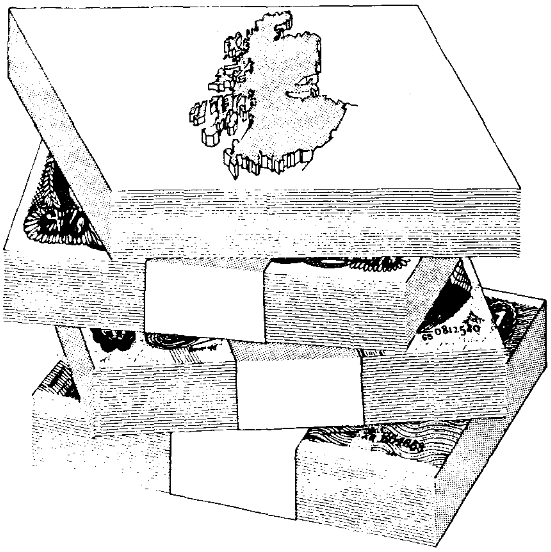
The Scottish Economy

Industrial Performance



BUSINESS SURVEY

With the delay in the publication of this quarter's Commentary it should be borne in mind that responses to both the Scottish Chamber's Business Survey (SCBS) and CBI surveys now refer to developments of two months ago. Accordingly, responses do not take account of, or could reasonably be assumed to have anticipated, the recent increases in nominal interest rates and the depreciation of sterling.

One motivation for the recent increase in nominal interest rates was an attempt by the financial authorities to check the consumer credit boom, which has endured now for at least eighteen months. The increase in consumer expenditure, financed by the credit expansion and by increases in household disposable income, are primarily responsible for the remarkably buoyant performance of the retailing and wholesaling sectors. The SCBS reports that a balance of +64% of respondents in Wholesale Distribution are more optimistic about their general business situation. The corresponding figures for Retail Distribution is +44%. Although there was some evidence in the January 1988 SCBS that the negative wealth effects following last Autumn's stock market crash might have had a constraining effect on consumer expenditure, this effect appears only to be have been temporary.

Over the three months from April to June 1988 a balance of +69% of respondents in Wholesale Distribution expect an increase in sales. The corresponding figure for Retail Distribution is an even more striking 71%. Although it is unlikely that recent rises in interest rates will immediately depress consumer spending, expectations in the Wholesale and Retail sectors perhaps now appear a little too optimistic.

The first quarter of 1988 witnessed likely employment gains in both Retail and Distribution sectors. A positive balance of 22% of respondents in Retail Distribution reported an increased trend in total employment. The emphasis of this expansion, however, was on part-time employment and this emphasis looks set to continue over the next three months. In Wholesale Distribution a positive balance of +21% of respondents recorded an increase in total employment, but there full-time rather than part-time employment was the principal beneficiary. Respondents in Wholesale Distribution expect this trend to continue over the quarter to June 1988.

In summary, buoyant conditions continue in the Wholesale and Retail Distribution sectors. Indeed respondents in Wholesale Distribution are more optimistic than they have been since the inception of the SCBS. The threatened curtailment of consumer spending arising from the adverse effects on household wealth of the October stock market crash appear not to have materialised. However it remains to be seen whether recent attempts to control the boom in consumer credit will be effective. To the extent that they are we would expect some moderation of the vigorous growth in activity of Wholesale and Retail Distribution, which has been characteristic of its performance over the past eighteen months.

We noted in the previous quarter's Commentary that the demand for manufacturing output appeared to be more broadly based than hitherto. In particular, there was evidence for the first time that growth in Scottish orders were providing a new and much welcome stimulus to demand. The latest SCBS survey suggests that this encouraging development is continuing. In the quarter ending March 1988 a positive balance of 14% of manufacturing firms experienced an increase in orders coming from Scotland. In the second quarter, a balance of 13% of respondents expect an increased trend in Scottish orders. These order figures are broadly reflected in Scottish sales.

Notwithstanding the appreciation of sterling against the currencies of our major trading partners, export orders and sales show no signs of abatement. This is perhaps a little surprising since there is no evidence that the increase in labour productivity which has accompanied output growth has been passed on in lower export prices. Profits and earnings growth both remain strong. If, in the face of weak world demand, the strong positive trend in exports continues to be largely unaffected by movements in exchange rates, then there is the suggestion that non-price factors (prompt delivery, quality, better marketing etc.) may be playing a more important role in securing export orders than is suggested by responses to the CBI survey.

Investment demand in Scottish manufacturing remains vigorous. Over 40% of respondents expect to increase their expenditure on plant and equipment and 18% expect to increase their expenditure on buildings. The principal motivations for increased investment expenditure are the desires to expand capacity and increase efficiency. Very little authorised investment expenditure is for the replacement of existing capacity. Although national accounts figures have suggested that investment spending in the UK has been rather modest over the past eighteen months there is now reason to believe that these estimates will be revised upwards in the reconciliation of income and expenditure estimates of GDP. It would appear therefore that the foundations of recent output growth have been more broadly based than has been officially recognised. To the extent that this is true, worries about the current account deficit may be partly allayed.

On the basis of a head-count, employment in Scottish manufacturing over the first part of 1988 appears to have shown some gains. Whether or not "full-time equivalent" employment has actually grown remains unclear. Around a quarter (24%) of all respondents reported that they had actually taken on more employees. Significant regional variations were observed, however, in this trend, with Aberdeen and Edinburgh actually registering employment losses. These job losses fell primarily amongst male employees. In those areas where jobs were being created (Glasgow and Dundee) male employment did rather well. In Dundee 39% of respondents hired more males and in Glasgow 33% of respondents hired more males. To the extent that firms may be more reluctant to hire males (because of the larger fixed-costs involved) these figures suggest that the employers in question are sanguine about future orders and sales. This is reflected in responses to SCBS questions about expected trends in orders and sales, where again it is the performance of Dundee and Glasgow which underpins the overall bullish outlook.

In summary, Scottish manufacturing continues to show signs of recovery. This impression is confirmed by responses to the CBI survey. Order books reflect strong domestic and export demand, and investment intentions are also buoyant. Significant regional variations in experience are, however, apparent with Dundee and Glasgow being in the vanguard of the recovery. In stark contrast, manufacturing activity in Edinburgh and Aberdeen remains depressed both by national and by Scottish standards.

Respondents in the Construction sector remain optimistic about their general business situation. A balance of just over +25% of respondents are more optimistic despite what appears to have been a rather disappointing performance in the first quarter of 1988. In the first quarter there was a decline in orders due primarily to cut-backs in those coming from central government. Orders from the private sectors appear to have been almost static. This poor performance on orders however masks a more stable employment pattern which may reflect work in progress rather than orders themselves.

Business optimism in Construction is largely founded on the prospects for the second quarter of the year. Orders from all sectors (central government, the other public sector and the private sector) are expected to show significant growth. Of these, private sector orders are expected to be most vigorous: a balance of +38% of respondents expect the trend in private sector construction orders to grow. This strong growth in orders is also expected to percolate through to employment. A balance of +19% of respondents expect to increase the numbers they employ. Although respondents are asked to exclude seasonal influences in their replies it is likely that the trends we have observed partly reflect the lull in construction activity which typically occurs over the winter months and the subsequent pick-up in activity over the spring and summer.

Responses from Scottish financial institutions indicate that credit expansion is continuing. Although personal advances were only marginally up in the first quarter (a balance of +4% of respondents reporting an increase), advances to the corporate sector showed strong growth. A balance of +61% of respondents reported an increase in the trend of advances to the corporate sector in the first quarter of 1988. The major source of this demand for credit was for working capital in the distributive and service sectors. It is probable that these sectors have been stock-building in anticipation of a strong growth in consumer demand. As was observed earlier, expectations here are unlikely to reflect recent increases in interest rates so that the anticipated strong growth, especially in personal sector advances, may not fully materialise.

Overall, it now seems that the Scottish economy is exhibiting sustained signs of recovery. The growth in demand appears to be more broadly based than before. Scottish demand, in particular, now appears to be expanding but the regional incidence of this growth is uneven. Glasgow and Dundee appear to be prospering more than Edinburgh, and activity in Aberdeen still seems to be lagging a long way behind the rest of the Scottish economy.

Primary

AGRICULTURE

According to the latest OECD report on agriculture the level of subsidy by member governments to farmers shows no sign of slackening. It is estimated that the cost of supporting agriculture in the OECD countries nearly doubled to £132 billion from 1980 to 1986.

The report shows that producer subsidy equivalents (PSE) rose on average from 30% to 47% during the same period. PSEs are a comprehensive measure of farm support which reflect domestic support prices, world prices and budgetary spending on agriculture in each country. Japan has the highest PSE at 75% (up from 57%) while the European Community's PSE rose from 37% to 50%, and that of the US from 16% to 35%. PSEs are likely to play an important part in the GATT negotiations.

It is more than a year since the Reagan administration made its dramatic "zero option" offer to abolish all subsidies to its farmers and all farm trade protection, if other countries would follow suit. Recently the US special envoy for agricultural trade and development expressed his government's frustration at the lack of response from both the European Community and Japan to his government's proposals. In a speech in Munich in May he suggested that if the farm talks failed, GATT itself might collapse, and the US would retreat into protectionist policies which could only damage the rest of the world.

The main problem appears to be the lack of agreement, both within and between countries, as to what the objectives of agricultural support policies ought to be. As the real costs of protecting agriculture are not fully appreciated by those groups who bear them - consumers and industrialists - there is no effective political constituency in either Europe or Japan in favour of radical reform. Accordingly, it is likely that the running will continue to be made by the lobbies representing farming interests, which are inevitably a force for conservatism. Such reforms as are made are therefore likely to be <u>ad hoc</u> in nature, with undesirable side effects; for example, the milk quotas which are now in force in Scotland and throughout Europe and the set-aside scheme which has been proposed to take arable land out of production. By limiting supplies in some places while permitting surpluses in others, the milk quota system has produced distortions in the market, and has crippled the cheese manufacturing capacity of the Scottish Milk Marketing Board.

Although organisations representing farmers and land owners have given a qualified welcome to the government's extensification proposals, preferring them to the alternative of lower cereal prices, critics have pointed out some of the drawbacks of the scheme. They claim the proposals will be costly to administer and will contribute nothing to the rural economy. It has also been suggested that reducing the intensity of production would be just as effective as taking land out of production, while from an ecological standpoint it is surely better to lower production over an existing cereal acreage than fallowing part of a farm and allowing even more intensive production over the remainder.

The European Commission announced its farm price proposals for 1988-89 on 23rd March. The main proposals are for a general freeze in support prices, although detailed amendments to cereals and beef regimes will reduce the value of support for these commodities. There will be no change in green exchange rates, except for a ten point reduction in Greek monetary compensation amounts. The price proposals are designed to complement the financial stabiliser arrangements which were announced earlier in the year. The net effect of these arrangements will be felt with particular severity by Scottish sheep farmers.

FISHING

Figures released by the Department of Agriculture and Fisheries for Scotland show a record level in the value of fish landings in Scotland for the year 1987. The total value of £273 million represents a 17% increase on the previous year; the quantity landed increased by 4% , with a 12% increase in overall average prices (Table 1).

Table 2 presents comparative average prices for some individually important species. 1987 saw a very large (34%) fall in the volume of haddock landings. Associated with this volume decrease, however, was a nearly-compensating price rise of 27%. More recent figures for January and February 1988 show a continuing large fall in haddock landings, being 32% down on the corresponding period twelve months previously.

Cod landings contributed most significantly to the increase in total value of all landings, generating an increase of nearly £9.5 million on the previous year; this importance reflects the high unit price for the species, in conjunction with a 22% increase in weight of landings. Cod landings have, however, fallen by 7% in the first two months of 1988. (All percentage changes quoted here are in comparison with the equivalent period twelve months earlier.)

Among species in the pelagic sector, the value of mackerel landings (individually the most important species by volume to Scottish landings) increased by 38%, mainly as a result of a 32% volume increase. This upward trend has continued in January and February 1988. Herring landings increased slightly in value in 1987, despite a 5% fall in weight of catches.

Table 1 Fish landings by UK vessels at Scottish ports: January-December 1987

Category	Weight (tonnes)	Value (£000)	Average price per tonne (£)
Demersal	263,466(- 7)	186,263(+14)	707(+22)
Pelagic	271,825(+16)	30,995(+22)	114(+ 5)
Shellfish	38,937(+12)	56,056(+22)	1,440(+ 9)
TOTAL	574,228(+ 4)	273,314(+17)	476(+12)

Figures in parentheses represent percentage changes over corresponding figure for 1986.

Source: Department of Agriculture and Fisheries for Scotland.

Table 2 Fish landings by UK vessels at Scottish ports - selected species: January-December 1987

Species	Weight (Tonnes)	Value (£'000)	Average Price per Tonne (£)
Cod	54,203(+22)	49,329(+23)	910(+ 1)
Haddock	93,864(-34)	71,504(- 3)	762(+27)
Whiting	40,449(+30)	20,311(+38)	502(+ 6)
Herring	96,147(- 5)	11,497(+ 3)	120(+ 8)
Mackerel	170,165(+32)	19,227(+38)	113(+ 5)
Scallops	4,758(+20)	7,247(+33)	1,523(+11)
Norway Lobsters	16,536(- 6)	32,641(+11)	1,974(+17)
Saithe	13,191(-17)	6,066(+ 8)	460(+30)

Figures in parentheses represent percentage changes from corresponding figures for 1986.

Source: Department of Agriculture and Fisheries for Scotland.

The value of shellfish landings rose strongly in 1987, with a 22% increase in value to £56.1 million. Particularly large value increases were shown by scallops and queen scallops, having risen by 45%.

Clearly, the value of landings overall has risen more quickly than both the rate of inflation and the rate of growth of the economy; indeed this has been the case for five consecutive years. The increases in fish landing values in the year 1987 have, in general, continued in January and February 1988. Particularly significant in these two months has been a 25% increase by weight in herring landings (accompanied by a 55% increase in price) and a 30% rise in the weight of herring catches.

In terms of category, for January and February 1988, pelagic species have exhibited strong increases in volume of catch, whilst demersal and shellfish species have fallen significantly (although rather less so in terms of value).

Some optimism has been expressed recently about the recovery of haddock stocks, one of the most important species to the Scottish fishing industry. Scientists and EEC fisheries officials forecast a recovery in North Sea stocks, and possibly in response to this, 1988's quota was increased from 100,000 to 127,000 tonnes. This optimism has not yet been reflected in higher catches, but the president of the Scottish Fishermen's Federation has reported signs of a very large increase in young haddock, which may auger well for future catch prospects.

An issue which led to much discussion in April concerned the proposed £4 million deep water fish processing plant in the Cromarty Firth. This plant would be used (among other people) by Eastern block factoryships, anchoring for long periods of time. The Ministry of Defence has expressed concern about possible dangers to security interests from the vicinity of this anchorage point to RAF airfields at Lossiemouth and Kinloss, and to nearby naval refuelling and NATO bombing facilities. The Invergordon fish plant is seen by Highland Regional Council as being an important part of strategic plans to diversify the local economy as oil-related business gradually runs down. Local fishermen and Scottish fishing organisations see the success of the proposal as being dependent upon the involvement of the eastern block factory fleets.

The outcome of negotiations between the Cromarty Firth Port Authority and the Ministry of Defence is not yet known.

Fish farming in Scotland has continued to attract a high profile in recent months. Fish farming has exhibited a dramatic growth rate, with the production of (farmed) salmon reaching 13,000 tonnes in 1987. Figures presented by the Scottish Wildlife and Countryside Link group (a grouping of 13 environmental organ-isations) show that this production level may rise to 55,000 tonnes by 1991.

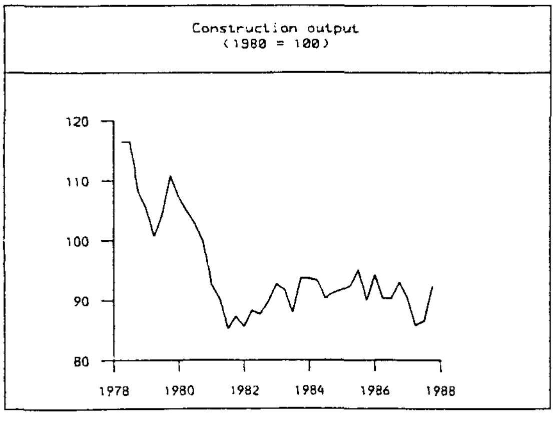
Fish farming appears to be generating conflict of opinion and interest between regional and local economic interests, and those of conservationist and environmentalist groups, similar to the difference of opinion with regard to the development of forestry in Scotland.

The Link group argues that the environmental impact of fish farms is not yet known, but is potentially very damaging. It has called for tighter controls on the planning of future farms, direct government involvement and immediate measures to stop unnecessary destruction of wildlife. However, at a recent conference on fish farming at Inverness, the Scottish Office Minister, Lord Sanderson, stated that he felt there was no need for the alteration of the present planning controls.

It is of interest to note that fish farming is currently going through a process of rapid development in many parts of the world, including Norway, the Pacific basin and South America. Some fish dealers (see, for example, the report in "The Scotsman", 1.4.88) have expressed the opinion that Scotland's share in this rapidly growing market may be jeopardised by increasingly vocal environmentalist opposition in this country, in the face of low cost competition from countries where such opposition is largely absent. It is difficult to see any evidence, however, to suggest that environmental opposition has created any constraints on the rate of growth of this industry to date. Another issue raised by fish dealers has been the claim that Scottish producers are concentrating too heavily on 'commodity' fish such as salmon and trout, instead of higher value exotic products (such as prawns and scallops marinaded in garlic and herbs, and various seafood kebabs) for which there is a rapidly growing international market demand.

Construction

The latest official information on activity in the construction sector indicates that improvement is slow and continuing to lag far behind that of the UK. The government's index of construction for the third quarter of 1987 stood at 92.3 (1980 = 100). This is much better than the depressed first two quarters, but still slightly down on the third quarter of 1986. This is in sharp contrast to the UK as a whole, where there is little evidence of a slackening of the boom. The third quarter index for the UK rose to 110.9, 5% up on the corresponding period in 1986. The Scottish index now lags fully 20% behind its UK counterpart.



There is rather more optimistic news in the Department of the Environment/Scottish Office figure of new orders obtained by contractors. In 1987 the nominal value of new orders in Scotland stood at £1608 million, 25% up on 1986. Interestingly, however, this substantial rise did not prevent Scotland's share of total GB new orders declining from 7.5% in 1986 to 7.3% in 1987. This decline has been continuing for several years; as recently as 1980 Scotland accounted for over 10% of all GB new construction orders. Perhaps the most obvious difference between Scottish construction and construction in the rest of Britain in 1987 lay in private sector housing. In Great Britain as a whole private sector housing new orders rose by 19% in 1987; by contrast in Scotland the value of new orders actually fell by 7.5%. Interestingly, however, the value of new public sector housing contracts in Scotland in 1987 was over one-third higher than in 1986, a rate of growth far in excess of the rest of Britain

In the last Commentary mention was made of a NEDO report which forecast a decline in UK private housebuilding output of 3.5% this year. However, the latest figures from the National House-Building Council on applications for dwelling starts in the first quarter of 1988 indicate a rise of 20% over the 1987 figure - the highest first quarter figure for fifteen years. Encouragingly, the percentage rise in Scotland was even greater, up 32% from 2500 to 3300 applications. The NHBC makes great play of the "close correlation" between its figures on applications for dwelling starts and the official DOE/SO figures. However, this correlation does not extend to Scotland. The NHBC figures have systematically understated the position in comparison with official figures for over a decade, and the extent of the underestimation appears to be growing. In 1987 the NHBC figures on starts were fully 40% below the official figures. This does not render the NHBC figures useless as a comparison of the trend through time, but it does seem odd that there can be such a wide divergence on the absolute number of dwelling starts.

There is a strong indication in the April Scottish Chambers' Business Survey that Scottish construction firms are becoming increasingly optimistic. In the latest survey a balance of 26% of respondents claimed to be more confident about their business situation than they were three months ago. However, this optimism is clearly based on the expectation of future orders rather than the realisation of increased orders in the first quarter of the year. On balance, responding firms experienced a decline in public sector orders with no net change in private sector orders; as with the last two Surveys, however, there is a strong balance expecting increased orders from all sectors over the next three months. This is especially the case with private sector orders, where a net 38% of firms anticipate an increase before July. While lack of orders is still the most frequently-quoted factor limiting output, a persistent 20% of responding firms mention lack of skilled labour as a serious constraint.

As if to underline this optimism, the Housing Corporation recently revealed a substantial increase in its planned annual expenditure for4 1988-89. A total of £163m has been allocated to the Corporation, soon to merge with the SSHA to form Scottish Homes. This represents an increase of over 20% on the previous year's budget, and according to the Corporation should allow work on a total of 4,700 new homes and improvements to existing homes.

In April it was announced that Bovis Construction (Scotland) had been awarded the management contract for the new concert hall which will form an important part of Glasgow's tenure as European City of Culture in 1990. The contract is worth £24m.

A recent study carried out at the University of Reading indicates that the construction industry in Britain faces a significant international challenge over the next decade. "Building Britain 2001" anticipates that construction output in Britain will average 4-5% growth per annum until the end of the decade, a rate of growth which will necessitate a large investment in training if current skill shortages are not to become a serious constraint on growth. As well as increased European competition in 1992 when trade barriers in the EEC are due to be removed, the report highlights the competitive threat posed by large construction companies from outside Europe, especially from Japan. In fact, recent forays by the largest Japanese construction firms into the European and UK markets have been at a rather reduced level than in 1986 because of the sudden buoyancy of the industry in Japan. However, the report from Reading University indicates that this may be a temporary respite, and suggests that UK construction firms may have to expand to several times their present size if they are to compete successfully in the future.

Energy

OIL AND GAS

The Royal Bank/Radio Scotland oil index for April 1988 was 156.6 (1980=100), up 0.4 points from approval for the £750 million development of March and 0.6% higher than in April 1987. The Ravenspurn North, a gas field in the Southern April index value is equivalent to a daily average North Sea. The field has estimated gas reserves production of 2.58 million barrels. It should be of around 1,300 bn ft^3. Nearly £50 million of noted that the RB/RS index has been consistently contracts associated with the Ravenspurn recalculated to include onshore oil production, development have been placed with UK companies. though this is very small - around 15,800bpd in April - in absolute terms.

The dollar value of oil rose significantly in April to $42.8 million per day compared with $37.9 million in March. This was attributable to an increase in the dollar price of oil, which averaged $16.60 pb in April (Brent reference crude) compared with a low point of $13.75 pb in March. The increase in the daily sterling production value - from £20.7 million to £22.7 million - was less marked because there was an appreciation of the sterling/dollar exchange rate between March and April.

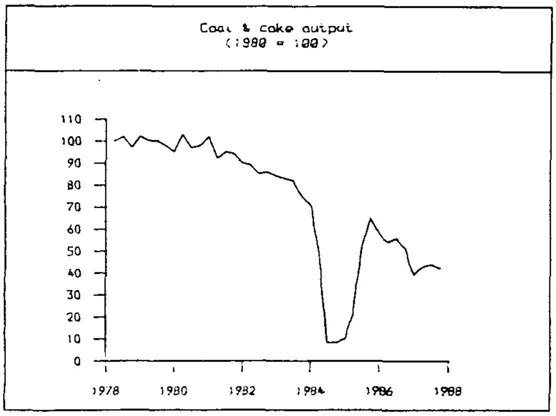
Price volatility remains a strong feature of international oil markets. As noted above, the price of Brent crude fell to a 16-month low in March before recovering somewhat in April. The April price firmness was based on the hope that a proposed arrangement between certain non-OPEC and OPEC producers to restrain supply would be implemented. Six non-OPEC producers (Mexico, Colombia, Angola, Egypt, Malaysia and China) had indicated their willingness to cut exports by 5% - about 180,000 bpd - if this was matched by OPEC. However, it became clear in early May that agreement along these lines could not be reached and there was an immediate adverse price reaction with Brent crude again falling below $16 pb.

Publication of the Department of Energy's 'Brown Book' confirmed that 1987 was a year of recovery in offshore activity on the UK Continental Shelf. Development drilling was 50% higher than in 1986, exploration drilling was the third highest since 1964 and general rig activity was 20% up on the previous year. Offshore developments on the UKCS generated £1.9 billion of orders for the supplies may be a temporary respite, and suggests that UK industry, of which 87% were placed with UK companies. The increase in offshore activity appears to have been sustained during the early months of this year. Energy Ministers are now predicting that, though crude oil production may have peaked already in absolute terms, the UK should remain self-sufficient in oil and gas into next century.

In early May, Hamilton Bros received final approval for the £750 million development of Ravenspurn North, a gas field in the Southern north Sea. The field has estimated gas reserves of around 1,300 bn ft^3. Nearly £50 million of contracts associated with the Ravenspurn development have been placed with UK companies.

COAL & OTHER ENERGY

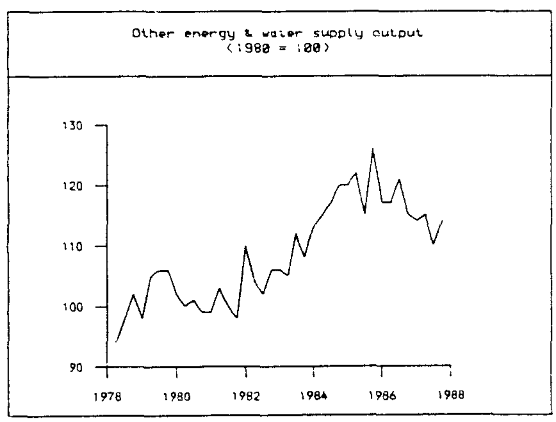
The government's plans for the future of the electricity generation, transmission and distribution industry in Scotland were published in the White Paper "Privatising the Scottish Electricity Industry". (Cm 327)



The key proposal is the creation of two independent and vertically integrated companies based on the existing boards. This outcome represents a victory for the North of Scotland Hydro Electric Board (NOSHEB) which had argued that the two should remain separate, while the South of Scotland Electricity Board (SSEB) had sought a single holding company, believing that this would minimise costs. The White Paper also envisages a re-allocation of existing assets between the two companies in order that each is strengthened operationally and financially. Specifically how his objective is to be achieved remains unclear. It is possible that the ownership of some of the existing plant may be transferred between the new companies. For example, the privatised Hydro Board may acquire one of the SSEBs coal-fired stations while the SSEB receives some hydro-stations. Alternatively, each company may retain operational control of its existing assets but run some of its installations on an agency basis for the other company. Finally, there is the possibility that the current boundaries will be re-drawn to alter both the customer base and the share of assets controlled by each company. The SSEB's nuclear stations at Hunterston and Torness are to come under the control of a holding company in which each of the two new companies would have a proportional share.

In this context the government has argued that it is correct that the costs and benefits of the nuclear assets should be shared since all Scottish consumers had funded them, not only SSEB customers. Privatisation will herald the end of the Joint Generating Agreement between the two boards. Under this arrangement the boards currently co-ordinate generation with less efficient stations being brought on-stream as demand requires. The government recognises this as being a cost-effective system but not a profit-maximising one. It is argued, instead, that there will be "competition by comparison", wherein consumers will be able to compare the tariffs of each company.

The proposals have met with criticism from a number of quarters. Of course, the SSEB has been forced to accept a structure which it opposed. Many including the Scottish Council on Development and Industry, have expressed concern about the lack of "anti-takeover" provisions which would ensure the companies remain in Scottish control. It has also been argued that for reasons of safety and economics that the nuclear stations should remain under public control.



Much is made in the White Paper of the contribution which the creation of two, large and independent private sector companies will make to the generation of the "enterprise culture" in Scotland. At around £3bn the sell-off will certainly be one of major proportions and it is conceivable that the privatised industry may provide the focus for a revival in the fortunes of the sectors which supply generating equipment. For example, through joint ventures or acquisitions, the new companies and firms such as Babcock, Weir's, Howden and NEI Peebles may be able to exploit the large market for new stations in England and Wales in the 1990s.

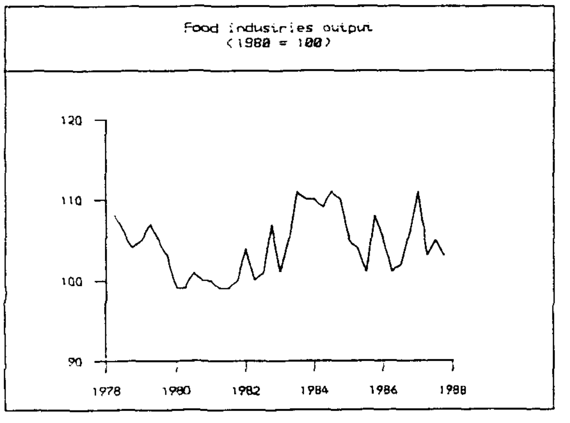
The future of the Scottish coal industry is clearly linked to that of its principal customer the electricity industry. Since the last Commentary, slight progress has been made between the SSEB and British Coal (BC) over the supplies of coal to Scottish power stations and it appears that a three year deal is in prospect. Briefly, the dispute surrounds the price at which BC supplies coal to the SSEB. Basing its argument on the 1986 Monopolies and Mergers Commission report which stated that the SSEB should investigate cheaper sources of coal, the Board has sought to secure lower prices from BC, failing which it will import from abroad. At present the price of internationally traded steam coal is below that offered by BC. However, the future of both the electricity and coal industries is a long-term national concern. The present world price of coal is heavily dependent on subsidies paid to unprofitable producers in a number of countries and it is widely accepted that these cannot be sustained. It is the strategy of some countries to drive the price as low as possible for a few years in order to squeeze out of the market producers such as BC. Should this strategy succeed, supply will be reduced with obvious consequences for prices. The correct strategy for Scotland and the UK as a whole should be to maintain at least current production levels in coal mining in order that guaranteed secure supplies of coal will be forthcoming over the medium term. The danger of the arguments of the SSEB and CEGB that they will find it cheaper to import coal can be seen in light of the size of the world market: currently around 120-130 m tonnes of steam coal is traded internationally each year. Should the SSEB and CEGB attempt to import around 75 m tonnes per annum the price consequences would quickly render such a proposition uneconomic. It is for this reason, if no other, that government should require the electricity generating industry to purchase domestic coal and reject such short-term considerations.

Manufacturing

FOOD, DRINK & TOBACCO

The index of production for the food industry stood at 103 (1980=100) for the third quarter of 1987, slightly down on the corresponding figure for 1986. This sector continues to be broadly in line with its UK counterpart. The situation is rather different in the drink and tobacco sector, where the index for the third quarter was 73, identical to the same period in 1986 and some 27% below the UK index.

At first sight the results from the latest Scottish Chambers' Business Survey for food, drink and tobacco give some cause for concern. In stark contrast to the previous quarter, a balance of 23% of responding firms experienced a decline in new orders over the three months to April, with a slight balance expecting a further decline in the

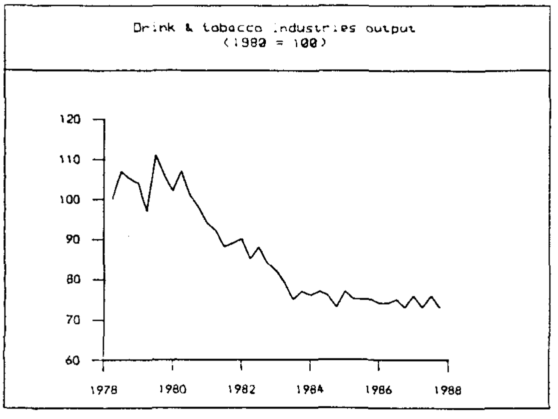


next quarter. This overall picture obscures a clear divergence between home and export sales, both actual and expected. Exports continue to do well in the survey but are overwhelmed by poorish Scottish and UK sales figures. The prospects for employment in this sector are also not very encouraging, with a balance of 30% of respondents anticipating employment reductions before the end of the summer. Interestingly, capacity utilisation remains high at 92%.

These results are very much out of line with the optimistic tone displayed in other sectors of the survey and, indeed, with the findings for the food, drink and tobacco sector in recent surveys. Whether this represent a real downturn in the sector's fortunes or is merely a temporary aberration remains to be seen.

As the last Commentary went to press, brewers Belhaven announced healthy figures for the nine months to the end of December. Profits rose to £6.8 million, the vast majority coming from the

Garfunkels restaurant chain, acquired last summer. Belhaven has undergone a sea-change since Raymond Miquel took control less than two years ago. Loss-making subsidiaries and hotels have been sold and in March a £2.5 million investment in the Dunbar brewery was formally opened, trebling beer capacity to 100,000 barrels per annum. Belhaven is also building up a tied house network and clearly sees itself moving into a much bigger brewing league.



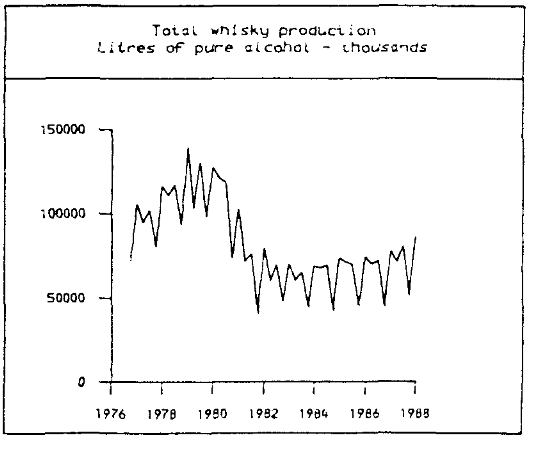
This can have drawbacks as well as benefits as, for example, Scottish & Newcastle has found. To some extent Scottish & Newcastle has long been regarded as neither fish nor fowl; too large to be just another regional brewer but too small to be a truly national concern like Bass, etc. One result of this in-between position has been persistent rumours of takeover bids for Scottish & Newcastle. Presumably Mr Miquel would not relish his revamped Belhaven finding itself in a similar position, his memories of the bitter fight with Guinness for control of Arthur Bell being all too clear and painful.

In the last two years Scottish & Newcastle has expanded into England by acquiring smaller regional brewers, and recently this has had the curious effect of drawing the kind of criticism from some quarters normally reserved for large English or foreign firms involved in the takeover of Scottish concerns. Confidential minutes leaked to the press indicated Scottish & Newcastle's intention to close the Workington brewery of Matthew Brown, acquired last year, with the loss of 45 jobs. This has led to howls of outrage from the local MP about the avaricious behaviour of a large company acquiring a smaller one which has strong regional connections. Scottish & Newcastle have made the point that during the takeover bid no guarantees were given about the Workington brewery, and the company argues (reasonably) that decisions must be taken in the best interest of the larger group.

In the midst of all the (merited) concern about the control of large companies being removed from Scotland through takeover, it is perhaps worth bearing in mind that takeover, rationalisation and movements of control are all two-way processes. Scottish firms can be predators as well as targets.

Confectionery manufacturers, John J Lees, have also been acquiring in England. London based Gainsborough Chocolates has been acquired for £300,000, and the company's production will be transferred to the existing Port Glasgow site of Lees' subsidiary, Fullers. Again, interest-ingly, this rationalisation will be at the expense of one of the English regions; the Fuller's workforce of 50 will double at London's expense. Ironically, as one Coatbridge-based firm expands its operations elsewhere, Coatbridge itself suffers a jobs blow through the contraction of operations at Marshall's Chunky Chicken. A slump in the market for frozen chickens has led to a reduction of 57 in the number of employees to a total of 330.

WHISKY



In 1987 the Scotch whisky industry produced a total of 289.7 m litres of pure alcohol (LPA) of whisky. This represents a 9.3% increase on 1986 output, and is the fourth successive year of output growth. Although exports in the first quarter of 1988 were slightly down on the previous year at 55.3m LPA, this nevertheless represents the second highest export level in the first three months of any year since 1983. Sales of bottled malt continue to make spectacular progress, albeit from a very small base. At 1.96m LPA, bottled malt represents 3.6% of total whisky exports in the first quarter, but this is nevertheless more than double the quantity of bottled malt exported in the same period just four years ago.

The recovery in exports of whisky is still fragile. While acknowledging that stocks of whisky have been falling steadily since 1980, it is to be hoped that we do not return to the position of less than a decade ago when rapid rises in production coincided with a slump in demand, resulting in major problems of restructuring for the industry. It may be worth noting that between 1985 and 1987 whisky production rose by 21% but exports by only 5%. Significantly, however, bottled exports rose by 12% during this period.

The saddest piece of news in the last quarter was that of the loss of 255 jobs at the Craigpark bottling work of Wm Teacher. The plant will close in December. Wm Teacher has been owned by Allied-Lyons (originally Allied Breweries) since 1976, and has gained considerably from the backing of the parent company. However, the recent requisition by Allied of Hiram Walker Resources inevitably lead to the prospect of rationalisation between Teacher's plants in Glasgow and those of George Ballantine and Hiram Walker in Dumbarton. Indeed, Allied Distillers was set up earlier this year with the intention of co-ordinating the now substantial whisky interests of Allied-Lyons. Bottling operations for Allied Distillers will now be concentrated in Dumbarton.

For the second successive year the Scotch Whisky Association has displayed a rather Janus-faced attitude towards the Chancellor of the Exchequer's decision not to raise the excise duty payable on spirits. While welcoming the third year of standstill on duty, the Association nevertheless expresses "disappointment" once again that the Chancellor has done nothing to relieve the tax burden on the industry by altering the way in which stocks are treated for corporation tax. As was argued in last May's Commentary, while Mr Lawson may be broadly sympathetic to the pleas of the spirits industry the chances of any such taxation alterations occurring in the foreseeable future must be very remote.

Despite the company's numerous problems regarding the aftermath of the Distillers takeover, Guinness continues to make significant progress in its attempts to rationalise its basic business interests. Last year Guinness took much more direct control of its marketing and distribution network in the United States, and the company now intends to do a similar job in Japan.

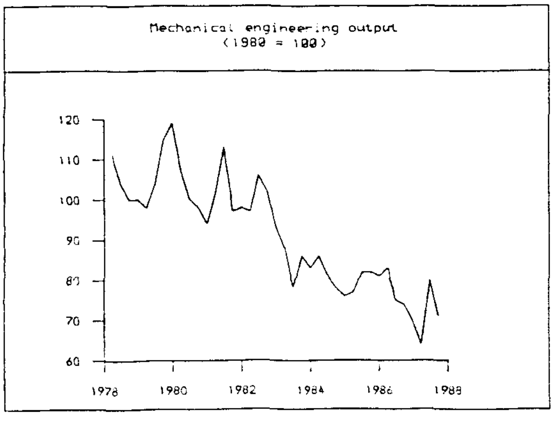
In addition to a wholly-owned subsidiary of United Distillers Group (UDG) which will market Johnnie Walker in Japan, Guinness has entered into a joint venture with Moet-Hennessy to form a very powerful imported drinks combine. This company will be responsible for handling White Horse, the leading brand of Scotch in Japan. Independent Japanese distributors will continue to handle sales of other UDG brands such as Bell's and Haig.

Guinness clearly sees Japan as an important market for Scotch Whisky in the future, and feels that direct control over distribution and marketing will be of some benefit. In common with many other whisky and other spirits producers, Guinness will be hoping that Japan quickly puts into train the promised relaxation of its discriminatory tax regime. Fully six months ago the Japanese indicated that they intended to reform their liquor tax system, but gave no indication of when or how they would do this. More recently the Japanese Prime Minister, Mr Takeshita, has communicated to both Mrs Thatcher and M. Jacques Delors, president of the European Commission, that his country may be willing to substantially reduce the taxes levied on imported whisky which guarantees a substantial price differential between imported Scotch and Japanese whisky. In mid-June the Japanese gave more details of the proposed reforms. All whisky, both Japanese and imported will from April 1989 be taxed at a uniform rate. This will effectively represent a reduction of around 50% in the tax levied on Scotch whisky. Such a move would not eliminate the taxation differential between imported whisky and schochu as required by the Gatt disputes panel ruling last year, but it would represent a major step forward in the opening up of what is already a major export market.

MECHANICAL ENGINEERING

The Index of Production of mechanical engineering (1980=100) fell nine points from 80 to 71 between the second and third quarters of 1987 according to provisional data released in April by the Scottish

Office. This compares with a level of 74 one year ago and with the current UK figure of 91. The 11% decrease during the third quarter follows a rise of 25% in the previous quarter, thus indicating an extreme degree of volatility in the sector's output performance. However, the reported data are a cause of some concern, to the extent that it is difficult at present to interpret the trends in the industry. The provisional figures for the second quarter had initially set the index at 66. Hence the revised value of 80 represent a change in output in excess of 20% and converts an increase in output between the first and second quarters of 5% to one of 25%. Assuming for the moment that the published data presents a reasonably accurate picture of the pattern of output in the industry, to what can the variations during 1987 be attributed? It is possible that the severe weather of early 1987 postponed some work from the first quarter to the second thus lowering the output level in the former and raising it in the latter. Furthermore, if the seasonal adjustment procedure has failed to capture fully the effects of the severe weather, there will be a tendency for the first quarter's figure to be an under-estimate with the second quarter value being an over-estimate. However, these explanations are merely conjecture and it remains to be seen how future revisions affect the series.



Turning to the more recent past, the April Scottish Chambers' Business Survey saw a continuation of the recent trend of optimism in the sector as Table 1 shows. On balance, 29% of firms were more optimistic about the outlook for the sector than was the case in January with orders, sales and employment rising overall, and the expectation that these trends will continue during the second quarter of the year. As ever, it must be stressed that the SCBS by its nature provides information only on those firms which continue to exist, thus firms which close cease to make a contribution to the survey.

Table 1 Scottish Chambers' Business Survey - Mechanical Engineering

	% Balance	
	April 1988	January 1988
Change in optimism	+29%	+16%
Trend in new orders	+60%	+47%
Trend in sales	+18%	+57%
Trend in employment	+28%	+38%

A notable feature of the last three months has been the revival of the fortunes of the Highland Fabricators' offshore construction yard at Nigg in Easter Ross. Only recently the yard had reduced its hourly-paid workforce to 39 people compared with over 5000 in the boom years of the 1970's. However, a clutch of orders has been won recently and HiFab's short-term prospects now appear to be considerably more favourable. Amoco has placed an order worth £14 million for three platform jackets and three sets of piles for the gas fields Indefatigable, Leman and Arbroath. Hamilton Brothers, the principal operator in the Ravenspurn North gas field, has contracted HiFab to build a wellhead platform. Finally, Mobil requires a platform for the Camelot gas field in the Southern North Sea at a cost of £8 million. These orders have pushed employment at the yard to around 700 and further successes could see the figure top 1000. Part of the firm's success is attributable to its development of a "turnkey" system of operating: HiFab now undertakes to provide the complete range of design, procurement, construction, installation and servicing functions should a client wish them. Encouraging though these developments are, the yard is currently running at barely 50% of capacity. Elsewhere in the offshore supplies sector, Expro and Excel Reservoirs of Aberdeen have won a £5 million contract to service wells in BP's Ravenspurn South field. Finally, Norwegian Contractors has decided against re-opening the former Howard Doris construction yard at Loch Kishorn for cost reasons.

The CEGB and Department of Energy have announced a £28 million programme to build three wind farms, each with 25 turbines. It is expected that the Howden group will be well-placed to secure orders for the turbines given its experience in this field. The company has already been commissioned to build the world's first offshore wind turbine rated at 750kw off the north Norfolk coast at a cost of £1.8 million. As part of its continuing re-structuring, the Howden group has acquired the Solbern Division of Nedax Inc of New Jersey. The purchase of the designer and manufacturer of food processing machinery cost £3.6 million. As well as adding to the group's activities, the Solbern acquisition is seen by some as a means of fending off the possibility of a take-over. This prospect arose when the Weir Group raised its stake in Howden to 8.75%, although Weir claims that this is simply an investment interest with no predatory interest. The Weir Group itself had another successful year with profits rising from £11.3 million in 1986 to £13.2 million last year. The rise is especially impressive since the 1986 figures included more than £4.8 million from the disposal of various companies. Weir has landed a number of new orders in recent months including almost £3 million for the oil industry in both Africa and Norway; power station pumps for Victoria, Australia; £3 million worth of equipment for the Doha West Sewerage scheme in Qatar; and an order for a water treatment plant in Nigeria.

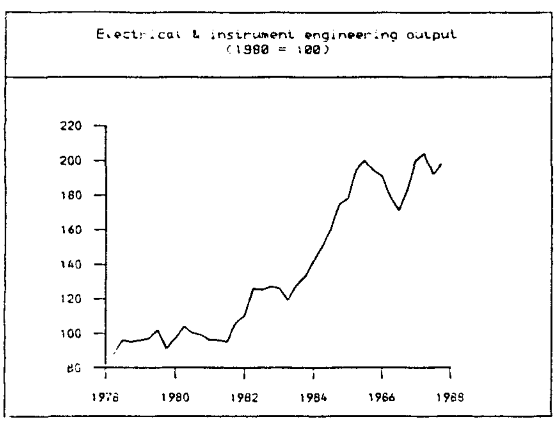
FKI Babcock has failed to find a buyer for the Babcock Power Division of the company, the principal part of which is the boiler making plant at Renfrew. It is believed that FKI Babcock wanted £100 million for the Power Division but that only £40 million was offered. As a result the Power Division is to be retained in the expectation that orders will be secured for the new batch of power stations which will be required in the 1990's. FKI Babcock is still discussing possible technical joint ventures with Westinghouse of the USA - a potential purchaser of the Power Division - although joint venture discussion with the UK turbine manufacturers GEC have broken down.

NEI Peebles of Edinburgh has a further one year's supply of work following a £1 million contract from the CEGB to supply a generator transformer to the Ince B power station in Lancashire and orders worth more than £5 million for the USA and Australia. Mining equipment manufacturer Anderson Strathclyde is to close its Glenrothes plant with the loss of 236 jobs. The closure is a consequence of the world-wide recession in mining and follows the failure of an attempted buy-out by local management. The company has recently closed a plant in Kirkintilloch and the remaining work from Glenrothes will be transferred to the firm's Motherwell plant.

The Science and Engineering Research Council has selected a Scottish consortium for the Interdisciplinary Research Centre for engineering design. Based at the University of Glasgow, the group includes teams from the Universities of Glasgow, Strathclyde and Heriot Watt and Paisley and Napier Colleges. The purpose of the centre is to provide a focus for the development of research programmes and it is expected that local industry will benefit from access to advanced design expertise. Such a development in the R & D field is a welcome one for the Scottish engineering industry.

ELECTRONICS

The provisional index of production for the electrical and instrument engineering sector in Scotland stood at 198 for the third quarter of 1987, 8% higher than the corresponding period in 1986. While provisional figures are frequently subject to revision, this would seem to indicate that the sudden output slump in the second quarter was a temporary phenomenon.



Despite some conflict of opinion, growth prospects in the world industry appear to be good, and there is now little doubt that it appears to have firmly shaken off the doubts which emerged from the disastrous period of 1985-86, when world sales of the industry's core product, semiconductors, fell by 17% relative to the peak 1984 level. Chip sales rose by 15% in the UK alone during 1987 to total £850m, stimulated largely by increases in sales of personal computers for the business market, with IBM's new range of personal computer (the PS/2) leading the way. At present, Greenock is the sole European manufacturing base for this new range.

The PS/2 incorporates the most recent development in semiconductor technology, ASICs (Application Specific Integrated Circuits) which allows a basic chip to be customised to individual users needs. Already, approximately 10% of world chip sales are believed to be of ASIC products and industry insiders believe that this could rise to as much as 20% as early as 1990. The above figures suggest that they have already had a sizeable impact and Scotland's strong position in semiconductor production suggests that it is well placed in the future growth they are expected to bring.

For 1988, the Electronic Industry Components Federation, which represents most UK semiconductor manufacturers, expects world chip sales to grow at the slightly more moderate level of 12%. European sales are expected to increase in line with this and therefore to maintain the steady 20% of the world market which it has held since the early 80s. Within this amount, the UK is expected to hold its steady 20% share. IDS figures appear to confirm that Scotland has shared in the above growth. In 1987, electronics accounted for 43,000 jobs in Scotland and 15% of all manufacturing sales.

While it is to be hoped that the greater stability of growth rates which has emerged recently will help forward planning in the industry, some clouds may be on the horizon. The difficulties of 1985/86 were severely exacerbated by panic-buying of chips, which engendered expectations of a boom amongst producers. When this failed to materialise the world wide overcapacity which followed caused retrenchment on a world scale. Although fears that Scotland's undoubted status as a branch-plant economy would lead to large scale closures failed to materialise, the local industry was dealt a severe blow by the closure of General Instrument at Glenrothes and the postponement of major investments by Motorola and NEC. What is worrying about the present upsurge in chip production is that, even at the relatively mild level compared to previous growth rates, panic buying has again begun and chip prices are reported to have increased by 20% in the first few months of this year, in anticipation of shortage. This has already caused delivery times for electronics products to be delayed. Whilst the problem is partly caused by a change from the 65k to the more powerful one megabit chip, it is considered sufficiently serious for the US Semiconductor Association to predict a sharp fall in growth rates in 1989.

Prospects for growth and chip prices could also be materially affected by the Japanese government's decision to accept the ruling of a GATT special panel that the US-Japan Bilateral Semiconductor Agreement contravened GATT rules. This was originally signed in 1986 and destined to last five years. The intention was to open the Japanese market to foreign (in effect American) competition and prevent Japanese dumping chips in third markets, thereby forcing down prices of American produced chips in these markets. The bait for the Japanese was that the Americans would not impose import restrictions if these conditions were met. The effectiveness of the agreement is seen by the fact that $300 million worth of tariffs were imposed on the Japanese in 1987.

Between them, the USA and Japan control roughly 85% of all world semiconductor production, although the relative position were reversed in 1986 when the major Japanese companies, primarily NEC, Toshiba and Hitachi, began to outstrip the top American companies such as Motorola and Texas Instruments. To outsiders, the agreement clearly looked like restraint of trade.

The referral to the GATT special panel arose specifically out of the condition of the agreement which required Japan to monitor exports to third countries. The EEC regarded this as effectively equivalent to export quotas. In addition, it charged that preferential access to Japan had worked only to the advantage of American producers. While the panel dismissed the market access argument it upheld that the anti-dumping provision were illegal under GATT rules. As noted, the Japanese government has accepted the findings, but it is uncertain as yet whether or not the agreement can still be saved or what the implications for semiconductor prices will be. The short term effects are even harder to assess because of the present high level of chip prices noted above.

Some encouraging news has also emerged in the company sector with the formation of some new indigenous firms, albeit on a very small scale and with very few new jobs involved.

Domain Products was formed with the help of an investment package involving the SDA, 3i and the small firm arm of Barclays Bank. The company will manufacture mode power supplies which convert mains electricity into a form usable for electronic components. The SDA were the main initiators as part of its declared policy of trying to close the "components gap" which it believes represents the best opportunity for the development of indigenous firms. The plant is situated in Greenock and will initially employ 40 people.

In East Kilbride the defunct Memex Information Systems has been rescued by an employee buyout again by the SDA and 3i in a package worth £1 m. Only 14 employees participated but the company is thought to have good growth prospects because of the soundness of its major products, electronic text retrieval systems.

The Fife company Rodime has still not fully emerged from its difficulties of last year. A small first quarter profit has been followed by losses of just under £2 m. Rodime have experienced production difficulties in introducing their new product range of improved disk drives and it is at present still over-reliant on old lines. Matters appear to have improved relative to 1987, however, when it was forced to lay off 200 employees at its Glenrothes Headquarters.

TRANSPORT

A good deal of controversy has been generated by the government decision to privatise the Scottish Bus Group (SBG) in ten small units, rather than as a single entity. Whilst this is clearly designed to increase overall competition and create companies sensitive to the needs of the local areas, the decision flies in the face of the wishes of the present management and workforce. A System Three poll of employees indicated that 90% favoured privatisation in one unit and that 89% were interested in the idea of an employee buy-out. It is not known how they will react to the opportunity of purchasing smaller units which will not have the financial strength or geographical coverage of the present structure.

At the moment, there is perhaps too much competition in bus services in Scotland. It is clear that the structure of services has not yet settled down following the introduction of private operators in 1987. The first official figures dealing with this period show that during 1986/87 (which includes the first five months following deregulation) total distances travelled increased by 5% to 301 million miles but that total passenger journeys fell by
Within these totals, the greatest increase in mileage was in the cities, especially in Glasgow, while rural mileage and journeys have decreased. These findings closely follow the pattern identified by previous research carried out for the Scottish Consumer Council, who found that most of the increases in mileage in the period immediately following deregulation was due to "flooding" in the cities. In Glasgow, bus mileage is believed to have increased by up to 25%. At the same time, revenue per mile has fallen (see QEC, August, 1987).

The government will face a particular problem in setting an acceptable price for the sales. Experience in England, where the sale of the National Bus Group into 72 separate units took place over a year ago, indicated that prices were initially set far too low (a problem which has of course been experienced with other sales) and that large paper profits and asset stripping quickly emerged. However, subsequent price increases caused particular problems in rural areas where it is considerably more difficult to make money. The unions have argued that small rural companies in England have been under intense pressure to cut costs and that this has led to longer working hours and reduced wages.

That the problems faced by rural areas in the south are likely to be replicated in Scotland is clearly shown by the poor response to a Scottish Office initiative designed to help the start-up of new services. The Rural Innovation Grant Scheme provides for up to 50% of initial expenditure for new services and could also provide for fuel subsidies. However, only 5 successful applications have so far been made and £125,000 of the total budget of £170,000 remained untouched after its first year. The government has resurrected the scheme for this year, but there is little reason to suppose that it will fare any better.

There is also concern that privatisation into separate units will substantially increase the prospects of the more profitable units being taken over by non-Scottish concerns, a view which is backed by the Institute of Directors, leaving only less viable units in Scottish hands. Clearly such an outcome will do little to reinforce sensitivity to local needs.

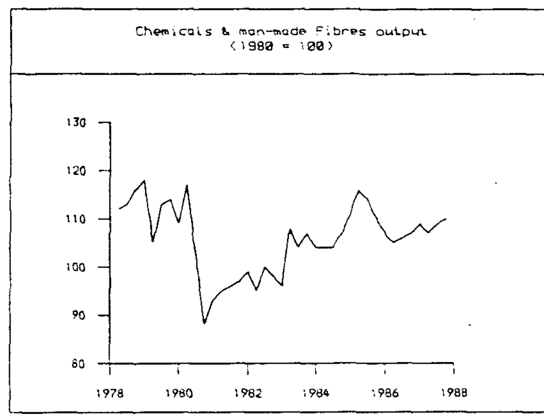
In air travel, BA have substantially improved services within Scotland. Additional services on the Aberdeen-Glasgow, Glasgow-Inverness, Aberdeen-Orkney, Glasgow-Stornoway and Stornoway-Manchester routes are all planned. BA are also reported to be interested in developing direct transatlantic flights from Scotland, a clear response to British Midlands plans to do the same. Like Midland, however, BA is not interested in using Prestwick for any future services which will emerge. Taken together with the British Airports Authorities confirmation that its proposed £110 million planned expansion of facilities at Glasgow is in fact to go ahead with the first phase due to begin in October, the uncertainty surrounding Prestwick's future role is clearly coming to a head. The expansion plans at Glasgow will eventually double terminal capacity and provide a new international pier. The government is not now due to review the future status of Prestwick as Scotland's sole transatlantic gateway until 1989, but its chances of retaining that status seems to be growing smaller every day.

CHEMICALS AND MAN-MADE FIBRES

The index of production for this sector in the third quarter of 1987 stood at 110 (1980=100). As mentioned in previous Commentaries this figure may be subject to substantial revision; the index for the second quarter has already been revised downwards by 7% to 109. Comparing the latest four quarters with the previous four, the sector has grown at 2% in Scotland compared with 7% for the UK as a whole. The UK index has increased steadily every quarter since late 1985 and now stands 19% above its Scottish counterpart.

The latest results of the Scottish Chambers' Business Survey for the chemicals sector are noticeably less optimistic than in the recent past. The expected rises in new orders anticipated at the end of 1987 clearly did not materialise, with the April Survey recording a net 40% of responding firms experiencing a decline in new orders during the quarter. Export orders and sales performed particularly poorly. As with recent Surveys there was a marked downward trend in employment, with 40% of respondents experiencing a reduction in total employment during the three months to April and only 5% experiencing an increase. A similar pattern is expected for the next quarter.

The only bright spot in the survey is in expected sales over the three months to July; 81% of respondents expected an increase in total sales and none expected a decline. Capacity utilisation remains extremely low, less than 20%. Investment intentions continue to show a slight upward adjustment, which, coupled with the employment information, would appear to indicate that firms are investing in labour-saving technology rather than in staff.



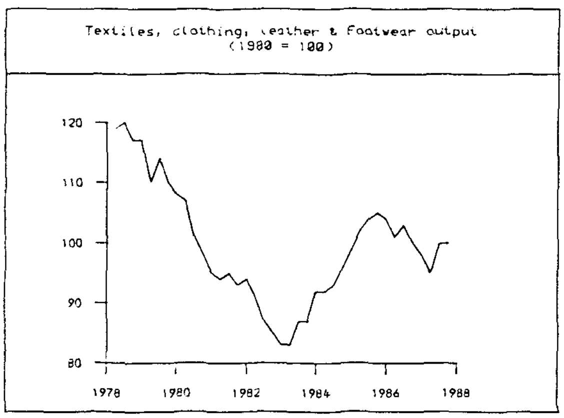
Shield Diagnostics are to set up a factory in the Dundee Technology Park. The unit will develop and manufacture kits for diagnosing a variety of diseases including rheumatoid arthritis and heart disease. Backed with £4 million of venture capital raised from the UK and US, the new facility will also have a research function. This is a considerable boost for Tayside, a region which is keen to establish itself as Scotland's leader in the general field of biotechnology.

In March two other biotechnology developments were announced in the Livingston area. Two new companies are to be set up, both backed by the Industry Department for Scotland, at sites supplied by Livingston Development Corporation. Bioseparation Asssociates will be involved in the production of veterinary products and by-products for the food industry. The other company, Vitrocal, will be involved in micro-propagation -

providing plants for a variety of markets including the developing countries. In total, the two companies will represent an investment of around £10 million and should provide 200 new jobs.

TEXTILES, FOOTWEAR, LEATHER AND CLOTHING

According to the Government's Index of Production for Scotland, the level of output in this sector remained unchanged between the second and third quarters of last year. However, when the latest four quarters are compared with the preceding four quarters, a decline of three index points can be observed.



The results of the recent Scottish Business Survey are, however, much more encouraging. A balance of 44% of respondents were more optimistic about the general business outlook than they had been three months previously. The balance of optimism in replies to questions about new orders and sales was even more favourable. A balance of 76% of respondents reported an increase in the trend of new orders over the previous three months, while a balance of 66% expected that new orders would increase over the forthcoming three months. When asked what factors were limiting their output over the next three months, 40% replied sales, 30% skilled labour and 30% a shortage of plant capacity.

Border knitwear manufacturers are apprehensive about consumer reaction to price increases of between 25 and 30% in their cashmere products. These price increases have been made necessary by increases of up to 30% in the price of raw cashmere wool which is imported from China, Iran and Afghanistan. Scotland uses most of the world's annual crop of 4,000 tons, and the manufacturers are at present paying more than £100 a kilo. The Borders knitwear industry has been experiencing a strong recovery during the last twelve months and this has led to a shortage of skilled labour in some quarters. The industry has also been investing heavily in computerised knitting machines. At the other end of the market, many jobs in Scotland are threatened by what British clothing and textile manufacturers claim is unfair competition from mainly developing countries. The manufacturers are anxious that the existing multi fibre arrangement (MFA) should be maintained, and that current rules on the dumping of cheap imports should be tightened. At present, the burden of proof of dumping rests with individual companies and action is invariably lengthy, costly and, sometimes, fruitless.

Generally, Scottish companies have had a favourable growth in profits during the financial year which has just ended. The biggest textile group in Europe, Coats Viyella, reported a 17% increase in pre-tax profits for 1987 to £213 million. The task of integrating Coats Paton with Vantona Viyella, following their merger two years ago, has largely been completed. Lamont Holdings reported an increase of 53% in their pre-tax profits, with carpets contributing the greater share. William Baird, also a mixed clothing and engineering group, reported a 38% increase in profits. The group has five factories in and around Glasgow.

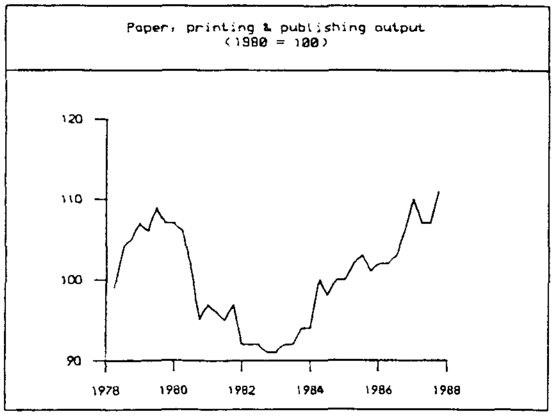
There was bad news from Lovable Ltd of Cumbernauld, which was forced to call in the Receiver at the beginning of the year. The business, which manufactures ladies' clothing under licence, was taken over by a management buy out in 1981 and was reorganised later in 1986 with financial assistance from the SDA.

PAPER, PRINTING AND PUBLISHING

The most recent index of production statistics, which include revision to earlier figures, suggest that output in this sector was static during the second quarter of last year (in contrast to the decline reported in the March Commentary) and increased by 3% during the third quarter to reach an index value of 111 (1980=100).

Production in the Scottish Paper, Printing and Publishing industry during the year ending

September 1987 was 5% higher than a year previously. While an encouraging indication of medium-term growth, this increase in output is considerably lower than the UK equivalent of 9%.



Indications of recent short-term performance and prospects can be obtained, albeit in a less quantitative form, from the sectoral responses to the Scottish Chambers Business Survey (SCBS). According to the April SCBS for Paper, Printing and Publishing, both new orders and sales increased in the first quarter (reported by net balances of +14% and +35% of respondents respectively). However, while sales increased in both domestic and international markets, new order growth was entirely confined to the former.

A net 32% of firms felt new orders would rise between April and June, while a net 6% expected further sales growth over the same period. However, 38% of respondents still felt that a lack of orders or sales was likely to be the most important constraint (if any) to short-run output growth. Of course this is a rather heterogeneous sector, and it is probable that different SCBS responses are reflecting different experiences in various industry segments.

First quarter capacity utilisation was a high 89%, but this encouraged very few firms on balance (+10-11%) to make upward revisions of their intentions to invest in plant, equipment or buildings. Furthermore, those firms which did authorise new investment during the quarter did so to increase efficiency (29%) or introduce new technology (14%) rather than to expand capacity (4%) to 645 million.

SCOTTISH FINANCIAL SECTOR

The differences in approach of the investment trust management groups continue to fascinate. Faced with a substantial discount to Net Asset Value (NAV) investment managers can either ignore it and hope that it will go away or face up to the problem and investigate strategies that will ensure the survival of their management group. Ignoring the threat has been the instinctive reaction of many Scottish investment trust managers. They have reorientated their portfolios into specialist investment opportunities to reflect the greatly increased institutional shareholdings, up from around 25% in 1964 to 75% in 1986, but the instinctive reaction has been to hope that luck in the form of good performance, informal connections between institutions and impediments to the process of winding up a trust would prevent their dismemberment. Such a strategy has been reasonably successful. The attrition of investment trusts has been lower in Scotland than in the rest of the UK and resulted in a relative strengthening of the sector. Unfortunately time is running out. The globalisation of international stock markets has brought investment trusts to the attention of a wider public, particularly American, who, mindful of American experience with closed-end funds, see investment trusts as a profitable target. The actions of Grace Pinto and Associates, a New York group of investors, have brought the realities home as they acquired more than 20% of Crescent Japan Investment Trust and then sought to realise the discount at which Crescent was trading. The Board have sought to persuade investors that they are better off with the investment trust; that it has outperformed a similar unit trust, has lower charges and a less constrained investment performance. Such arguments, however, fly in the face of reason. Winding up will result in an instant increase in shareholder wealth. This can be reinvested in other similar investment trusts. In contrast, shareholders are offered a probability, perhaps low, of marginally better profits in unspecified future periods over the alternative investment, a unit trust from which they can withdraw their investment with ease at or near its NAV. There is no real choice, at least for the majority of institutional shareholders, and the managers of all investment trusts would do well to recognise the need to adopt a deliberate strategy if they are to survive.

One such strategy is to court the small private investor as the Alliance trusts have done and persuade them of the advantages of investment trusts over unit trusts. Such a policy is not an instant cure and takes years to implement with no guarantee of success. It may be that the best that can be done is to reduce the rate of decline in private shareholdings. An alternative approach is to accept that the discount exists and is unlikely to go away swiftly and adopt a strategy that maximises the funds retained under management. Ivory & Sime provide a good example of just such an approach and represent a model that other Scottish management groups should consider.

After the rejection of their earlier attempts to reorganise their trusts Ivory & Sime have put together a package that, if accepted, will place them in a much more favourable position from which to expand. At the same time as coping with the problems of the investment trust market they are in effect reorientating the management company and placing it in a much better position to compete in the future. The management group will emerge with a stable of unit trusts as well as general and specialist investment trusts. Ivory & Sime in their reconstruction of Atlantic Assets and Independent Investment are offering investors three options; investment in Global Capital Equity Portfolio, Sterling Liquidity fund or in the Independent Investment Trust. Independent will become a specialised venture capital fund. This is to be achieved firstly by the purchase from Atlantic Assets of its shares in Independent financed by the sale of securities from Independent's quoted portfolio and secondly, by the purchase of Atlantic's holdings of unquoted shares. The price is related to NAV but will depend in part on the number of Atlantic's shareholders who opt for the two unit trusts, Global Capital Equity and Sterling Liquidity. Conversion into Independent will be at NAV and into the unit trusts at 95% of NAV, the residue being used to finance Independent's purchase of unquoted securities from Atlantic, thus providing some incentive to switch into Independent as a result of improvements in its NAV. A further incentive is the provision of a fixed winding up date in the year 2000. Thus, if the discount on Independent was to remain at 12% shareholders would secure capital growth of over 1% per year on Independent purely as a function of the discount.

The proposals already have the support of a substantial minority of shareholders. They present shareholders with an attractive means of releasing the discount whilst at the same time providing Ivory & Sime with a much improve competitive platform. Of course, shareholders might be better off with straight unitisation since average costs of unitisation in a recent study[1] are shown to be less than 5% but given the substantial cross holdings, the portfolio of unquoted securities and the managements offer not to charge management compensation the gains from such a strategy would at best be modest.

The investment trust sector is not alone in its tribulations. The life assurance sector has also been sorely tried with the decision by Lautro to abandon the industry wide commission agreement. From 1990 all independent intermediaries, the predominant means by which Scottish life offices sell their products, will have to disclose to clients at the time of sale the actual amount of commission they get. The likely impact of this requirement is uncertain. Certainly, current commission rates often involve very high payments in the first year of a policy to the salesmen, but it will not be too difficult for the industry to restructure its commission schedules so that intermediaries receive payment over a number of years. This restructuring may ultimately benefit the life assurance industry since the present heavy front loading must deter some savers and persuade them to use alternative methods of investment whilst there will be less incentive to sign up savers who are not likely to last the course. There can be little doubt that at present some life assurance is sold for the commission it brings rather than because it meets the needs of the clients. A move to annual payments to intermediaries would introduce an incentive to sell policies to those for whom they are most appropriate and can continue to meet the annual premiums. Increased knowledge of commissions may also induce greater competition, encouraging investors to shop around and providing incentives to the life offices to keep marketing costs down although unit trust experience offers little support for such a notion. The most likely losers appear to be the small intermediaries who may have serious cash flow problems if there is a change from high initial commission payments to an annual payment scheme. However, it cannot be beyond the wit of the life offices to devise a variety of support mechanisms for intermediaries in difficulties. Borrowing against future annual payments would be one possibility, presumably relatively riskless to the life offices so long as intermediaries are providing sound advice to their clients and not merely selling life policies no matter how inappropriate.

The worry of the life offices and their argument against disclosure has been that full disclosure will deter people from buying life assurance. Such an argument assumes that all current sales of life assurance are desirable, ignores the ability of the life offices to massage the commission figures by changing the time pattern although maintaining their present value, assumes away the benefits that improved information and increased competition might bring, and assumes that commission payments affect sales. None of these assumptions is necessarily correct. The variation in policy values brought about by changes in the market prices of the underlying investments is likely to swamp differences in commission payments, whilst there is nothing inherently desirable about life assurance per se. Life assurance is one of many forms of saving. It is desirable that it should compete on level terms. Withdrawal of interest tax relief was one step in that direction, disclosure of commissions is a second. We look forward to seeing the withdrawal of concessions to other types of investment.

[1] See Draper P 'The Market for Investment Trust in the UK', Gower, forthcoming

DISTRIBUTIVE TRADES

As had been predicted in January, Scottish wholesaling enjoyed a strong first quarter sales performance, with a net 70% of Scottish Chambers' Business Survey respondents reporting sales increases. According to the April SCBS, a large majority of wholesalers were more optimistic about the general business climate and expected further sales growth in the second quarter.

In contrast to the last three months of 1987, this year's good first quarter sales appear to have had a beneficial effect on wholesaling employment, according to a net 21% of SCBS respondents. Increases in both full-time and part-time jobs were noted. On balance, wholesalers expect further rises in employment between April and June.

Most SCBS wholesalers did not feel they faced serious constraints to short-term growth, but 25% complained of a shortage of floor space (which probably helps to explain why a net 31% of respondents had made upward revisions to their investment intentions between January and April).

The geographical distribution of wholesaling responses to the April SCBS is shown in Table 1. Wholesalers in the Glasgow, Edinburgh and Dundee areas all shared a particularly good first quarter performance, especially in terms of sales. Sales growth in Aberdeen, though much more modest, was better than in the last quarter in 1987 and better than had been predicted in January. Furthermore, a balance of Aberdeen respondents expect to see further improvements in the second quarter.

Table 1 Geographical response to April 1988 SCBS - wholesaling

		Balance of respondents			
		G	E	D	A
		%	%	%	%
Overall Confidence	UP	+37	+75	+92	+58
Actual Sales	UP	+73	+89	+92	+24
Expected Sales	UP	+55	+89	+68	+57
Actual Employment	UP	+27	+16	+66	-18
Expected Employment	UP	+23	+17	+48	+ 5
Investments Intentions	UP	+29	+21	+22	+13

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

Continuing the pattern established throughout 1987, a positive balance (+55%) of SCBS retailers in April reported first quarter increases in sales, very much in line with the predictions made in the January survey. Furthermore, a net 71% of respondents forecast further trend growth in sales during the second quarter. In view of the strong actual and projected sales performance, it is not surprising that a large majority of April SCBS respondents in this sector felt increasingly optimistic about the general business environment.

As in the January survey, increased demand for retail goods led to a rise in employment in a net 22% of April SCBS. Net gains in both part-time and full-time jobs during the first quarter were noted. A small positive balance of firms expect further employment growth before June, entirely concentrated in part-time jobs. On balance, full-time employment is actually expected to fall slightly.

Table 2 Geographical response to April SCBS - retailing

		Balance of respondents			
		G	E	D	A
		%	%	%	%
Overall Confidence	UP	+31	+52	+26	+60
Actual Sales	UP	+47	+44	+47	+66
Expected Sales	UP	+60	+75	+16	+76
Actual Employment	UP	+17	0	+15	+37
Expected Employment	UP	- 9	-13	+15	+32
Investment Intentions	UP	+35	+ 2	+30	+24

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

The unremitting growth in demand for retail output is beginning to put pressures on the sector's supply capabilities according to the April SCBS: 20% of respondents reported lack of floorspace, 16% shortage of stock and 13% shortage of labour.

Table 2 shows the pattern of April SCBS responses in each of the Chamber areas. Following a prolonged period of difficulties, Aberdeen retailers enjoyed a good last three months of 1987 and this clearly continued in the first quarter of this year, justifying the predictions made in the January SCBS. In spite of comparably good first quarter results, Dundee retailers were notably less optimistic about second quarter sales prospects than those in other areas.

The Labour Market

Employment: stocks and flows

The year to December 1987 saw a slight rise in employees in employment in Scotland of 4 thousand (Table 1). However, in line with longer term trends in Scottish employment patterns this net figure reflects the combined effect of a reduction in male employment of around 10 thousand and an increase in female employment of 14 thousand. Furthermore, all of the increase in female employment was part-time in nature, so that it is likely that "full-time equivalent" employment actually fell over the period. However, these figures actually suggest some recovery in the fourth quarter of 1987, given that the September on September figures reflected a fall in the numbers of male, full-time female and total employees in employment in Scotland.

The change in the industrial composition of employment in the year to December 1987 also broadly reflects longer term trends in that production and construction industries registered employment losses, whilst employment gains were recorded in the services industries (see tables 1 and 2). The largest employment losses were registered by "other manufacturing" (10 thousand) and by "metal goods, engineering and vehicles" (5 thousand). The most significant gains in employment were made by "banking, insurance and finance" (7 thousand) and by "education, health and other services" (6 thousand). Thus the overall pattern of employment changes in Scotland over the year to December 1987 is consistent with the longer term trend away from full-time male employment in the production industries and in favour of part-time female employment in the service industries.

Over the same interval, employment in Great Britain as a whole increased overall from 21.224 million to 21.553 million. The increase in full-time male employment from a base of 11.604 million was 21.7 thousand, a rise of 0.02%, and that in part-time male employment was 54.7 thousand, or 6.3%. Female full-time employment rose by 122.4 thousand, or 2.3% and part-time employment of females registered an increase of 130.3 thousand (3%).

In contrast to Scotland, then, full-time employment of both males and females increased in GB as a whole, but the highest proportionate growth occurred in part-time employment, particularly for males. Employment losses of some 60 thousand were registered in the (index of) production and construction industries in GB, but this was more than compensated for by an increase in service industry employment of approximately 300 thousand. Consequently, the industrial distribution of employment in GB is changing in a similar manner to that in Scotland, but, in contrast to the Scottish experience, the service industries are currently more than compensating for full-time job losses elsewhere, as well as providing further stimulus to part-time employment growth for males as well as females.

Unemployment: stocks and flows.

The seasonally adjusted level of unemployment in Scotland fell below 300,000 in April for the first time since 1982 (see table 3). This represented a decline of 10.9 thousand over the preceding quarter, of which 3.7 thousand were females and 7.2 thousand were male. Over the year to April total unemployment fell by 50.6 thousand or from 14.1% of the working population to 12.1%. Of this reduction 34.3 thousand were male and 16.3 thousand were female.

Any reductions in the unemployment stock are, of course, to be welcomed since this typically reflects an increase in the economic welfare of the populations. However, it is legitimate to seek to identify the source of reduced unemployment which seems to sit a little uneasily with the recent changes in employment which have just been discussed.

First, it should be noted that the fall in unemployment over the year to December 1987 - the last year for which employment data are available - was rather less than to April, at 38.7 thousand (of which 24.4 thousand was male). This might still be considered slightly puzzling in view of the fall of male employment over the period (of 10,000). One possibility is that individuals have left the unemployment register to become self-employed. There was indeed an estimated increase

Table 1 Employees in employment in Scotland: industry aggregates (000's)

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	380	1,886	579	441	395	1,277
Sept	1,001	878	384	1,879	577	437	392	1,274
Dec	996	882	389	1,878	573	432	388	1,279

Source: Department of Employment Gazette, May 1988

in the numbers of employers and self-employed in 1987, of some 12,000.

A second possibility (again assuming the data are accurate) is that some of those left the unemployed register, in effect, join the stock of non-participants, perhaps due to retirements or DHSS activity. But without further details of the demographic structure of the stock of unemployed this cannot be confirmed. Finally, it may be the case that a number of those involved migrated. However, 1987 migration data are not yet available, but other evidence does suggests that the recent scale of net migration, together with the propensity for much of this flow to be associated with "job to job" moves (particularly within the same company) makes it unlikely that this is a major part of the explanation.

The stock of unemployment is, of course, not akin to a "stagnant pool" and fairly large inflows and outflows occur on a monthly basis as table 4 shows. Thus in April total inflows (unadjusted, exc. school leavers) into unemployment were 36.8 thousand and total outflows (unadjusted, exc. school leavers) were 42.5 thousand, yielding a net (unadjusted) reduction in unemployment in April of 5.7 thousand. Given this scale of gross flows the entire unemployment stock could turnover completely in little over 7 months.

Of course such crude turnover measures are very misleading, since the unemployed are far from homogenous, and many have been unemployed for over a year.

Table 5 presents summary details of such long-term unemployment in Scotland for January 1987 and January 1988. The 131,213 long-term unemployed in January 1988 represented approximately 39.3% of the unemployment stock, whereas the January 1987 figure of 148,949 represented 39.2% of the corresponding stock. Thus whilst long-term unemployment did fall over the period, it did so slightly, less than in proportion to total unemployment. As would be expected, longer term unemployment is a problem which becomes more acute in the higher age groups as perceived attractiveness to employers declines.

Vacancies: stocks and flows

Unfilled vacancies at job centres in Scotland rose by 1.1 thousand in April to 20.6 thousand (see table 6). Vacancies increased on average by 0.4 thousand over the previous quarter and by some 3.4 thousand as compared to the preceding April. The last two quarters have seen vacancies at their highest levels since the last peak activity year of 1979 (although the basis of measurement has since changed). Typically vacancies have risen

Table 3 Scotland - Unemployment - seasonally adjusted (excluding school leavers (000s)

Date		Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984		235.2	106.4	341.6			14.0
1985		243.6	109.3	353.0			14.2
1986		248.1	111.8	359.8			14.5
1986	Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987	Jan	244.4	104.9	349.3	1.9	1.1	14.1
	Feb	243.4	102.9	346.3	-3.0	0.3	14.0
	Mar	242.4	101.4	343.8	-2.5	-0.1	13.9
	Apr	243.1	102.8	345.9	2.6	0.1	14.1
	May	237.8	99.0	336.8	-9.1	-1.6	13.8
	Jun	235.5	98.4	333.9	-2.9	-2.2	13.6
	Jul	232.9	97.8	330.7	-3.2	-3.0	13.5
	Aug	229.4	96.8	326.2	-4.5	-3.3	13.3
	Sept	226.4	93.9	320.3	-5.9	-3.8	13.1
	Oct	223.2	92.3	315.5	-4.8	-5.1	12.9
	Nov	220.2	91.1	311.3	-4.2	-4.3	12.7
	Dec	218.2	90.5	308.7	-2.6	-4.2	12.6
1988	Jan	216.0	90.2	306.2	-2.5	-4.1	12.5
	Feb	213.5	89.9	303.4	-2.8	-2.8	12.4
	Mar(r)	211.6	88.5	300.1	-3.3	-3.4	12.3
	Apr(p)	208.8	86.5	295.3	-4.8	-3.4	12.1

(p) Provisional and subject to revision.
(r) Revised.

However, the most recent employment data fail to reinforce the implied optimism.

INDUSTRIAL RELATIONS IN SCOTLAND

Ford's decision, in March, to withdraw its plans to build an electronics facility at Dundee highlighted at least five of the major problems currently facing both the Scottish and British trade union movements.

Central to Ford's plans had been a single union agreement with the AEU, and the establishment of terms and conditions at variance with those currently prevailing in Ford's other plants in the United Kingdom, which are negotiated with the twelve unions which currently represent employees. The plans envisaged a plant in operation by 1992 employing some 450 electronics-related activities and enjoying terms and conditions similar to those in electronics rather than motor manufacture.

First, sections of the trade union movement were unhappy as to the manner by which the single union agreement had been negotiated by the AEU. Undoubtedly, criticisms by the TGWU and other

Table 4: Unemployment flows - standardised, unadjusted: Scotland (000s)

	In-flow				Out-flow			
Month ending	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year
1987 Jan	46.0	7.3	38.7	2.2	30.8	1.3	28.2	5.8
Feb	42.8	3.8	39.0	1.3	50.7	4.1	46.6	4.5
Mar	38.3	2.3	36.0	0.8	47.1	3.1	44.0	5.4
Apr	42.4	1.8	40.6	2.8	42.7	2.0	40.7	-0.4
May	35.5	1.5	34.0	-2.6	50.5	2.1	48.4	5.7
Jun	38.1	1.5	36.6	-3.3	44.4	1.6	42.8	2.1
Jul	50.5	1.8	48.6	-1.5	47.7	1.9	45.8	3.7
Aug	39.3	1.2	38.0	-1.9	45.1	1.6	43.5	3.1
Sep	53.6	9.9	43.7	-3.2	57.2	2.6	54.6	4.3
Oct	46.7	3.6	43.1	-2.6	54.5	4.6	49.9	2.2
Nov	44.0	1.7	42.4	-0.9	47.5	3.0	44.5	3.5
Dec	38.2	1.4	36.8	-2,2	35.4	1.6	33.8	0.6
1988 Jan	43.0	5.4	37.6	-1.1	34.6	1.8	32.8	4.6
Feb	39.8	3.0	36.8	-2.2	48.2	3.5	44.7	-1.9
Mar	35.6	2.1	33.5	-2.5	46.1	2.7	43.4	-0.6
Apr	38.3	1.5	36.8	-3.8	44.6	2.0	42.5	1.8

unions were heightened by the belief that the AEU had been less than open with those unions recognised by Ford in its other manufacturing locations. Inevitably in a period of declining trade union membership unions will seek to recruit in new areas. Nevertheless, the issue of the degree of secrecy by which unions have pursued single union deals has been a source of some of the current tension within the TUC.

Secondly, and more importantly, the movement has to come to terms with the wider issue of how to respond to those employers who are only prepared to accept one union representing all employees. The tradition of multi unionism - of several trades unions being represented at a place of work - renders more problematic the spread of single unionism. To argue for the status quo, for a continuation of multi unionism along traditional grounds, is not a viable option. The Ford affair at Dundee clearly demonstrated that, in many instances, unions are not in the position of being able to argue for multi unionism. Equally, individual unions have found it difficult to sustain an argument based on tradition, namely that the unions which have traditionally recruited in an industry should be the union to negotiate single union arrangements. The structure of British trade unionism, a combination of craft, general and industrial patterns of organisation, inevitably leads to a number of unions competing over the recruitment of particular occupations. Technological change has further blurred traditional demarcation lines between trade union spheres of recruitment, as has been shown over the case of electrician versus printers in the newspaper industry. Furthermore, employers have, on occasion, indicated a preference not to have a particular union representing their employees.

Attempts by both the TUC and STUC to reach an agreed procedure have not met with success. The

Table 5: Long-term Unemployment: Scotland October 1987, October 1986

Age	Long-term Unemployed	Total	%Long-term Unemployed
January 1988			
Less than 20	10,472	52,874	19.8
20-34	50,656	149,875	33.8
35-54	51,303	99,359	51.6
55 and over	18,782	31,599	59.4
TOTAL	131,213	333,707	39.3
January 1987			
Less than 20	13,055	64,446	20.3
20-34	60,687	171,885	35.3
35-54	55,120	109,251	50.5
55 and over	20,087	34,864	57.6
TOTAL	148,949	380,446	39.2

Source: Department of Employment

tensions within the movement were clearly demonstrated by the 11-10 vote within the TUC inner cabinet as to whether to accept the single union deal at Fords in Tayside. The STUC has established an organisational sub committee to resolve the issue. Its proposed four point plan envisages a standing committee which would decide on which union, or unions, would be appropriate to recruit and seek recognition at a particular company. However, current events at the Caledonian Paper mill at Irvine do not encourage optimism that such an arrangement being acceptable to all unions. Here a "model" procedure which resulted in the EEPTU being given the right to negotiate a single union deal, after consultation with the STUC and other unions, has been subsequently attacked by SOGAT.

There are two possible solutions to this issue, other than by some agreement negotiated by the STUC and TUC. The process of merger will inevitably reduce points of conflict (see UK section). A more permanent solution may arise through the introduction of the American practice of agency agreements. Under such a scheme employees can be members of a number of different unions but one is elected to negotiate on behalf of all. Employees pay part of their union subscriptions to the union which acts as an agent bargaining on their behalf. Such an arrangement would imply a slight increase in the level of trade union subscriptions, although these are far lower than those in France, West Germany and Italy. An increase in the level of subscriptions may prove fundamental in providing a more adequate trade union organisation. Additionally, such a scheme of agency union agreements would require a system of balloting within the place of work to elect the agency union. Nevertheless, such a scheme would ensure that the union bargaining on behalf of employees reflected the interests and wishes of the members.

Thirdly, the proposals by the Ford Motor Company highlighted the question of pay levels. Ford had argued that pay rates at Dundee should be compared with the electronics rather than the higher rates in the motor industry. To some unions such a policy was seen as tantamount to wage reductions. Greater variation, and a reduction in pay rates will be a feature trade unions and their members will have to accept over the next few years in both the NHS and local government sectors. The implications of the Local Government Act on competitive tendering imply that employees will either have to accept wage reductions and changes to work patterns or suffer the likelihood of redundancy as private sector firms win contracts to provide cleaning, catering, etc.

Fourthly, Ford's proposals at Dundee raised questions at to the security of current bargaining arrangements. Unions feared a break up of established pay structures, given the announcement of different pay rates for the Dundee facility. Such fears underlay the national joint negotiating committee's insistence on the established bargaining process prevailing at Dundee, and hence its refusal to accept the TUC compromise which endorsed the AUE's proposed single union arrangement. Established bargaining arrangements have been questioned in both the private and public sectors. Within the public sector government proposals have stressed the development of pay reviews and a marginalising of collective bargaining arrangements, more generally a drift away from both national and enterprise bargaining is discernible within a number of private sector industries; the insurance and banking sector has pioneered the development of merit based pay schemes and an abandonment of conventional bargaining, within hotel, catering and distribution a number of derecognition decisions have been implemented.

Fifthly, the proposals reflected the increasing concern for more flexible work practices. The

Table 6: Unfilled Vacancies Scotland ('000s) Seasonally adjusted*

		Excluding Community Programme					Vacancies at Careers Offices
Date	Number	Change since previous month	Average change over 3 months ended	Total	Community Programme	Total excluding Community Programme	Unadjusted
1986 Dec	16.9	-0.1	0.0	18.2	3.2	15.0	0.3
1987 Jan	17.2	0.3	0.2	18.5	3.9	14.6	0.3
Feb	17.3	0.1	0.1	18.6	3.4	15.2	0.3
Mar	17.6	0.3	0.2	19.8	3.1	16.7	0.3
Apr	17.2	-0.4	0.0	20.2	3.0	17.3	0.3
May	18.1	0.9	0.3	22.7	3.5	19.3	0.5
Jun	18.2	0.1	0.2	23.1	3.3	19.7	0.4
Jul	18.3	0.1	0.4	23.1	3.2	19.8	0.4
Aug	18.7	0.4	0.2	23.4	4.1	19.3	0.5
Sep	19.6	0.9	0.5	25.0	3.9	21.2	0.4
Oct	20.7	1.1	0.8	25.4	3.4	22.0	0.4
Nov	21.4	0.7	0.9	24.6	3.2	21.4	0.4
Dec	20.8	-0.6	0.4	22.0	3.1	18.9	0.5
1988 Jan	19.4	-1.4	-0.4	20.2	3.5	16.8	0.5
Feb	19.2	-0.2	-0.7	20.5	3.5	17.0	0.5
Mar	19.5	0.3	-0.4	21.9	3.4	18.5	0.5
Apr	20.6	1.1	0.4	24.2	3.6	20.6	0.4

* Vacancies at jobcentres are only about one third of all vacancies in the economy.

ACAS report for 1987 noted "Everywhere there was growing emphasis on enhancing flexibility in working methods and organisation". Such a concern was reflected in the issues underlying industrial action within sea transport which affected Scotland, and in the agreement for 4 shift working at Longannet. The latter agreement may well lead to a disagreement between the Scottish and the National NUM.

Collectively these changes are likely to have major impact on current levels of trade unionism. The 1984 Workplace Industrial Relations Survey indicated a significant drop in trade union density since 1980. By 1984 trade union density in Scotland was 63% in comparison with the national average of 58%. Nationally 78% of employees in Public Administration and 67% in Medical Services are members of a trade union.

Table 7: Vacancy flows at Jobcentres, standardised, seasonally adjusted
Scotland

	In-flow		Out-flow		Thousands of which: Placings	
Date	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1987 Dec	20.0	-0.5	19.7	-0.5	16.6	0.2
1987 Jan	19.8	-0.3	19.4	-0.7	16.3	-0.7
Feb	18.9	-0.1	19.0	0.1	16.1	0.1
Mar	21.2	0.4	20.8	0.4	17.7	0.4
Apr	20.0	0.1	18.9	-0.2	15.9	-0.1
May	19.2	0.1	19.1	0.0	16.5	0.1
Jun	20.9	-0.1	20.4	-0.1	18.0	0.1
Jul	20.0	0.0	19.6	0.2	16.9	0.3
Aug	19.8	0.2	19.4	0.1	16.8	0.1
Sep	20.3	-0.2	18.7	-0.6	19.8	0.6
Oct	21.0	0.3	20.2	0.2	17.3	0.1
Nov	22.2	0.8	21.6	0.7	18.3	0.5
Dec	22.7	0.8	22.9	1.4	19.4	-0.1
1988 Jan	20.2	-0.3	21.2	0.3	17.7	0.1
Feb	20.2	-0.7	20.7	-0.3	17.4	-0.3
Mar	20.7	-0.7	20.4	-0.8	17.0	-0.8
Apr	19.91	-0.1	18.7	-0.8	15.4	-0.8

The likely impact of competitive tendering will be to markedly reduce these figures, especially amongst part-time employees. Additionally, the figures arising from the Workplace Industrial Relations Survey do not provide an indication as to the variations in trade union density by foreign ownership. One recent study has noted that only 24% of American firms and less than 5% of employees in Japanese electronics firms in Scotland are organised.

The review of educational provisions continues. In April the Secretary of State was asked to arbitrate on 27 of the 63 proposals to amalgamate, rezone or close schools. The first set of proposals, involving the actual closure of 24 primaries and 11 secondaries, even with several changes, implies a considerable increase to the numbers of surplus teachers and raises yet again questions as to the durability of the current no compulsory redundancy arrangement. Problems of manpower planning may well be exacerbated by the possibility of schools opting out, and the "new style" schools for 12 - 18 specialising in science, technology and engineering to be built with private money and with State funding.

Regional Review

REGIONAL LABOUR MARKETS

Although Scotland may legitimately be viewed as a distinct labour market that fact does not imply that it is a homogeneous one nor that developments within it will be uniform in character across the region. It is the purpose of this section to highlight the variations in trends in unemployment and vacancies which occur both across Scotland and within the local authority regions. The data employed to these ends differ somewhat from those used in the labour market section. Typically, the figures used in the previous section are adjusted for seasonal factors, while those used below are unadjusted. Moreover, the denominator used to calculate unemployment rates at the sub-Scottish level is defined more narrowly than the Scottish one (which includes estimates of the self-employed and HM Forces). As a result, the reported sub-Scottish unemployment rates are greater than the Scottish rate, and not wholly consistent with it.

As Table 1 shows, total unadjusted unemployment in Scotland fell by over 54,000 between April 1987 and April 1988, a decline of some 15.0%. The rate now stands at 13.9% compared with 16.2% twelve months ago. Unemployment has fallen in each of the mainland regions, and by over 11% in all with the exception of Highland Region where the drop was 6.2%. Grampian experienced the largest decline, 22.5%, and along with the fall of 21.0% in the Shetland islands, this indicates the importance to these economies of the revival in the fortunes of the oil industry. Elsewhere, both Borders and Tayside witnessed falls of almost 20%, while above average decreases were recorded in Central, Dumfries and Galloway and Lothian. Only in the Western Isles where the total rose by 11.1% did unemployment increase in the year to April. These changes leave Borders as the mainland region with the lowest unemployment rate at 8.0% with Grampian close behind at 8.2%. The rate in Shetland is slightly lower at 6.8%. In spite of a fall in the total of over 27,000 (14.1%), Strathclyde continues to boast the highest mainland rate at 16.5%, while in the Western Isles the total has risen by 11.1% to 2,050, a rate of 20.8%.

Against the background of generally declining unemployment the female total has fallen more quickly, by 16.5% to 90,926, than has the male figure which declined by 14.3% to 218,158 (Table 2). Of the twelve local authority regions in Scotland, eight saw the female total fall by a greater amount that the male total. Female unemployment fell in all regions, although in the case of the Western Isles by only 0.6%. This contrasts with the declines in Borders of 27.9% and in the Shetland Islands of 26.5%. In Grampian and Tayside, too, the female total dropped by 20% or more. Only in Central, Dumfries and Galloway, Grampian and the Orkney Islands did unemployment among men decline by more than among women, and it was only in Grampian Region that male unemployment declined by more than 20%. In the Western Isles the male total rose by 15.3% and this alone accounts for the overall rise in the total in the area.

Table 3 considers the level of vacancies in the regions and relates these to the levels of unemployment. The vacancy figures represent only those unfilled vacancies notified at Job Centres and Careers Offices on the reporting date. It is generally accepted that these vacancies represent around one third of the total at any given time, and that they are of a particular type: typically for lower paid and lower skilled jobs. Thus, it would be erroneous to consider the published vacancy date as providing a complete picture of the current demand for labour in the economy. Nevertheless, as a consistent series, the vacancy figures provide a useful guide to developments. Two types of vacancies are distinguished: those for "real" jobs and those for Community Programme (CP) places. Overall, CP places represent 14.8% of the total number of vacancies a proportion which has been falling in recent months.

Including CP places the unemployment vacancy (U-V) ratio for Scotland stands at 12.5, and with CP places excluded the figure rises to 15.0. The U-V ratio can be interpreted as indicating the number of registered unemployed people competing for each vacancy, and this figure, too, has been falling over the last year. Again there are some caveats which must be attached to these statements.

Table 1: Unemployment by Region

	% Rate April 88	Total April 88	Total April 87	Total Change	% Change in Total
Borders	8.0	3,024	3,761	-737	-19.6
Central	14.2	14,859	18,158	-3,299	-18.2
Dumfries & Galloway	11.9	6,765	7,959	-1,203	-15.1
Fife	14.7	19,784	22,258	-2,474	-11.1
Grampian	8.2	18,895	24,394	-5,499	-22.5
Highland	14.7	13,031	13,890	-859	-6.2
Lothian	11.1	40,314	47,971	-7,657	-16.0
Strathclyde	16.5	167,551	195,046	-27,495	-14.1
Tayside	12.7	21,336	26,455	-5,119	-19.3
Orkney Islands	12.0	806	872	-66	-7.6
Shetland Islands	6.8	669	847	-178	-21.0
Western Isles	20.8	2,050	1,845	+205	+11.1
Scotland	13.9	309,084	363,456	-54,372	-15.0

Source: Department of Employment

Table 2 : Unemployment by Sex and Region

	No. Unemployed April 1988		% Change since April 1988	
	Males	Females	Males	Females
Borders	2,026	998	-14.8	-27.9
Central	10,018	4,841	-18.8	-16.8
Dumfries and Galloway	4,304	2,461	-16.2	-12.7
Fife	13,619	6,165	-9.3	-14.8
Grampian	12,466	6,429	-23.7	-20.1
Highland	9,316	3,715	-1.1	-16.9
Lothian	28,401	11,913	-15.4	-17.3
Strathclyde	121,094	46,457	-13.6	-15.5
Tayside	14,395	6,941	-19.0	-20.0
Orkney Islands	534	272	-8.2	-6.2
Shetland Islands	417	252	-17.3	-26.5
Western Isles	1,568	482	+15.3	-0.6
Scotland	218,158	90,926	-14.3	-16.5

Source: Department of Employment

Table 3: Registered Vacancies* and Unemployment Vacancy Ratios by Region, April 1987

	Vacancies		CP vacancies as % of	U/V Ratio	
	Total	Exc CP**	Total	Total	Exc CP
Borders	676	618	8.6	4.5	4.9
Central	1,263	1,090	13.7	11.8	13.6
Dumfries & Galloway	589	482	18.2	11.5	14.0
Fife	1,040	931	10.5	19.0	21.3
Grampian	2,639	2,499	5.3	7.2	7.6
Highland	1,300	1,133	12.5	10.0	11.5
Lothian	3,625	3,262	10.0	11.1	12.4
Strathclyde	12,037	9,736	19.1	13.9	17.2
Tayside	1,175	1,054	10.3	18.2	20.2
Orkney Is.	60	53	11.7	13.4	15.2
Shetland Is.	120	111	7.5	5.6	6.0
Western Isles	156	69	55.8	13.1	29.7
Scotland	24,680	21,039	14.8	12.5	15.0

* Unfilled Vacancies at Job Centres and Careers Offices

** Community Programme

Source: Department of Employment

First, as mentioned above, the registered vacancies account for only a proportion of the total. Thus, the true U-V ratio will be lower than 12.5 or 15. However, it is not only the registered unemployed who will be competing for vacancies, and this would tend to raise the true U-V ratio above 5:1.

The ratio is highest in Fife and Tayside at 19.0 and 18.2 respectively, and lowest in the "low unemployment" regions of Borders, Grampian and Shetland Islands. In fact, the ratios in these three regions are so low as to indicate that firms are or will be experiencing marked recruitment difficulties.

It was mentioned at the start of this section that variations in labour market indicators occur within regions as well as among them. Tables 4 and 5 address the issue of inter-regional variations in unemployment. The final column of Table 4 presents the number of Travel-to-Work

Table 4: TTWA in regions with unemployment rates above the Scottish and Regional Average

	No. of TTWA	No. above Scottish Average	No. above Regional Average
Borders	5	0 (0)	4 (3)
Central	3	2 (2)	1*(2)
Dumfries & Galloway	7	3 (3)	4 (4)
Fife	3	1 (1)	1 (1)
Grampian	9	1 (2)	7 (8)
Highland	8	5 (6)	4 (6)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	8(10)	7 (7)
Tayside	7	1 (1)	3 (1)
Total	57	22(25)	32

* The Falkirk rate is equal to the regional rate. Figures in brackets refer to the previous quarter.

Source: Department of Employment

Areas (TTWAs) in each region which have unemployment rates in excess of the regional average. A TTWA is a labour market area within which 75% of residents work and 75% of workers reside. If the bulk of region's TTWAs have rates in excess of the regional figures this indicates the presence of a few areas, perhaps one, with significantly below-average unemployment, while a low proportion of TTWAs with above average unemployment indicates the existence of a high unemployment area. Grampian is an example of the former case: there, seven of the nine TTWAs have rates in excess of the regional average. It is the presence of the large low-rate TTWA of Aberdeen in which the unemployment rate is 6.7% which draws down the average rate in the region.

Table 5 presents another indicator of the distribution of unemployment within regions. In Grampian the rate in Forres is 3.18 times greater than that in Aberdeen, while in both Borders and Dumfries and Galloway the ratio of the highest to lowest TTWA rates is close to 3.00. In contrast, there are five mainland regions in which the ratio of the highest to lowest rates is less than 2.00.

In these regions the disparity of rates is less, indicating a relatively more even distribution of unemployment experience within the areas concerned.

Table 5: TTWA with highest and lowest unemployment rates

		%	High -low	High -low
Borders	H Berwickshire	13.7	9.1	2.98
	L Galashiels	4.6		
Central	H Alloa	18.3	6.6	1.56
	L Stirling	11.7		
Dumfries & Galloway	H Cumnock & Sanquhar	27.0	18.1	3.03
	L Dumfries	8.9		
Fife	H Kirkcaldy	16.6	6.4	1.63
	L N.E. Fife	10.2		
Grampian	H Forres	21.3	14.6	3.18
	L Aberdeen	6.7		
Highland	H Inver/gdon & D/wall	22.8	11.2	1.97
	L Thurso	11.6		
Lothian	H Bathgate	15.7	7.1	1.83
	L Haddington	8.6		
S/thclyde	H Girvan	23.5	12.6	2.16
	L Oban	10.9		
Tayside	H Arbroath	18.6	8.9	1.92
	L Perth	9.7		

Source: Department of Employment