THE SCOTTISH ECONOMY

SHORT-TERM FORECASTS*

This section presents short-term forecasts for the quarterly growth rates of Scottish manufacturing (Division D of the 1992 SIC) output.

The present forecasting period extends to 1995Q4. Figure 1 depicts the actual growth rates for Scottish manufacturing output from 1988Q1 to 1994Q3 and the forecasts for 1994Q4 to 1995Q4. As is clear from the figure, the growth in Scottish manufacturing output is predicted to continue in the final quarter last year, although the rate of growth is somewhat lower than that in the previous quarter. For 1994 as a whole, the output of Scottish manufacturing industries is predicted to rise by around 3.1% over 1993, partly driven by the strong growth in the UK manufacturing industries as a whole. The momentum of output growth is predicted to maintain well into the third quarter of 1995, with even faster growth rates in 1995 than in 1994. However, this growth momentum is predicted to lose in the final quarter of 1995. Further details of growth rates for Scottish manufacturing outputs are presented in the following table.

![Figure 1. Output Index for Scottish Manufacturing Industries](image)

Development of the short-term model of the economy was made possible by the funding of a three-year research fellowship by TSB Bank Scotland.

### TABLE 1. QUARTERLY GROWTH OF SCOTTISH MANUFACTURING OUTPUT (%)

<table>
<thead>
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<th>Period</th>
<th>Growth Rate</th>
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<tr>
<td>1992/91</td>
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<tr>
<td>1993/92</td>
<td>2.6</td>
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<td>-1.3</td>
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<td>92Q4/91Q4</td>
<td>1.9</td>
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<tr>
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SCOTTISH CHAMBERS' BUSINESS SURVEY - QUARTER 4 1994

The SCBS is conducted by Strathclyde University's Fraser of Allander Institute together with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Fife and Glasgow. It is the largest and most comprehensive regular survey of business, employment and other issues affecting the Scottish business community. In the present survey, which was conducted during the first three weeks of December, 1017 firms responded to the questionnaire. The main conclusions from the latest SCBS are discussed below.

**Business Confidence**

In Manufacturing, business confidence continued to rise at much the same rate as in the previous
quarter. A net balance of 16% of respondents reported that they were more optimistic than three months previously, compared with a net balance of 18% who were more optimistic in the third quarter. In the fourth quarter, Manufacturing respondents were more optimistic than they were in the same period a year ago, with a net balance of 33% of respondents reporting higher optimism. This compares with the situation in the third quarter where a balance of 32% of respondents were more optimistic than in the same period a year earlier.

In Construction, optimism continues to rise at the same rate as in the third quarter. A net balance of 8% of respondents reported that they were more optimistic than in the previous quarter. This compares with an 8% balance of respondents who were more optimistic in the third quarter over the second quarter. A net balance of 24% of respondents reported that they were more optimistic than they were a year ago, an improvement of 4 percentage points on the response in the third quarter.

In Distribution, confidence continues to fall in Retailing, and at a faster rate, while in Wholesaling optimism remains positive, but with an increase appreciably less than in the third quarter. In Retailing, a net balance of 17% of respondents were less optimistic about the general business situation than they were in the third quarter, which compares with a negative balance of 8% in the third quarter. In Wholesaling, a net balance of 2% reported that they were more optimistic. This can be compared with a positive net balance of 8% in the previous quarter. A net balance of 16% of wholesalers reported that they were more confident than they were a year ago, while a net balance of 19% of retailers were less confident, a fall of 10 percentage points on the previous quarter.

Optimism among respondents from the Tourism and Leisure sector continues to rise at much the same rate as in the third quarter. A net balance of 17% of respondents reported that they were more optimistic about the general business situation than they were three months earlier, compared with a balance of 19% in the third quarter. A net balance of 16% of respondents were more optimistic in the fourth quarter than in the same period of 1993.

Orders and Sales

In Manufacturing, orders and sales again increased strongly. For orders, a net balance of 28% of respondents reported an increase while, for sales, a net balance of 31% of firms also experienced a rise. These figures compare with positive balances of 23% and 23%, respectively, in the third quarter. Orders and sales from all principal markets are maintaining their growth. Export sales and orders are considerably buoyant. Orders from the rest of the UK appear to be stronger than those from the domestic Scottish market, while the reverse appears to be true for sales.

In Construction, there was a rise in new orders in the fourth quarter which reverses the fall in the third quarter and which in the last press release we suggested may have been due to seasonal factors. A net balance of 11% reported an increase in orders compared with the 4% negative balance in the third quarter. Orders from the private sector continue to be the source of growth in demand, while orders from Central Government continue to be severely depressed, although there appears to have been some relative improvement in orders from elsewhere in the public sector.

Retail sales fell further in the fourth quarter. A net balance of 15% of retailers reported that sales had fallen, compared with the a balance of 6% reporting a decrease in the third quarter. In Wholesaling, sales rose at a slightly faster rate than in the third quarter. A net balance of 24% of respondents reported a rise in sales, compared with a balance of 21% reporting an increase in the last survey.

Tourism demand appears to have fallen slightly in the fourth quarter, after barely increasing in the third quarter. A net balance of 2% of companies reported an decrease compared with a balance of 1% reporting an increase in the three months to September. Demand from rest of UK and abroad fell in the current quarter while the demand from domestic Scottish tourists rose.

Stock Adjustments

Stocks of finished goods in Manufacturing fell again in the current quarter, with a net balance of 12.4%, compared with 6% in the third quarter, reporting a decrease. Stocks of raw materials also continue to be run down, while work in progress also fell.

Finance and Investment

In the Financial sector, the demand for personal loans continued to rise, although at a slower rate. A net balance of 31% of respondents reported a rise, compared with the balance of 40% reporting an
increase in the third quarter. Advances to the corporate sector are also still rising but at a slower rate as in the previous quarter. The demand for working capital remains on an upward trend, with a further reduction in the rate of increase compared with the third quarter. The demand for finance for investment in buildings fell this time following the reversal of the downward trend in the second and third quarters. In addition, the demand for finance for investment in plant and equipment appears also to have begun to fall again.

Manufacturing investment intentions in plant and machinery were again revised upwards in the present quarter and respondents expect to revise them up further in the first quarter of 1995. There was a further deterioration in manufacturers' investment intentions in land and buildings, with a net balance of 6% of respondents reporting a decline. In Retailing and Wholesaling, investment intentions continue to be positive. Net balances of 5% and 17% of retail and wholesale respondents, respectively, reported an upward revision in investment intentions compared to the same period a year ago. The investment intentions of Construction respondents remain unfavourable for plant and equipment, and continue further to decline for investment in buildings.

Expectations

The outturn in the fourth quarter generally was more favourable than the expectations of respondents in Manufacturing, Construction, Wholesale and to a lesser extent in Tourism, in the third quarter. However, in Retailing, expectations of an increase in sales were seriously confounded by the poor outturn in the fourth quarter.

Demand conditions are expected to improve further in the first quarter of 1995, in Manufacturing, Construction, and Wholesale. In Retailing, following the outturn in recent quarters, expectations have been revised downwards with no growth in demand expected in the first quarter 1995.

CONSTRUCTION

The third quarter 1994 gave a construction index of 100.9 in Scotland, which was a 4.4% fall on the previous quarter and 2.2% down on the year on year figure. Except for the first quarter 1994, this was the fifth consecutive quarter with a falling index and suggests that the Scottish construction industry is not prospering to the extent that survey evidence would infer. This point was highlighted in the previous Quarterly Economic Commentary when the second quarter figure was 106.0; this was subsequently revised downwards to 105.6, which has merely served to exacerbate the position.

The UK index faltered and showed the first fall for five quarters, to stand at 88.9, down 1.3% on the previous quarter. The year on year comparison was up by 2.4% (slightly better than last quarter where the improvement was 1.5%).

During the fourth quarter of 1994 the Scottish Chambers Business Survey stated that a balance of 8.4% of construction respondents were more optimistic about the general business situation than they were in the previous quarter. This balance improves to 24.5% when comparing q4 1994 with q4 1993, a continuation of the improving situation reported in the last quarter.

Buoyant private sector orders outweighed strongly negative public orders to give a net positive balance, with a net 11.1% of respondents experiencing rising new orders. This trend is expected to improve in the first quarter 1995 for a balance of 18.1%, as the fall in public sector orders is expected to slow. Work in progress was reported as above the level of the previous year for a net 13.1%; a situation that is expected to weaken in the first quarter, with only a net 5.7% registering an increase.

Capacity utilisation stands at 81.3%, (up 2.3% on the previous quarter), which is an improvement on the position a year ago for a net 11.2%. Almost 85% of respondents cited orders or sales as the major limiting factor for the first quarter 1995, however 10.4% of respondents foresaw a shortage of skilled labour as the factor most likely to limit output in q1. Investment intentions continued to be
prices fell by 1.2% in Scotland in the fourth quarter. According to the Nationwide Building Society, private house-building, a trend which is more...

The reported employment situation was a considerable improvement on the position in the previous quarter, with a net 2.9% of respondents increasing their overall requirements in q4 1994; a situation that is expected to improve even further in the next quarter for a balance of 4.8%. Male employment and full-time employment increased with nets of 3.0% and 5.1% respectively and this is expected to improve further to 4.0% and 10.4% in the first quarter 1995. However, both overtime and short time working exhibit strong negative balances in q4 1994, which are only expected to improve marginally. Almost half of respondents attempted to recruit during the quarter, with skilled manual employees being a problem. Almost 18% of respondents increased employee remuneration by an average 3.2% which is an increase on the 2.7% of q3 1994. This rising trend in awards (q3 was marginally up on q2 1994) is perhaps a portent of increasing inflation.

Housing completions in the fourth quarter, in Scotland were unchanged at 3,800 and in Great Britain as a whole they fell 2.1% to 41,700 according to the latest NHBC private house building statistics. As the fourth quarter rounds off the year it is worthwhile looking at the annual figures. The 13,900 Scottish completions in 1994 were a 6.1% increase on 1993. In Great Britain as a whole there was a 7.8% increase to stand at 159,700. Housing starts are a more auspicious barometer of the industry and they show that the industry, in Scotland has peaked in the cycle with an 11.9% fall in the fourth quarter to 3,700. In Great Britain as a whole, a quarterly fall of over a fifth (20.2%) resulted in 35,200 starts in q4 1994. The Scottish annual figure was 22.4% up on 1993 to stand at 17,500, whereas in Great Britain as a whole there was a 12.0% fall to 175,900. The Scottish increase was greater than in any other part of the UK. These figures would tend to indicate a downward trend in private house-building, a trend which is more advanced in the rest of the country than in Scotland.

According to the Nationwide Building Society, prices fell by 1.2% in Scotland in the fourth quarter of 1994 after two quarters of stable or gently rising prices. Nevertheless Scottish prices continue to catch up with UK prices. Scottish prices are now only 2.4% below the UK average price, whereas over the past 12 years they have averaged 14% lower than the UK figure. There is an apparent reluctance on the part of first time buyers to commit and this is creating a log-jam in the market. Most of the current activity is internal movement with purchasers moving up to larger properties freed by ‘empty nest’ older owners moving to smaller accommodation.

The Scottish Office plans to put the management of Scotland’s motorways and main dual carriageways into the hands of private contractors by early 1996, in what it sees as a big step towards creating a private sector road management industry. Three groups of roads are likely to be offered under five year contracts each likely to be worth £25m to £35m. The remaining 70% of the trunk road network is to be divided into five geographical units. A managing agent (private company or lead local authority appointed by the councils) will be appointed for each unit to co-ordinate the work of local councils for routine and winter maintenance. The arrangement would be reviewed after three years. Road management contracts would be agreed by the Scottish Office and monitored by an audit unit.

Morrison Construction, the Edinburgh based construction company, is to take over, from an Italian group, construction of a stretch of the M74 motorway to speed completion of an already seriously delayed contract. The £4m contract with Castelli Girola UK and Impregilo of Italy to help complete the 0.9 mile stretch of motorway in Dumfries and Galloway. The overall £23.4m contract to build four miles of motorway should have been completed in November. The contract was part of a project to upgrade to motorway standard 62 miles of the A74 between Carlisle and Abingdon in Lanarkshire. Nearly two thirds of the contract should be completed by the end of this year. All the other contracts were awarded to UK contractors, including Morrison and were largely completed on or ahead of schedule.

With the government bowing to pressure for a public inquiry on the proposed new Forth road bridge, a decision has been put off until after the next election. But some non-controversial developments will be pressed ahead in an attempt to relieve road congestion before voters go to the polls. An underpass between the M8 and the M9 at the notorious Newbridge roundabout, west of...
Edinburgh, and a new interchange between the M90 and A82 at Halbeath, east of Dunfermline, could be completed just weeks ahead of a possible election date. The Scottish Office has mooted the possibility of helping to pay for such improvements through higher tolls on the existing bridge—perhaps raising the fee for a car to £1.50 from the present 40p.

The recent announcement of a £50 million redevelopment for Cumbernauld town centre offers one of the most important opportunities for retail expansion in Scotland in recent years. The scheme will be carried out by Arrowcroft Group plc and represents a final major flourish from Cumbernauld Development Corporation before it is wound up. The project will provide 300,00 sq ft of additional shopping, including four anchor stores, about 50 individual shops, 1200 car parking spaces and a new bus station.

In the commercial (office, retail) and industrial property sector, total returns in all three sectors slowed down in the year to end December 1994, according to the latest Richard Ellis Scottish Monthly Index (Resmi*). All property (rental growth) ended the year to stand at just under 21%, compared with a total return of 22.3% to the December 1993 figure. This was due to the favourable month of December 1993 falling out of the index.

The industrial sector registered 19.7%, which was 6.5% down on the November figure; offices produced 21.7%; retail recorded just over 20%. A similar pattern emerged with a slowdown in the annual rate of capital growth for All Property which produced 12.2%; from a total capital value of £124.5 million and 53 properties. For the first time since September 1993, industrial capital growth registered below 10%, despite an increase in capital values during the month. The retail and office sectors recorded capital growth of 13% and 12.9% respectively.

There is some signs of optimism in the building sector with brick makers boosting production to meet increased demand. Brick sales in 1994 (in the UK as a whole) were at a five year high, due especially to increased demand from house-building. Brick deliveries rose by 11.4% to £3.49bn, the highest level since 1989 when the level was £3.977bn. There is a reluctance amongst brick makers to invest (i.e. reopen mothballed factories) until there is some price recovery. Brick prices bid recover by about 10% over the last twelve months, but have a way to go to recoup the average 30% fall between 1988 and the end of 1993.

The Department of Employment have just announced substantial revisions of "The Workforce in Employment" figures and have "discovered" 120,000 jobs in the UK construction industry. This brings these data much more in line with the Labour Force Survey. This revision has resulted in an increase from 6,000 jobs in Q1 1993 to 23,000 jobs in Q2 1994, in the Scottish construction sector. This will be discussed in the Labour Market section of this Commentary.

The construction industry recovery is faltering and the next few months will be extremely important in building up the necessary confidence to commit to investment and re-motivate the sector. The government could well do with being pro-active here and, at the very least not reduce public sector orders. An increase would be seen by the industry as a positive step and could well have beneficial knock on effects.

* Prepared for The Herald

**FISHING**

In the year to December 1994, the total value of landings of fish by British and foreign vessels in Scotland was £295,183,000, 5.2% higher than the figure for the corresponding period of 1993. At the level of the three major classifications of fish, demersals experienced an increase, and pelagics a reduction, in both the volume and value of landings over the figures for the previous year. For demersals, the increases in volume and value were 1.5% and 4.2% respectively. For pelagics the reductions in the same categories were 6.4% and 7.7%. For shellfish, there was a 1.8% fall in volume accompanied by a large increase in the value of landings of 13.6%.

Among the individual species of demersals, haddock, monkfish, cod and whiting are the most important by value. Haddock, monkfish and cod had an increase in the value of landings, of 7.4%, 9.2% and 1.4% respectively. For haddock and monkfish there was a small reduction in price, so that the increase in the volume of landings was greater than the increase in value, possibly indicating the lack of economies of scale. For cod there was almost no change in the volume of landings. Whiting registered falls in both value (5.9%) and volume (9.9%).
For the pelagics, there has been a fall in both value and volume of landings for the three major species, mackerel, herring and blue whiting. Particularly marked is the 26.6% reduction in the value of landings for blue whiting, which was the result of a 13.3% reduction in volume and a 15.3% reduction in price. However, the biggest absolute reduction in the value of landings was for mackerel, where the decline was £1,382,000 to a figure of £18,672,000, a reduction of 6.9%.

In the case of shellfish, Norway lobsters make up over 55% of the total value of landings in this category. There has been a 12.3% increase in the value of landings for this species, primarily as the result of increased prices. The second most economically important species of shellfish is scallops where there has been a 64.8% increase in the value of scallops landed, almost wholly due to the increased volume.

Whilst the value of total landings rose by 5.2% as compared with 1993, the value of landings from British boats increased by 6.1% and the share of the value of landings going to British boats increased from 92.9% to 93.7%.

ENERGY

Coal

The Mining and Quarrying production figures for 1994 Q3 on the preceding quarter show a 7.1% rise for Scotland and a 0.9% increase for the UK. The year-on-year figures on the preceding four quarters demonstrate an increase of 1% in Scotland compared to 19.7% for the UK, again this figure is affected by the reclassification.

The Treasury will receive £960M from the sale of British Coal. Celtic Energy is to pay £94.5M for the South Wales coalfields, Mining (Scotland) Ltd (MSL). will pay £39.4M plus £10M for stocks while RJBs bid will be £100M less than their original offer. British Coal could raise a further £100M from the sale of land and other non mining assets. British Coal Enterprise, the job creation agency, which has created 11,000 jobs in Scotland over the past decade may be funded for the next year but thereafter the prospects are bleak.

Last year Scottish Power and Hydro Electric purchased 4.3M tonnes of the 5.2M tonnes of coal produced in Scotland. Both companies have contracts to take Scottish coal up to 1997-98. Scottish Power is to increase its coal burn by 900,000 tonnes this year. Ian Preston, former chief executive of Scottish Power, is to chair MSL, thus cementing the relationship between the two. Electricity exports to England and Northern Ireland will provide MSL with further opportunities. MSL expects turnover to be £200M in five years time profits of £25M while their investment at Kincardine will be £50M. The downside for MSL is that demand for UK coal will fall from 49M tonnes, (1992), to 20.5M tonnes, (2000). By then imports could account for 50% of all coal utilisation. It is more than likely that English coal will suffer not the better quality, more competitive Scottish coal.

British Coal is to stop pumping and maintenance at Frances colliery on the DTT's instruction. MSL saw Frances as a replacement for Longannet but not at least until the turn of the century. The real issue is that the Frances output is not needed now and the cost of reopening the mine is prohibitive. Pollution from the mine into surrounding rivers and coastal waters could result in legal action against British Coal.

Electricity

The production index for electricity, gas and water supply for 1994 Q3 on the preceding quarter shows a decrease of 0.6% for Scotland compared to a 2.1% rise for the UK. Comparing the last four quarters with the preceding four quarters Scotland has a 1.1% drop compared to a 4.1% rise for the UK.

In England and Wales average electricity pool prices are £10-60 per MWh but have reached £450 and £600 recently with large industrial users suffering most, causing ICI to call for an MMC referral. They have seen prices rise by 50% since privatisation while the price of coal, oil, gas and uranium have fallen. Electricity companies have
lower operating costs and reduced staff numbers over the same period, while research estimates show that senior managers and directors of these companies have £73M of share options. The decision by Michael Heseltine not to refer Trafalgar’s £1.2bn bid for Northern Electric to the MMC saw both water and electricity shares rise sharply. Northern rejected the initial bid of £10.48 per share, defended the increased offer of £11 by offering shareholders £560M without damaging dividend growth. In light of the above circumstances the regulator came under heavy criticism and announced prior to the sale of the generators it would monitor the situation. Although the prospectus took account of Prof. Littlechilds remarks it had little effect on the sale or the Recs and the strong cash generation attractions swept aside regulatory issues which were never going to disappear as pursuit of greater profit was sought. The decision of the regulator to review electricity prices agreed in August comes as no great surprise. The crucial question, however, is one of timing, did the Government know of his intentions before the generators sale, in which case they are almost certainly guilty of insider dealing as the information affects prices or was the regulator acting independently to redress the balance between consumers and shareholders. The latter is probably nearer the truth. If tighter price controls are deemed necessary, proposals will be given by the end of June. It is likely that new price controls will be the case, with inflation-4% still allowing the Recs dividend growth. The sudden downturn in the electricity share price has left many institutional investors with paper losses and Northern’s defence has crumbled due to the uncertainty created allowing Trafalgar to submit a new bid of £9.50 which has been rejected by Northern, even though their share price stands at £2 below the offer. Trafalgar will undoubtedly pursue a revised bid which many Northern shareholders will support.

Both Scottish Power and Hydro Electric saw their shares fall due to the regulator's statement on price controls even though the system is slightly different in Scotland. A fall in Hydro's profits of 23% is attributed to the referral to the MMC and the uncertainty surrounding that. The good news is that sales south of the border rose 41.5% and Hydro now has 25% of sales outside its own territory. Hydro are now the market leader in CHP plants with several joint ventures south of the border. By 1996-97 40% of Hydro’s output will be available to customers south of the border.

The Assynt crofters are to build their own electricity generation scheme producing 225kW under the SRO with a contract to supply the National Grid for 15 years from April 1996.

Nuclear

The DTI do not foresee any new nuclear,(or coal), power stations in the future as renewable energy will become more important than coal and nuclear combined by 2020. The peak year for nuclear is 1995 as thereafter Magnox and AGRs will begin to close. The forecast for 25 years is that only Sizewell B will still be operating. Both Heysham I and Dungeness B have been closed recently for repairs to cracks but this pushed up electricity pool prices to a record high. The government’s nuclear review is due to be published soon and will either sound the death knell of the industry or rejuvenate it.

In a major climbdown Scottish Nuclear has negotiated a £4bn deal with BNFL thus giving up its own waste storage strategy. The spent fuel is to be reprocessed at Thorp from 2004 onwards thus meeting SN’s target of a £45M cut in operating costs. SN is to write off £50M in R&D into waste storage and the deal can only be driven by the desire for privatisation.

MANUFACTURING

FOOD DRINK AND TOBACCO

Following two successive quarters of no growth, the Index of Production in the Food, Drink and Tobacco (FDT) sector increased by 3% over the third quarter of 1994 to stand at 97 (1990 = 100). The increase in the third quarter exceeds that seen across the UK where output increased by 2%, although the Scottish industry has seen output fall by 1% in the year to the fourth quarter while the UK industry registered growth of 1%. On both measures, FDT’s performance is poorer than that seen across all manufacturing in Scotland, although the average for all manufacturing has been heavily influenced by the exceptional growth which has occurred in the electronics industry.

There have been several recent welcome developments among Scottish companies. Firstly, following its takeover of William Low last year,
Tesco has announced that the total value of business placed with Scottish food suppliers will not fall below the combined amount spent by the two companies, £185Mn by Tesco and £85Mn by William Low's. The concern that Tesco would reduce its spending in Scotland following the takeover appears to have been unfounded and, indeed, Tesco's Scottish suppliers will now be given the chance to supply its UK operations and to expand sales considerably, albeit in competition with its suppliers from elsewhere in the UK. Tesco has also confirmed that it has no plans to close any of the stores it inherited from William Low's, a decision which results largely from its limited presence in Scotland prior to the takeover. However, it has said that it will not support the Farm Assured Scotch Livestock (FASL) scheme, which was intended to provide a Scottish brand name for lamb and beef produced in Scotland. The lack of assured quality standards under the FASL mean that while Tesco will continue to purchase FASL meat, it will sell this under its own trademark.

Scotland's largest cheese making plant, owned by Galloway Cheese of Stranraer, has been saved by the efforts of a consortium of farmers and businessmen. The company went into receivership last year has now been bought by the distributors A Mclelland a food trading company and the Farmers Creamery Cooperative. Scottish Office assistance was provided to the new company which is to be renamed the Caledonian Cheese Company.

ELECTRONICS

The Index of production for the electronics sector in Scotland rose substantially in the third quarter of 1994, by 5 points to stand at 187 (1990 = 100). The increase over the year to the third quarter totalled 25 points, far in excess of that observed across the UK industry where output growth, including of course that seen in Scotland, equalled 8 points. The upward trend in output has now been in progress continuously since 1990, according to Scottish Office figures, in sharp distinction to the trend across the rest of manufacturing.

The two major developments in Scotland in recent months have been the takeover by Motorola of the Digital semiconductor plant at South Queensferry and IBM's return to profit. The Motorola takeover, which follows on the heels of a £250M expansion at its semiconductor facility at East Kilbride, is due to an increased demand for its own products, particularly its cellular telephones which it currently produces at Bathgate. It will continue to honour Digital's existing contracts and there are no plans for any redundancies at South Queensferry. Indeed, Motorola sees prospects for increasing employment because of the strength of demand for its own products. The decision by Digital to pull out of semiconductor manufacturing in Scotland and to concentrate production and development work in America is unwelcome, but reflects its recent problems and a strategic decision to concentrate its activities at fewer sites.

CHEMICALS

IBM reported a full year of profits for the first time since 1990, helped in part by a record level of exports from its PC plant at Greenock. The UK operation turned in profits of £96M in 1994 against a loss of £173M the previous year. This was helped by an increase in export volumes to £2.53B, £2B of which emanated from Greenock. IBM has also stated that it believes that it has now largely completed the restructuring process which has resulted in large job cuts in its UK, and other, operations and does not expect to see employment levels reduce further in the near future.
Chemicals and man made fibre sector of the economy. The latest Index of Production and Construction shows a 5% rise in the third quarter of 1994 and a rise of 9% compared to the second quarter of 1994 and compared to the previous four quarters.

This was reflected by results from the Scottish Chambers Business Survey, the trend in business confidence continued to be upward although the rate of increase eased slightly as a result of expectations not being matched. However respondents did appear to be more optimistic now than they were in the same quarter last year.

Contrary to expectations, the trend in orders did not ease and there were few changes to the patterns of orders. The increase in total sales eased to a net of +40% reflecting a slight weakening in the trends in rest of UK and export sales. Again respondents appear unclear as to the rate of growth in orders and sales and expect a further easing in both trends, mainly as a result of uncertainty as to export orders and sales and to UK sales.

The upward trend in investment in plant and equipment eased below expectations and there was no change to investment plans in land and buildings. Investment authorised during the fourth quarter was directed towards replacement [28%], increasing capacity, efficiency and introducing new projects [22% each].

Uncertainty as to the levels of work is reflected in the trends in employment. In the third quarter the expected decline did not occur and in the fourth quarter the expected rise failed to materialise with respondents reporting reduced employment, although a net of respondents reported increasing over time working. Once again the trend in employment is forecast to increase during the current quarter.

Inflationary pressures are building up in the industry, methanol process have risen by 400% in the last twelve months, orthoxylene by 200% and ethylene, propylene and styrene prices have doubled. Prices began to rise six months ago after a series of accidents affected US production and a drought affected Japanese production just as demand was rising. In light of further anticipated price increases, there has been significant stock building. Four fifths of the chemicals industry are buyers rather than sellers which leads to difficulty in passing on increases in the price of raw materials.

The UK's £36bn chemicals industry grew by an estimated 6.3% in 1994, although these figures should be treated with an element of caution, the increase in growth appears to be a blip rather than a trend. The effects of accidents at US chemical plants and the Japanese drought reduced world capacity chemicals such as ethylene, a raw material for many plastics and so would undoubtedly have an effect on UK growth.

Imperial Chemical Industries reported an 84% leap in profits for 1994, although shares fell 7p to 715p as a result of a pegged dividend. The increase in profits is a result of cost cutting in most divisions even though ICI was affected by higher material costs which it was unable to pass onto the consumer.

ICI has bought its first manufacturing operation in Eastern Europe which will produce acrylic and polycarbonate sheet. It is thought that it paid less than £10 million for the plant with annual turnover forecast to reach more than £30 million in the next three years. It is now the worlds largest producer of methyl methcrylate(MMA), a key component in the manufacture of acrylic resins and coatings.

After alleged leaks from senior management workers at the ICI explosives factory at Ardeer in Ayrshire are expecting an announcement of 200 job losses from the 750 workforce, where five years ago 1,600 were employed. Workers believe that jobs are under threat because of the companies failure to develop safer shock wave technology which is replacing the traditional electrical detonators. ICI has indicated that it plans to focus its efforts on the explosives industry which experienced difficult trading conditions resulting in unsatisfactory profits.

British Polythene Industries, Europe's largest polythene film producer, is to close its Alida
Polysack plant at Telford, Shropshire and shift production to China. Closure is a result of a doubling in the price of raw materials and pressure from large retailers to cut prices and will result in the loss of 150 jobs from the Telford plant with a further 35 job losses from a facility in Ripley. The plant in China, a joint venture between BPI and China’s High Point Corporation, will employ 120 people at approximately one tenth of the UK costs.

The Baxi Partnership finally won control over Barrhead Sanitaryware acquiring a majority stake (57% of ordinary share equity), however, it still has to acquire enough shares to takeover the Hillington firm completely, hoping to attract the remaining shareholders over the next month. This ends months of speculation, over the last eighteen months the Glasgow ceramics firm, which made a loss of £267,000 in 1994, has been the target of three take over bids.

TEXTILES, FOOTWEAR, LEATHER AND CLOTHING

The Index of Production for Textiles, Footwear, Leather and Clothing (TFLC) in Scotland increased by 2% over the third quarter of 1994, recovering some of the 6% drop recorded in the first quarter of last year. Output increased by 3% over the year to the third quarter. The recent growth performance of the industry in Scotland exceeds that for the UK industry where output fell by 1% in quarter three and increased by just 1% over the year to the third quarter. Its performance is below the average for all manufacturing in Scotland, where output increased by 2.2% over the quarter and 5.3% for the year. However, given that the manufacturing average includes the figures for electronics, TFLC actually shows a better recent performance than many other sectors.

An interesting recent development in the clothing industry is the announcement by the Turkish firm Meric International that it is to open a factory in Ayrshire to produce sportswear for the European market. The project was won in the face of competition from other locations in Europe, and the quality of the local workforce and Ayrshire’s position as a centre of clothing manufacture have been cited as important reasons for choosing Scotland. The decision, which is expected to result in 450 jobs in Irvine, is interesting because Turkey has been one of the developing countries which has been most successful in developing a clothing industry, largely to the detriment of the industry in the UK. For example, the UK’s trade deficit in clothing deteriorated from £265.4M in 1980 to £1864.8M in 1990, with 82% of this due to imports from the developing countries. A move to foreign production by firms such as Meric could have a potentially great impact on employment and trade in the clothing industry.

Other trade issues, particularly the future of the Multifibre Agreement, have also been in the news. The European union is considering speeding up the planned liberalisation of import barriers in exchange for developing countries agreeing to increase market access to EU producers. The plan, which is intended to help increase EU access to large third world countries such as India and Pakistan, has yet to be approved by governments.

Finally, there has been concern in the Borders over a restructuring of the Scottish Textiles Association. The Hawick office has been closed and the STA is to centre all of its administrative functions in Glasgow, causing concern the textiles companies will suffer from a lack of access for advice on training and legislation.

PAPER, PRINTING AND PUBLISHING

The Index of Production for the Paper, Printing and Publishing sector in Scotland indicates levels of output growth of 0% in the 3rd quarter of 1994, with annualised growth of 1%. The Index of Production for the Paper, Printing and Publishing sector in UK also shows 0% output growth in the 3rd quarter of 1994 and 3% annualised growth.

Business confidence continued to appear strong. A net 21% of firms were more optimistic than 3

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months ago and a net 62% of firms were more confident than one year ago.

There has also been a general upward trend in order levels in the Paper, Printing and Publishing sector, according to figures from the Scottish Chambers Business Survey. With respect to new orders, a net 44% of respondents have experienced a rise in the volume of new orders. A net 27% of firms have reported an increase in the level of new Scottish orders, while a net 36% of firms reported an increase in the level of new export orders. Figures for the total volume of sales reflect the strength of export sales in the sector. A net 47% of firms reported an increase in the total level of export sales, with a quarter of firms reporting an increase in total Scottish sales. Generally, order levels are expected to be consolidated in the next quarter. A net 14% of firms expect the level of new orders to improve in the next 3 months, with a net 22% expecting total sales to improve.

Average capacity utilisation remained at 81%, which for a net 26% of firms was higher than at the same time last year.

A net 28% of firms continued to revise investment intentions in plant and equipment upwards, with a net 5% revising investment upwards in land and buildings. In the next 3 months a net 21% of firms expect investment in plant and equipment to rise further. However, no further increases are anticipated in land and buildings investment.

Employment prospects in the Paper, Printing and Publishing sector continued to improve, albeit marginally in the last 3 months. A net 5% of respondents claimed that total employment levels had increased, with a net 7% expecting further improvements in employment in the next quarter.

Confidence is high in the printing and publishing sector according to a recent CBI report, which claims that almost a half of all printing and publishing firms plan to increase investment in the coming year. A general movement away from recession has resulted in a surge of orders and it was reported that many printing firms have struggled to keep up with market demand.

Rupert Murdoch's News International organisation has completed a distribution contract with the industry's wholesalers to supply News International titles, which, it is argued, could ultimately limit the choice of newspapers available in the shops. In effect, many newsagents will find they are paying 2 newspaper delivery charges, one for the contracted News International distributor of titles such as The Sun and The Times, and one to their usual suppliers who will continue to supply all non-News International titles. Critics have argued that due to rising carriage costs, retailers may choose to sell only the newspapers whose revenue exceeds their delivery charges, which would be detrimental to reader's choice. David Henderson, the Scottish manager for the National Federation of Retail Newsagents argued that in effect carriage charges for newsagents have doubled - in Glasgow, retailers will be paying £8 for delivery of News International titles as well as paying John Menzies £10 - £12 for delivery of all other newspapers. Iain Callaghan, wholesale director of John Menzies lays the blame for higher carriage costs at the News International decision and argues that wholesalers like John Menzies cannot be expected to lower their delivery charges to compensate retailers because their cost base has not changed.

MECHANICAL ENGINEERING

The slump in the output index of Scottish
mechanical engineering industry halted in the third quarter last year, with the index levelling-off compared with the previous quarter. Does this indicate a long-waited but rather elusive up-turning point in the business cycle for this industry? The information conveyed in the latest Scottish Business Survey (SBS, 5 January 1995) suggests so.

In the latest SBS, a net 24% of the corresponding firms were more optimistic about the general business situation. Compared with the same period a year ago, a net 43% of the corresponding firms expressed business optimism. Looking back at the past few quarters, it is evident that a sanguine view is becoming increasingly stronger.

Export orders and sales to the world markets remained buoyant in the final quarter last year and are expected to be so in the first quarter this year. What is perhaps of more significance is the evidence that for the first time in several years, new order from and sales to the domestic markets (both Scottish and UK) are showing signs of recovery as well.

The trend of running down on stock of finished goods and raw materials continued in the final quarter last year, and such a trend is expected to persist into this year. The volume of work in progress and stocks of raw materials were still increasing. There were also clear signs that firms in this industry are starting to invest for the future (among the corresponding firms, the proportion of those investing to expand capacity and introduce new project has increased markedly). These are all in keeping with the current phase of the recovery.

There was hardly any change to the situation in the job market towards the end of last year. However, some encouraging signs are emerging for employment prospects in general this year. Given the volatile nature of the recovery, any further increases in the interest rate would be particularly damaging to this industry.

SERVICES

DISTRIBUTION

The rise in business confidence continued to weaken for wholesale firms, a net of +2% reported being more confident in the fourth quarter compared to a net of +8% in the third quarter, however a net of +16% noted a higher level of confidence than in the same quarter of 1993. The level of confidence among retail respondents remained depressed during the fourth quarter, a net of -17% were less confident than in the third quarter which compares to a net of -8% during the third quarter, whilst a net of -19% reported being less confident than in the same quarter of 1993.

Contrary to expectations, the trend in total wholesale sales strengthened to a net of +24% during the fourth quarter. Wholesalers expect the upward trend in sales to continue though the rate of increase is forecast to ease to a net of +14%. Contrary to expectations, a rise in total retail sales did not occur and a net of -15% reported a decrease in sales during the fourth quarter. However the decline is expected to weaken and a level trend [0%] is forecast for the first quarter of 1995.

Stock shortages remained the factor thought most likely to limit wholesale sales during the first quarter of 1995 [45%], 34% cited credit facilities, 12% insufficient floorspace and 8% shortages of labour. Insufficient floorspace was the factor thought most likely to constrain activity among retailers during the first quarter and was cited by 38% of respondents, 29% cited credit facilities, 28% stock shortages and 8% shortage of labour.

The upward trend in wholesale investment plans increased slightly, a net of +17% revised investment plans upwards based on the fourth quarter of 1993. Compared to the same period one year ago, a balance of +5% of retail respondents have revised their investment intentions in premises upwards.

600 jobs were lost with the closure of the 157 Athena retail outlets. Receivers failed to attract an acceptable offer for the business although receivers, Grant Thornton are hopeful of selling 30 franchised Athena shops. Athena lost £5 million in the six
months to July 1994 and is reported to owe external creditors between £10 and £15 million.

Figures published on 6 January 1995 by the Society of Motor Manufacturers and Traders showed a rise in sales of 7.45% over 1993, to £1.91 million. The growth was largely due to a 15% rise in the registration of company cars. Sales to private buyers fell by 15% in the fourth quarter. Fears over the economy appeared to be the main factor affecting new car sales. Reg Vardy, the Sunderland based car group is set to expand its Scottish operations after a 43% rise in profits to £5 million.

Dixons, the high street electrical retailer, reported a 5% increase in pre-Christmas sales and an improvement in gross margins. The better than expected start to the second half followed an improvement in first-half profits which rose by 54%. Profits were helped by improved trading at out-of-town outlets such as PC World and Currys Superstores. Sales at Dixons and Currys high street stores fell during the period. The Dixons Group has announced wide ranging management restructuring.

The Institute for Public Policy Research claimed that the Office of Fair Trading should investigate “local and regional monopolies” held by supermarkets. It claimed that in some areas two or three retailers control more than half of the retail space and nearly two thirds of the grocery sales “clearly passing the 25% of market share figures which should trigger an investigation on competition grounds”. The report claimed that supermarkets were practising “commercial tyranny” over food producers and were overwhelmingly responsible for the growth of disposable packaging. The report also claimed that supermarkets lobbied for road building and encouraged car use. Another reported, this time by The Food Commission reported that supermarket price wars were undermining healthy eating by tending to discount fatty, sugary foods.

FINANCIAL SECTOR

June 19th will see the launch by the London Stock Exchange of the Alternative Investment Market (AIM). AIM is a replacement for the USM, offering, primarily to growth companies, a regulated market at relatively low cost. To join, companies will be required to produce a Prospectus containing less information than formerly and involving them in lower costs. Companies will need to provide accounts conforming to recognised accounting standards but will not need a long track record or to provide forecasts of profits. Key to the process of acquiring a listing on the new exchange is a requirement for the company to have a nominated adviser and broker. The adviser is intended to stay with the company through its life. If the nominated adviser withdraws then trading will be suspended so that the adviser will have considerable ‘regulatory’ powers. The nominated broker will attempt to match bargains in the company’s shares.

There can be little quarrel with the intentions behind the new market. The USM was not a noticeable success story. It provided a route into the equity markets but the take-up was always limited, a reflection of the relatively small differences between its requirements and those for Full Listing. The new market relaxes the requirements much further but is it enough? Where are the companies that are to join the AIM to come from? Some of the companies might, of course, be start-ups. High technology companies with an idea and little else. The model here is Silicon Glen and other such areas in the US but it may be questioned whether there is the same dynamism in the UK and readiness to take risks. The consequences of failure in the UK may be much greater. This is perhaps the heart of the problem. The new market will provide a useful route for existing companies, particularly private and family controlled companies currently trading under the London Stock Exchange’s rule 4.2, but it will not address the fundamental problem of risk taking both by investors and, more importantly perhaps, by the advisers and managers responsible for setting up a new firm. Where are the incentives for nominated advisers to take risks? The smaller the company the smaller their ability to pay fees and the greater the necessity to rely on their possible future earnings. The market also presupposes that existing flourishing small firms find it difficult to raise new capital and hence suggests that currently investors deliberately ignore profitable investment opportunities.

The process of raising capital will be easier and cheaper with the new market. Once an adviser has been convinced of the merits of a company then the necessary work involved in raising capital for the company is simpler and cheaper. This may encourage some owners who have been put off by the very high costs involved in securing a Full Listing at present, but many of the stumbling blocks for small companies will remain particularly the difficulty of convincing advisers (whose reputation will be at stake) and the noted reluctance of the
Managers of small companies to sell a majority of shares in a company and hence lose control.

The attraction for Scotland of the new market is the possibility of using Scottish financial expertise to provide advice to companies as well as providing opportunities for investors and opening up the prospect of introducing regional companies to the new market. It has been suggested that companies with a strong regional presence but which do not need to raise large sums may be able to use local advisers to tap local investors resulting in real benefits to small companies. The sentiments are to be applauded but how realistic is it to see Scotland as a major beneficiary? Scottish advisers may be cheaper, a reflection primarily of lower employment and space costs, and will certainly appeal to local companies but the depth of specialist expertise may well not exist in local firms. More importantly perhaps it is not clear that company formation and development in Scotland is at anything like the levels found elsewhere in some parts of the UK. The benefits to Scotland from the new market may not be anything like as large as we would like. In addition, there is always the problem that as successful firms grow and develop they may migrate southwards. The new market is likely to be a transitional stage for many firms with the ultimate destination Full Listing.

Scottish Financial Enterprise are to be congratulated once more for compiling a briefing paper on Fund Management in Scotland. This provides a comprehensive and relatively up to date survey of the activities of the Scottish investing institutions. Compatibility with the previous years survey has been largely maintained but in a number of areas the Briefing provides significant improvement. Foremost amongst these is the employment breakdown within fund management. Total employment at 1111 was up on 1992’s total of 1017 but the latest survey makes it apparent that the actual business of investment management is very much a minority sport and accounts for only 22% of total employment against 61% in administration and 17% in retail and advisory activities. It is interesting to see how few are employed in investment management directly and, to a lesser extent the low numbers in retailing and advisory. Of course, the figures for retailing exclude the retail side of the business such as the sale of unit and investment trusts to the public but they also indicate that, contrary to popular impressions, there aren’t large teams out on the road selling pension fund expertise to trustees.

Other features of interest from the survey include the very small use of Derivatives in Scotland, £127m or 0.1% of the total funds under management and that those that are traded are exclusively traded by the Life Offices predominantly for the life funds. No further details are given so it is impossible to know if these are options written against long positions or the use of futures to guarantee performance but hopefully we can look forward to further disclosures in this area so that investors can make informed decisions about the risks they are exposed to. The risks look small at the moment but recent events suggest a need for an ultra cautious approach in this area.

Also noticeable from the survey is the speed of movement of funds. This is particularly apparent in the geographic distribution of funds. For all equities under management for example, the proportion held in the Far East (excluding Japan) fell from 13.4% of the total in 1992 to 9.7% in 1993, whilst for the long term life funds alone investment in the UK increased from 71% in 1992 to 82% in 1993, and in N. America fell from 17% to 4%. Such changes represent major changes in portfolio composition although currency movements may account for part of the total. The changes also conflict with the traditional image of life fund management characterised by low turnover and slow evolutionary changes in portfolio composition. It would also be nice to know more, not least the costs and the profits incurred in fund management in aggregate. Is this a highly profitable sector for the Scottish economy or simply highly profitable for the professional fund managers? Scottish Financial Enterprise are to be applauded for their survey and to be encouraged to do more. The fund management industry remains one of the least known about and described. It would be nice to know more about the profits!

TRANSPORT

The Institute of Civil Engineers reports that investment in transport infrastructure will be £1.9bn short of the required £4.7bn in 1994-95 and most local authorities expect traffic congestion to increase. The CBI has called for Scotland and the rest of the UK to be brought into line with European transport infrastructure. A lack of investment is threatening Scotland's economic future. The CBI have recommended that the Government issues a green paper on an integrated transport policy. Major deficits include;

- railway investment is only 20-30% of...
other European countries
- road investment is 80% of that in France and Germany
- service quality is declining particularly railways and merchant shipping
- roads and airports are among Europe's most congested

However it is unlikely that anything other than public spending cuts will be brought about by the present government and so Scotland will continue to be on the periphery of Europe and at a disadvantage to the rest of our European competitors as a result.

Air

Glasgow Airport is to have increased flights to Canada provided by Air Canada while Prestwick is to offer new US flights as an alternative to Heathrow. Despite the loss of some US and European routes at Glasgow BAA is confident business will continue to grow in Scotland. Manchester Airport is a serious rival to Scottish airports and if a second runway is built capacity will increase to 30M passengers by 2005. Much of BAA profits continue to come from retailing, up 9.8% to £405M compared to £336M from airport charges.

BAA has unveiled its economic and environmental plans for Terminal 5 at Heathrow with a public enquiry due in May. The main arguments are the ever increasing demand by passengers (?) and airlines to use Heathrow. The Dept. of Transport state 95% of submissions are objections to the project. Concerns over noise reduction, less congestion, larger aircraft, a third runway and alternatives remain to be settled but it is more than likely that Terminal 5 will go ahead.

The Commons Transport Committee has suggested that air traffic control be made into a profit making public sector company rather than privatised as proposed by the Government, the CAA filling the role of regulator but the Dept. of Transport has rejected the proposals. The debate will undoubtedly intensify as Europe moves towards an integrated system. Air traffic has grown 6.5% this year, is forecast to grow at 7.1% next year with 650M passengers in the skies by the year 2000. Eurocontrol will initially co-ordinate improvements, with governments investing £1.5bn over the next three years. Benefits from existing pan European arrangements already save £650M in airline losses.

Road

A new report; Glasgow: The Last Motorway City, outlines proposals to reduce accidents and congestion on the A77 whilst also improving traffic flow in and out of Glasgow. It suggests the M77 extension is a folly but critics describe the report as "inaccurate". The road already has one ministerial casualty. The 7.7km M74 extension to the Kingston Bridge is estimated to cost £200M and benefits cited include the removal of 90,000 vehicles a day from Glasgow's streets plus a reduction of 30,000 vehicles per day on the M8 between Ballieston and Charing Cross. The travel and accident savings over 30 years are forecast to be £1.6bn with over half the investment being returned in the first year. The scheme has more than 350 objectors.

The private sector will not be involved in the design of the second Forth Road Bridge. The Scottish Office will submit a design to the public inquiry, then if successful it will be put out to tender for construction and operation. However some developments will go ahead in an attempt to relieve congestion on the approaches to Edinburgh including; higher tolls, major junction improvements, and new arrangements for parking.

Following another MMC inquiry into Stagecoach, which recommended that the 20% stake in Mainline, (Sheffield), should not be increased, the Corporate Affairs Minister has ordered Stagecoach to dispose of its investment, thus signifying a change in the government's stance towards the bus sector. A subsidiary of Stagecoach, Western Scottish has been banned from an Ayrshire route for a year following predatory pricing and the running of unauthorised services. There is increased concern over the bus industry and regulation with many groups calling for a review of the situation.

The Dept. of Transport is to reassess over two thirds of road building schemes to take account of 'induced' traffic and to examine any exaggerated benefits. The Transport Secretary has stated that a slowdown in economic growth would be required to accommodate most environmental concerns over road building. The Highways Agency is also to review the method of awarding road contracts.

Rail

The four sleeper services from Edinburgh, Glasgow,
Aberdeen and Inverness to London are to be combined into two in the Passenger Service Requirements for Scotrail next year, but the Fort-William service is to be axed unless the Scottish Office subsidises it. This loss would also mean the closure of the passenger rail depot in Fort William with the loss of 20 jobs and the demise of the motorail service. Other night services to be axed are Edinburgh and Glasgow to Plymouth and the Carlisle to London sleeper.

Scotrail is to make economies of £9M to compensate for losses incurred during the signal workers dispute with the new director unable to rule out job losses. This will result in overcrowding on commuter trains due to shorter trains being employed. The privatisation of Scotrail is being delayed by a dispute with Strathclyde Regional Council who want to know exactly what services they will receive rather than the minimum. The £112M SRC pays is one third of Scotrail's income. Scottish MPs have expressed severe concerns over adverse effects on tourism due to cuts in rail services.

The Rail Regulator has proposed that as few as 294, (one in ten), stations could sell through tickets whereas presently 1500 of BR's 2500 stations do so. Scotrail would have 39 'core' stations compared to the present 144 out of 328 stations. Further proposal include a two tier system being able to sell a limited range of tickets and a five year national franchise of ticket selling at 60,000 outlets, e.g. shops etc.

The WCML upgrade is estimated at £1bn resulting in train speeds of 140mph, which may mean greater access charges and thus higher fares on the Glasgow-London route. The upgrade could also have an impact on the sell off of Railtrack, depressing it's value and increasing uncertainty. Railtrack also faces a backlog of station repairs for which no estimate is available at this time. The privatisation programme took a further setback when the sell off of the BR signal unit was scrapped. It is now thought the business will be reorganised to suit future needs. The Red Star sale has also been delayed.

The freightliner sale is to be delayed to restructure the business and reduce losses, (£38M in 1994). BR wants to rationalise the business in order to withdraw from uneconomic areas. Trans-rail has successfully been operating trainload freight and have now launched Enterprise to haul full, mixed multi-customer trainloads attracting 100,000 tonnes (equivalent), from the roads. Trans-rail is competitive to within 10% of road hauled freight and track access grant could give parity. Piggyback and roadrailer schemes could provide opportunities across the BR network with bridge and tunnel adjustments costing £70-80M, equivalent to five miles of urban motorway.

Sea

Forth Ports is to contest the Irish Sea freight market by constructing a £20M terminal in Birkenhead. It will have a floating stage for roll-on, roll-off traffic. The entire development is worth £100M and will provide 2,000 jobs but will depend on the European Regional Development Fund support of up to £15M.

The UK Government was urged to take unilateral action to safeguard ferry safety if the IMO fails to do anything. The Dept. of Transport has calculated costs ranging from £10,000 to £2.6M depending on vessel type for the necessary modifications to allow a 30 minute evacuation time. The total cost to modify the 57 strong UK fleet is estimated at £70-85M. A result would be slower turnaround times, increased fuel use and increased vessel weight giving a further £12-22M rise in running costs.