flows onto and off the register during the period have been used to calculate the measures reported in Table 8. The probability of leaving the register is calculated as the off-flow during the period divided by the stock figure at the period end. It indicates that if each unemployed person can expect the same employment experience then upwards of one quarter could expect to leave the register every three months. Again, Strathclyde fares relatively badly on this measure with a probability of only 28%. This compares with a figure of 55% for Grampian.

Table 8 Probability of leaving/joining register and expected frequency of unemployment

	Probability of leaving register (%)	Probability of joining register (%)	Expected frequency of unemployment spell (months)
Borders	46	4.3	69.5
Central	34	6.0	50.0
Dumfries & Galloway	34	4.5	67.0
Fife	36	5.7	52.2
Grampian	55	4.2	71.4
Highland	42	6.2	48.7
Lothian	34	4.3	70.1
Strathclyde	28	5.6	53.3
Tayside	33	5.2	58.0
Orkney	34	3.4	89.1
Shetland	54	3.0	98.5
Western Isles	40	6.4	47.1

Source: Department of Employment

The probability of joining the register is calculated by expressing the on-flow during the period as a proportion of the estimated regional labour force. For this measure there is again evidence of significant regional variation. Figures range from 3% for Shetland to 6.2% for Highland. When inverted this measure is equivalent to the frequency with which a member of the labour force can expect to experience a spell of unemployment.

These measures are crude indicators of average expected experience and do not correct for characteristics such as skill category. age or sex. For example. the more highly skilled the worker, the lower the spell of unemployment duration he should expect. Conversely, the expectation is that the longer term unemployed will consist of mainly lower skilled workers. Similarly, some groups of workers may expect more frequent but short spells of unemployment. This applies to construction workers and others employed in industries where short term contracts are normal.

However, it is expected that the major influence on the size of those measures is current economic conditions and this is borne out by the observation that regions which have the highest unemployment rates fare worst on the other measures of unemployment experience.

Table 9 ranks regions in terms of relative performance on each measure. The lower is the rank then the worse is the relative performance.

Table 9 Relative regional performance

	Unemployment rate	U/V ratio	Duration	Prob. leaving register	Prob. joining register	E	Overall rank
Borders	10	11	10	10	8	49	10
Central	3	3	4	3	3	16	2
Dumfries & G/way	7	7	5	3	7	29	7
Fife	4	5	7	7	4	27	5
Grampian	11	12	11	12	10	56	11
Highland	5	9	9	9	2	34	8
Lothian	8	6	2	3	8	27	5
S/clyde	1	2	1	1	5	10	1
Tayside	6	1	6	2	6	21	3
Orkney	9	8	3	3	11	34	8
Shetland	12	10	12	11	12	57	12
Western Isles	2	4	8	8	1	23	4

Source: Department of Employment

Strathclyde is easily the worst-off region. Higher unemployment is accompanied by more frequent spells of longer duration. Given that almost half of the Scottish labour force resides in Strathclyde, this gives a further indicator of the severity of the current unemployment problem and its coverage. In particular, the problem of long term unemployment appears increasingly intractable with over 80,000 of the unemployed being on the register for more than two years.

The Government's present stance appears to be that policies aimed at ensuring a greater efficiency in the labour markets will eventually have a beneficial impact. But the evidence from Scotland to date is that this is having little effect.