

To AGCC Members:

Good quality market intelligence is critical to smart decision-making. Your Chamber has made arrangements with Mackay Consultants to distribute the North East Scotland Monthly Economic Report to all members of the Chamber. We hope that you find this service a useful additional benefit.

Bob Collier, CEO, AGCC

**NORTH EAST SCOTLAND:
MONTHLY ECONOMIC REPORT
for
JULY 2012
by
MACKAY CONSULTANTS**



Donald Trump tees off

○ **HIGHLIGHTS**

- Wood Group to create 150 jobs in new venture
- ABB to create 100 jobs in Aberdeen
- Progress with Rosebank field development
- Subsea 7 win £60 million contract
- Trump golf course opens

● **LOWLIGHTS**

- UK oil production down -19%
- Clydesdale Bank to close Inverurie centre
- BA cut Heathrow air services

!! **THIS MONTH'S COMMENTS**

- * A surprisingly quiet month
- * Worrying fall in North Sea oil and gas production
- * Rangers and the sorry state of Scottish football

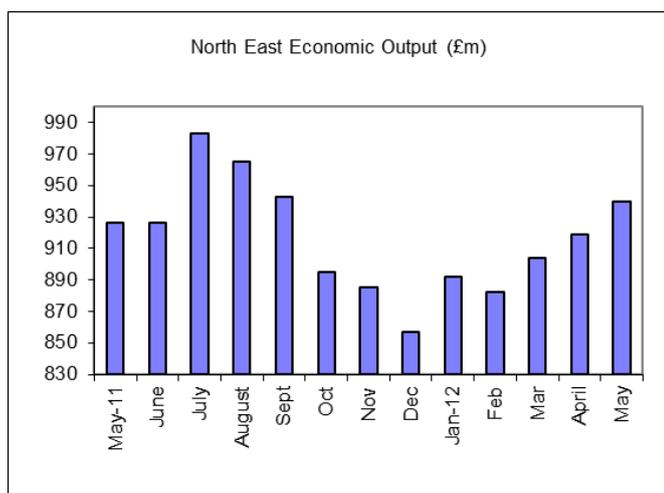
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- business development strategies
- economic impact analysis
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- market research

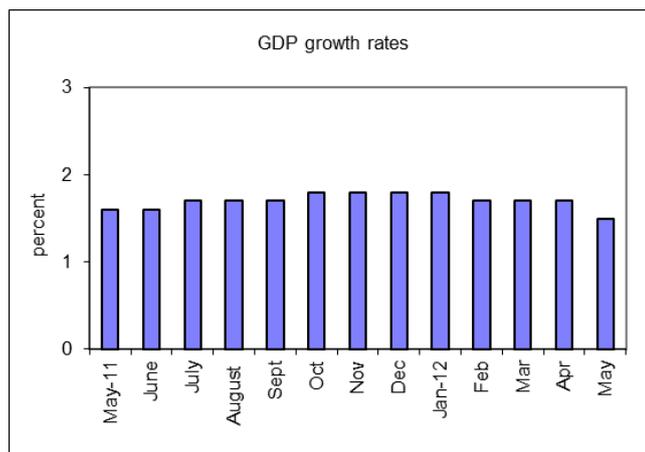
ECONOMIC OUTPUT

We estimate that economic output in the North East in May was approximately £940 million. That is +1.5% higher in real terms than the May 2011 figure. Our estimates for the last twelve months are:

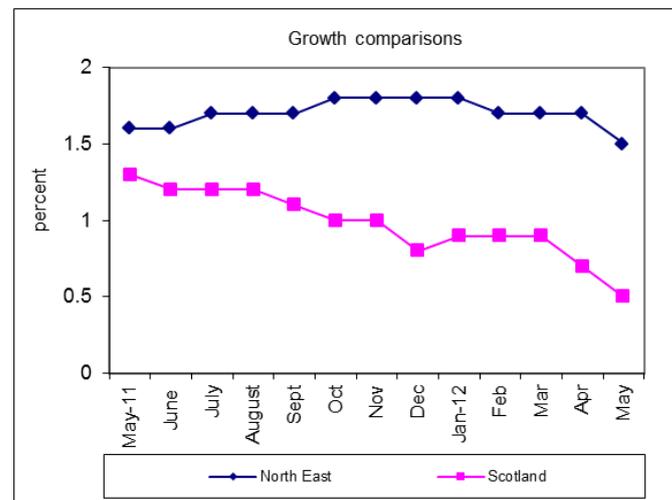
May 2011	£926 m	December	£857 m
June	£968 m	Jan 2012	£892 m
July	£983 m	February	£882 m
August	£965 m	March	£904 m
September	£943 m	April	£919 m
October	£895 m	May	£940 m
November	£885 m		



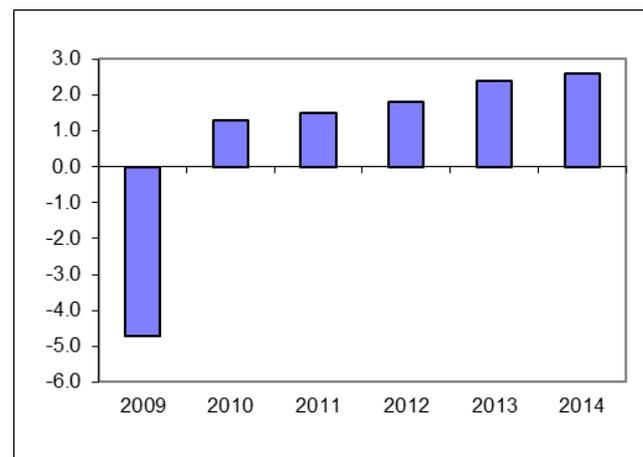
The growth rates for the last twelve months are illustrated in the figure below. These show the month-on-month comparisons, i.e. May 2012 compared with May 2011, April 2012 compared with April 2011 etc.



Economic output in the North East fell by a massive -4.7% in 2009. There was a modest recovery during 2010 and 2011 and our latest estimate is +1.5% growth, as shown in the figure below. Our estimate for Scotland as a whole is significantly lower at +0.5%.



Our current forecasts of North East GDP growth for the period to 2014 are:



Our latest forecasts are +1.8% in 2012, +2.4% in 2013 and +2.6% in 2014. All of those are well above our Scottish forecasts.

However, world oil and gas prices will inevitably be very important influences on the North East economy and they are very difficult to predict. Nevertheless, it is clear that the local economy is currently doing much better than the Scottish and UK economies.

UK ECONOMY

We refer each month to the “Economist” magazine’s poll of GDP growth forecasts. The latest averages are:

	2012	2013
Britain	+0.1%	+1.5%
Euro area	-0.4%	+0.4%
USA	+2.1%	+2.2%

The forecasts for Britain have been revised downwards again, from +0.2% and +1.6% respectively. The range of forecasts for Britain in 2012 is now from -0.5% to +1.0%, and for 2013 from +0.6% to +2.3%.

There is even more pessimism about the Euro area economy, including a forecast -0.4% fall in output in 2012.

The Bank of England’s Monetary Policy Committee kept their base interest rate unchanged at just 0.5% at their June meeting. That continues to be the lowest level since the Bank was created in 1694!

Sterling strengthened by +1.3% against the US dollar, ending June at \$1.55, following a massive -5.5% decline during May. It also rose against the euro by +1.6% to €1.26. The £ trade weighted index rose by +0.7% to 83.0.

GDP

The Office for National Statistics’ (ONS) latest estimates show that UK GDP fell by -0.3% in the first quarter (Q1) of 2012.

Manufacturing output

The index of manufacturing output was 105.4 in May, compared with 94.6 in April.

Unemployment

The claimant count rate of unemployment is currently 5.2%. The wider rate (including the economically inactive) for the quarter February to April 2012 was 8.2%.

Earnings

The annual growth in average earnings (“regular pay”) in March was +2.0%, up from +1.7% in the previous month.

Inflation

Inflation, as measured by the Consumer Price Index (CPI), was +2.8% in May, down from +3.0% in April. Retail Price Index (RPI) inflation was +3.1% in May, down from +3.5% in April.

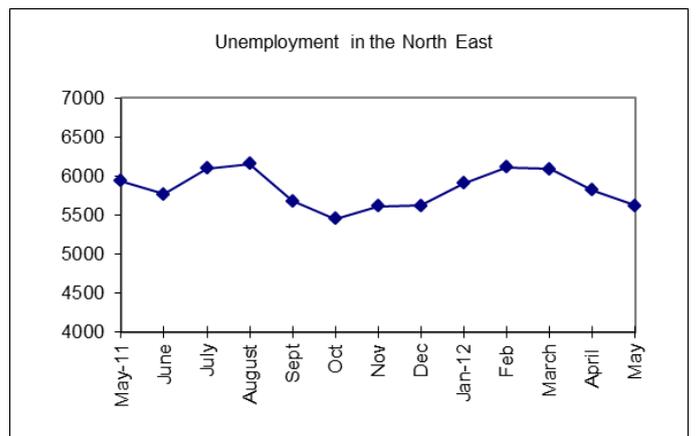
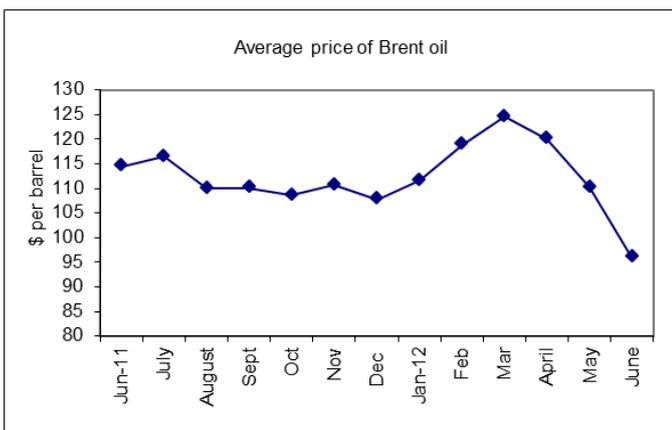
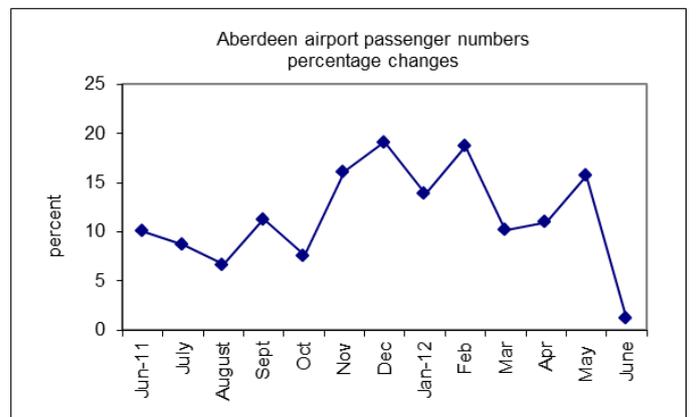
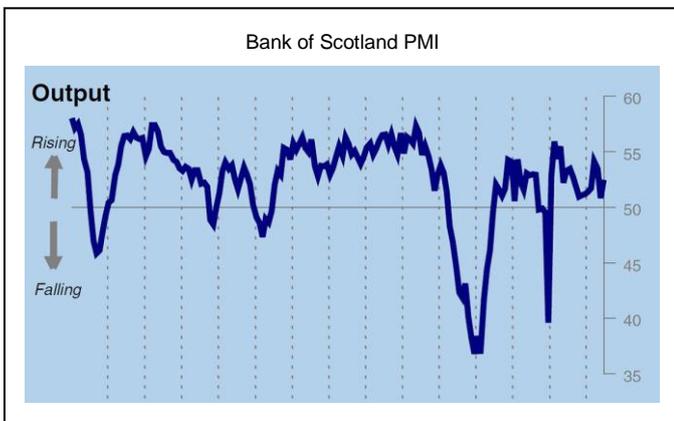
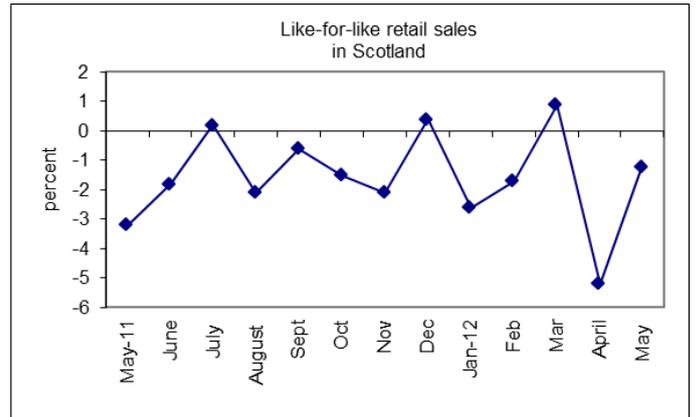
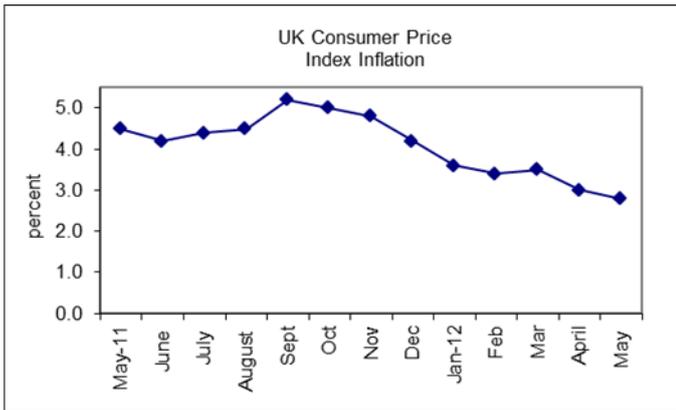
The CPI figure remains above the Government’s official +2% target.

The table below gives the main economic indicators.

	Real GDP (%)	CPI change (%)	Earnings growth (%)	Manufacturing output	Unemployment rate (%)
2008	0.4	3.7	3.7	101.3	2.7
2009	-4.9	2.2	2.3	89.3	4.7
2010	1.8	3.3	1.9	90.8	4.9
Q1 2009	-5.0	3.0	3.2	90.9	4.2
Q2	-5.5	2.1	2.6	88.5	4.7
Q3	-5.1	1.5	2.0	88.6	5.0
Q4	-3.1	2.1	1.2	89.2	5.0
Q1 2010	1.2	3.3	1.7	90.0	4.9
Q2	1.7	3.4	1.8	90.9	4.7
Q3	2.8	3.1	1.9	91.1	4.9
Q4	1.5	3.4	2.1	91.3	4.9
Q1 2011	1.8	4.1	2.2	92.8	5.0
Q2	0.8	4.4	2.1	91.9	5.2
Q3	0.5	4.7	1.9	95.1	5.4
Q4	-0.2	4.7	1.9	95.3	5.1
Q1 2012	-0.3	3.5	1.6	95.1	5.6
February	n.a.	3.4	1.7	94.4	5.7
March	n.a.	3.5	2.0	95.2	5.5
April	n.a.	3.0	n.a.	94.6	5.3
May	n.a.	2.8	n.a.	105.4	5.2

Note: GDP, CPI and earnings figures show the percentage growth over the same period in the previous year. The manufacturing output index is 2003 = 100.0.

MONTHLY STATISTICS



UNEMPLOYMENT

The unemployment level is probably the best single indicator of short-term changes in the local economy. There are various measures of unemployment, of which the wider rate including the economically inactive is probably the best. However, official statistics on that measure are not published monthly, so we have to rely on the narrower measure of the number of people claiming unemployment benefit.

The Scottish average for the latter is currently 5.2%. The wider rate (including the economically inactive) for the quarter February to April 2012 was 8.2%.

The latest monthly figures (May 2012) for the North East published by the Employment Department are:

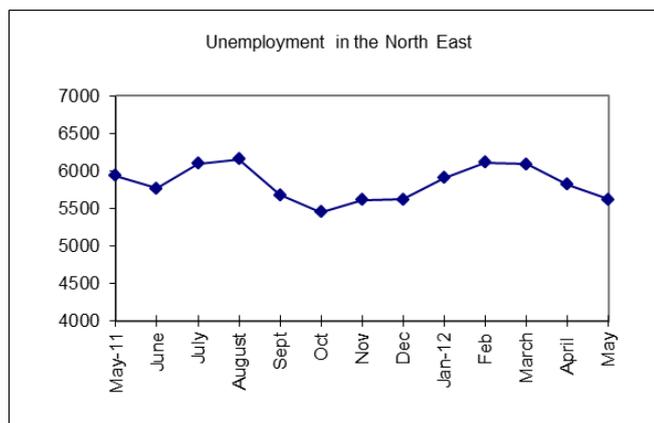
	male	female	total	male %	female %	total %
Aberdeen TTWA	2873	1267	4140			
Banff TTWA	247	128	375			
Fraserburgh TTWA	250	136	457			
Huntly TTWA	67	37	104			
Peterhead TTWA	353	161	514			
Total TTWAs	3790	1729	5590			
City of Aberdeen	2386	1013	3399	3.1	1.4	2.3
Aberdeenshire	1467	753	2220	1.8	0.9	1.4
Total	3853	1766	5619	2.6	1.2	1.9

The Aberdeenshire rate of 1.4% is the lowest of all the 32 local authority areas in Scotland and the Aberdeen City rate of 2.3% is the equal fourth lowest. The Scottish average is currently 4.1% on the same basis. The wider rate for Aberdeenshire is approximately 2.8% and for Aberdeen City 4.6%.

The figures for the two local authority areas since May 2011 are:

	City of Aberdeen		Aberdeenshire		Total for North East	
	Number	Change	Number	Change	Number	Change
May 2011	3,548	-29	2,391	-95	5,939	-124
June	3,447	-101	2,320	-71	5,767	-172
July	3,644	+197	2,458	+138	6,102	+335
August	3,644	0	2,513	+55	6,157	+55
September	3,420	-224	2,257	-256	5,677	-480
October	3,334	-86	2,117	-140	5,451	-226
November	3,466	+132	2,148	+31	5,614	+163
December	3,394	-72	2,226	+78	5,620	+6
January 2012	3,545	+151	2,360	+134	5,905	+285
February	3,669	+124	2,447	+87	6,116	+211
March	3,637	-32	2,454	+7	6,091	-25
April	3,509	-128	2,312	-142	5,821	-270
May	3,399	-110	2,220	-92	5,619	-202

Unemployment fell by -202 to 5,619. That compares with a fall of -124 in May 2011. The current total is -320 below the level of one year ago, as shown in the figure below.



The best comparisons are probably with the same period in 2011. The changes in unemployment in the TTWAs between May 2012 and May 2011 are shown below.

	May 2012	May 2011	diff	% diff
Aberdeen TTWA	4140	4347	-207	-5.0
Banff TTWA	375	391	-16	-4.3
Fraserburgh TTWA	457	379	78	17.1
Huntly TTWA	104	110	-6	-5.8
Peterhead TTWA	514	613	-99	-19.3
Totals TTWAs	5590	5840	-250	-4.5

The total number is -4.5% lower. Unemployment fell in four of the five TTWAs, with the exception being Fraserburgh. The average change in Scotland as a whole was +1.2%.

NEW DEVELOPMENTS

Non oil-related

Trump golf course opens

Donald Trump opened his new £100 million Trump International golf course on the Menie Estate, near Balmedie in Aberdeenshire. A lengthy public inquiry meant the opening was three years behind schedule. The course took six years to develop but plans for a hotel and hundreds of homes have been put on hold.

£40 million wind farm contract for Reef Subsea

Reef Subsea Power & Umbilical, with offices in Aberdeen, have been awarded a £40 million contract from Gwynt y Môr Offshore Wind Farm. Reef Subsea will assist with engineering, project management, ROV and survey operations linked to the subsea installation and burial of all infield array cables for Gwynt y Môr, located 13 kilometres off the North Wales coast in Liverpool Bay.

Aberdeen Asset Management open New York office

Aberdeen Asset Management is opening an office in New York. The business development office will employ 20 and complement the firm's US headquarters in Philadelphia which employs around 200.

Credit Suisse sell remaining AAM stake for £200 million

Credit Suisse have sold their remaining 7% stake in Aberdeen Asset Management, raising more than £200 million to bolster the Swiss bank's capital. The deal completes the exit from their investment in AAM.

Plans to improve North East railway services

Plans to improve commuter railway services in the North East are back on track. Transport officials want more frequent services for travellers heading in and out of Aberdeen for work from towns such as Inverurie and Stonehaven. A wish list of new stations has also been drawn up, including Kintore, Persley, Kittybrewster, Cove and Newtonhill.

KFC drive-through takeaway plans for Aberdeen beach

A planning application has been submitted to Aberdeen City Council for a Kentucky Fried Chicken (KFC) drive-through as part of the Queens Links Leisure Park on Beach Esplanade. The takeaway could create 40 jobs.

NHC win NATO training contract

The National Hyperbaric Centre in Aberdeen has won a two year contract worth a six figure sum to audit military submarine rescue training for NATO. The company will assess military submarine personnel and equipment against best oil industry practice.

Millstream win contract extension

Millstream, the Aberdeen-based company, has won a contract extension to continue running the Scottish and Irish national e-procurement databases. Millstream have managed Public Contracts Scotland since 2006, with the extension running to May 2014. They will also continue to run Ireland's e-Tenders site. The additional work is believed to be worth around £250,000 and will help to secure the jobs of the 40 staff.

Absoft win £1 million software contract

Absoft have been awarded a £1 million contract to deliver a business software solutions for Northumbria University. The project is expected to take a year to complete and will see Absoft host the university's entire SAP system at their data centres in Aberdeen and Dundee.

Hotel group's profits up +3%

Pitfodels Holdings, the owners of the five-star Marcliffe Hotel and Spa in Aberdeen, reported pre-tax profits up +2.8% to £491,770 for the 12 months to 30 September 2011. Turnover increased by +3.7% to £6.1 million.

Retail sales down -1.2% in May

Like-for-like retail sales in May were down -1.2% compared with May 2011, according to the Scottish Retail Consortium. The equivalent like-for-like retail sales in the UK as a whole were up +1.3%.

Aberdeen Airport passenger numbers up +1.3%

291,700 passengers used Aberdeen Airport in June, which was +1.3% more than in the same month of 2011.

Value of Peterhead fish landings up +0.6%

Fish landings at Peterhead in May were valued at £7.5 million, up +0.6% on May 2011. White fish accounted for 96% and shellfish 4%, according to the latest statistics from the Peterhead Port Authority.

New car sales up +9% in June

New car registrations in Scotland in June totalled 16,694, an increase of +9% compared with June 2011. The overall British figure showed an increase of +3.5%, according to the Scottish Motor Trade Association.

BA pension fund acquires St Magnus House

St Magnus House in Guild Street has been acquired by the British Airways Pension Fund from Apia Regional Office Fund Partnership for £18.3 million. The building is currently let to Canadian-owned oil company CNR International (UK).

Harbro in Borders acquisition

Harbro, the Turriff-based animal feed firm, have bought Border Farm Supplies which has two retail outlets at Earlston and Duns. All 14 existing staff have been retained.

Aberdeen University land on the market

Aberdeen University have put 229 acres of land they own adjacent to Bucksburn in the north west of the city up for sale. The land forms part of the Rowett Institute's agricultural holdings and is identified in the local plan for housing.

BA cut services to Heathrow

British Airways are reducing their Aberdeen-Heathrow flights by one third, but most of the loss will be made up by a planned service to London City airport.

Nine jobs to go in Aberdeen as DVLA office closes

Nine jobs will be lost at Aberdeen's DVLA centre when it closes in October. The vehicle licensing centre in the Gallowgate and 38 other regional offices will shut as part of a centralisation programme.

Clydesdale Bank to close Inverurie centre

Clydesdale Bank confirmed that 145 posts will be axed in Scotland under the first tranche of the 1,400 job losses announced in April. The bank are closing four of their 15 financial solutions centres in Scotland, including one in Inverurie.

Oil-related

Juliet gas field receives project sanction

GDF Suez E&P have received project sanction for the Juliet gas field in Block 47/14b in the Southern North Sea, off the coast of Lincolnshire. The field will be developed by two horizontal subsea wells tied back by a 22 km 12-inch diameter export pipeline and control umbilical to the Pickerill A platform operated by Perenco UK. Contracts are expected to be awarded in this summer.

Rosebank development could create 300 jobs

Chevron announced that the multibillion pound Rosebank development in the North Sea is expected to create 300 jobs in their Aberdeen base. The jobs, to operate the deep water oil and gas field from onshore and offshore, would be in addition to 150 in-house staff and 200 contractors who will help design and build the development. Chevron have started the front-end engineering design phase of the project, which has yet to receive official development approval from DECC.

Wood Group create 150 jobs in new venture

Wood Group are creating 150 jobs in their Production Services Network (PSN) division in Aberdeen after adding a new service. The company is to set up a dedicated project delivery arm to carry out large scale, one-off jobs in the North Sea. The new Aberdeen-based team will bid for individual projects designed to extend the life of platforms.

ABB to create 100 jobs in Aberdeen

ABB are planning to create around 120 jobs in Scotland as part of their growth strategy. In Aberdeen they will add about 100 sales and engineering posts by the end of the year.

Subsea 7 win £60 million contract

Subsea 7 have won a £60.7 million contract to build a 46 mile pipeline bundle system for a field in the Central North Sea. The contract, with an unnamed international oil operator, will see Subsea 7 carry out the project management, engineering, procurement, fabrication and installation of the pipeline bundle. Fabrication will take place at Subsea's site near Wick in Caithness.



Subsea 7 win Norwegian contract

Subsea 7 have also been awarded a £255 million contract by BP Norge for subsea, umbilical, riser and flowline work for the development of the Knarr field in the Norwegian sector of the North Sea. Engineering and procurement will start immediately, with offshore operations planned from next summer until spring 2014.

Nautronix win Malaysian rig contracts

Nautronix, the marine technology company, have won contracts worth more than £500,000 for work on two of Songa Drilling's semi-submersible rigs operating offshore Malaysia.

Cosalt win UKCS contract

Cosalt Offshore have been awarded a three year, multi-million pound contract with CNR International to provide lifting and mechanical handling support services on five platforms: Tiffany, Ninian North, Central and South plus Murchison. The contract also includes two one year options.

Senenergy win DECC contract

Senenergy have been awarded a contract worth up to £1.8 million by the UK Government to examine ways of prolonging the production life of the North Sea oil and gas industry. The three year project will support the work of the Department of Energy and Climate Change.

GDF Suez to move into new office complex

Property developers Miller Cromdale have submitted a planning application for a new 40,000 sq ft office building on North Esplanade West for French-owned energy company GDF Suez Exploration and Production (E&P) UK. The new company headquarters will replace offices in Union Plaza, Holburn House and City Wharf, putting staff under one roof. GDF will sign a 15 year lease on the building and expect to house about 150 employees and contractors by 2014 and up to 200 longer term.



Alfa Laval in £3 million expansion

Alfa Laval have invested £3 million in a new service centre in Dyce to be closer to clients in the oil and gas and whisky distilling industries. The Swedish firm employ 17 people in the North East.

Utec invest £1 million in new base

Utec, the offshore survey specialists, have invested nearly £1 million in new regional headquarters in Aberdeen. The leased site at The Spires business park in the Mugiemoos area provides services in the North Sea and West Africa and support operations in the Mediterranean and North Africa.

Sonomatic expansion

Sonomatic, the ultrasonic inspection business, have expanded their Aberdeen operations after a £100,000 investment. The firm, who specialise in subsea non-destructive testing (NDT), have added extra floor space to their operations on the Aberdeen Science and Energy Park, after taking on three new employees and plan to recruit a further five before the end of the year.

Bibby moving to new HQ in Westhill

Bibby Offshore are to move from Waterloo Quay to new headquarters on the Prospect Park in Westhill next spring. Bibby have taken a 15 year lease on the new HQ which is being built by the Knight Property Group. The new HQ is being built to accommodate double Bibby's current onshore staff.

Xodus Group return to Australia

Xodus Group have launched a £2 million operation in Perth and re-entered the Australian market after a two-year gap. Xodus previously had an office in Perth in 2007 before selling the business to a former director in 2010.

Dana profits up to £467 million

Dana Petroleum reported pre-tax profits of £467 million in 2011 - the first full year in which they were owned by Korean national oil firm KNOC. Dana had turnover of £1.1 billion in 2011.

Ace Winches profits up +65% to £6.9 million

Ace Winches reported pre-tax profits up +65% to £6.9 million in 2010-11. Turnover increased by +30% to £21.9 million.

UK North Sea oil production down -19%

UK oil and gas production both fell in March 2012, compared with the same month of 2011. Average daily oil output was 896,270 barrels per day, which was down -19% compared with March 2011. Average daily gas output was 3,933 million cubic feet per day, a fall of -32% compared with March 2011.

Oil prices

Brent crude began June at US\$98.34 per barrel and ended it at \$95.24, a fall of -3%. The monthly average was \$95.95, which was -15% lower than the \$110.13 average in May. Prices traded between \$100.74 and \$89.77, the first fall below \$100.00 since January 2011.

Riverstone invest £97 million in Fairfield Energy

Riverstone Holdings are investing £97 million in Fairfield Energy and gaining a stake of about 30%. The private equity investment will allow Fairfield to pursue growth opportunities.

Nessco sold in £31 million deal

Nessco Group, the Westhill-based oil and gas communications specialists, have been sold to US-based RigNet in a deal worth up to £31million. The transaction includes the purchase of Nessco's 30,000 square feet headquarters in Aberdeen. RigNet's existing operations in the region will move to Nessco's HQ and there are not expected to be any redundancies.

Glacier buy pipe cutting company for £1 million

Glacier Energy Services have acquired Newcastle-based Site Machining Services for around £1 million. Site Machining Services are specialist providers of pipe cutting and preparation services for the oil and gas industry.

NSL taken over by Asco

Asco, the oil and gas logistics company, have acquired fellow Aberdeen firm North Sea Lifting for an undisclosed sum believed to be in seven figures.

ATR Group acquire subsea support firm

ATR, the plant, lifting and tool rental group, have acquired Underwater Engineering Services, a marine and subsea support equipment hire business, for an undisclosed sum. All 14 staff will move across to ATR.

SPEX Services and Cognity to merge

SPEX Services, the energetics company, and engineering consultancy Cognity are to join forces in an attempt to secure larger and more complex client projects. Together they will employ 74 staff.

Global Energy acquire A&B Welding

Global Energy Group have bought Aberdeen firm A&B Welding for an undisclosed sum. A&B have annual turnover of £10 million and changed hands in a deal understood to be worth seven figures. A&B will become part of Global subsidiary CPS, an offshore fabrication company based in Aberdeen.

THIS MONTH'S COMMENTS

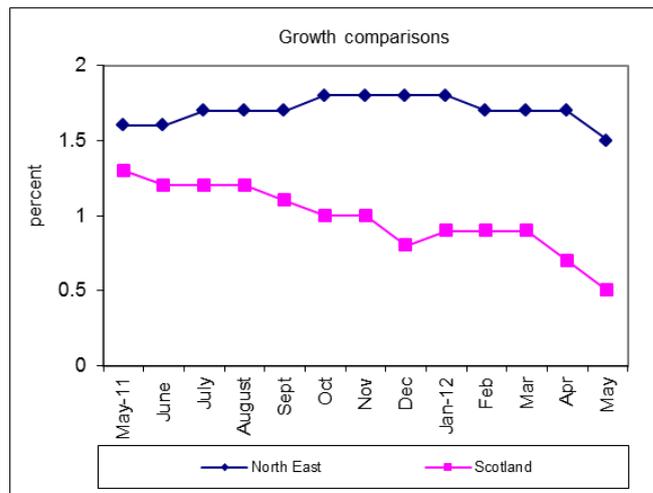
A surprisingly quiet month

June was a surprisingly quiet month for the North East economy, with few new developments in both the oil and non-oil sectors. Virtually all were positive, however, and the local economy continues to do much better than the Scottish and UK economies.

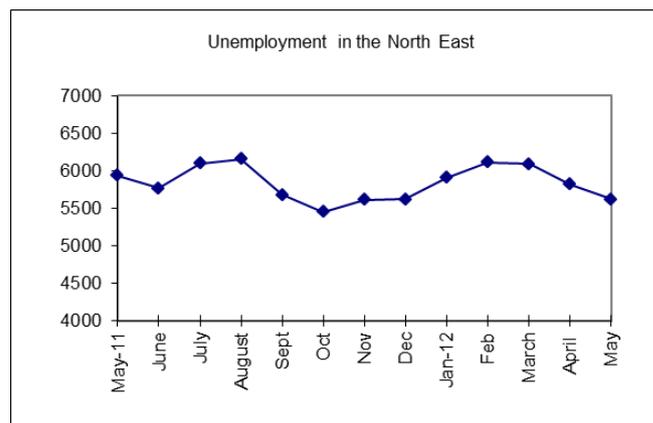
There is a lot of doom and gloom at the present time. The Eurozone crisis is undoubtedly having adverse effects on the UK and Scottish economies. The average forecast for UK economic growth in 2012 has been revised downwards to just +0.1%. The Euro area forecast is even worse at -0.4%.

The latest official estimates of Scottish economic output (GDP) show a fall for the second consecutive quarter, which some economists define as a recession. However, the North East is clearly doing much better, mainly because of the oil and gas industry.

We estimate that monthly economic output in the North East was approximately £940 million, which was +1.5% higher than one year ago. That is treble our +0.5% estimate for Scotland as a whole, as illustrated in the figure below, and that estimate is probably too high.



Unemployment fell by -202 to 5,619. The current total is -320 below the level of one year ago, as shown in the next figure.



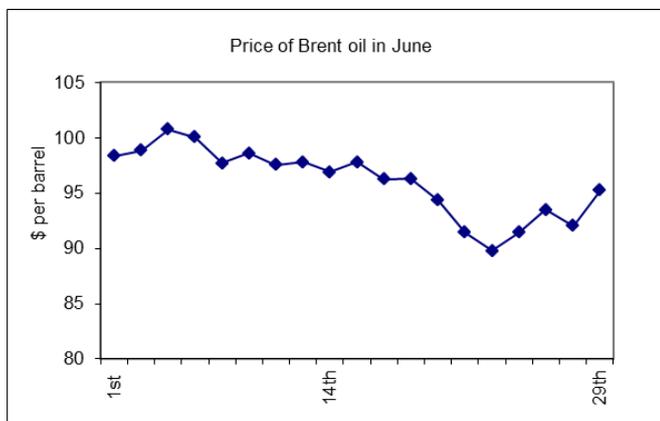
The local unemployment rates remain well below the Scottish and UK averages. The Aberdeenshire rate of 1.4% is the lowest of all the 32 local authority areas in Scotland and the Aberdeen City rate of 2.3% is the fourth lowest. The Scottish average is currently 4.1% on the same basis.

Most of the good news came from the oil and gas industry, as usual. The Wood Group announced 150 new jobs and ABB 120. GDF Suez received project sanction for the Juliet gas field in the Southern North Sea and Chevron announced that they have started FEED work on their Rosebank oil discovery West of Shetland.

A few new contracts were announced, including: a £60 million contract for Subsea 7 for a pipeline bundle; rig contracts for Nautronix offshore Malaysia; and a

training contract for the National Hyperbaric Centre from NATO.

Oil prices fell during June, as illustrated in the figure below, but Brent crude was back above \$100 per barrel at the time of writing. High oil prices are undoubtedly the main reason why the industry in the North East is doing so well at the present time, both in the North Sea and overseas markets.



However, UKCS oil and gas production continue to fall at worrying rates, as discussed in the next comment.

In the non-oil sector the highlight was undoubtedly the opening of the Trump International golf course at Balmedie. This has attracted a lot of controversy over the years but should give a major boost to golf tourism in the region, particularly if Donald Trump’s claims about the course’s quality prove to be reasonably accurate.



There was very little bad news. The Clydesdale Bank announced the closure of their financial solutions centre in Inverurie and the DVLA confirmed the closure of their office in Aberdeen. However, the job losses involved are very small compared with the 250 new jobs announced by the Wood Group and ABB, for example.

The North East economy continues to do quite well, in marked contrast with the Scottish and UK economies. That is unlikely to change in the near future.

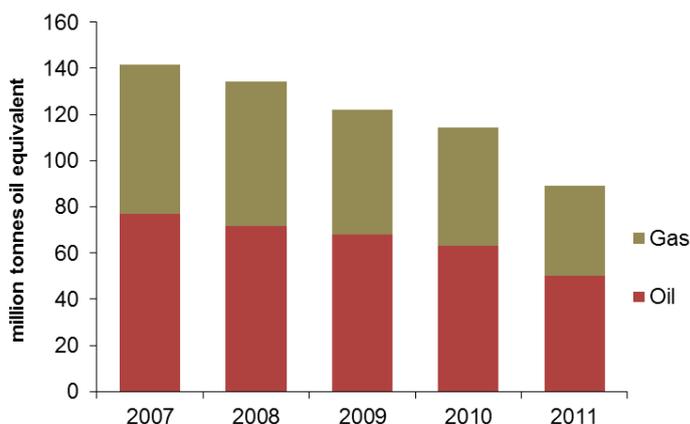
Worrying falls in UK oil and gas production

The North Sea oil and gas industry is very important to both the Scottish and UK economies. The industry is the largest individual contributor to the UK Exchequer, accounting for about 25% of all corporation tax. In Scotland it employs about 40,000 people directly, mainly in the Aberdeen area but also in Fife, Shetland and elsewhere.

The oil industry has become a political football in recent months because of the forthcoming referendum on Scottish independence. The SNP claim that the oil revenues – which currently go to the UK Exchequer – would make Scotland one of the richest countries in Europe. Some of the UK politicians claim that the industry is declining and that future oil and gas revenues will be much smaller than they have been in recent years.

The UK Continental Shelf (UKCS) is now a mature oil and gas province, having produced for over 30 years. UKCS oil production peaked in 1999 at 124.9 million tonnes, equivalent to 2.6 million barrels per day (bpd), and UK gas production peaked in 2001 at 112.8 billion cubic metres. Both have fallen substantially since then.

Oil production in 2011 was 63.0 million tonnes, which was down -7.7% on 2010 and 50.4% of the peak. Gas production was 57.1 billion cubic metres, which was down -4.3% on 2010 and 50.6% of the peak. The UK became a net importer of oil in 2006 and of gas in 2004. The recent production statistics are illustrated in the figure below.



However, the UK will still be producing oil and gas in 20 years, albeit at even lower levels. New fields continue to be discovered and developed, as highlighted regularly in our monthly reports.

Mackay Consultants specialise in the economics of the oil and gas industry. We often produce forecasts for clients of UKCS production and other indicators such as capital and operating expenditure. The Department of Energy and Climate Change (DECC) and UK Oil & Gas, the industry's representative body, produce similar forecasts.

For the last few years our production forecasts have been strongly criticised by both those bodies as being too pessimistic but in actuality our forecasts have proved to be the most accurate in each of the last five years. The 2011 outturn was worse than we predicted but both Oil & Gas UK and DECC were far too optimistic, as usual.

We are in the process of producing a new report which will give annual production forecasts for every UKCS oil and gas field, including those under development and possible new developments. Our preliminary estimates are that the average annual decline over the next five years will be about -7%.

Such a decline, as in 2011, will have serious implications for the Scottish and UK economies. The impact of the recent declines has been offset to a large extent by the increases in oil prices, with Brent crude currently trading at just over \$100 per barrel.

However, continuing high oil prices cannot be guaranteed. Capital and operating costs are also rising on the UKCS, so the operating profit and Government revenue per barrel are likely to decline in the future.

One very welcome development has been the success of many companies in the Aberdeen area in diversifying into overseas markets, thus compensating for the decline in the domestic market. The overseas markets are benefitting from the high oil prices, resulting in a big increase in worldwide development activity.

Nevertheless, both the UK and Scottish Governments should give serious consideration to the implications of the continuing decline in UKCS production. I believe that the arguments about the control of future oil revenues have become a distraction from sensible discussion about how to slow down that decline.

Rangers and the sorry state of Scottish football

I am a football fanatic. My elder daughter often berates me about the amount of time I spend watching football – either live or on television. I confess to spending some winter Sunday afternoons slumped in front of the tv watching three or more games on Sky Sports.

Football is big business in Scotland and many other countries. It is the most popular spectator sport in the world and the explosion of televised games has created huge commercial markets.

I presumably do not need to give a lengthy history of recent events but, briefly, the Rangers football club, one of the two dominant clubs in Scotland (Celtic being the other) and famous throughout the world, went into administration recently and are currently in the process of going into liquidation.

A new company, known as Newco, has been set up to replace them and will play in the Scottish Football League next season. However, Rangers have been banished from the lucrative Scottish Premier League and will play in the 3rd division against teams such as Elgin and Peterhead.

The whole process has been a fiasco, which has badly damaged the football industry's reputation, not just in Scotland but also overseas. That damage affects not only Rangers FC themselves but also the two main regulatory bodies the Scottish Football Association (SFA) and the Scottish Premier League (SPL), plus Her Majesty's Revenue and Customs (HMRC).

I want to comment on a few of the economic aspects of the fiasco. Firstly, Rangers have reported debts of up to £134 million, most of which is owed to HMRC. The other creditors include other football clubs for transfer fees and the local paper shop in Govan.

I do not understand how HMRC could let Rangers run up such massive debts without taking action. Many small businesses in Scotland are pursued relentlessly for outstanding PAYE and VAT, so there appears to be one HMRC policy for the big and famous, and another for small businesses. There is overdue PAYE and tax of at least £14 million and the possibility of much larger sums from dubious employee benefits trusts.

It is evident that for years Rangers have been spending more money than they earned, with most of that spending on the salaries of players and senior management. I believe that is the case with many football clubs in Scotland and England.

They can normally survive from the largesse of “sugar daddies” who are willing to subsidise the clubs’ finances in return for the publicity or prestige they receive. Sir David Murray was believed to be Rangers’ sugar daddy, although the size of the club’s debts casts doubt on his actual beneficence. I do not think I need to write anything about Craig Whyte who purportedly bought Rangers from Murray.

There are other examples in Scotland. I believe that Aberdeen have long been subsidised by Stewart Milne personally and/or the Stewart Milne Group, and also more recently by Aberdeen Asset Management. Similarly, my home town club of Inverness has received a lot of financial assistance from David Sutherland and/or Tulloch Homes, and other local businessmen.

The situation in England has been even worse. Roman Abramovitch, the Russian oligarch has spent – wasted? – millions on Chelsea, and Manchester City effectively bought the English Premier League title last season with Arab money.

These sugar daddy arrangements rarely last, however, as Rangers have found out to their cost.

There will be knock-on financial implications for other football clubs, particularly in the SPL, because of the expected reductions in television revenues. Some clubs appear to be more dependent on tv revenues than their gate receipts.

Sky Sports, which is part of BskyB, signed a £80 million, five year deal with the Scottish Premier League (SPL). However, that deal included at least four Old Firm games per season, which will obviously not now go ahead, so there is a serious threat to the tv income and associated sponsorship deals.

The SPL chief executive claimed that at least five SPL clubs could go into administration “within weeks” because of the expected loss of the television revenues. He and the SFA chief executive tried – unsuccessfully - to bully the SFL clubs to allow Rangers to play in the First Division this forthcoming season, in the hope that Rangers would win promotion back to the SPL after just one season.

Another comment I would like to make is that the administration and liquidation processes seem to have been shambolic. Many businesses have had similar difficulties so you would expect the professionals involved to act professionally. Duff and Phelps, the Rangers administrators, do not appear to have done that.

For example, they seem to have agreed to sell some of Rangers assets, notably Ibrox Stadium and the Murray Park training ground to the Newco for a reported £5.5 million. Surely, those facilities must be worth many times more than that, even if Ibrox were to be demolished and replaced by yuppie flats.



Finally, both the SFA and SPL have also come out of the fiasco badly. These are the regulatory bodies of a very important business or industry in Scotland, but have performed even worse than the Bank of England and the Financial Services Authority during the various banking and financial crises. The chief executives of both bodies are paid very well but seem to be out of touch both with the feelings of virtually all football fans in the country, including Rangers’ supporters, and the economic realities of Scottish football.

Let me end on an even more depressing note. Scottish football is crap at the present time.

That is true of both the Scottish Premier League and the national team. The latter failed to qualify for the recent Euro 2012 championships and both Celtic and Rangers were knocked out in the early rounds of last season’s European competitions.

I watch as many Inverness games as I can and often leave wondering why I and 3,000 others pay £20+ per game to watch such a poor standard of football. It is little wonder that millions more prefer to spend their Sunday afternoons and evenings at home watching English, Spanish or German games on Sky Sports for a fraction of the cost.

I hope that the liquidation of Rangers will lead eventually to the rebirth of good Scottish football. That must involve all the clubs getting in sound financial positions, by balancing their expenditure and income, and by radical reforms of both the SFA and SPL. Hopefully by the end of that process we shall have a football product which is good value for money.

Tony Mackay