The Decline of British Shipping: Some New Perspectives

By

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Declaration

This thesis is submitted to the University of Warwick in support of my application for the Degree of Doctor of Philosophy. It has been composed by me and has not been submitted in any previous application for any degree.

Keith Davies

Abstract

This thesis addresses the research question: 'What additional factors contributed to the decline of the British flagged merchant marine, other than those already described in the literature?' The focus is on the period 1947-1990. The main new finding concerns the effect that global finance had on previously privately-owned shipping companies. From the late 1960s, the impact of short-term trading and the rising influence of immediate shareholder value undermined the autonomy of shipping companies that were seeking to raise finance to invest in new technologies (principally containerisation), which were sweeping world trade at the time. The result was the demise of many prominent ship-owning concerns that proved unable to cope in the new financial climate. This argument is illustrated by case studies of two shipping companies: one which successfully thrived in the new climate, the other which did not. Corporate strategies, most notably involving the decision whether or not to be publicly quoted on the stock exchange, are central to the analysis of these different outcomes. The case studies are preceded by a re-evaluation of evidence already published in academic literature that has been used to explain the decline of the British merchant marine. For example, the cartel system which is widely reported to have benefited the cargo-liner section of the industry is shown to have had as many drawbacks as benefits in the long run. This thesis also re-examines the significance of the industry's relations with the British state, drawing attention to fiscal developments and the varied policies used by different administrations to support the industry and their varied results.

Abbreviations

ACT	Associated Containers Limited
AJCL	Australia Japan Container Line
ANA	Australia National Airways
B&I	British and India Steam Navigation Company
B&S	Butterfield and Swire
BOAC	British Overseas Aircraft Corporation
BP	British Petroleum
CENSA	Committee of European National Ship-Owners Association
CNCo	China Navigation Company
CoS	Chamber of Shipping
CPA	Cathay Pacific Airlines
CSG	Consultative Shipping Group
EPC	Economic Policy Committee
FMC	Federal Maritime Commission
FoC	Flags of Convenience
GCBS	General Council of British Shipping
GSPD	General Shipping Policy Division Ministry of Transport
HAECO	Hong Kong Aircraft Engineering Company
HK	Hong Kong
HKALA	Hong Kong Airline Authority
HKSBC	Hong Kong and Shanghai Banking Corporation
HUD	Hong Kong United Dockyards
IBC	International Business Corporation
IMF	International Monetary Fund
ITWF	International Transport Workers Federation
JS&S	John Swire and Son
KG	Kommandit-gesellschaft (GmbH) German Limited Partnership
KS	Kommandittselskap Norwegian Limited Partnership
LOF	London Overseas Freighters
LSOA	Liverpool Steamship Owners Association
MMM	Merseyside Maritime Museum
MOT	Ministry of Transport
MOWT	Ministry of War Transport
NATO	North Atlantic Treaty Organisation

NGAL	New Guinea Australia Line
NSRM	National Seaman's Reform Movement
NUS	National Union of Seamen
OA	Ocean Archive
OC(P)L	Overseas Containers Pacific Limited
OCH	Overseas Container Holdings
OCL	Overseas Containers Limited
OCP(HK)	Overseas Containers Pacific Hong Kong
OOCL	Orient Overseas Containers Limited
OPEC	Organisation of Petroleum Exporting Countries
P&I	Protection and indemnity insurance
P&O	Peninsular and Orient Steam Navigation Company
P&OCL	Peninsular and Orient Containers Limited
PAMAS	Pacific Air Maintenance Air Services
PSNC	Pacific Steam Navigation Company
Pty	Propriety, Australian term for Limited Company
SAP	Shipping Advisory Panel
SOAS	School of Oriental and African Studies
SPD	Shipping Policy Division,
TGWU	Transport and General Workers Union
TNA	The National Archive
TNCO	Taikoo Navigation Company
UNCLOS	United Nations Conference on the Law of the Sea
UNCTAD	United Nations Committee for Trade and Development
USA	United States of America

Glossary of shipping terms and abbreviations

Agent	One who represents a principal, or buys or sells for another
Bareboat Charter	The owner of the ship contracts (for a fee usually long term) the ship is then operated by the second party as if it was its own
Bunkers	Ships fuel propulsion
Break/Bulk	Goods shipped loose in the vessel's hold, not in a container
Charterer	Individual or company who hires the ship
DWT	Deadweight tonnage, expresses the number of tons a vessel can transport of cargo, stores and fuel
GRT (GT)	Gross registered tonnage. Applies to vessels not cargo. It is arrived at by dividing by 100 the volume in cubic feet of the vessels' closed in spaces
LNG	Liquefied natural gas, type of tanker
NRT	Net registered tonnage, expresses the space available for passengers and stowage of cargo, the cubic capacity of all earning spaces
OBO	Oil bulk ore carriers, multi-purpose bulk carriers
Palletisation	The stacking of goods on wooden or metal bases and using fork lifts to stack and load/unload the cargo.
Ro/Ro	Roll-on/Roll-off, a vehicular ferry service
Shipper	Individual or company with cargo to transport
TEU	Twenty equivalent units, a standard container size
Time Charter	The ship earns hire, monthly or semi-monthly. The shipowner retains possession and mans and operates the ship under Instruction of the charterer who pays the voyage costs
Tween Decks	Cargo stowage space – other decks below the main deck that run the full length of the vessel
ULCC	Ultra large crude carrier, type of oil tanker
VLCC	Very large crude carrier, type of oil tanker
Voyage Charter	Ship earns freight per ton of cargo transported on terms set in the charter party which specifies the precise nature and volume of cargo

Chapter 1 Introduction

1.1 Background

As Britain is an island, ships and the sea have formed a major part of British national life. Over the greater part of the twentieth century, this was particularly true for those people who lived in coastal areas or along the rivers of maritime cities such as Liverpool, London, Glasgow or Belfast. Most people living in these areas knew of someone connected to the sea through the various maritime industries. The roads and warehouses surrounding the dock areas were clogged with cargo waiting to be loaded onto ships for export, or onto lorries or railways for destinations throughout the country. In the early twentieth century, it would have been difficult to believe that, by its end, those industries would have virtually disappeared. The docks, later called container terminals, only moved down river towards the estuaries. By the late twentieth century, the businesses that ran the new shipping enterprises were generally owned abroad and the ships that visited the berths in the new, modern UK ports could be British-owned under a foreign flag, but more frequently belonged to foreign fleets.

This thesis offers a historical reappraisal of the decline of British shipping. The time-frame for this thesis is, with some leeway, the years 1947-1990. By 1947, the post-war period of re-construction was underway, and shipping was an essential part of that re-construction. 1990 marked the lowest ebb in British-registered shipping, it also marked the end of Margaret Thatcher's administration with its promotion of free-market competition that had presided over the last rites of the British shipping industry over the previous decade. Following a reassessment of official statistics that arguably distort the picture, this research re-evaluates developments in a maritime industry which had not totally disappeared but had become restructured in another form under different ownership. The literature review (chapter 2) demonstrates that most explanations found in general historical accounts have focused on exogenous factors to account for the apparent decline of British shipping. These include: the use of flags of convenience and flag discrimination by foreign competition; the loss of empire and the consequent loss of principal trade routes previously protected by cartels; and the introduction of new technology in international shipping, involving a unitised system of container traffic which British shipowners were initially slow to adopt but became the leaders in this section of the maritime industry for a short time. This thesis, while acknowledging these factors, seeks to add to established explanations, pointing up other developments that precipitated the disappearance of the British-flagged ship.

The main research question addressed by this thesis is:

> What additional factors contributed to the decline of the British-flagged merchant marine other than those already described in the literature?

First and foremost are the financial changes from the late 1960s that hit manufacturing and commerce alike. Stock market globalisation and the rise of the corporate raider coincided with the need for UK shipowners to raise finance for investment in new technological innovations (such as containerisation) that were revolutionising world trade at that time. Financial systems that helped fund the high costs associated with new container ships were set up in Europe and Scandinavia. In Germany, where corporatist systems of negotiated collaboration between state, banks, enterprise and trade unions had a long history, new financial structures[1] were put in place that enabled German shipyards to provide not only the facilities but also the finance to build new container ships. Tax incentives were offered to investors who put money into such new enterprises, and ships were built for both foreign and domestic shipping companies. In northern Europe, similar corporatist negotiations also enabled collaboration between local banks, port authorities and local government to modernise cargo-handling facilities. This made the transition to container-based traffic substantially easier than it proved to be in the UK, where liberal traditions meant that such collaborations fostered by the state, despite some interventions, were virtually impossible to achieve.

In the UK, the process of modernisation (the containerisation of fleets and port facilities for liner companies and the building of specialist shipping, including large bulk carriers for the tramp trade[2]) forced shipping companies to turn to the financial markets for support. This proved to be an alien environment. Uprooted from their previously feather-bedded existence as family-based firms which paid little or no tax but received ample state subsidies, most were unable to cope in the new financial climate. The firms which retained their traditional ownership and management structures seem to have fared best, and this capacity to handle financial challenges played a key role in distinguishing the more successful from the failures, and are therefore afforded greater significance here than in most published accounts on the subject. Two case studies of companies with common roots but very different trajectories illustrate these perspectives. Both were global concerns by the late nineteenth century, illustrating the

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[1] Kommandit-gesellschaft (GmbH) German, ship building finance with limited liability.

[2] Specialist shipping: e.g. roll-on-roll-off (Ro-Ro), reefers (refrigerated shipping) or car transporters.

argument that shipping was globalised well before either finance or manufacturing followed suit. The case studies demonstrate the different financial and managerial strategies employed by shipping firms in their attempts to come to terms with the challenges of the late twentieth century. One of the case studies, Ocean Steamship Company (Ocean), is a well-known company whose rise to pre-eminence in the cargo-liner trade is well documented in the literature, although there is very little written (apart from the official company history) on its fall and final demise. As for the second case study, the successful John Swire & Son Ltd (JS&S), there is no historical account post-dating the First World War. The two case studies compare and contrast the fate of a shipping company publicly quoted on the stock exchange (Ocean) with one that remained in private hands (JS&S). Chapter 7 demonstrates how a company such as JS&S with an agile management and no requirement to take into account the short-term pressures from shareholders would be able to bring to fruition projects which, in the long run, proved to be profitable. This perspective does not seem to have been used before in examining the decline of British shipping, but it is of some importance in explaining the success or failure of shipping companies and their ability to cope with change and the modernisation pressures involved in the new wave of globalisation.

This thesis also draws attention to the importance of politics and revises the role that governments are said to have played in the decline of British shipping. Literature on Britain's economic decline frequently stresses the significance of the role played by the state, which is deemed to have offered either too much or too little support. Research stresses the varied policies followed by different governments. The general strategy promoted by (mostly Conservative) British governments in the 1950s and early 1960s was to offer financial support, but to assume that the shipping industry could take care of its own affairs. This feather-bedding allowed the industry to continue its pre-war practices, rendering it unable to adapt to new challenges. The one effort by a Labour government to promote modernisation in the shipping industry was short-lived and in the long run unsuccessful. This thesis notes the role played by Barbara Castle MP, as the Labour Government's Minister of Transport in the 1960s, in encouraging both the port authorities and shipowners to face the challenges posed by containerisation and promoting state help for firms willing to take up those challenges. This state help was welcomed for the finance that it provided, but the idea that the state might want to intervene in other ways was anathema to shipowners, who were products of a liberal trading tradition. Mrs Castle had seen the US containerisation project financed in part by successful federal state intervention, and she was also

aware of the European modernisation plans underway in Holland (Rotterdam), Germany (Hamburg) and Belgium (Antwerp). The Northern European experience demonstrated how a concerted effort by national and local governments in conjunction with shipping companies, trade unions and port authorities enabled modernisation of ports and transport systems to the long-term benefit of their respective maritime industries and proved a successful strategy.

Whether the state chose to intervene is in some respects beside the point, as shipowners and their senior managers (with a few exceptions) were generally hostile to any form of official intervention that went beyond the simple allocation of financial support.

1.2 What decline?

In terms of British registered shipping as a proportion of the world fleet, a decline can be noted from 1900 which was when British-registered shipping dominated global commerce and provided 45% of world tonnage (Sturmey, 1962). Throughout the inter-war years there was a slow decline which accelerated after the Second World War, so that by 1960, British-registered ships accounted for 16.3% of the world tonnage (Hope, 1990). Masked by the rise in world trade and the growth of other fleets, British-registered shipping, though increasing in absolute terms until 1975, continued to decline relative to the world fleet until 1990 when as a percentage of the world fleet it stood at only 0.9% (Jamieson, 2003). Table 1 demonstrates the decline in British registered shipping. It also shows how the world fleet grew at a faster rate as world trade continued to expand (see also Appendix 1).

Table 1 - UK-registered merchant fleet & world merchant fleet 1914-1990

Year	UK Fleet	World Fleet	UK as % of World Fleet
1914	19.3	49.1	39.3
1930	20.3	68.0	29.9
1939	17.9	68.5	26.1
1948	18.0	80.3	22.4
1965	21.5	160.4	13.4
1975	33.2	342.1	9.7
1985	14.3	416.2	3.4
1990	4.1	426.0	0.9

Millions of gross tons
Source: Lloyds Register in Jamieson (2003, p.12)

However, the period 1948-1975 was one of growth generally for British shipping with tonnage rising absolutely from 18 million to 33.2 million (Hope, 1990). This was against

a background of rising world trade (see Figure 1). Much of the rise in British shipping tonnage was due to subsidies and grants being available during the period 1966-1973, with 10 million gross tons added to the fleet (Jamieson, 2003). Some of this new tonnage came from foreign owners registering their companies in the UK to take advantage of the same grants and subsidies available to British-owned registered companies. In 1970: '26% of the British registered fleet was beneficially owned abroad' (Jamieson, 2003, p.44). After 1975, British-registered shipping declined dramatically. In part this was due to the foreign owners moving their ships to other jurisdictions as finance was reduced or cut, but British shipowners were also cutting costs by moving their ships out to non-British registries such as Bermuda and Hong Kong. The Hong Kong registry increased from 572,242 gross registered tons (grt) in 1971 to 6.38 million grt in 1984, which included 61 British and Commonwealth ships (Far Eastern Economic Review, 1985). The Bahamas' registry increased by 15,500% between 1980 and 1990 (Bentley,1992). In this period, the Isle of Man also became a registry for British shipping. British shipowners were also disposing of tonnage to foreign buyers who then operated the ships as competition, with many sailing under flags of convenience (HoC 303, 1988) (see Appendix 1, Table 2). However, the inescapable point is that the UK-flagged fleet declined as a percentage of the world fleet from 22.4% in 1948 to 0.9% in 1990.

Table 2 gives a breakdown of the British fleet in the years 1950-1985 in which the tonnage figures in 1975 mirror the figures in the table above for the high point in British-flagged tonnage. A further analysis and percentage change in the UK fleet 1973-1986 is in Appendix 1, Table 2.

Table 2 - UK and crown dependency registered trading vessels, 500 gross tons and over

Year	Passenger	Cargo Liners	Containers	Tramps	Bulk Carriers	Tankers	TOTAL	
	000gt	000gt	000gt	000gt	000gt	000gt	gt	Numbers
1950	2,936	5,949	-	-	4,365	3,946	17,198	3,092
1955	3,012	6,080	-	-	3,979	5,138	18,208	3,041
1960	2,814	6,568	-	-	3,762	7,058	20,202	2,902
1965	2,115	5,894	-	-	4,687	7,685	20,382	2,401
1970	1,230	5,233	418	1,621	3,710	11,847	24,061	1,977
1975	748	3,330	1,363	958	8,022	17,069	31,489	1,682
1980	617	1,992	1,600	554	6,428	14,578	25,769	1,275
1985	616	728	1,489	335	2,851	6,191	12,208	693

Source: Table 5.13 Transport Statistics Great Britain, 2006.

Table 2 shows that tramp and bulk traded in the same cargos until approximately 1965 and the rise of the specialised bulk carrier. The decline of the cargo liner accelerated with the introduction of container shipping '[w]ith a five to one conversion rate' (Broeze, 2002, p.20); that is from five cargo liners to one container ship across the international shipping industry.

World seaborne trade suffered three major shipping recessions in the period under review. The first (1958-1959) was probably due to excess capacity after the ship-building boom during and following the Korean War (1952-54). The second in 1975 was relatively short-lived and was triggered by the 1972 oil crisis, which created an oversupply of oil tankers. The third recession in 1979 was the most serious, and was started by the rise in the price of oil. World seaborne trade did not recover to the same levels until 1986 (see Figure 1). The passenger liner trade was also experiencing difficulties as, by 1960, air passenger traffic for the North Atlantic trade exceeded sea passengers and this trend for air travel continued to expand world-wide (Jamieson, 2003). Another factor was the growth in the volume of air freight world-wide during these years. This involved, for UK trade, the expansion of Heathrow's cargo terminals. Although the air freight trade served a different market (products with high intrinsic value, precious minerals, high precision instruments) increased competition from the expected introduction of the jumbo jets (Cmnd 4337, para 337) would allow costs for the North Atlantic trade to fall to £90 per ton compared to sea trade of £8 per ton (McKinsey Report, 1967). The golden period for shipping, as for many other industries, seemed to be the period 1947-1972 (Crafts, 2002). Taking into account the short recession of 1958-1959, this would suggest that for those shipping companies, British or others who were entrepreneurial enough, there was plentiful trade to carry in their ships.

These tables and Figure 1 demonstrate that shipping under the British flag declined over the period 1914 to 1990 as a percentage of a total world fleet that expanded hugely in the decades following the Second World War. However, the use of foreign flags and associated strategies to disguise the provenance and ownership of merchant ships make the actual size of a 'British' fleet hard to determine. It is possible that the flagging-out of British registered ships to other jurisdictions in the later years covered by this thesis distorted the figures. Those figures are available in a number of UK government publications including the *Business Monitor*, *Nationality of Vessels in the UK Sea-borne Trade* and the *Review of Maritime Transport*, a publication of the United

Nations Committee for Trade and Development. As other commentators have noted, shipping as an industry was globalised from the nineteenth century onwards and from then it becomes increasingly difficult to endow specific ships with a specific national identity, particularly when owners sought to hide behind an overseas flag for tax purposes. Stock market flotation added to this complexity, the effects of which are explored further in this thesis.

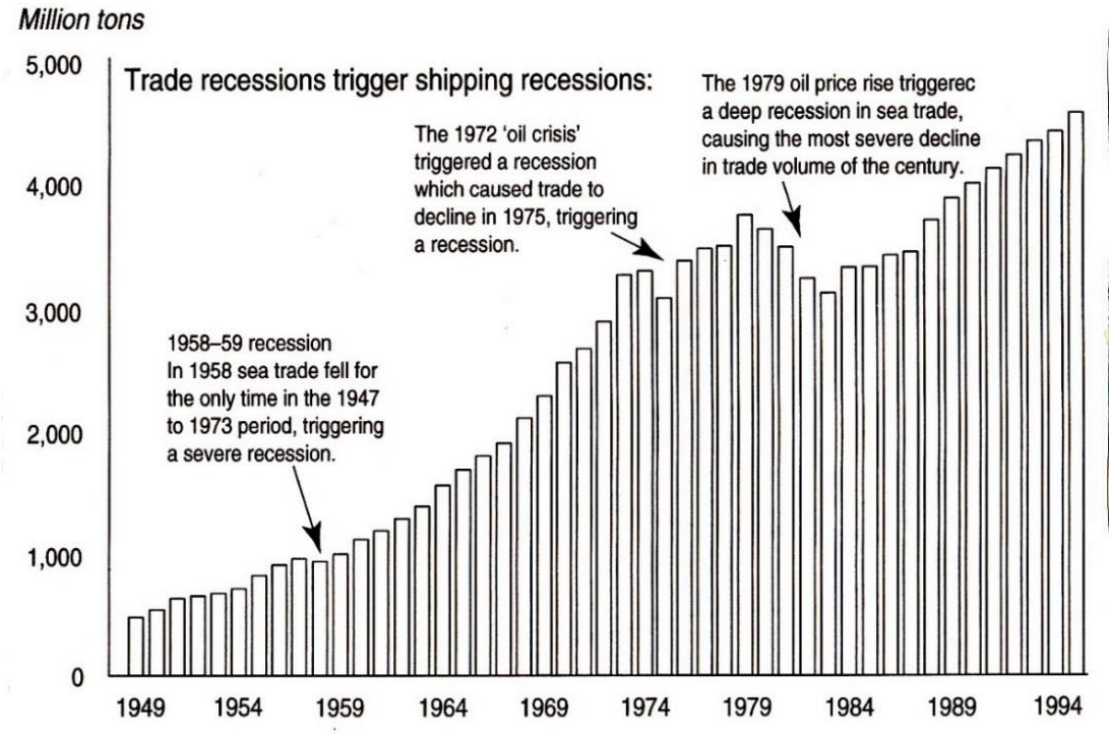

Figure 1 - Seaborne trade 1949-1994
Source: UNCTAD Review of Transport 1995, in Stopford (1997, p.60)

1.3 The focus of the thesis

The decision to focus on the cargo liner sector of the industry was based on a number of factors. The British tramp/bulk cargo sector diminished after 1945 and struggled to make any impact after 1965, and tramp /bulk cargos depended on personal contacts, particularly at the Baltic Exchange, where paper trails are hard to follow. Knowledge about where cargos could be obtained required extensive contacts and an understanding of world trade patterns (Metaxas,1971). This knowledge tended to be closely guarded in a very competitive environment, and much of the work was done by third parties. The tramp shipping companies also tended to vary in size from one ship

to fifty, often run by shipping agencies. The complexity of the trading arrangements and the consequent difficulties of finding pertinent archival resources, coupled with the virtual disappearance of this sector of the industry by the mid-1960s, make it an unattractive prospect for a study focused on the decline of British shipping.

The oil trade was mostly run by foreign multi-nationals, colloquially known as the seven sisters. Apart from the British multi-national British Petroleum and Royal Dutch Shell, these were all American: Exxon (Esso), Gulf, Texaco, Mobil and Chevron. They tended to be global in outlook and their ships were interchangeable, Esso Italia ships being essentially the same as Esso UK except for the difference in flag. Consequently, this sector had little to do with the decline of British shipping. For example, during the seaman's strike of 1966, although some 500 ships were strike-bound, very few oil tankers were affected as the oil companies with British-registered ships moved their tankers away from British ports and substituted other ships flying flags of other nationalities. Therefore, profits from the oil business were not affected thanks to the interchangeability of oil tankers. Finance for oil companies has always been obtained from multi-national sources, so there was also very little impact on them when commercial corporate finance changed in the 1960s. The oil tanker business, albeit after a number of lean years, is still flourishing.

In the shipping industry, the amount of financial information available is somewhat limited, but the cargo liner sector has better archival documentation than other sectors. The interface between British governments and shipping is of specific interest as so many historians have evaluated Britain's general economic decline in terms of state intervention (or lack of it). In this respect, policy making seemed at its strongest between the leaders of the cargo liner section (I include P&O and Cunard in this, as both had substantial cargo liner fleets) and government. The impact of the container revolution in the context of the financial shift in the 1960s, coupled with the rise of managerial professionalism, are most evident in the cargo liner section. Finally, the decision to select the cargo liner section is personal, in that I worked for a number of the shipping companies discussed in this thesis.

1.4 Structure of the thesis

Following this Introduction, **Chapter 2** reviews the published literature on the decline of British shipping, drawing out the main explanations and points of difference highlighted by various authors. It also includes a review of the official investigations into the shipping industry that took place during the period covered by the thesis. There

follows some comment on methods employed in writing this account, notably the location, pertinence and completeness of archival materials that have been used as the primary source for this research.

Chapters 3 and 4 offer an overview of merchant shipping as whole and its relationship with government. The structure of the industry and its trade organisations are described, as is how ships in the cargo-liner section of the fleet managed their trade through the use of cartels. The two exogenous factors which are claimed to have aided the decline of British shipping – flags of convenience and flag discrimination – are also examined here. **Chapter 4** is an examination of the role of the British state in British shipping. This includes state assistance to the industry, the withdrawal of that assistance and its effect. There is also an important analysis of the tax situation experienced by British shipowners and the advantages this offered to the industry.

Chapter 5 describes the origins of the two selected companies and gives a comprehensive view of the intertwined connections between them from the late nineteenth century through to 1939, concluding with a description of their post-war trading positions and future prospects. Each is addressed in a separate chapter: **Chapter 6** covers the Ocean Steamship Company (Ocean) and **Chapter 7** examines John Swire & Son Limited (JS&S). Their financial composition, management structures and shipping policies are analysed. Each chapter examines the efforts made by both companies to diversify or acquire new subsidiaries, and both are assessed in terms of the success or otherwise of their specific strategies. While Ocean's history has been, in part, documented elsewhere, research on JS&S relies on primary archival evidence alone.

Chapter 8 draws some conclusions to emphasise how structural, fiscal and financial factors helped determine the expansion of one company and the demise of the other. It also argues that such perspectives offer additional reasons why British maritime supremacy disappeared in the period 1947-1990 to augment those already given in the published literature.

Chapter 2. Literature review and research methods

2.1 Introduction

The literature review focuses on general shipping histories of the period under review. The majority of the reviewed authors are academics, economists or historians except for Woodman (a master mariner), Bott (a shipping company executive), Naess (a shipowner) and Young (an author). There are government command papers and reports which are identified, and all references are to be found in the bibliography. Though there are single company histories, there was no critical appraisal of the shipping industry until the publication of a book on the subject by S. G Sturmey (1962), and very little official attention was paid to shipping until the publication of two reports on the industry, both chaired by Lord Pearson (Cmnd 3025, 1966 & Cmnd 3211, 1967), following the seamen's strike in 1966. The first resolved the seamen's strike; the second looked at the conditions which were prevalent in the Merchant Navy and recommended that an independent inquiry be established to look at all aspects of the merchant marine. This subsequent inquiry was chaired by Viscount Rochdale (Cmnd 4337, 1970), and offered a wide-ranging examination of all aspects of British shipping. Prior to the Rochdale Report, publications about the British shipping industry came from the shipping companies themselves, their trade association, the Chamber of Shipping (CoS), or the trade press. Further reports into British shipping were conducted by a Transport Select Committee which issued a report on the *Decline of British Shipping* (HC 303, 1988) and a report of a working party entitled: *British Shipping: Challenges and Opportunities* (HMSO, 1990) was jointly issued by the Secretary of State for Transport and the President of the General Council of British Shipping.

Much of the literature published since 1970, addressing the industry as a whole, tends to use as a base the information given as evidence to the Rochdale Committee (1970). The literature on the decline itself is quite extensive, and I have tried to take into account a wide spectrum. As far as can be ascertained, apart from the British author Goss and the Australian Sturmey, who were also both government advisors on shipping (Goss with the British Board of Trade and Sturmey with the United Nations Committee for Trade and Development), as well as Stopford and the American Cafruny, there seems to be an absence of wider perspective when considering the recent financial affairs of shipping companies. This thesis will attempt to make good

this omission by examining those endogenous factors which made British shipping companies unresponsive to change and modernisation.

Reference to the literature for the two companies used as case studies for this thesis, Ocean and JS&S, is complicated by the fact that in their early period (1860s to 1939) the companies were closely intertwined. Of the four separate company histories which exist for both companies, Hyde (1957) and Marriner & Hyde (1967) cover the period 1824-1914 with Falkus (1990) covering 1865-1971 and Havilland (1992) the period 1872-1992. All cover the two companies' activities in the China trade, with the last two extending into the modern era. Falkus' and Havilland's works were commissioned and published by the shipping companies themselves. Ocean's historical development is comparatively well covered, and the section in this thesis on Ocean relies to some extent on the company history by Falkus (1990). In contrast, JS&S has had very little published on its activities. There is a biography of the founder, John Samuel Swire, by Marriner and Hyde (1967) and a company publication edited by Havilland (1992) which is primarily a pictorial history of a shipping company owned by JS&S called the China Navigation Company. Companies in the Far East trade, including JS&S subsidiaries in the nineteenth and early twentieth century with details on the origins of Cathay Pacific Airlines, a JS&S subsidiary, are discussed by Boyce (2001). The origins and development of Cathay Pacific Airlines, are also documented by Young (1988) in what seems to be a company-sponsored publication, but the book contains no bibliography and cannot be considered to be an academic study. However, the archives do support some of the work and the book is useful in corroborating the details provided by Boyce. The company history of Overseas Containers Limited (OCL) is considered here, not only for its account of the move to containerisation in 1965, but also for its documentation of the decline of Ocean. The book is written by a former shipping company executive, Bott (2009), and is published by a shipping association. It contains verbatim records of board meetings, details of the financial structure of OCL, and notes of meetings with government officials which are corroborated in the Bodleian archive and Modern Record Centre of the University of Warwick.

This literature review is structured by topic, placing British shipping within the economic and political context of the time. It is divided into sections on British government policy, flags of convenience, cartels/conferences, containers, labour relations, internal management and flag preference – all commonly cited by commentators, both at the

time and since, as explanations for British shipping's poor performance This is followed by a section on the archival research and methods used for this thesis.

2.2 Shipping: an overview

The causes of the decline of British shipping are usually put forward by the shipping companies' trade association, the British Chamber of Shipping, as exogenous to the industry itself: the use/abuse of flags of convenience, flag preference policies, foreign government interference, and the lack of British government support generally. For commentators such as Goss (1998) and Sturmey (1962), exogenous factors are acknowledged but the endogenous factors which included poor decision-making at important junctures, nepotism and a lack of enterprise on the part of British shipowners, also appear as key explanations. Most of the published literature also acknowledges other exogenous factors such as the cyclical nature of world trade and the loss of Empire. Entry into the European Economic Community in 1974 led, according to Jamieson (2003), to an increase in short sea shipping and a decrease in deep sea voyages. All these important events contributed to the undermining of the global pre-eminence of UK shipping.

There is broad agreement on the decline of UK-registered tonnage between a range of authors: Starkey & Jamieson (1998), Sturmey (1962) and Woodman (2010), a Master Mariner and author of a five-volume history of the Merchant Navy, all agree that in 1948 Britain had 27% of world tonnage, the same share as in 1939. However, Hope (1990) also provides statistics for beneficially owned foreign tonnage under the UK flag from 1949 to 1988, with Metaxas (1985) providing statistics for British shipping under a flag of convenience (not including dependency flags). The statistics for British shipping operating under foreign flags at a later date can also be found in the *United Nations Review of Shipping*, British government publications, (Department of Trade and Industry, 1974-1990) and in Parliamentary papers. It was also noted in the 1970s and 1980s that a number of British shipping companies had moved operations to dependency flags (Cafruny,1987). The use of British foreign-flagged ships is important in understanding the depth of the decline in British shipping. However, the relative decline as a percentage of world tonnage continued throughout the 1970s and 1980s (Hope, 1990; Jamieson, 2003), and by 1990 the British registered fleet was at 1.2% of total world tonnage (Palmer, 2012). This move to dependency flags again distorts the figures for the decline of British registered shipping.

British shipping companies did not operate in isolation and tended to have links with other maritime industries, in particular with shipbuilding (Boyce and Ville, 2002; Davies, 1992; Johnman and Murphy, 2002; Jones (2000). These aspects of shipping are covered from an American point of view by Cafruny (1987). The shipping companies, as noted by Cafruny (1987) and by Miller (2012), were also intimately connected to insurance companies and banks on both a personal and company level. The known links between the financial sector and British shipping are generally under-reported in the shipping literature. There were also links between foreign shipping, notably Norwegian and American with British banks (Cafruny, 1987). However, as widely reported in the literature, British shipping companies had an aversion to borrowing from financial institutions (see Chapter 3). This thesis restores the balance by demonstrating how the growth of global finance in the 1970s and particularly in the 1980s played its part in hastening the decline of British-based shipping firms.

2.3 British government and shipping

At least until 1939, the British government took the view that British shipping was essential to the preservation of the Empire, with British shipping lines servicing and sustaining the long-haul routes which bound the Empire together (Starkey and Jamieson, 1998). A marine lawyer specialising in ship finance (Davies, 1990) looked further back in the history of shipping to the nine Navigation Acts, from the Navigation Law of 1381 to the Repeal Act of 1849. This account continues an examination of the legislation affecting shipping and shipbuilding until 1990.

British shipping and its trade associations often made the case for fiscal subsidies from government, claiming that profits were poor in the shipping world, yet their contribution to the balance of payments was of vital importance to the country (Goss, 1993; 1998). The shipowners' contributions to the balance of payments and the shielding of their accounts from predatory foreign shipowners induced the British government to allow shipping to be included in the Companies (Shipping Companies Exemption) Order 1948. It was pointed out that government policy in the 1950s and 1960s was driven by balance of payments considerations, which could have induced the government to afford shipping companies some leeway with their accounts (Cairncross, 1998). There has been debate between academics on how the figures were collected and evaluated to produce the totals which appeared in the sea-transport account of the balance of payments (Browsing, 1993; Goss, 1993). Figures and tables for the balance of payments using figures collected by the Chamber of Shipping are used by Branch

(1996). A further method using government-issued figures from UK balance of payments and showing the method of calculation is in the appendix to Sturmey (1962).

Grants, subsidies and tax allowances for British shipping companies resumed in the 1950s and continued in various forms until the 1970s (Davies, 1992; Hope, 1990). For a short time in the late 1960s and early 1970s, British shipping was generously supported by the British government (Jamieson, 2003). However, government generosity has been somewhat underestimated as taxation, or at least the reluctance of shipping companies to pay any tax, is generally ignored in the literature (see Chapter 4) though the fact that a leading tax avoider headed the British shipowner's trade association was noted by Cafruny (1987). All government departments experienced enormous difficulties when trying to collect relevant figures from the industry, whether to calculate profit and loss, the industry's actual contribution to the balance of payments or tax due to the government. Tax avoidence by the shipping companies forms a recurring theme throughout this thesis.

All financial support ended with the election of the Conservative government of Margaret Thatcher in 1979, and this led to some bad feeling between the industry and the government (Woodman, 2010). There are tables and discussion of the 1984 Finance Act (instituted by Mrs Thatcher's government) and its effects on shipping to be found in Goss (1987). The defence aspects of government policy are discussed by Davies (1990), Jamieson (2003) and Goss (1993). The Transport Select Committee (HC 303, 1988), set up to look at the economic and strategic defence implications of the decline of British shipping, proposed a number of recommendations and is commented on by Davies (1990). A further government working party entitled *British shipping: Challenges and Opportunities* was set up to look at the problems and prospects of British shipping, chaired jointly by a government minister (Sir Cecil Parkinson) and a senior shipping executive (Sir Jeffrey Sterling) of P&O and is commented upon by Goss (1990) and Palmer (2012).

2.4 Flag discrimination and decolonisation

Flag discrimination is the term for protectionist policies practised by various governments. This is nothing new: there were official reports in 1895, 1898 and 1901 which stated that various foreign governments assisted their merchant marine companies (Davies, 1992). Academic economists list eleven forms of protectionism in some detail, and agree on the main purpose of these government policies (Chrzanowsky, 1985; Sturmey, 1962). The Chamber of Shipping (CoS) put forward its

view of the protectionist policies of foreign governments to the Rochdale Committee in 1970.[3]

Decolonisation was widely acknowledged to have had a detrimental impact on shipping, and it was due to this that British shipping lost the Indian trade to Indian ships, along with the Burmese and some Malayan trade (Hope, 1990; Woodman, 2010). Accordingly, the diversification away from colonial trades affected not only shipping companies but the ports in which they were based (notably Liverpool). It was also claimed that shipping companies moved away from Africa, Asia and the Caribbean towards the white Commonwealth countries (White, 2008). Goss (1998) noted that Canada, Australia and New Zealand, which had relatively few ships of their own, found that their trade was not damaged by the lack of a deep-sea national fleet. However, South Africa, Ghana and Nigeria formed their own shipping lines and according to Sletmo (1993), a re-distribution of flags took place. South Africa's SAF Marine successfully took over routes from the British company, Union Castle, and some British shipping lines including John Holt and Palm Line (Unilever) tried unsuccessfully to assist Nigeria and Ghana with the creation of their national lines. Shipowners and senior managers in 1952 and 1963 were concerned that the rush to decolonise was having a detrimental effect on their industry. Very few authors discuss discrimination or indeed racism in British shipping companies as having detrimental consequences for their dealings with foreign countries (White, 2008).

There were doubts expressed by Goss (1987) that the problem of flag discrimination was as bad as was claimed by the shipping industry. However, the industry managed to convince the British government in the 1950s and 1960s, so that officials made formal protests to foreign governments (Hope, 1990). Flag discrimination in favor of American shipping was seen as a deliberate US maritime policy (Davies, 1992; Cafruny, 1987), and other countries, especially those in South America, took their lead from the US (Hope, 1990). Apart from the US situation, authors such as Davies,(1992) Hope (1990) and Woodman (2010) seem more inclined to believe that flag discrimination was a major problem, whilst authors such as Sturmey,(1962) Jamieson, (2003) and Chrzanowski, (1985) reported the facts and Goss (1988) seemed to think that the problem was exaggerated.

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[3] University of Warwick M.R.C, MSS 367/Cos/3/7/70. Evidence of foreign flag discrimination.

2.5 Cartels and shipping conferences

Cartels are organised by shipping lines, in particular those which operate in the cargo/liner trade, using the generic label 'shipping conferences'. The creation of the first conferences, the UK to Calcutta in 1875 and the Far East Conference of 1879, are discussed by a wide range of authors (Falkus, 1990; Hyde, 1957; Hyde & Marriner, 1967; Stopford, 1997).

Descriptions of how clauses in conference agreements worked and the forms of conference manipulation undertaken are shown by Sjostrom (2004) and Sturmey (1962). An American view of conferences and the US government's policy options with regard to restrictions against them, including from a strategic defence stand-point, are discussed in Cafruny, (1987), Clarke, (1997) and Strange (1988). For a different point of view, that of the people who used the shipping lines, the shippers and shipper's councils, see Sletmo and Holste, (1993).

Thanopoulu, (2000) argued that conferences and wide-cost structures were essentially incompatible and contained centrifugal tendencies which could only lead to change. However, most authors seem to be in favour of conferences, bearing in mind that they were only applied to liner shipping and that destructive competition was the only possible alternative (see Chapter 3).

2.6 Flags of convenience

Nearly all general literature on shipping mentions the use of flags of convenience (FoC). The early use of this system (1760s-1770s) is covered by Fleming, (1992) and Metaxas, (1974 & 1985), and the mid twentieth century evolution of the system and the changing factors for its use can be found in Carlisle, (1981). This theme is taken up by Bergantino and Marlow, (1997) who also make the point that their work is about the determinants of the mobility between two types of registry and not about the advantages and disadvantages of FoC. This thesis will describe in some detail (see Chapter 3) the mechanisms used in operating FoC and the advantages to be gained. The FoC system has been the subject of discussion in the UN, the EU and the US Congress. The two main countries for the registration of FoC have been Liberia and Panama, and the flags of both are used principally by American and Greek shipowners (Carlisle, 1981; Haraftis, 2008; Metaxas, 1985; Strange, 1988). The legal aspects are covered by Meyers,(1967) and Boczek,(1962).There are competitive arrangements sustained by FoC, with national states forming their own versions. Some authors concur and point to the use of the Hong Kong flag as a successful example (Cafruny,

1987; Sletmo & Holste, 1993; Thanopoulu, 2000). An American shipowner, E.D. Naess, (1977), acted as an advocate for American use of FoC shipping, with claims that it eased the tax burden on American citizens. The disadvantages of using FoC from an economic standpoint were pointed out by Metaxas, (1985) namely that, in the long run, all freight rates would rise as national fleets withdrew from the market.

Outright hostility to FoC was led by the International Transport Workers Federation (ITWF) as noted by Johnsson, (1996) and Couper, (1999). However, the paradoxical nature of the FoC controversy is the fact that FoC are a pure product of shipping liberalism, defined in this instance as when a trade enjoys an unlimited free choice of a carrier, be it foreign or domestic (Chrzanowski, 1985). Between 1970 and 1990, the developing countries' argument against the use of FoC was articulated by the United Nations Conference on Trade and Development (UNCTAD), and analysed by Rowlinson, (1985). By 1988 the UK-registered tonnage amounted to 2 million tons, 2% of the world merchant fleet, and the problem of FoC had become a redundant issue for the British registered national fleet (Starkey and Jamieson, 1998).

2.7 New technology: containers and containerisation

Containerisation has been seen by some to be as important as the move from sail to steam (Bott, 2009; Gans, 1995) although, as several authors have pointed out, the time taken to move from sail to steam was longer than the move from break-bulk liner trade to containerisation, therefore the upheaval was somewhat mitigated in the sail to steam period (Palmer, 2011). For a historical view of the rise of the container, see Broeze, (2002); Levinson, (2006); and Miller, (2010). Miller and Broeze write from a global perspective and Levinson, in the first instance, offers an American view. Bott, (2009) provides a view from the British shipping companies' perspective, especially in their efforts to catch up with the Americans. This important episode and the British state's involvement in the modernisation of British shipping is detailed at some length in this thesis. OCL (and its later incarnation as P&O Nedlloyd) and its alliances with other companies in their attempts to create a round-the-world container trade alliance underlines the importance of the British shipping companies in the container revolution for a brief period (Broeze, 2002).

The advantages gained by containerisation, how the turnaround times improved immeasurably, and the smaller number of ships and crews needed along with changes in port structures that were required are covered by: Broeze, (2002); Gans, (1995); Jamieson, (2003); Levinson, (2006); Miller, (2012) and Woodman, (2010). Generally,

most authors are complementary about the British shipping companies' efforts to containerise in the first instance. This view is also contained in Rochdale Report (Cmnd 4337, para 1187) but a note of caution is contained in the next paragraph (1188). However, apart from the company history of OCL by Bott (2009) there seems to be no coverage of the demise of the last and largest container company which operated under the British flag. The formation of the second British container company, Associated Container Transportation (ACT), is covered by Broeze, (2002).This thesis covers the containerisation of British shipping to demonstrate how financial systems affected the eventual results.

2.8 Shipping management

Labour relations were conducted on behalf of the shipowners by the Shipping Federation and on behalf of the seamen by the National Union of Seamen (NUS), with the National Maritime Board holding the ring. The affairs of the NUS, the Chamber of Shipping and the Shipping Federation are commented on extensively in the Rochdale Report (Cmnd 4337, 1970) and the Transport Committee report (HC 303, 1988). Sporadic outbreaks of unofficial strike action and the 1966 official strike are in Marsh and Ryan, (1989). A Shipping Advisory Panel was set up in 1962 (the Shipbuilding Advisory Committee 1946 was its model) and is commented on by Palmer, (2012). The seaman's official strike of 1966 is commented on by: Cairncross, (1992); Castle, (1990); Foot (1968); Goss, (1998); Hope, (1990); Marsh & Ryan, (1989) and Wilson, (1971), mostly from a political or economic point of view. However, most of the shipping literature hardly mentions the 1966 strike which would suggest that it had very little bearing on the decline of British shipping. The Prime Minister at the time, Harold Wilson, ordered a Court of Inquiry, which published reports as noted above, bringing the strike to an end and with some recommendations for the future. The seamen's strike may have been a crisis for the government, but not for the liner and cargo companies which had already decided on containerisation, seen as a 'godsend' (Broeze, 2002, p.224). The NUS gradually lost any remaining influence and was amalgamated into the Transport and General Workers Union (Maritime and Rail Division) in 1987 (Hope, 1990).

2.9 Organisation of business

Sturmey,(1962) suggests that amongst other factors, it was internal constraints, including a lack of enterprise on the part of British shipping company owners and managers, which led to their decline. It is of some note that Sturmey, (1975) recalls, in

the chapter titled ‘Blood on the Thames’, the adverse reception he received from British shipowners after the publication of his first book (Sturmey, 1962), which they saw as unfair criticism. The decline was put down by Goss, (2011) as partially due to the loss of comparative advantage most clearly seen in a lack of enterprise on the part of management, while Hope, (1990) argued that shipowners thought they knew their own business, but were slow to promote capable people, a theme taken up by the Rochdale Report (Cmnd 4337, 1970, paras 1215-1216). The same theme is taken up by Goss, (1998) who argued that morale was damaged by nepotism. Denholm, (1990), argued that shipowners of family firms were initially dynamic and entrepreneurial but that second-, third- and fourth-generation owners were risk averse. The recruitment of senior managers (crown princes) at Ocean was described as an elitist selection process (Bott, 2009), but Falkus, (1990), also writing about Ocean, was complimentary about their recruitment system. The ‘crown prince’ system is discussed at some length by Clements, (1957), though he does not specifically name shipping companies. The system is also examined by Fidler, (1981) and acknowledging Clements, (1957), he refers to the system as ‘reserved seats’ and to family businessmen. The recruitment of managers to shipping firms and trading companies is covered by Miller, (2012) and Jones, (2000) underlining the fact that managers were recruited from a specific class. There were claims by Goss, (1998) that there was an essentially amateurish, non-scientific approach to human resource management, with an ingrained resistance to the recruitment of graduates also noted in Cmnd 4337 (1970, paras 1212, 1228 and 1229).

Although some authors including Miller, (2012) address the issue of management recruitment, Boyce, (2001) also looks at management structures, in particular that of the JS&S subsidiary the Orient Paint and Varnish Company in 1934. However, there is very little on modern shipping managerial structures and operations. This thesis will show that the differing management structures of the shipping companies in the case studies provide a significant explanation for the success or failure of each company during this period.

The organisation of any business enterprise is complicated, and several sources have been used to explain the operation of holding companies. The Japanese *Zaibatsu* and later the *Keiretsu* system described by Davies, (2008) has been used in this thesis when looking at the case study of JS&S; though there are differences in the organisations, there are some similarities. The networks which both types of

companies use, that is both Japanese and British companies, are similar to those described by Boyce, (2008) as blood and kin networks. Boyce and Ville, (2002) cover JS&S as a trading company, and the company is briefly discussed in Jones, (2000). Jones and Zeitlin, (2007) cover the early period of the Swire, Scott and Ocean collaboration, which also appears in Boyce, (2001) and Jones, (2000). The other case study, Ocean, was a private/family firm which made the decision to become a public company. Jones and Zeitlin, (2007) discuss the issues facing family firms when they decide to have move to public quotation. Branch, (1996) gives a detailed diagram of a shipping company acting as a holding company for its multitude of companies, complete with the relevant information. For financial practice I consulted Stopford, (1997), who describes how the finance for ships and shipping companies was secured, including international finance debt loans and the use of bonds and fixed term securities, plus price systems for second-hand ships. The statistics for second-hand ships can also be found in the government publications already noted. A historical view of globalisation to put shipping into context is provided by Hopkins, (2002) and by Osterhammmel and Petersson, (2005). Jones and Zeitlin, (2007) provide a description of business as a globalised operation. For shipping specifically as a global business organisation, I have used Broeze, (2002) who suggests that containerisation became a global business in the 1970s. Boyce, (2001) and Miller, (2012) stress how the organisation of maritime business has always and necessarily been global. Sletmo, (1989) and Stopford, (1997) explain the loss of shipping business in the traditional maritime countries as part of a trade cycle, the centre of which is now based in the Far East. Sletmo and Holste, (1994) examine the global response to containers.

Reviewing the literature, there is more weight given by some authors to one view or another, with Stopford,(1997), Woodman,(2010) and Falkus,(1990) being more sympathetic to the position of shipowners and the shipping industry. Hope,(1990) and Davies, (1992) only slightly less so. Chrzanowski,(1985) a Marxist shipping economist, is generally critical of the shipping industry as a whole. Goss (1995) and Sturmey (1962) are generally critical of the shipowners, with most of the other authors reporting in a neutral way. Hope, (1990) and Jamieson (2003) offer various reasons for the decline of British shipping, with Hope providing an analysis for each section of the industry, but both conclude that the time had passed for a resurrection of the shipping industry. The decline of British shipping was due to the: '[l]oss of comparative advantage most clearly seen in a lack of enterprise-or least in a lack of successful enterprise' (Goss, 2011, p,258), and there was very little more the government could

have done. Cafruny,(1987) is generally of the opinion that although British registered shipping had had its day, many British shipowners had moved their ships to FoC or diverted their energies and money into ship broking or marine insurance but were (as a group) still a force in British society, although their commercial interest in shipping had declined.

There appeared to be gaps in the collective narrative of the decline. This thesis will try to fill some of those gaps by using primary source materials such as British government files to show that, despite efforts over a number of years, government departments were unable to obtain any serious or verifiable figures on the shipping industry from the shipping companies concerned or its trade bodies. It will also show in some detail how international shipping companies were able to evade their financial and legal obligations through the use of flags of convenience. The modern finance of individual shipping companies and the financial decisions taken by them is under-reported in the literature, apart from Falkus (1990) and Bott (2009) in their company histories. This thesis will, through the use of case studies, examine the way in which shipping companies have organised their financial structures, whether they were publicly-quoted or private limited companies and whether this was a factor in their decline or otherwise.

2.10 Methods and archival material used

The sources used in this thesis have been a combination of, primary including archival and secondary sources.The official enquiries come under type 12 in Scott's,(1990) classification system, a range of British official publications including minutes of evidence to Royal Commissions and statistical publications which have a relevance to this thesis, can be found in the bibliography. Scott's,(1990) four criteria–authenticity, credibility, representativeness and meaning – were taken into account when reading the archived documents. Of the four, credibility (is the evidence free from error and distortion?) was the one with which this author was most concerned, in particular the sincerity and accuracy of the authors of the document. As most of the government papers were classified as open documents (Scott's, type 11), those seen by this author were generally governmental departmental memos and position papers drawn from a considerable time span. This meant that the context of the political and economic situation of the time needed to be taken into consideration when making any assessment. All the private company documents were accessed through open archives detailed below.

There have been government inquiries into the maritime industry (ports and shipbuilding), but few concerning shipping alone. The reports on the shipping industry show an industry which was functioning and making a profit, but which was mired in the past. The most important of the inquiries was the Rochdale Report of 1970. As was pointed out above, this inquiry looked at all aspects of the shipping industry, so the conclusions of the report and the evidence given are used extensively in this thesis. Reading the Companies (Shipping Companies Exemption) Order 1948 and its repeal by the Jenkins Committee Report on Company Law (Cmnd 1747, 1962), one is struck by the deliberate attempt to obfuscate and evade taxes. Although an attempt was made to close these loopholes under the Finance Act 1965, the actions of shipping companies claiming tax rebates for tax which had never been paid was noted by Lord Rochdale in his 1970 report. The relevance of this section of the report is that, avoidance of tax by shipping companies was known to the relevant authorities but it is hardly mentioned in the literature. Both companies described in the case studies of this thesis seem to have had a similar view about the payment of tax. That is, while it is not quite acceptable to evade taxation, taxes are to be avoided if at all possible. As this thesis notes, the close links between shipping and the financial sector in the period under review might help to explain how one set of attitudes towards tax came to reinforce the other.

The government files which are contained in The National Archive at Kew (TNA) form a significant part of this thesis and provide much of the background material for the chapter entitled: British shipping and the state. The files in the bibliography are in the main from the Ministry of Transport with additions from the Treasury and the Cabinet Office. There seems to be an under-use of the shipping files at the TNA. Apart from the authors Goss, Davies and Palmer, most of the other authors cited in the literature review do not seem to have used this archive.

Discussions between the government and shipowners about the potential nationalisation of the shipping industry[4] 1944-1947 set the tone for the next decades, with the government demanding information and figures, which the shipping companies did their best to ignore. Details of Cunard shipping and its loans from the British government appear notably in Cabinet and Ministry of Transport files. A number of files review the prospects of both shipping and ship-building. The material used in

[4] Some coastal shipping was nationalised including the ferry services.

this thesis regarding the Shipping Advisory Panel (1961-64) in its short life span are contained in numerous files. The Treasury's view of the post-war shipping industry is contained within the Treasury files and generally coincides with the view contained in other department files.

The background papers for the Rochdale Committee on finance, taxation and flags of convenience prepared by various government departments for the committee are illuminating. For those in British shipping who found themselves in financial trouble due to ship mortgages taken out through a government agency, the files give the various options open to the government and individual shipping companies. Extension of loans, requests for financial information from the shipping industry (which again was not forthcoming) are contained in TNA MT files titled Financial Aid and Mortgages. The tri-partite seminar between the government, shipowners and unions (1982) on a new direction for British shipping can also be found in summary form in the TNA MT files. The shipping files at the TNA are vast, and difficulty was experienced just wading through the enormous volume despite help from the archive staff.

The archive of John Swire & Sons which is lodged at the School of Oriental and African Studies (SOAS) seems to be much under-explored. Many of the files used have never been used before though some authors have consulted the archive, most notably Jones, Miller and Boyce. The majority of the files they consulted concern the years before 1945. The archive was used by Marriner and Hyde, the authors of the company history, which ends in 1895. Falkus also accessed the files of John Swire & Son for his company history of the Ocean Steamship Company, however most of the files accessed seem to relate to events before the Second World War.

The files which this thesis used document how the company re-invented itself after the loss of the China trade in 1949. The archive papers also reveal the business tactics of the company, particularly in its dealings with the Shell Trading Company and the pilgrim trade based in Malaya. Both of these cases are detailed in appendices 4 and 5 respectively. Evidence of Swire's political standing in Hong Kong and London with regards to banking and the governorship of Hong Kong is also contained within the archive. The way JS&S deliberately isolated its various companies to avoid any cross-contamination, should one company be in financial difficulties so that it would not affect other companies in the group, is shown in the archive, along with diagrams of corporate structure and connections.

The later period of the company's history, its re-building after the war and its success in diversifying whilst still maintaining a strong shipping presence, has not been documented elsewhere. With many of the business propositions contained within the archive it is difficult to ascertain whether or not they were carried through as proposed. The one exception concerns Cathay Pacific Airlines, a JS&S company, where there is secondary evidence (Boyce, 2001 and Young, 1988) to confirm that proposals found in the archive actually came to fruition. The diversion away from JS&S's traditional operations into property in Hong Kong is borne out by large and successful property developments. Several of the files (JSS/1/4/3/10 & JSS/1/4/3/11) contain correspondence concerning senior bankers and the appointment of the governor of Hong Kong. Many of these letters include an exhortation to burn or destroy after reading which is probably a good indication that these files have never been weeded or consulted by the company archivist.

The shipping files for the JS&S shipping company, the China Navigation Company (CNCo), are extensive, along with papers on decisions concerning the operation of the various cartels with which JS&S was involved. However, there is very little information on the cargos carried. Containerisation and the ongoing discussions with Ocean and OCL on the working of this modernisation of shipping are well covered in the JS&S archive. A report by the accountancy firm Peat Marwick, completed in 1977, provides an overview of the company at that time. Diagrams of the company's structure for that period have been used to show how its operations diversified.

Despite several requests to conduct interviews with the staff at JS&S to confirm or otherwise information in the files, I have always had a negative response. The company does have a reputation for valuing its privacy. However, it would seem from the preface of the JS&S company history of Cathay Pacific Airline (Young, 1988) that personal contacts with senior staff would be a pre-requisite to access other company records which have apparently been retained at the company's headquarters. The JS&S account is as complete as possible but unavoidably not comprehensive.

The Ocean archive is located at the Liverpool Maritime Museum which is the main depository for the records of the Ocean Steamship Company, later known as the Ocean Trading and Transport Company. The files at this archive have been accessed by White for his history of trade and the decline of the port of Liverpool. Miller also looked at several files regarding port labour. Hyde, whose history of the Blue Funnel shipping line ends in 1914, accessed files for that period. Falkus, in his comprehensive

official history[5] of the Blue Funnel shipping line (Ocean Steamship Company), relied heavily on the Ocean Archive. He also had access to files which are still held by the trustees of Ocean files, not in the Liverpool archive.

The files on which this thesis depend are those that lead up to and beyond the modernisation period, starting with Crake's Report on Containerisation.[6] They centre round the company's containerisation policy, its move from a private limited company to a flotation on the stock exchange in 1965, and its attempts at diversification leading to its withdrawal from shipping in the 1980s.

There are problems with the Ocean Archive which has been weeded of some content, and, as I believe with JS&S, there is still a substantial amount of archive material in private hands. The files concerning the planning of acquisitions, especially shipping companies, are given code names, for example the name Goldfinch is used for Wm Cory & Son. With twenty-five years' experience of shipping I was able to discover who most of the coded companies were. The file on OCL is mostly a feasibility study with nothing on the internal politics of the biggest move in British shipping. The acquisition of Liner Holdings and Transglobe Airways is only partially covered in the archive. Not all of the acquisitions and their subsequent sale by Ocean are covered in the main Ocean archive. The archivist directed me to a supplementary section known as the E7 file, which contains the JLA files (those of John Lindsay Anderson, manager and Director, 1955-86, Chairman, 1971-80). Though his papers from 1954 to 1969 have been withdrawn from the Ocean archive, these JLA files include a description of Seaway Ferries, which was acquired as part of Liner Holdings, and Ocean's desperate attempts to close the business. Ocean's amalgamation with Wm Cory & Son, the main event in Ocean's modern history after OCL, is not in the main archive but again some information is found in the E5 file. The position papers for action against other shipping companies are all found in the JLA files.

The Castle papers, held at the Bodleian Library, Oxford, relate to Mrs Barbara Castle's term as Minister of Transport in the Labour Government of 1965. The rest of Mrs Castle's papers are held at the University of Bradford. The Bodleian papers include details of her visits to container companies in America and talks with Overseas

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[5] The book was commissioned by the Ocean Group and the copyright held by Nestor Custodians, an Ocean subsidiary.
[6] Ocean Archive 2001 dated 20 Dec 59.

Containers Limited (OCL). This involved the establishment of the company and the financial terms and conditions the government was willing to make to enable the company to be a success. This particular episode, undertaken by Harold Wilson's government, was to enable a British shipping consortium to join the container revolution. These papers have never been used in this context before.

Chamber of Shipping files are held at the Modern Records Office (MRC) at University of Warwick. These include files (designated MSS 367/Cos/3/7) which were prepared as evidence papers for the Rochdale Committee. Their importance for this thesis is that they document British shipping companies' attitudes to the Committee, in which they make a case for support from the government by demonstrating the importance of British shipping to the economy. There is also evidence of British shipping's view of relations with various departments within central government. Other files show the development in the use of containers, in particular OCL. There is no evidence at the MRC that these files have been accessed by authors with an interest in shipping.

The evidence in the archives has to be treated with some scepticism, especially documents created by private companies, although it does seem to be the case that earlier letters and comments seem to have been written without one eye on possible future readers. I have also found that some of the information from different archives can be reconciled and this seems to confirm their veracity. In particular, with regard to the setting up of OCL, the information in the MRC at Warwick and the Bodleian archive seem to confirm Mrs Castle's role in this episode. The information in both the Ocean Archive and the JS&S Archive in SOAS also confirms several of the financial transactions between the two companies.

2.11 Summary and conclusion

In summary, this study of British shipping from 1947 to 1990 adds to the current knowledge by offering some new perspectives on the performance of shipping companies during the period, and by examining under-explored archival sources and adding the information they offer to the available literature in order to fill the gaps in the main narrative. These gaps seem to be the financial aspects of the shipping companies, including the lack of official attention to shipping finance, through to the transformation of shipping investment in the 1960s and 1970s. My grounding in shipping finance and economics is based on the works of Stopford (1997), Branch (1996) and Chrzanowsy (1985). For the political aspects of finance, I found the many publications by Goss particularly helpful, as were those of Cafruny (1987) for an

American viewpoint of the British financial arrangements. For the organisation of the financial networks, I have relied on Boyce, (2001; 2008), Davies, (2008) and Jones, (2000) among others. The official reports, especially Rochdale, (1970) and the Transport Committee, (1988), were also helpful. For the early finance of Ocean, I found Falkus, (1990) to be particularly helpful, along with the financial information contained in Bott, (2009) relating to the container consortium OCL. The TNA files on the shipping companies and their tax arrangements, along with files for the Companies Act 1948 and the recommendations of the Jenkins Committee 1962 to repeal the shipping exemption were invaluable. I have specifically used company information from archives, particularly the JS&S archive which have not previously been consulted. This information informed the two case studies which demonstrated that there were some new perspectives to the decline of British shipping. The next chapter is a historical description of the British fleet, its trade arrangements and its move towards the modern era of containers in 1965.

Chapter 3. British shipping: established explanations for decline

3.1 Introduction

Chapter 3 elaborates on some of the themes identified in the literature review while adding a few additional perspectives that emerged in the course of archival research. It sets the issues in context by exploring the major international shipping conventions and practices in operation in the post-war years, and by reviewing the position of the British liner fleet within this framework, demonstrating how the situation changed over the period under review. What is outlined here in terms of basic development is elaborated in the following chapter, which addresses the relationship between industry and state, with most attention paid to the fiscal and economic factors at play, factors that, as argued in this thesis, have received insufficient attention in other accounts documenting the shipping industry's decline.

One major innovation was the technological and financial revolution that hit the shipping world in the 1960s. While the impact of containerisation is noted in the literature, its broader implications, namely how new investment was to be secured and the politics of securing it, have received less attention. Transformation of the industry not only required new ships and loading facilities, but new deep-water ports with their associated transport links and distribution centres. This much was made plain in both Rochdale Reports: Cmnd 1824 (1962) (ports) and Cmnd 4337 (1970) (Shipping). In continental Europe, a combination of war-time destruction and long held traditions of corporatist co-operation between both sides of industry and with government facilitated collective planning. Such collaborative traditions were only to be found in Britain in conditions of wartime emergency. In an industry predominantly based on family-run firms (P&O, Cunard and Ropeners amongst others though publicly-quoted companies, retained significant family input), shipowners understood business as private property to be managed as they saw fit. As this and the following chapter will show, political and financial tradition was found in a fractured industry whose main protagonists saw little reason to alter prevailing practices, which provided weak foundations on which to build.

This chapter starts by examining how international commerce was managed in the years following the war, prevailing trading conventions, ship registration under foreign jurisdiction, and official protection by governments of domestic fleets. It then traces the post-war developments of British shipping, culminating with the container revolution. The industry's relations with the British state, with specific attention paid to financial

policies (both deliberate and inadvertent) designed to secure the industry's future, will be considered more closely in the following chapter. At the end of this chapter, conclusions will focus on the shortcomings of the industry's internal management, the weaknesses of its liberal political traditions and its haphazard financial relations with government, which help explain the broad factors underpinning the decline of British shipping.

3.2 International shipping in the post-war decades: contexts and conventions

To establish the contexts within which British shipping operated in the decades following the war, this section will examine three factors. One was highly advantageous to a section of the industry: the trading cartels known as shipping conferences, whose foundations predated the Second World War and which British shipowners were determined to protect once peace was restored. Two further but exogenous factors, perceived as detrimental by the industry itself, were the use of flags of convenience and flag discrimination. All three played a part in the decline of British shipping.

3.2.1 The conferences

Conferences are important because without them, British shipping may have had its stranglehold on some important trades removed more easily and the cargo-liner fleet may have declined much earlier. However, there is no reason to assume that if the British shipping companies had desisted earlier, other national shipping lines would not have formed their own cartels as it seems in the nature of international business that oligopolies attempt to form cartels as soon as practical (Connor, 2008), even though cartels are illegal in a number of countries. This thesis is concerned primarily with the cargo liner trade, and cargo liner ships had multiple tween decks (see glossary) located in the cargo space to carry many different cargos, some had a bulk liquid capacity, and all had their own cargo-handling equipment. Cargo-liners left a named port at a specific time for a named destination to arrive on a set date as part of a schedule of sailings. This service attracted large administrative costs. It also required a large number of vessels determined by the frequency and length of the service provided. So, not only were the fixed costs high, running costs were also high. Therefore, shipping companies involved in such enterprises went to great lengths to protect their investments, including the formation of shipping cartels/rings, also known as 'shipping conferences'. These cartels were predominantly formed in the first place by British shipowners to protect their established commercial advantage.

British shipping had long supported the idea of a free market in world shipping services and had put itself on the side of shipping liberalism against that of shipping protectionism. In February 1962, Ernest Marples, the Minister of Transport, told the House of Commons: 'The greater part of world shipping is still open to free competition' (Jamieson, 2003, p.33). This gave a misleading impression. During the period under review, according to *Croner's Directory of Freight Conferences*,[7] a private publication, there were at least 327 conferences in operation world-wide. Other parts of the shipping industry such as the tramping section had tried several times to form conferences but without success. Conferences were usually an association of competing liner shipowners who were engaged in a particular trade and agreed to limit the competition by dividing the trade between themselves. Control of a conference was by vote, usually one vote per shipping line irrespective of the amount of tonnage the line operated. However, if one group owned several lines it could use the votes of its subsidiaries. Votes determined the freight carriage rates and the pooling arrangements[8] and new members could only be admitted on a vote of existing members. All meetings were private, decisions were stated without explanation and there was no form of public control in the majority of countries except the US Conferences could be open or closed. In principle, unlike closed conferences, open conferences were required to accept new members. However, evidence provided to the US Shipping Board shows how shipping lines could be denied entry into open conferences (Sjostrom, 2004).

A conference secretariat checked adherence to tariffs, and if members were fined, the fines would be taken out of the membership bonds they posted. Most agreements specified more than price; the next step was to accord berthing rights in a specific trade in a named port and to restrict sailings according to a pre-specified allocation. Revenues were also usually subject to a pooling agreement where the shipping lines were each assigned a percentage of the total freight (or passengers) carried or revenue earned. Shipping lines that exceeded their quotas had to make payments to the lines that did not achieve their quotas.

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[7] TNA MT 73/506.

[8] Pooling arrangements, where all earnings in the conference was pooled to be shared out by all members of the conference, determined by the rules of that particular conference.

To protect the conference from non-conference lines undercutting conference rates, the conference offered shippers loyalty contracts in the form of rebates. These could take the form of deferred rebates, an older system, but still in use after 1945. The other form of loyalty contract was the dual rate, where the shipper was offered rates below the scheduled rate by a fixed margin. A shipper who broke the agreement would be fined, or might lose all contract rights for a period of six months. When offered a choice of rate, most shippers usually choose the dual rate, unless the loyalty discounts were greater under the deferred rebate system (Sturmey,1962).

To discourage non–conference shipping from invading the conference market, the conference used a form of predatory pricing known as the fighting ship. This form of predatory pricing resulted in a court case brought by the Mogul Steamship Company Ltd in 1889 under an economic tort of conspiracy to injure suit.[9] The final opinion of the Court of Appeal was that, under common law, agreements by the conference were unenforceable and not actionable, providing there was no illegality. This view was held in most maritime countries until the advent of anti-competition laws, except in the UK where the anti-cartel laws of 1956 were still not used against the shipping conferences

The case in favor of the conference system was that it prevented destructive competition. In economic terms, the argument was that 'High sunk costs, inelastic demand and the risks to carriers of excess capacity' (Sjostrom, 2004, p.114) led shipping lines to collude to avoid falling profits. By avoiding wasteful competition through over-tonnage and giving reasonable assurance that members would have a good chance of making a profit, rate wars could be avoided as rates were set by the conference. This led to a regular service with the rates for goods being set in advance so that shippers could be assured of space and a frequency of service. A detriment could be that British liner tonnage was maintained at a higher level by the conference system than otherwise would have been the case. British shipowners also used the argument that conferences, or something like them, were essential for maintaining liner services, that Britain had the advantage of the provision in liner services, and therefore that conferences were essential to British shipping. The Rochdale Report, with evidence taken from British shipping companies, found that shipping conferences resembled '[t]he restrictive practices in other commercial fields which have, in recent

[9] *Mogul Steamship C Ltd v McGregor, Gow & Co* 23 QBD 598 [1889] [1892] AC 25.

years, been prohibited or subjected to control in this and many other countries' (Cmnd 4337, 1970, para 456).

However, the case against the conference system, apart from the retaliatory actions by emerging countries and those engaging in flag discrimination, comes from the dampening of profit and the maintenance of the status quo at the expense of the urge to expand. There were also problems with efficiency within the conference system. If it was only a simple rate-fixing agreement among lines otherwise in competition, it would not have prevented an improved service (for instance faster ships), for each line could then try to maximize its share of trade. But the pooling and the measures to preserve shares of the trade and the barriers to entry presented as a monopoly. The conference system as a monopoly also removed the competitive incentive to efficiency and cost-consciousness, which meant that liner services were not as cheap as they could have been. The fact that additional profits were not earned meant that costs remained high. The conference system also preserved uneconomic types of ship and encouraged owners to build more of the same, despite the fact that the world of shipping was changing around them (Sturmey,1962). Arguably, the growth of the British liner fleet was hindered by the use of the conference system and thus it cannot be seen as an advantage. Goss (1998) thought that the Rochdale Committee had missed a trick in not recommending shipping conferences to the attention of the Monopolies Commission in 1970.

After the Second World War, the US government's attitude hardened towards the conference system. There were a number of investigations carried out by the US Congress in the 1950s, culminating in the Bonner ammendments in 1961[10] which sanctioned administrative control over shipping conferences serving US ports (Clark, 1997). Aside from the US government's efforts to regulate the conference system, there was also a reaction to it by developing nations which took the view that conferences were hampering their economic development. Their case was taken up by the newly-formed Shipping Division of the United Nations Committee on Trade and Development (UNCTAD) in 1964, which produced a number of sharply critical studies of shipping conferences. To resist the US and UNCTAD, the shipowners formed the

[10] Bonner's Ammendments were to the US Merchant Shipping Act 1916.

Consultative Shipping Group (CSG) and the Committee of European National Shipowners Associations (CENSA), later joined by the Japanese Shipowners Association.

In 1970, UNCTAD proposed a Code of Conduct of Liner Conferences; CENSA proposed its own version of the code at the end of 1971. The developing nations rejected the CENSA code, despite the fact that it contained elements which CENSA had considered progressive, including the publication of conference tariffs and machinery for negotiating with shippers (Chrzanowski, 1985). A further two codes were proposed by groups of Latin-American and Afro-Asian countries. In 1973, a joint proposal was accepted and approved by the UN General Assembly. A common version of the code was prepared and submitted to a vote at the United Nations Conference of Plenipotentiaries on a Code of Conduct of Liner Conferences at Geneva in 1973. The Code was approved by a two-thirds majority, with the UK, Scandinavian countries, Switzerland and the US voting against.

On 6 October 1983, the Code came into force, but little seemed to change. It is fair to say that co-operation and joint ventures were more popular, but this was against a background of ever-increasing encroachment on liner shipping by containerisation. Since the late 1960s, when liner shipping was first challenged by containerisation, the shipping lines had responded by forming consortia and pools. At first successful, this strategy enabled conferences to survive this new wave of globalisation.[11] However, as globalisation gathered pace it became difficult for the consortia operating in conferences to pass costs on to shippers. Conferences were now challenged by new competitors at significantly lower cost. Perhaps the most important change came from the demand side, as shippers who had become more organised through shippers' councils began to demand just-in-time deliveries, with the sea journey becoming just a part of an integrated logistics supply chain (Sletmo & Holste, 1994). When alliances between container companies were formed in the early 1990s, they were no longer based on routes or trades. Alliance ships were pooled or rationalised, equipment and containers standardised, and feeder networks combined (Clarke, 1997). The alliance goal was to combine all three trades (Pacific, Asia/Europe and Atlantic) into one world trade. With global coverage, rate-setting was too much of a challenge to leave to

[11] Many authors including Miller (2012) and Cafruny (1987) would suggest that shipping was a globalised industry up until the First World War (1914) and that shipping in the intervening period was a globalised industry before the fact of globalisation as understood now.

geographically-limited bodies such as route-based conferences. The EU abolished conferences on 2 October 2008, and no ill-effects have appeared since (Goss, 2011).

Without the conference system, the cargo-liner industry would have faced greater difficulties. The conference system, of which British shipping was the leading exponent, did give British cargo-liner shipping dominance over all other national flag shipping companies, but despite the supposed advantages of the conferences, British shipping companies were unable to stem their decline.

3.2.2 Flags of convenience

British shipowners and their trade association the Chamber of Shipping (see Chapter 4) considered both flags of convenience (FoC) and flag discrimination to be responsible for the loss of trade to British shipping and for hastening the shipping industry's decline. There was no legal impediment to stop British shipowners forming new shipping companies outside the UK or from using FoC, which some did. Crew costs in the UK were comparable with most FoC if UK government assistance was taken into account.

FoC is a device used by shipping lines to reduce their costs by registering a merchant ship in a sovereign state other than that of the ship's beneficial owners. By flying that state's civil ensign on its ships, the state then became the ship's flag state under maritime law, making the state an open registry. 'There is general agreement that international law required a merchant ship on the high seas to possess a nationality and be able to prove its existence' (Bozek, 1962, p.102). Conversely, in international law there are no rules that specify conditions for the acquisition of that nationality by merchant vessels. Each state determines under its own national law those conditions for granting permission to sail under the flag of that state (Bozek, 1962).

In 1958 the issue of FoC was raised at the first UN Conference on the Law of the Sea (UNCLOS) in Geneva in response to concerns about the increased numbers of FoC-registered ships. National flag carriers raised the matter with their governments and there was general disagreement over what should be included. What emerged was Article 5, which read:

> 'There must exist a genuine link between state and ship; in particular, the state must exercise its jurisdiction and control in administrative, technical and social matters over ships flying its flag' (UNCLOS 1958, Article 5).

The requirement of a genuine link should be interpreted as implying a general rule enjoining states to improve and make more effective their control over shipping registered under their flags (Bozek, 1962). In 1982 at the UN Conference on the Law of the Sea in New York, the problem of the genuine link surfaced again, and it was made clear that each state should fix the conditions for the granting of its nationality to ships for the registration of ships in its territory, and for the right to fly its flag. This point about the genuine link between ship and state is reiterated in UNCLOS 1982 Article 91.[12]

Historically, the modern construct of the FoC is American in origin. Averell Harriman, an American shipowner and later US Secretary of State, set up the Panamanian FoC in 1923 in an attempt to escape labour costs and, later, prohibition. In 1947, the industrialist Edward Stettinius, previously Franklin D Roosevelt's Secretary for the Navy, set up Stettinius Associates-Liberia Incorporated. He also created the Liberian open registry as a joint venture between the Liberian Government and the Corporation. During the cold war, the whole business was sold politically to the US government, and in particular the State Department, with Liberia being put forward as a bastion in Africa against communist encroachment. The shipping registration law and code was endorsed by US shipping lines, in particular ESSO Petroleum (Carlisle, 1981). Within 18 years Liberia had surpassed the UK in the number of ships registered and continued to move ahead of all other shipping nations (see Table 4).

Table 3 - the top ten merchant fleets 1947 and 1983

1947	Millions of Tons	1983	Millions of Tons
USA	27.5	Liberia	67.5
UK	18.7	Japan	40.7
Norway	6.2	Greece	37.4
Panama	3.9	Panama	34.6
France	3.8	USSR	24.5
Italy	3.4	USA	19.3
Netherlands	3.3	Norway	19.2
Japan	3.2	UK	19.1
Sweden	2.5	China	11.5
USSR	2.2	Italy	10.0

Source: Lloyds Register of Shipping, figures from Jamieson (2003) pp.42 & 43.

[12] See, internet source UNCLOS p. 179

A large number of FoC owners were US citizens who did not reside in the countries in which their ships were registered, so their property (the ships) was under the jurisdiction of another country. However, it would seem that in times of national emergency the US government reserved the right to requisition the property of US citizens, in some cases without the owners' consent. But there was a problem in that, under international law, ships flying FoC could be requisitioned firstly by the states whose flag they flew. It was obvious from a practical point of view that neither Liberia nor Panama, for instance, would be able to enforce their control or to requisition the vessels registered under their flag in the case of emergency. The US would take whatever ships it needed (Strange, 1988).

In 1979, it was not only the US lines using FoC (a total of 796); Greek shipowners had 234 ships registered in Liberia and 170 in Panama. In the same period, Hong Kong shipping lines had 589 ships registered in Liberia and the same number in Panama (Hope, 1990), while in 1979 '[t]he British had a total of 388 ships registered in Liberia, Panama, Singapore, Hong Kong, Cyprus and Bermuda' (Metaxas, 1985, p,34).[13]

Some reasons for a shipowner to select an open registry could be perfectly legitimate and even innocuous. For others, it could include tax avoidance, an ability to avoid national labour and environmental regulations, and to be able to hire crews from low wage-paying countries. There are also security implications, as it was possible for terrorist groups or any criminal to operate a ship with impunity. The Organisation for Economic Co-operation and Development (OECD) noted that 'to register a ship in Liberia the company had to have one shareholder, no local director was needed and there was no requirement to file accounts' (OECD, 2003, p.30)[14]. There need be no disclosure of beneficial ownership, bearer shares would be permitted, and a simple waiver would be available to avoid Liberian ownership requirements. The owner would then be legally anonymous and therefore difficult to prosecute in civil or criminal actions; the so-called corporate veil. The term beneficial owner is often used in these cases to identify those who are legally and financially responsible for the ship and its activities. By use of the mechanism of bearer shares, perhaps the most important mechanism in shipping, the anonymity of the owner could be protected. These bearer

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[13] See also Appendix 1, Tables 3 and 4 for beneficial ownership of open registry ships and dependency registered ships 1986/87. These figures make the calculations for the numbers in the total British fleet somewhat problematic.
[14] See Internet sources OECD p.179

shares are negotiable instruments as whoever physically possesses them has ownership. However, there are no legal requirement to report the transfer of shares, nor does money have to change hands, 'there is no name on the certificate, only a serial number which is not registered, hence no-one can determine the beneficial owner' (OECD, 2003, p.8).

Other mechanisms could be adapted to evade responsibility, such as nominee shareholders and nominee directors. For instance, all corporations have to have at least one director, usually a nominee, but few jurisdictions can compel a nominee to divulge the identity of a beneficial owner. To make matters more complicated, the nominee is often an international business corporation (IBC), making the identity of the beneficial owner even more obscure. Another institutional device to cloak identity is the use of private limited companies. As these are not registered on public stock exchanges, they do not have to publish accounts and are easily converted into shell companies which have no assets, undertake no activities but remain corporate bodies and can be purchased off the shelf for minimal amounts and turned into single-ship companies.

It has been argued that FoC lead to regimes of immunity in the shipping world and, in the long run, to higher costs and freight rates than would have been the case had the world merchant fleet consisted of units registered under a national flag alone (Metaxas, 1985). In effect, as FoCs drive out the national fleets from world trade, the freight rates will rise as FoC owners dictate prices.

The London-based trade union, the International Transport Workers Federation (ITWF), which has a prominent seafarers section, has run a decades-long anti-FoC campaign. This started in 1948 when the union threatened to boycott Panamanian, Honduran, Costa Rican and Liberian vessels, the main countries providing FoC at that time. From 1958, the ITWF based its campaign on the establishment of a legally viable link between owner, company and flag (Johnsson, 1996). The attitude of the trade unions towards the FoC changed, and by the 1970s it concentrated on securing reasonable terms of employment and conditions for crew members. To do this, the ITWF has continued taking action against sub-standard FoC vessels, by using the internationally agreed standards of seaworthiness and safety as levers. They reported unseaworthy vessels to the relevant national nautical survey services, and have such vessels held in the various ports until the conditions on board were improved.

British shipowners often cited the use of FoCs as one of the reasons for the decline in British shipping. However, analysis by shipping economists tends to belie this assertion (Sturmey, 1962; Goss, 1998). British shipowners, until relatively recent times, did not register their ships under a FoC because until the 1960s the tax advantages to be gained by foreign registry were more than compensated for by the 40% investment allowance from the British government (see Chapter 4, p.72). The difference in labour costs which shipowners often cite when talking about FoCs is also undermined by the fact that some British shipping companies set up in Bermuda to take advantage of company tax rates declined to register their ships there (Trident Tankers). They registered their ships in London and engaged crews on British articles (contracts). British shipping companies often engaged crews who were Asian or Chinese and paid wages at Indian or Chinese rates. This was with the acquiescence of the National Union of Seamen (NUS) which received £200,000 a year from the shipping companies for the use of foreign nationals (Hope, 1990, p.45). This would suggest that the wage costs advantages which Liberian shipowners were said to have had over British shipowners in the early part of this period (1947-1965), did not in fact exist. When in the 1970s grants and allowances were being phased out, British shipowners were moving their ships to other flags. One of the major factors in the move to foreign jurisdictions at this later date was given as crew costs, especially national insurance (NI) costs. British companies could cut these costs by employing low-cost foreign crews. In a later study it was shown that a reduction in NI costs could induce shipowners to move back to the national flag (Bergantino and Marlow, 1997) following recommendations by the Transport Select Committee (HC 303 1988, section V11, para 136).

Although much of this demonstrates how the financial advantages of the FoC (tax, running costs, low legal responsibility and hidden ownership) could be gained by British shipowners, when weighed against the advantages of a British registered company and ship they generally decided on the British option. However, from the 1970s they showed that, as the advantages of British registered shipping declined, they were not averse to using other flags including FoC, despite the fact that their trade association, the CoS, blamed the use of FoC for the decline of British shipping. While the FoC was not the main contributor to that decline, it was certainly a contributory factor for some British-registered shipping, drawing into question the real extent of the decline.

3.2.3 Flag discrimination

Flag discrimination as a form of shipping protectionism consisted of either cargo preference or cargo reservation. Both were perceived as intractable problems by British shipping companies and their trade association, the CoS[15], in the competition for maritime cargos. It was said that foreign governments protected and promoted their own shipping lines to the detriment of British shipping lines from 1914 to 1970. The trend may have increased in the post-war period, thanks to decolonisation.

There is a distinction between cargo preference and cargo reservation. Cargo preference is when a country adopts various economic and non-economic measures which create better conditions for its own ships to carry the country's trade. They do not, at least formally, eliminate foreign shipping which can compete for their cargoes. Cargo reservations is a legal form of elimination of foreign ships from the transport of domestic cargoes (Chrazanowski, 1985). These administrative measures affect different parts of the country's seaborne trade: some countries reserve 100% for its own fleet. Administrative forms of cargo sharing hit the cross-trading fleets hard and were criticised strongly by traditional maritime countries.

After the Second World War, the established maritime nations sought to reproduce the conditions that had existed pre-war. In 1948, the Intergovernmental Maritime Consultative Organisation (IMCO) was set up at the United Nations Maritime Conference. This UN agency had as one of its objectives the removal of discriminatory action by governments which had an effect on international shipping. At the same time, the Organisation of European Economic Co-operation (OEEC)[16] was set up and also took a stand against flag discrimination by requiring member countries to pursue: 'liberal and competitive commercial shipping practices and procedures' Davies (1992, p.181). The aspirations of these two organisations put them on a collision course with the US government, whose pre-war legislation – the Shipping Act 1916 and the Merchant Marine Acts 1920, 1928 and 1936 – privileged its own commercial shipping industry. The Foreign Assistance Act 1948 (The Marshall Plan) decreed that 50% of all American aid should be carried in American vessels. This was already carried exclusively in American vessels under a pre-war act, the Marine Cargo Act 1904. A

[15] MSS 367/Cos/3/7/70, Evidence from Cos of flag discrimination
[16] The OEEC was succeeded by the Organisation for Economic Co-operation and Development (OECD) in 1961.

further act, the American Cargo Act 1954, guaranteed that at least 50% of gross tonnage of all cargo generated by the US government (procured, furnished or financed) should be transported in privately-owned US-flagged vessels at fair and reasonable rates. All of this gave the American shipping industry a distinct discriminatory advantage.

Flag discrimination also stemmed in part from decolonisation after the Second World War, as newly independent countries sought to improve their economic position by promoting their own shipping lines. Earlier attempts to exclude new national fleets from the relevant conferences had consequences for British shipping operating in the former Empire trades as independent countries imposed protectionist policies (Sturmey, 1962). India reserved the coastal and some foreign trade for Indian vessels, at a cost to many British shipping companies. Trade to Myanmar (Burma) was cut. In Africa, South Africa's SAF Marine, Nigeria's National Line and Ghana's Black Star Line all reduced trade carried by British shipping companies. Protectionist policies were also pursued by many South American republics, possibly inspired by policies introduced by the American government. Following the exclusion of the shipping company, Lloyd Brasileiro, from membership of the relevant conference, the Brazilian government ruled that 70% of imports must be carried in Brazilian ships. Similar policies developed in Argentina, Chile and Ecuador (Hope, 1990). In addition, bi-lateral trade agreements such as those negotiated by the UK with Scandinavia and the USSR governing timber imports were used by the latter countries to gain business for their national fleets (Sturmey, 1962). The British government, however did not insert preferential shipping clauses into their trade agreements. In the 1950s, the British government made 74 formal protests to 31 countries in respect of flag discrimination, with little result. Until the advent of containerisation, the principal countries operating bilateral trade agreements were the US, most South American republics, Middle Eastern countries, Spain, Portugal and France (Hope, 1990).

Governments had long used subsidies to promote their shipping lines (those employed by the British government appear in the following chapter). Historically, most maritime countries used postal subsidies as part of their imperial shipping networks, but with the collapse of the colonial powers after 1945 and the rise of air transport, postal subsidies disappeared. In the post-war years, construction and operating subsidies and more subtle tax and depreciation allowances were employed to promote national fleets. In the US, the promotion of containerisation cost the federal government over $400

million.[17] 'American operating subsidies stood at $268 million by 1971' (Davies, 1990, p.199). There were further discriminatory practices at the margins such as higher duties or tariffs charged on foreign ships or their cargoes. Excessive documentation, customs and police procedures also served to give national fleets an advantage. However, these practices invited retaliatory measures by whichever country felt its ships had suffered discrimination.

3.3 Historical trajectories in British shipping

British shipping companies, like those of other imperial European nations such as France and the Netherlands, found that most of their cargo liner routes were determined by the location of their colonies in Asia, Africa, Australasia and South America. This invites a proposition that, pre-1914, European shipping companies operated in a globalised industry (Osterhammel & Petersson, 2005,: Miller, 2012). Although pre-1914 rates of expansion slackened in the inter-war years, 'economic ties with their respective colonies were strengthened by Britain and France' (Osterhammel & Petersson, 2005, p.106) but trade routes between the colonial empires and Europe became increasingly problematic with the rise of decolonisation after the Second World War.

In 1946, the American government, with the largest merchant fleet of all the former allies, decided to sell 2,000 of its wartime fleet and mothball the rest, some 13 million tons of shipping (Cafruny, 1987). In 1950 this American reserve fleet amounted to 2277 ships (Fleming 1992). Some ships went to British owners, others were bought by Greek, American and Norwegian shipping interests who used them in the bulk carrier trade under FoC (Carlisle, 1981). World trade was expanding and the average price for an American-built (war-time) Liberty ship was reasonable at £40,000,[18] yet British shipowners purchased only 200, arguably because they were wary of welded as distinct from riveted ships (Hope, 1990, p.401). All US war-built ships were welded, but some towards the end of the war had been built in only 41 days and quality control was poor. Owners of British shipyards, many of whom had shipowners on their boards, were reluctant to build welded ships, even though the process was less labour intensive. Order books were already full (Johnman and Murphy, 2002). It took some

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[17] Bodleian Archive E5 MS Castle MSS 264 Report of US visit 11-21 October 1966.

[18] According to www.libertyship.com, the cost of a Liberty ship to build was $18 million, exchange rate £1=$4 approx=£45,000 in 1947 (£ devalued 1949) so the cost after wartime service would seem to be a reasonable ball park figure.

time to convince shipowners and shipyards of the merits of welded ships over the riveted variety.

The small number of ships bought by British companies is possibly explained by their risk aversion to borrowing money (Jamieson, 2003), consequent to the collapse of the Royal Mail Group in 1930. This shipping conglomerate had found itself in deep financial difficulties in the 1920s thanks to extensive borrowing, culminating in the liquidation of the company and the jailing of its chairman (Lord Kylsant) for fraud. This liquidation led to the loss of 20 shipping lines, many of which were bought up by other British shipping companies. This incident had a profound and lasting effect on the attitude of British shipowners towards borrowing money, as the high gearing which the group had engineered was held responsible for its collapse. This deterred investors from buying shares in shipping companies and shipping equities were under-priced for the next thirty years: no liner company listed on the London Stock Exchange raised any capital between 1945 and 1960 (Hope, 1990, p.339), and fleets were renewed from retained profits. These profits were moved into investment accounts within the company, which remained invisible thanks to the Companies (Shipping Companies Exemption) Order 1948 (see Chapter,4 p.70) The Rochdale Report concluded that less than 20% of expenditure was financed by loans in the period 1963-1969, with 80% coming from retained profits and depreciation (Cmnd 4337, 1970, para 1280). However, some British financial institutions were lending money to foreign shipping companies (Cafruny, 1987; Cmnd 4337, 1970, para 47). One of the case studies – John Swire & Son – used bank loans to finance re-building its fleet in the post war period. (see Chapter 7, p. 128)

The Korean War (1950-53) and the demands for war supplies created a shortage of international shipping. However, the British tramp companies, fearing a shipping slump as had happened at the end of the First World War, initially delayed ordering new ships and subsequently ordered vessels similar to those which they already possessed, which proved too slow and too small (Hope, 1990). Although British owners took advantage of the rising cargo rates, they lost trade to the foreign fleets. From 1956 to 1957 the Suez Canal was closed, forcing American and European shipping to and from the Near and Far East to travel round the Cape of Good Hope, which forced cargo rates higher. By 1956, the same Liberty ships which had cost £40,000 in 1947 were changing hands for £620,000 (Hope, 1990, p.401). The period from 1947 to 1958 was

one of continued expansion but the world fleet expanded faster than the British, doubling in this period (see Table 1).

The reopening of the Suez Canal in 1957 created an oversupply of shipping. Prices for cargoes fell. This slump affected mostly the tramp/bulk trade but also had an impact on the cargo-liners and the ship building industry. A note to the Chancellor of the Exchequer from the Minister of Transport after a meeting with Colonel Ropener MP (a family member of the publicly-quoted Ropener Shipping) documents the sense of crisis. Ropener argues that the slump was caused by FoC shipping which had serious advantages over British shipping, causing shipowners concern about their trade.[19] By the late 1950s, such concerns coincided with official fears about the balance of payments and sterling: politicians wanted to avoid a slump (see Chapter 4, p.66). By 1960, the cargo liner sector had consolidated with eight companies[20] dominating the market and between them handling 80% of the trade. The tramp ship trade was losing cargoes to the international bulk shipping lines. Passenger traffic was also declining due to airline competition, and by 1959 the number of those travelling to non-European countries showed that air travel had overtaken sea travel by a considerable margin (Sturmey, 1962).

3.4 New Opportunities

Preceding sections identified well documented factors that explain the demise of British flagged shipping, but new developments in marine transport posed their own challenges. This section will review contemporary developments and the response of the UK shipping industry to them.

3.4.1 Oil tankers and bulk carriers

Kaukianen (2008, p.14) suggests that 'the tramp (or dry bulk) market was global because there were no cartels to limit competition', unlike the cargo liner section. By the late 1950s, bulk shippers (carrying ore, bauxite, phosphate rock and grain) wanted to secure economies of scale. This required large bulk carriers with single decks and easy access to the holds. There was also a move to build Oil/Bulk Ore (OBOs) carriers which became popular mainly because of their ability to switch trades if prices fell in

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[19] TNA T224/317. Note from Ernest Marples Minister of Transport to Selwyn Lloyd Chancellor of the Exchequer dated 22 May 58.
[20] Cunard, P&O, Furness Withy, Ocean, British & Commonwealth, Ellermans, Vestey Group and Andrew Weir.

one particular sector. The bulk shipping market, led by Greek shipowners using the same financial methods (charter finance) as their compatriots in the oil tanker market, moved into large purpose-built bulk carriers. OBOs built for the iron ore trade were up to 120,000 tons dwt, with those for other trades being built to a smaller size, the markets for grain, sugar, coal and fertiliser not being large enough to accommodate bigger vessels (Hope, 1990). In 1965, in an attempt to compete, some British tramp and liner companies[21] formed a consortium, Seabridge (Cmnd, 4337, 1970, para 114) to raise finance to build the new type of bulk carriers, with charters from the British Iron & Steel Corporation (BISCO). This was successful for a short period but was wound up in 1981. P&O ordered four bulk carriers in 1964, and to share the costs they created the Anglo-Norness Shipping Company (registered on the London Stock Exchange) in conjunction with Erling Naess, the American shipping entrepreneur. With American finance, the ships were managed by the British ship-management company J & J Denholm. Unfortunately, it was too little too late, and by the 1980s, although some bulk shipping continued in a limited way, the historic British tramping fleet had all but disappeared (see Table 2, p.17).

Before the Second World War, British shipping had been offered many opportunities by the oil companies to enter the oil tanker market, but in general had turned them down (Jamieson, 2003). After the War the oil tanker trade was the fastest growing of all the trades, and again the multi-national oil companies offered charters to be filled by any available shipping company. The British shipping industry again declined, leading to the oil industry looking elsewhere, but they also had their own ships registered in the UK and the five major oil companies had 245 tankers under the British flag by 1968.

In January 1959, the government called a joint meeting between the Inland Revenue, HM Treasury, the Admiralty and the Ministry of Transport to discuss the reluctance of British shipowners to take up offers from international oil companies and get involved in the increasingly profitable oil-transport business. 'It was agreed that British owners were not taking advantage of the conditions'.[22] This had left the markets open to Greek

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[21] By 1969 the shipping companies were Bibby Line, C.T. Bowring, M. Clarkson & Co, Dene Shipping, Hunting Group, Houlder Brothers and Furness Withy.
[22] TNA MT 73/293 dated 4 Jan 59.

and American entrepreneurs who had their ships built for the international oil industry, with funds underwritten by future ship charters (charter finance) to those same oil giants.[23] They then sailed those ships under FoC, initially Liberia and Panama, but as other countries subsequently offered different fees and terms of registration for the use of their flag, (for example, Cyprus, Hong Kong and Bermuda), these shipping companies tended to shop around. This method of acquiring ships and business was open to British shipowners, but was not taken up. Generally, cargo liner operators claimed that they had no experience of oil tankers, and they argued that: [t]The carriage of oil had little to do with the ship business, because there was no skill in it' (Hope, 1990, p.404). However, a few British liner companies did enter the tanker trade. London Overseas Freighters (LOF), a company registered in London but owned by Greek shipping interests with mostly tramping/bulk carriers, was the largest independent oil tanker company in 1960. In the mid-1950s, P&O had set up the company Trident Tankers in Bermuda,[24] which by the end of the 1960s became Britain's largest independent oil-tanker company, with its ships registered in the UK.

In June 1967 as a result of the Six Day War, oil supplies from the Persian Gulf had to take the long route round the Cape of Good Hope to Europe and North America. To make these trips profitable, ever larger vessels had to be built. In the 1970s, tankers were built with asset finance (a mortgage based on the hull) which was designed to re-cycle petro-dollars (Stopford, 1997). This eventually led to a collapse of the tanker market from 1976, in part due to a surplus of tonnage. It took ten years for the tanker market to recover. However, as British ships took very little part in the 35 boom years of the oil business, most UK companies were not involved with the depression which followed. In general, while British shipping companies were treading water from 1947 to 1965, they were in effect looking backwards, as illustrated by a P&O director talking about shipping in the 1950s: '[a]ll in all a charming existence and a very comfortable one and there seemed no good reason for it to change'. (Hope, 1990, p.394)

Halfway through the period covered by this thesis, a major change occurred which presaged a further wave of globalisation, not only in shipping, but in the finance of

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[23] The American banks lent money to people like Aristotle Onasis and Stavros Niarchos (who spent the war years in America) using the charters provided by the likes of ESSO and Texaco oil companies as collateral the banks loaned money to build ships. The steel, ore and phosphate companies also used this method to acquire bulk carriers.

[24] See Chapter 4, p.72 for migration of shipping companies to Bermuda. P&O had not been involved in tankers previously and the company (Trident) was new.

shipping. This was the move from the traditional cargo liner carrying break bulk cargo, which had been the predominant method of moving cargo, to containerisation. Below is a description of the rise of the container industry and the attempts by British shipping to respond to the challenges this posed. This is described in detail as the issue involved one of the case studies (Ocean).

3.4.2 The container age

The advent of containers changed the way nearly all non-bulk shipping was organised and created a demand for greater financial reserves to meet new technological requirements. Containerisation needed large areas of land which were more often found at down-river locations, necessitating the building of new port terminals, thus raising more demand for additional finance. This led to the public flotation of the Ocean Steamship Company,(see Chapter 6, p.110) and the spread of new types of financial dealing and decision making which was much more focused on short-term profit than long-term corporate viability. In 1966, with support provided by the Labour government's Minister of Transport (see Chapter 4, p.75), some leading shipping companies met the new technological challenges and temporarily became part of the largest shipping combine in the world, Overseas Containers Limited (OCL). However, it failed as a consortium because of short-termism: the failure of its owners and managers to understand the new financial climate and the challenges this posed (see Chapter 6, p.119).

A number of British shipowners had been aware that there was a unitised delivery system of containers being developed in the US by M P Mclean of Sea-Land Inc (New Jersey), whose first container ship sailed in 1956. This system was taken up by the Matson Navigation Company of San Francisco by 1958. The British India Steam Navigation Company (B&I), a subsidiary of the Peninsular & Oriental Steam Navigation Company (P&O), started to look at containers in 1960 (Bott, 2002), and other subsidiaries of P&O were looking at containers for the UK-New Zealand trade. In 1965, these subsidiaries were all amalgamated into the P&O Group Transportation Ltd, under Sir Andrew Crichton, later chairman of OCL. Other British liner companies, notably British & Commonwealth (B&C), sent a delegation to the US in 1961 to look at the container business. There was some interest shown in containers by a minority of the British shipping industry, notably Manchester Liners (part of the Furness Withy Group), a single firm (non-consortium) which inaugurated a container service from Manchester to Montreal in 1968 (Jamieson, 2003).

Ocean Steamship (Blue Funnel), the largest of the Far East liner companies, had dismissed the idea of containers after commissioning an internal report in 1959.[25] The use of containers was not acted upon until April 1965, when Ocean Steamship executives in Australia heard rumours of an offer by the American company, Sea-Land Inc, to the Australian government to containerise trade from Australia to Europe. In response the senior partner, Sir John Nicholson of Ocean Steamship wrote to Sir Donald Anderson, head of P&O, on 4th May 1965 offering to talk about a consortium to containerise their joint liner trade. Eventually the two companies invited the British and Commonwealth Company, run by Sir Nicholas Cayzer, and Furness Withy & Company, led by Sir Etherington Kerville, to become the two other partners. OCL was formally incorporated on 27 August 1965 with a nominal shareholding of £10,000, all within four months of the original letter from Ocean to P&O. It is indicative of the level of leadership within the shipping industry that the man chosen for the task of setting up OCL was a 62-year-old retired cavalry officer, Major General Erroll Prior-Palmer.[26]

Other shipping lines connected to the participants, either through conference agreements or long-term semi-official trade and route agreements, or even personally thought they should have been included in the OCL consortium. These shipping lines, which included Cunard, were turned down because: '[t]hey seemed too weak, Ben Line of Leith and Vestey's Blue Star Line because they may have had different tax objectives'. (Bott, 2009, p.29) After some initial disappointment, the three rejected companies joined with Ellermans and T&J Harrison to form Associated Container Transportation (ACT) in January 1966. The Rochdale Report was generally complementary about the establishment of OCL (Cmnd 3447, 1970, para 1187), but also noted (para 1188) that the structure of the board needed to change (discussed below in Chapter 6, p.119).

The first OCL container ship, *Encounter Bay*, sailed from Rotterdam to Freemantle in March 1969. This was one of five ships built in Germany, and the first six vessels for

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[25] OA. 2001, The Crake Report 1959. 'There is no future for fully containerised vessels in the near future or indeed the foreseeable future'.
[26] Major General Erroll Prior-Palmer. After retiring from the British Army 1958 he was employed at British & Commonwealth Shipping, 1958-59, then at Union Castle Shipping 1959-1965 all owned by the Cayzer family, one of the founder members of OCL.

OCL (1967-1969) cost $100 million (Broeze, 2002). The origin of the finance for these ships is obscure and it is possible that the German system of KG structure finance[27] was used for the first five, but Deutschemark loans were also involved. The sixth OCL ship, *Jervis Bay*, was built at Fairfields, Glasgow[28] in 1970. By 1971 the Australian trade was fully containerised.

By 1971, OCL had more ships built (the Liverpool Bay class) for the containerisation of the Far East trade. The urgency with which the containerisation took place was in response to Sea-Land Inc. The US company was starting a trans-Pacific trade between the US and Japan. To counter this, OCL organised a meeting in San Francisco with representatives of those lines involved in the Far East Trade conference, where they set up another consortium, the Trio group, made up of British, German and Japanese shipping lines (see footnote 135, for list). This consortium came into service in 1972. OCL's financial position meant that it had no profits to distribute until 1974, in part due to the costs of building new terminals and ships. Further costs were incurred when the first five ships built had to have their engines replaced, but by 1981 OCL was the fourth largest container company in the world (Broeze, 2002). However, by 1986 it had become a wholly-owned subsidiary of P&O (see Chapter 6, p.119).

Clearly in 1965 some British shipping companies had staff with enough entrepreneurial spirit (and/or desperation) to organise a new shipping consortium and eventually bring it into profit. Without this effort, the US Sea-Land Inc would not only have taken the Australian trade, but the Far East trade would have been the next to fall. Eventually, British shipping would have none of its traditional trades. General Prior-Palmer was extremely successful in setting up OCL, and he retired in 1969. The first three chairmen of OCL were also generally considered as extremely able, and came from P&O and Ocean, probably to the detriment of their parent companies and to the advantage of OCL.[29] However, this achievement was in part underwritten by a Labour government, especially its Minister of Transport, Barbara Castle (see Chapter,4 p.75).

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[27] KG structure finance or the German Limited Partnership system was used to build ships in Germany with the equity provided by German investors, who then used this to defray German income tax. With the ship reverting back at the end of the charter period.
[28] The six ships were *Encounter Bay* (1969) *Flinders Bay* (1969), *Botany Bay* (1969) *Moreton Bay* (1969) *Discovery Bay* (1969) and *Jervis Bay* (1970).
[29] The chairmen of OCL were Sir Andrew Crichton P&O, Sir Ronald Swayne and Sir Kerry St Johnston of Ocean.

3.5 Summary

Part of the long decline in British shipping took place in a climate of rising world trade, (1947-1975), with the numbers of British registered ships rising or keeping pace in absolute terms but falling in relative terms when compared to the rest of the world fleet. This led British shipowners to believe that what they were doing and what they had always done was correct and that it was outside influences which were to blame for them falling behind in relative terms. The period 1975-1990 was one of accelerating decline, as shipowners moved their ships to other jurisdictions or decided that their money or time could be spent or invested more profitably elsewhere, often in other sections of the maritime industry.

The fact that the cargo liner section had always operated as a cartel and that the government had always supported the industry (albeit less than shipowners had demanded at times) was ignored, while FoC and flag discrimination appear to have been minor factors in the overall decline; other fleets to some extent (notably the Danish and Norwegian) managed to overcome these disadvantages.

The following chapter, Chapter 4, will show that all British governments of all political persuasions assisted British shipping until 1979, which more than compensated for any perceived loss due to the effects of flags of convenience and flag discrimination.

Chapter 4. British shipping and relations with the state

4.1 Introduction

This chapter offers an overview of relations between shipping and British governments from the post-war years to the fall of the Thatcher administration, with the main focus on how, when and why the British state offered some form of financial support to the industry. The chapter begins with an account of the main political organisations that dealt with the government on behalf of British shipowners, then reviews the socio-political standing of the major shipowners in the period, the financial exemptions offered under the Companies Act (1948), and the allowances and subsidies given by British governments to the shipping companies (with particular emphasis on the aid given to OCL). The payment and avoidance of taxes, both by shipping companies and their owners, is revealed here. Different policies were pursued by Labour and Conservative administrations during their periods in office, but the assistance offered by both political persuasions had been, until 1979, designed to achieve the same result: the resuscitation of both shipping and shipbuilding industries, the two being irrevocably linked in the official mind. State assistance was withdrawn after 1979 and the relations between the state and the industry became more distant. The chapter concludes with a summary section that covers both Chapters 3 and 4.

4.2 UK shipowners and their organisations (the Chamber of Shipping and the Shipping Federation)

The Chamber of Shipping (CoS) was founded 1873 as an association of shipowners, but although it was country-wide and represented in all ports, it was not the only employers' organisation. The Liverpool Steamship Owners' Association, re-named in 1988 as the Liverpool Steamship Owners' and Agents' Association, remained independent but associated with the other bodies and was consulted by parliamentary committees on shipping. The Shipping Federation was founded in 1890 and merged with the Employers' Association of the Port of Liverpool in 1967, and was also a nationwide federation. Its main function was to represent the owners' interests in negotiations with the UK seafarers' unions and in discussions with the Government on matters concerning seafarers and safety issues. Shipowners or their representitives tended to belong to both organisations. However, as recommended by the Rochdale Report (Cmnd 4337, 1970, para 1122) the CoS amalgamated with the Shipping Federation to become the General Council of British Shipping (GCBS) in 1975. In 1991

the GCBS decided that it would operate under the historic name of the Chamber of Shipping which had applied from 1873 to 1975.

The CoS played an active role in the Parliamentary Shipping Committee and was fully involved in the short-lived Shipping Advisory Panel (1961-1964) through which it sought to influence government policy. Many shipping families were closely connected to the CoS, including the Holts, Denholm's, Ropeners and Ellermans, some of whom received knighthoods after a term as president of the organisation. 'So many knighthoods were awarded that they became known as the liner knights' (Goss, 2011, p.245).

As far as the shipping industry was concerned, the governments of the day were to provide a favourable environment in which shipping could flourish. This was to include tax breaks and financial assistance when necessary; and the CoS was responsible for making these views known to government (Goss, 1997). This perspective remained unchallenged until 1962 when the first critique of the industry was published, which suggested that shipowners may, amongst other factors, have been partly responsible for the decline of their own industry (Sturmey, 1962). Evidence given by the CoS to the Rochdale Committee stated that the factors involved in the decline of British shipping were all deemed exogenous, namely the consequence of foreign shipping subsidies and FoC, compounded by a lack of government support.[30]

There is a sense of government indifference in the CoS archive. When responsibility for shipping was transferred to the Board of Trade in 1964, the CoS felt that they had been demoted, and put: 'In the parcels room at the Board of Trade and have remained there ever since' (CoS, 1968, p.2)[31]. Much of this perceived lack of state support was prompted by the critical discussions between the British and US governments on the cartel system operated by the cargo liner trade. This, along with the US government's cargo-preference policy, was causing some concern. The CoS may have had a point. Although British governments often protested to various foreign governments, particularly the US, about flag discrimination and cargo preference, it was to no avail (see Chapter,3 p 51). British governments tended not to include preferential (cargo preference) shipping clauses in their trade agreements with other countries, possibly

[30] MRC. MSS 367/cos/3/7/70. Chamber of Shipping Archive Modern Records Centre Warwick. Background papers for Rochdale Committee, 1968/1970.
[31] MRC. MSS 367/cos/3/7/62 Relations between shipping and the government

fearing retaliation and further flag discrimination. This fuelled the CoS views about its industry being neglected in trade negotiations, views that changed very little over the period 1939-1970. There was also criticism from the Rochdale Inquiry about the CoS's neglect of research into economic matters concerning the industry. 'They [the shipping companies] also accept in order to speak with authority the Chamber should have within itself a fuller knowledge of the economic background of the industry'.(Cmnd 4337, 1970 para 1109) The CoS implemented some of the Rochdale Report's recommendations, such as setting up a policy research unit, a statistical department, and amalgamating with the Shipping Federation and as Goss (1998) notes, after the Finance Act 1984 the CoS gained considerable expertise in the area of taxation. However, the statistical department still had not implemented many of the Rochdale recommendations, 'on costs, revenues and output levels of British shipping, including value added and various others' (Goss,1998, p.225). After the merger with the Shipping Federation, senior staff were appointed from outside. Though the new body the GCBS continued to plead for fiscal favours both before and after the reforms of 1984, it developed a much more professional approach.

It was fashionable in the late twentieth century to ascribe the decline of British industry to poor industrial relations and trade union intransigence (Craft, 2002). This analysis does not apply to the British shipping industry. Labour relations within the British shipping industry were conducted on behalf of the shipowners by the Shipping Federation, as distinct from the CoS. Seamen were represented by the National Union of Seaman (NUS) with the National Maritime Board holding the ring. The last official seamen's strike prior to 1966 took place in 1911, although there were short unofficial strikes in 1947, 1957 and 1960 (Marsh and Ryan, 1989).

In May 1966, there was an official seamen's strike originally over pay and conditions and which lasted 46 days. The Labour government of Harold Wilson intervened in the strike, which was interpreted in the press as an attack on the government's prices and incomes policy and the agreed level of wage rise constraint. The strike was brought to a close when the findings of the first report of a Court of Inquiry (Cmnd 3025, 1967) were agreed to by all parties. The NUS was eventually amalgamated into the National Union of Rail, Maritime & Transport Workers in 1990, and the demise of the union followed the demise of the shipping industry as a whole. It seems that British shipping companies felt that they were in a relatively secure position, that their ships were well organised and that industrial relations, apart from the strike action in 1966, had not

been a problem. The 1966 strike seems to have played little or no part in the decline of British shipping, but was highly significant in terms of the government's economic policy.

4.3 Major shipowners and their connections

The political networks that many of the shipowners enjoyed stemmed from their well-established social connections: 'compared with retailers or manufacturers, ship-owners remained in the 1960s and 1970s very accept-able socially'. (White, 2008, p.168) In the post-war period, Prime Minister Clement Attlee and his family were on friendly terms with Malcolm Bruce Glasser, the London Marine Superintendent for the Ocean Steamship Company which owned Blue Funnel Line. Glasser's father succeeded Keir Hardie as Chairman of the Independent Labour Party and the families shared some of the same political ideals. When Atlee's son expressed 'a desire to go to sea, he naturally signed indentures with Ocean' (Woodman, 2012 p.131). Sir Winston Churchill owed his only non-political income before the war to a seat on the board of a P&O subsidiary, courtesy of Lord Inchcape of P&O (Edgerton, 2011). The cousin of the post-war chairman of the Ocean Steamship Company Sir John Hobhouse, Sir Stafford Cripps, was President of the Board of Trade 1945-1947 and subsequently Chancellor of the Exchequer 1947-1950 (White, 2008). It is difficult to believe that these connections, available to the upper echelons of British shipping companies formed in their earlier part of their lives through families, school and university and which continued through their participation in the Ministry of War Transport (MoWT), did not affect negotiations between governments and the shipping industry.

Shipping and its associated maritime businesses (ship-broking, insurance and ship-building) in the UK in the early post-war period were still conducted by this form of networking and continued in some form until the rise of containerisation changed the way finance was organised for shipping enterprises. This situation ensured that most people, especially at the top of the political, shipping and financial worlds, knew each other and each other's families, and that there was a revolving door of the positions available operated between all three sectors. This form of capitalism enabled a link to be made between shipping companies and the banking industry: Lord Inchcape moved to Standard (later Standard Chartered Bank); Sir Alan Anderson (of P&O) was a director of the Bank of England from 1918-1946; Lord Essendon (Furness Withy) had contacts in Martins Bank; Lord Inverforth (Andrew Weir) in Lloyds Bank; the Swire

family (China Navigation Company) in the National Provincial and the Hong Kong & Shanghai Banking Corp; and Sir John Nicholson of Holts (Ocean Steamship Company) was chairman of Martins Bank in 1962. The merchant bank Baring Brothers was also closely connected with Ocean Steamship from the 1930s to 1965, and a director of Elder Dempster, an Ocean Steamship subsidiary, became Baring Brothers' chief representative in Liverpool in 1963.

Most mature shipping companies had close connections, including shares and directorships, to shipbuilding firms. These included: Ocean Steamship and the shipbuilders John Scotts of Greenock; Court Line and the Appledore (Devon) shipbuilding yard; P&O with Camel Laird of Birkenhead; and London Overseas Freighters with Austin Pickersgill (Sunderland). The Protection & Indemnity insurance clubs were usually headed by shipowners, and the chairmanship of the Baltic Exchange, where charters and shipping were matched, and contracts made, has been held occasionally by a top shipping-company executive; from 2014 to 2016, the chairman was Guy Campbell of the shipping firm China Navigation Company, a subsidiary of John Swire & Son, itself a major shipping company with interests in the Far East. John Swire & Son was itself no stranger to the higher reaches of the banking industry, both in Hong Kong and London (see Chapter 7, p.144). With the headquarters of most of the major maritime concerns,[32] along with banking and insurance, in the square mile of the City of London, it is no wonder that during this period, there were links between many of the companies associated with the maritime industry.

4.4 British shipping and the state: an overview

The interest of the British government in shipping and shipbuilding derived from the idea of the centrality of the sea and to ideas of power, with the sea seen as a 'British dominated highway' (Edgerton, 2011, p.15). Both government and the shipowners in the post-war era aimed to recreate the patterns of maritime trade and power that had existed before 1939. This section reviews the main trends in official policy over the post-war years. Specific themes are covered in separate sub-sections in this chapter.

The intervention of the British state in shipping started with the introduction of the Navigation Law of 1381 and continued through nine further Acts until the Repeal Act

[32] With the exception of some of the major cargo liner firms, most notably Ocean Steamship (Liverpool) & Ben Line (Leith).

1849, which ended many of the exclusive privileges that British shipping had enjoyed. For example, the requirement that all goods for the Empire were to be shipped in British ships, and the shipbuilding monopoly which required all British-registered shipping to be built in Britain were scrapped (Davies, 1990). The Coastal Trade Act 1854 ended the British monopoly of coastal shipping (cabotage) and opened up the British coast to foreign ships, and the British government expected this to be reciprocated by foreign governments, although this never happened. This remained a longstanding cause of disagreement between shipowners and government, the subject being raised once more in the House of Commons in 1968 where the Minister stated that foreign ships only carried 3.3% of coastal cargo (Davies, 1990, p.192). The Rochdale Committee had also looked at the problem of coastal shipping but concluded that it was not an impediment to the prosperity of the industry (Cmnd 4337, 1970, paras 141-146). For the maritime industry as a whole, the repeal of the Navigation Acts was the start of the era of free trade which, as a policy, was only finally abandoned in the aftermath of the First World War. In the mid and late 19th century British government had intervened in the business of shipping at several points, such as postal subventions for carrying overseas mail throughout the world and in some safety aspects, including the introduction of the Plimsoll line in the Merchant Shipping Act 1871 (Hope, 1990). After the First World War, the government intervened on two occasions. The first involved Cunard White Star Ltd, which was awarded government loans to build two liners under the North Atlantic Shipping Act 1934 (Davies, 1990). Subsidies for tramp ship-owners were introduced following the global depression in shipping during the slump of the 1930s. This involved a scrap-and-build scheme, implemented under the British Shipping Assistance Act 1935 (ibid).

During the Second World War, all British shipping was taken over and run by the Ministry of War Transport (MoWT). The Minister, Lord Fredrick Leathers, was a senior shipping executive from Wm Cory & Son, a subsidiary of P&O, where his fellow director for eight years had been Winston Churchill, the Prime Minister (Edgerton, 2011, p.98). The MoWT was staffed by executives seconded from the shipping industry who returned to their companies after the war. In the aftermath of the Second World War, and following the dissolution of the wartime coalition government, the incoming Labour

administration sought to nationalise much of Britain's industry.[33] This included the transport system, of which the deep-sea fleet formed a part, but the shipping industry, apart from the ferry services operated by the railway companies which, when nationalised, came under British Railways, was excluded from the nationalisation programme.[34] There is no evidence to suggest that the heads of shipping companies exerted any influence on the debate over whether or not to nationalise British shipping. Throughout the war, Lord Leathers never suggested that he favoured nationalisation or private enterprise.[35] However, he did indicate that he was not impressed by the leadership skills shown by the leaders of either the shipping industry of the shipbuilding companies.[36] The quality of leadership, in both industries, was a recurring theme in political and business discussions throughout the post-war period (Goss, 1998).

In 1947, the Ministry of Transport took over responsibility for shipping, the relevant section being the General Shipping Policy Division (GSPD). The Minister for Transport was also a member of the Economic Policy Committee (EPC), reporting to the Cabinet. The EPC included a sub-committee for shipping, and input to this committee came not only from the GSPD but also from the Foreign Office shipping committee, the shipping committee of the Treasury, the Inland Revenue and (depending on the nature of the problem) any other department concerned. This situation continued until 1964 when responsibility for shipping reverted to its pre-war position at the Board of Trade under the department's Shipping Policy Division (SPD). Although the CoS thought otherwise ('shipping was always used as the discard to be played whenever the United Kingdom negotiators feel they have something to give away'[37]), shipping remained a central concern of government policy. In 1962 the government instituted the Shipping Advisory Panel with members drawn from the industry and government.[38] However, this Panel

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[33] This stems from the document prepared in 1934 for the Labour Party conference *For Socialism and Peace* in which shipbuilding and shipping would be nationalised when a Labour government was elected.
[34] TNA MT 73/148 Morrison to the HoC 19 Nov 45: 'the shipping industry would not be nationalised'.
[35] TNA MT 62/32 Meeting 15 Jan 42. Lord Leathers & Shipping Deputation: 'the merchant navy will be maintained in adequate strength and competitive efficiency after the war'.
[36] TNA, MT 62/33 Memo from Lord Leathers 30 Jan 42. 'One of the remarkable and dangerous phenomena of this war is the comparative paucity of first class leaders in Shipping and Shipbuilding'.
[37] MRC. MSS 367/CoS/3/7/62 p.4.
[38] TNA MT 73/494 1st meeting of the SAP 1 Aug 62.

was not a success, confining itself to reiterating the same arguments for shipping's overall decline and providing no meaningful input to government policy (Jamieson, 2003), and was disbanded in 1964 by the incoming Labour government. However, all governments continued to view shipping as centrally important, although it was not immune from official criticism. Comment in official circles centred on the way the industry blamed external forces for its problems[39] and on its secrecy,[40] an issue also noted by Rochdale (Cmnd 4337, 1970, para 1225). However, continued support was required thanks to the industry's contribution to the balance of payments, the import and export trade and all the ancillary maritime trades, and also the merchant navy's position in Britain's defence landscape, in the provision of trained seamen and ships for use by the Royal Navy. This view of the Merchant Navy as part of the country's defence has changed somewhat since the Falklands War (1982) when 54 ships were requisitioned (Davies, 1990). There followed debates in the House of Commons on the state of the merchant shipping industry and its part in the Falklands War,

In 1987, as a Merchant Shipping Bill progressed through parliament, there was sufficient concern for the Transport Select Committee to examine 'whether the UK needs a merchant fleet and, if so, whether the UK government should provide support for the shipping industry beyond that which it provides to other industries' (Davies, 1990, p.330). A report, *Decline in the UK registered Merchant Fleet,* produced a mass of evidence and made twelve recommendations. It concluded that:

> 'the case for a merchant fleet on both strategic and on economic grounds is unarguable. Perhaps the only difficulty lies in convincing the government that it should give tangible recognition to that fact'. (HC 303, section V111 for conclusions and summary of recommendations).

The report recommended financial aid for shipping, tax relief, increased limits for the Business Expansion Scheme, reduced employers' National Insurance contributions for foreign-going seafarers, tax cuts on seafarers' personal taxation and doubling the sum made available by the government for training (Davies, 1990). The government did not accept any of these recommendations, although it did accept responsibility for ensuring that the merchant fleet should continue to meet the nation's defence

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[39] TNA MT 73/ 343 Memo E. Marples, MoT to S. Lloyd, FS dated 21 May 62: 'The shipping companies think their problems are entirely due to forces outside their control' and are capable of being dealt with in isolation.

[40] TNA MT 73/487 *The Composition and Structure of the UK shipping industry* dated Sept, 1964. 'The scarcity of economic information on the shipping industry makes it difficult to make any general statement about its composition or structure'.

requirements. The Merchant Shipping Act 1988 did offer some assistance towards crew relief costs and the setting up of a Merchant Navy Reserve, but there was very little in the Act to reverse the decline of British merchant shipping (Davies, 1990). These were modest proposals mainly driven by a government's need to be seen to be doing something about defence.

In 1990, the government, following pressure from maritime interest in the city, set up a working party chaired jointly by the P&O chairman Sir Jefferey Sterling and Secretary of State Sir Cecil Parkinson, which produced a report titled *British Shipping Challenges and Opportunities.* As noted by Palmer (2012, p.136), this collaboration marked the beginning of a new phase in relations between industry and the state that, thanks to the Conservative governments' disinclination to offer any official subsidy to private enterprise since the election in 1979, had become more distant than in the past. Ostracism probably helped the GCBS moderate its demands, as Goss remarked: '[t]here is very little whingeing' (1991, p.2) while acknowledging that the report itself contained much good sense (ibid, p.1). However, the recommendations remained modest and confined to regulatory matters as the Treasury rejected any proposals that involved a change of fiscal policy. While the working party set an optimistic tone for future discussions, these fall outside the scope of this thesis which deliberately stops at arguably the lowest point in the industry's decline.

4.5 Exemption from the Companies Act 1948

Following representations from the shipping industry highlighting its contribution to the official balance of payments and the threat that foreign competition posed to traditional business, the Labour government wrote into the Companies Act 1948, the Companies (Shipping Companies Exemption) Order 1948. Shipping companies were not required to publish full accounts, as they argued that to do so would give foreign competition a commercial advantage. The exemption was granted because it was deemed to be in the national interest as the shipping companies involved were mainly engaged in foreign trade.[41] Banks and insurance companies were also afforded this exemption. Published shipping accounts would conceal their reserves, the amounts transferred to and from those reserves, and annual results (Jenkins, 1962, para 414). As a result, the figures produced by the shipping companies between 1948 and the repeal of the

[41] TNA MT 73/347. Paper prepared by GSPD 8/24/04 dated 19 Jun 63 has a description of the exemption.

Order in 1962 for the use of government departments and the investing public had little or no meaning. This threw the veracity of the claim, frequently put forward by shipowners, into doubt, that the shipping account favoured a positive balance of payments. To show a credit in the balance of payments, shipping companies must have some profitable business. As noted by one commentator: 'It is not possible to say anything useful about the profits of the British shipping industry in the period 1948-1960' (Sturmey, 1962, p.181).

The repeal of the Companies (Shipping Exemption) Order,1948 followed the recommendations of the Jenkins Committee in 1961, who were looking at company law, including the exemption for shipping companies. In its final report[42], the Committee revealed that about 244 shipping companies had enjoyed these exemptions (Jenkins, 1962, para 413). In their oral evidence, representatives of the shipping companies claimed that the exemptions were necessary as they were: 'subject to ruthless competition, which benefits from Government subsidies, flag discrimination and of ships sailing under flags of convenience' (Jenkins, 1962, para 414). The Committee dismissed the claim[43] by the shipping companies that the national interest was the same as their commercial interest and recommended that the Board of Trade revoke the Order. The revocation was allotted only five paragraphs in the report. The Committee did not include any members with maritime interests. The exemption and its repeal are hardly mentioned in the published literature, although they do appear in the Rochdale Report which also notes that the total number of exemptions was 244 (Cmnd 4337, 1970, para 1247). According to government papers,[44] at least 30 of the 250 shipping companies which applied for the exemption order were liner companies, probably including all the major cargo liner companies quoted on the stock exchange, such as P&O, Cunard, British & Commonwealth (B&C) and Furness Withy. There were 47 publicly quoted shipping companies on the stock exchange prior to 1965 (Stock Exchange Daily Official List 1965). The exemption is of some importance as the period 1947-1959 was very profitable for shipping companies and it is impossible to say how

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[42] Report of the Company Law Committee, (Jenkins) (Cmnd 1749, 1962)
[43] TNA MT 73/346 GSP/8/24/04, dated 19 Jun 63. Position paper of the General Shipping Policy Dept, Mr Peeler to Mr Poland containing a complete discussion of reasons for the repeal of the Shipping Exemption.
[44] TNA MT 73/347. Internal paper prepared by GSPD 19 Jun 63 on the Jenkins Committee.

those profits were assigned or if indeed they could have been used for shipbuilding or refurbishment of ships, or possibly general re-investment in the shipping industry.

From the late 1940s to 1959, governments opted for a hands-off approach to the shipping industry, mainly because it was profitable in this period and so made no demands on the state. However, in 1958 and 1959 as trade slowed, shipping companies approached the government about the prospect of moving to Bermuda. They asked for exemptions under section 468 of the Income Tax Act 1952, which controlled migration of British companies to foreign countries. This move was requested with the idea that the shipping companies could use the flag of Bermuda as a flag of convenience. Permission was denied by the Treasury as it was thought that it could be construed as a tax avoidance scheme,[45] which it presumably was. The shipowners lost interest as the subsequent investment allowances available[46] from the then Conservative government ensured that shipping was treated as a unique industry and these more than offset any advantage to be gained by registering in Bermuda.

4.6 Investment allowances

In 1949, the Labour government introduced investment allowances of up to 40% for all industries, including shipping, as part of its policy to encourage reconstruction and post-war trade. These allowances continued under the Conservative governments of 1951-1956. However, investment allowances were closed for industry in general from 1956 to 1958, except for the shipping industry where they were cut from 40% to 20%. The following year the allowance was reintroduced at 20% for industry but at 40% for shipping, higher than for any other commercial activity. The Conservative government had recognised that shipping was a vital industry while forestalling the Bermuda migration problem.

The allowance for shipping in 1959 at double the rate for the rest of industry is difficult to follow, and there is no apparent link at a personal level between shipping and government for this particular piece of generosity. However, the allowance could be seen as an attempt to encourage shipowners to build more ships, in an attempt to shore up the shipbuilding industry. A crisis did appear in shipbuilding in the early 1960s

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[45] TNA T224/317 9/1/62. Cabinet Memorandum by Minister of Transport Annex B sec 12 (a): 'here tax avoidance is the only reason for migration'.
[46] TNA MT 73/343 Note Selwyn Lloyd to Ernest Marples Feb 1961: 'the companies would only take the road to Bermuda when they had made the most of their tax relief'.

and the Conservative government responded by introducing a one-year temporary measure, the Shipbuilding Credit Act 1964. This Act made it possible for shipping companies registered in the UK to obtain credit for 80% of the cost of a new ship, 'interest on the loan to be paid at 5.5% (the Exchequer lending rate), with the loan to be repaid over a period of 8-10 years' (Hope, 1990, p.427). The scheme led to almost one million gross tons of shipping being built in British shipyards, with government loans totalling £75 million. 'However, once the scheme ended, ship-building fell back to its previous low level' (Jamieson, 2003, p.34). The 1965 Finance Act also introduced free depreciation for new ships which enabled the cost of a new ship to be set against profits at a rate and time of the company's choosing. New ships now qualified for investment allowances and free depreciation,[47] 'and for some years shipping was the only UK industry which qualified for free depreciation' (Davies, 1990, p.177).

In January 1966, as the shipping industry faced the imminent challenge of containerisation, a Labour government replaced investment allowances with investment grants. The standard rate of grant was 20% in 1967, rising to 25% in 1968. Ships qualified for an investment grant of 25% and free depreciation for tax purposes in respect of the remaining 75% of the expenditure. To qualify, the shipping company had to be registered in the UK and when built, had to remain on the UK register for five years after completion. It was only a matter of time before foreign companies set up shipping companies in the UK to qualify for the subsidy, and some five million tons of shipping was built for companies which were beneficially owned by foreign investors (Jamieson, 2003). This exploitation led the British government to abolish the grant in 1970. In the years between 1966 and 1970, approximately 'one thousand grant-assisted ships were built with a total government subsidy of some £620 million' (Jamieson, 2003, p.44).

Following the 1966 Geddes Report on the shipbuilding industry, the Labour government introduced the Shipbuilding Industries Act 1967, a new credit scheme to encourage British shipowners to build in British shipyards. The subsidy was in place in one form or another until the early 1980s. One of the forms it took was in Section 10 of the Industry Act 1972, which replaced sections of the 1967 Act, to offer a higher rate

[47] Free depreciation was when the shipowner was able to decide how much the writing down of allowances should be used each year for the purpose of reducing or eliminating corporation tax on profits for the year.

of loan (Davies, 1990) for the building of new ships in UK shipyards for UK owners. All these measures amounted to a government licence for shipping companies to build ships throughout the 1960s until the early 1980s without any great risk or cost. This removal of risk led a member of the Thompson family, owners of Ben Line of Leith, to criticise the Harold Wilson/Dennis Healey era for state support that led to: '[t]he wholesale removal of incentive to the risk of ship owning'. (Woodman, 2012, p.456) However this view was not generally held, and the Thompson family was seen as interlopers by some leaders of the imperial liner companies: 'P&O's (Sir) Andrew Crichton all but confided to McDavid (Glen Line) that Ben was not one of us and could not be trusted' (Miller, 2014 p.188).

These Acts addressed the problems of the shipbuilding industry rather than those faced by shipping. Shipbuilding was a more politically charged issue as unemployment in the industry was a pressing problem for a Labour government. Loan defaults in shipping started to appear from about 1976, in particular from one large defaulter, Maritime Fruit Carriers, an Israeli-American company, which bought ships through British subsidiaries (Davies, 1990). Outstanding liabilities involving several of the older tramping companies remained in existence until 1982.

There are two cases which demonstrate how the UK government of whichever persuasion aided the shipping industry. One is the case of Cunard, which is well covered by both Davies (1990) and Palmer (2012), and offers an example of how a shipping company manipulated the government for its shipbuilding purposes. The second is that of OCL where the government subsidised a company as part of its wider political strategy.

Cunard shipping was the beneficiary of government largesse over a number of years. In 1902 it received government funds to build two liners. In 1934, the government provided funding to finish building the *Queen Mary* and the *Queen Elizabeth*. In the 1950s the Cunard board decided to build a replacement for the *Queen Mary* so approached the Ministry of Transport for assistance.[48] The relevance for this thesis is the final outcome; *Queen Elizabeth 2 (QE2)* was built and launched in 1969. However, Cunard was effectively bankrupt by 1971, and was taken over by Trafalgar House Investments Ltd, with an outstanding debt of £9 million repayable at £1 million a year.

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[48] TNA MT 73/273. Memo dated 5 Feb 59. Minister of Transport E. Marples: 'Cunard want subsidy to replace the Queens, Chancellor not forthcoming wanted more information'.

Trafalgar House also attempted to renegotiate its interest rate, which was due to rise from 4.5% to 6.25%, by threatening to sell off the *QE2* to American buyers. The Treasury was unmoved, and the *QE2* remained the property and liability of Trafalgar House. Many shipowners were unhappy with the preferential treatment given to Cunard, and a number of politicians remarked on the fact that Cunard should cease to be regarded as a sacred cow: '[a]s a sacred cow is an object of great veneration but is generally of very little economic use' (Davies, 1990, p.179 and Palmer, 2012, p.131).

In 1964, the incoming Labour government of Harold Wilson had set itself an agenda of industrial modernisation. As part of an initiative by the previous Conservative government, Selwyn Lloyd had set up the National Economic Development Council with a similar aim. This operated through the National Economic Development Office (NEDO) known as Neddy, and smaller committees based on industrial sectors which were known as little Neddies. In 1964 the Labour government created a little Neddy for shipping, under the title 'Movement for Exports'.

Barbara Castle MP was made the Labour Minister of Transport in December 1965. The shipping little Neddy had been asked to produce a paper on containerisation, which was written by M.G. Graham, who later moved to OCL in 1967. The paper sets out the main issues raised by containerisation which the Minister accepted (Bott, 2009, p.25).[49] A report was commissioned from the little Neddy, *Through Transport to Europe*,[50] by A.J. Clarke. This report became the blueprint for OCL in its concept known as Physical Distribution Management (PDM) – that is to say, the management of containers, shipping and terminals – in the initial creation of OCL (ibid). Some members of the committee, including Kerry St Johnston of Ocean and A. J. Clarke, both went on to become directors of OCL, and it is illuminating that the OCL company history points out: 'It would prove useful that the fundamental gospel of UK containerisation in the UK was set out by people who went on to work for OCL' (Bott, 2009, p.26).

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[49] Bodleian Archive E.5 MS Castle 263. A request for the paper in file, but no paper, but paper confirmed in Bott, 2009, p.25.
[50] TNA 1A 930/1965 NEDO, Through Transport to Europe.

Mrs Castle went to the US from 11-21 October 1966 (Castle, 1990) and during her stay visited the two biggest container companies, the Matson Corporation and Sea-Land Services. When OCL approached her in 1967,[51] it was surprised by her knowledge of containers and freight movement. Sir Andrew Crichton, Chairman of OCL, acknowledged that Mrs Castle was instrumental in the setting up of the first container consortium, and noted that: 'Her business ability was greater than that of many men inside and outside of politics' (Bott, 2009, p.26). In her talks with OCL, Mrs Castle pointed out that the company would not only be able to take advantage of all the allowances and grants available to build the new container ships, but that she would also allow the 20% investment grant to be used to obtain containers, allowing up to three suites[52] for each trade. The EDC Committee chairman, Viscount Caldicote, also urged Mrs Castle to include overhead gantry cranes, mobile cranes and even forklift trucks in grants to the container industry.[53]

Mrs Castle had a better idea than most of the scope of the coming container revolution. During her visit to the US in 1966 she was informed that there was already one automated container port (Portland, Oregon) and that there were thirteen inland clearance depots operating, with 50 more planned.[54] After her visit to the US, she received a report[55] commissioned by the British Transport Dock Board on containerisation produced by the US management consultancy firm, McKinsey & Company.[56] The McKinsey report probably confirmed what she had seen in the US regarding containers, especially the automated container depot in Portland, Oregon. The report made reference to OCL's inland container depot at Perry Bar (Hertfordshire) as a model for the future, and stressed that there were no technical reasons, only organisational ones, why containerisation could not have been carried out much earlier. Mrs Castle was also subsequently aware of OCL's decision not to use Liverpool for containers,[57] despite the fact that Ocean Steamship, a principal in the OCL consortium, was a Liverpool-based company. In the end it was a fairly obvious

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[51] MRC Warwick MSS 367/CoS/ 3/7/59. Letter from Sir Andrew Crichton to Barbara Castle discussing the meeting, which took place 7 Sep 67.
[52] A suite describes the number of containers the ship can transport, in this case 1,500 per ship x 3.
[53] TNA 1A 930/1965 Letter Viscount Caldicote to Mrs Castle 11 May 66.
[54] Bodleian Archive E.5 MS Castle 264. Report of visit to US, p.30.
[55] Bodleian Archive E5 MS Castle 265 24 Oct 67. Part of McKinsey Report in file.
[56] TNA MT 81/727 Containers: the key to low cost transport. A Report by McKinsey & Co.
[57] MRC Warwick MSS 367/Cos/7/59. Letter discussing meeting between Mrs Castle & Sir Andrew Crichton, OCL chairman, dated 27 Sep 67.

decision, given that Liverpool was on the wrong coast and that OCL had chosen Southampton and Tilbury which both enjoyed closer access to shipping from the western approaches and to the major northern European ports. This decision resulted in higher unemployment amongst dockworkers in the Liverpool area. This government intervention on behalf of a private company using taxpayers' money gave British shipping consortia the incentive to take part in the container revolution. This should be understood as direct state help to the British shipping companies. British shipowners were rescued from a circumstance of their own making as they had failed to notice developments in their own industry over the previous nine years. This was corrected by the Labour government's intervention (see Chapter 6, p.116 for OCL finance and its demise).

4.7 Tax avoidance

In the 1950s, ministers and civil servants were increasingly aware that they had very little information about the operations of British shipping. Requests for information from the industry made by the Inland Revenue and the GSPD were ignored.[58] In 1964 the GSPD noted that, without information, they could not even gauge the composition or structure of the shipping industry.[59] Though the CoS did produce statistics:

> 'reliable figures on gross or net values of output (in either real or money terms) prices, employment, earnings, wages profits and accidental deaths were all lacking or only available for certain sections of the industry'. (Goss, 1997, p.249)

This lack of information led to speculation by those outside the industry about the subject of tax paid by shipping companies. This was brought into the public arena after the publication of the Jenkins Report, with the result that parts of the Report were taken up by the House of Commons Public Accounts Committee in 1964. The Public Accounts Committee found that there were examples of companies including shipping companies, manipulating the tax system by using subsidiaries held within the parent

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[58] TNA T/224/317 Memorandum EPC February 1961 'they have not given us any supporting financial information. Relating to lack of profitable employment of ships and lack of funds.
[59] TNA MT 73/487 Paper dated September 1964 The Composition of and Structure of the UK shipping industry. 'Scarcity of general economic information on the shipping industry makes it difficult to make any general statement on its composition and structure except on a tonnage basis'.

company.[60] The shipping company's subsidiaries would pay the parent company a dividend, the subsidiary would deduct income tax but, having low profits and no tax liability, did not pay the government. The parent company, having received a dividend on which tax had been paid, but also having no tax liability, would then claim the tax back. The net result was a movement of cash from the government to the shipping industry (Goss, 1997). This practice was heavily criticised by the Public Accounts Committee at the time.[61]

To underline the point, in 1968 the Board of the Inland Revenue reviewed the British shipping industry before 1965 in preparation for the Rochdale Inquiry. It found that:

> '(a) Many shipping companies paid little or no tax on their profits.
>
> (b) They accumulated substantial tax allowances and loss relief which could be carried forward from year to year and which are available for set–off against current liability to corporation tax.
>
> (c) Owing to the operation of rules about deduction of tax from dividends, it was possible for companies to pay dividends net of tax without accounting to the Inland Revenue for the tax deducted. Indeed it was possible to obtain repayment of tax which had in fact never been paid'.[62]

The practices referred to in (c) were abolished under The Finance Act 1965, but British shipping companies were still in an advantageous position in regard to foreign competition, even though they were now required to pay corporation tax at the 1965 standard rate of 42.5% on their trading profits. In addition, they were required to deduct income tax at the standard rate on dividends paid and to account to the Inland Revenue for this.

With the allowances and depreciation, shipping was still in a unique position among British industries in qualifying for free depreciation, that is to say that British shipowners were being allowed to pick the time and rate of the payment of taxes which meant that when profits were high, taxes could be reduced or even extinguished altogether. Conversely it could mean that a future potential tax liability could arise, although this was dependent on profit and capital expenditure. In practice, those companies which

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[60] TNA MT 73/506 Background Paper No 3 Finance and Taxation, description by Inland Revenue and Board of Trade on how tax was avoided.
[61] Fourth Report of Public Accounts Committee, paras 1-10,HC 221,1963-64,.
[62] TNA. MT 73/506. Background Paper No 3 Finance & Taxation. Note by The Board of the Inland Revenue and The Board of Trade.

incurred some capital expenditure in some years made a substantial profit, which made the most of the benefits of depreciation.

However, it would seem that throughout the late 1960s and to the middle of the 1970s, there was a concerted effort by shipping companies to take advantage of the guarantee scheme and to avoid taxation by individual shipping companies and groups of companies not involved in the maritime business. As examples, Bovis the construction group, merged with P&O, and the property company Trafalgar House merged with Cunard so that their combined entities paid less tax (Goss, 2011). As Davies (1990) also points out, finance groups would fund the building of ships then lease them to shipping companies, claiming tax allowances and spreading the costs of building the ship over a longer period. This tax loophole was closed by the Finance Act 1975 (Davies, 1990). When the Conservative government introduced the Finance Act 1984 the last of any tax advantages for British shipping were removed and the market was allowed to dictate a future without any government involvement, as far as subsidies and allowances were concerned.

It was only in 1990 that Lord Vestey and his family, the owners of one of the premier cargo liner firms, Blue Star Line, finally started to pay taxes, both income and business. These were the first payments made since 1915. Their domicile for both business and personal purposes had been retained in Buenos Aires,[63] and from 1915 Paris was used as the administrative office for their companies, whilst all company documents were stored in Montevideo, Uruguay. They re-routed money through a holding company in the UK of which they were managers. Consequently, they were able to live in the UK and carry on their business tax-free for approximately 70 years. This saved the family an estimated £88 million in taxes. Although the loophole had been perfectly legal, it was finally closed in 1991 (The Guardian,1999)[64]. This illustrates that tax avoidance, even claiming tax rebates on tax which had never been paid, would not have been classed as unusual behaviour amongst even the most patrician of shipowners. Whatever problems the shipowners thought they had, the Inland Revenue was not one of them.

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[63] The Vestey's had large land holdings and cattle farms in Argentina. They were also known in England for their shops trading under the name of Dewhurst Butchers.
[64] See Internet souce p.179 Heirs and Disgraces.

This section has demonstrated how the demands by British shipping companies for state-backed financial support were wrapped in the flag of patriotism while they were simultaneously making constant efforts to evade any duty to wider society by, for instance, paying their correct taxes. It would appear that any decline prior to 1979 could not be the responsibility of the British government.

4.8 Withdrawal of state help

The shipping recession in 1975 was caused by the 1972-73 oil crisis. The accession to the European Economic Community (EEC) in 1973 had increasingly refocused shipping on the short sea trade to Europe and away from the deep-sea former Empire trade routes. This led the British government to reassess British shipping, which included an assessment of the outstanding loans taken out to build new ships. Several firms had approached the government for relief on loans taken out with the Ship Mortgage Finance Corporation, an agent of the Department of Industry, citing Section 10 for the guaranteed loans under the Industries Act 1972.[65] In May 1978, there was some limited help from the Labour government when the Trade Secretary offered selective and limited extensions of the government loans to shipping companies with short term problems (Davies, 1990).

However, more political transformations were playing their part. The change in the attitude towards maritime industry, shipbuilding, ports and shipping can be traced back to the election of Margaret Thatcher as Prime Minister in 1979. Her mentor and ideologue of the conservative new right, Sir Keith Joseph, had declared the death of Keynesian economics in 1974 (Tomlinson, 2000) which led to the removal of any assistance to industry following the election of the Conservative party in 1979. After the election, the attitude of the government to shipping changed; Thatcher had already described shipping as a sunset industry (Woodman, 2012). Shipbuilding was nationalised in 1977, but in the 1979 Conservative manifesto it was scheduled to be denationalised and privatised (Johnman and Murphy, 2002, p.217). The world market for shipbuilding continued to decline throughout the 1970s, and what was left of the British nationalised shipbuilding industry continued to make a loss until the rump was privatised, with the Scott Lithgow yard in Glasgow being the first in 1984 (Jamieson, 2003).

[65] TNA MT 73/518. The firms were Reardon-Smith and Cardigan Shipping.

With her embrace of supply-side economics, the free market and non-intervention policies, Thatcher was not interested in intervening in any industry except in those classed as sunrise industries (Johnman and Murphy, 2002), least of all shipping (Woodman, 2012). All this was epitomised in the appointment of Sir Keith Joseph as the Secretary of State for Industry. He also became President of the Board of Trade, the arm of government responsible for shipping. He was succeeded in this position (unfortunately for British shipping) by the arch-Thatcherite, Nicholas Ridley, who said about the shipping industry that he: 'would rather see it disappear than offer a subsidy' (Woodman, 2012, p.415). Thus, the government was not minded to help the shipping industry. This was underlined by the Finance Act 1984 in which the government withdrew the capital allowances on new tonnage and removed tax concessions to British seafarers. In fact, the government no longer believed that favourable tax allowances stimulated overall investment (Goss, 1987). As part of its privatisation policy, in August 1984 the government re-named the former British Rail ferry company as Sealink UK Ltd and sold its 'British arm[66] which was previously owned by British Rail to Sea Containers Limited (SCL), one of twelve industrial contenders. The price of £66 million fell £34 million short of an earlier City evaluation' (Ledger and Roe, 1992, p.247). SCL was based in the US-Virgin Islands, a tax shelter. SCL changed the name to Sealink British Ferries and the plan was to float the company on the Stock Exchange, but this did not happen. In 1990 the company was sold to Stena of Sweden, a ferry company operating in the UK, but the price paid to SCL for Sealink British Ferries by Stena is unknown.

At the time of the Falklands conflict (April to June 1982), and despite the fact that 54 ships were requisitioned by the government (Davies, 1990), concern arose among Conservative back-benchers about the state of the merchant fleet and its readiness to assist the Royal Navy. The merchant navy had traditionally offered a source of ships and trained men in times of national emergency. There was gratitude for the merchant fleet's contribution to this particular war effort, but this was never translated into help to prevent its demise. In March 1983, Ian Sproat, the Shipping Minister, declared to the House of Commons that there would be no nationalised shipping line, operating subsidies or controls requiring British shippers to use British ships, or any other form

[66] The other parts of Sealink were the French national railway company SNCF, the Belgian Maritime Authority and the Dutch, Zeeland Steamship Company.

of protectionism or cargo reservation, or 'improvement to the UK's very favourable tax regime for shipping' (Davies, 1990, p.293). So, it would seem that the argument for some form of merchant marine, if only for security purposes, did not carry much weight with this particular government. This was highlighted during the Gulf conflict (1990-91), a joint American-coalition operation when, in an effort to supply the fighting forces, the Ministry of Defence chartered 165 merchant ships, five of which were British vessels, at commercial rates (Jamieson, 2003).

Many of the ships left on the British registry would not be useful in a defence situation. The bulk carriers were in general far too large to be used in the areas in which they may be required, and even the ferries could not transport modern tanks or heavy troop carriers without the decks being significantly strengthened (Goss, 1993). The Royal Navy has its own supply fleet, known as the Royal Fleet Auxiliary, established in 1905 and owned by the Ministry of Defence, which is manned by merchant seamen and augmented by regular and reserve naval personnel for specialist tasks. It should be possible for the Ministry of Defence to build the required ships for use in both the defence and commercial fields, chartering the ships out at commercial rates when not used for defence purposes, recalling them when needed (HC, 172 1998-99).

However, by 1990, British shipping represented only 0.9% of the world's total fleet, that is 4.1 million tons against the world fleet of 426 million tons (Jamieson, 2003, p.12). It was not until later that things improved somewhat under the auspices of a former merchant seaman, later a minister in the new Labour government, Secretary of State for Transport, John Prescott.

4.9 Perspectives and conclusions

Chapter 3 set out the principal factors commonly held responsible for the decline of the British liner trading fleet over the post-war decades. To widely known explanations, this thesis has added more information, pointing up most specifically both intended and unintended financial support offered by UK governments to British shipowners in this period. This allows us to place the claims of the CoS (that exogenous factors placed the UK shipping industry at a severe commercial disadvantage) in a more realistic context. As demonstrated in Tables 1 and 2 (see,pp.16 & 17) the high point of British registered tonnage in the period 1947-1990 was 1975, indicating that the subventions (that were subsequently curtailed) did have an overall positive effect, albeit that the British fleet failed to keep pace with the growth of global tonnage during the golden years of expansion (1948-1965). The peak of UK state intervention (1964-

1975) is reflected in the growth rate of the British fleet in those years. However, we must recall that a proportion of ships flying a British flag at that time was under foreign beneficial ownership, attracted to the register by UK state grants and subsidies (Hope, 1990; Palmer, 2008). Contrarily, when these expired, not only foreign but eventually British shipowners moved to offshore registrations. Such movements demonstrate how difficult it is to quantify the national 'decline' of an industry whose operations and ownership were increasingly global.

When viewed from the perspective of the fate of UK shipping companies (as opposed to the measurement of UK-registered shipping tonnage), it is clear that other factors contributed to the decline of the British fleet that lay outside the direct purview of the state and which are not given sufficient emphasis in the literature. Broadly speaking, these involved major changes in shipping finance and ownership; changes for which many liner companies were singularly ill-prepared.

New ships for UK shipowners had traditionally been commissioned and paid for by retained corporate profits. By the late 1950s, more ships were being commissioned using bank finance, underwritten by time charters[67] as collateral to cover construction costs. In many cases the industrial companies involved (handling oil, steel, ores and phosphates), provided the charters and understood shipping as just one part of their logistical operations. This new business used FoC and one-ship companies managed by shipping agencies, thereby distancing the beneficial owners from responsibility. Charter-backed finance was linked to supply and demand (no charter, no ship). However, an influx of Euro/Dollars[68] from capital, equity, or private placement markets, funnelled through commercial banks, mortgage banks, merchant banks or finance houses, transformed ships into 'floating real estate' (Stopford, 1997, p.198), divorced from trading requirements. By the 1970s, charter-backed finance was increasingly replaced by asset-backed finance, credit being forwarded to the owners on the basis of a first mortgage on the hull, removing any link to supply and demand.[69] Such behaviour created an upward spike in shipbuilding that, following various oil crises, generated excess supply and created a slump in the shipping industry, particularly the

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[67] See p 10 Glossary
[68] Investments in Europe by US companies which returned a profit but because of tax levels in the US were not re-patriated to the US but re-invested in Europe, often in shipping.
[69] The Japanese company Sanko Tankers ordered 125 ships and was declared bankrupt in 1985 with debts exceeding ¥100,000 million (no conversion rate).

oil trade. The falling value of oil tankers in particular made them the object of speculative short-term trading, with financiers who had no interest in maritime commerce buying ships when the price dropped, then mothballing them to sell when the price rose above the purchase price plus costs, a form of finance known as asset play (see Chapter 7, p.138).

Such developments illustrate how finance (and finance companies) came to dominate the shipping industry. When some ship owners felt the need to go public, floating on the stock market proved a risky business. Shipping companies' assets together with their tax and other fiscal privileges that could be shared amongst subsidiaries proved highly attractive to speculators, rendering publicly-quoted shipping companies vulnerable to hostile takeovers. Examples include Cunard's merger with Trafalgar House plc (1971) and the union between P&O and Bovis (1974). In neither case did the merger signify mutual commercial interests. Once all tax positions had been exploited (or had been officially terminated), the companies were then unwound or demerged into their constituent parts (Goss, 1998), leaving both shipping concerns as shadows of their former selves. Asset stripping of this type was taking place as air transport was eroding the profitability of specific trades that, coupled with the oversupply of trading vessels, reduced the value of ships to negligible proportions. More importantly, the shipping companies themselves were singularly ill-prepared for these developments; some did not even have finance departments in the 1960s and even those that did were unable to cope with the challenges to their time-honoured business practices and proved incapable of meeting the demands of markets and shareholders for annual accounts to demonstrate rising shareholder value and constant profitability. The ultimate failure of OCL to cope in this new climate is discussed in Chapter 6. This chapter has described the problems encountered by the British state in the 1950s in gaining access to shipping company accounts. However, this secretive world was exposed when these companies went public and became subject to market judgement.

Further diversification of ship ownership followed the emergence of multi-national companies in the 1970s using 'just-in-time' manufacturing systems. For such business, shipping was just one element in their global operations. Multinational corporations could base themselves in any country, where they built and registered their ships and hired their crews. With cheap ships and low taxes, little or no governance, low labour costs and sailing under FoC, multinationals globalised the national shipping companies

of nearly all maritime countries.[70] Just-in-time manufacturing, invented by the Japanese company Toyota and swiftly adopted by other firms, created international supply chains linked by company ships. For example, Nissan's factory in Sunderland, UK, would order components via the headquarters in Japan, a ship would leave Japan picking up the required parts from suppliers in China, Hong Kong and Singapore to arrive in Sunderland 'just-in-time' for immediate assembly. This removed the need for costly land-based storage, as ships operated as mobile warehouses.[71] The large number of ships required characterise the Japanese *sogo shosa*[72] business system. Ships are registered in Hong Kong, under Japanese ownership. Container shipping has become centred on non-western countries. According to Miller, (2012) most global sea traffic remains Asian. By 1990, the top six ports in the world were in Asia: Hong Kong, Singapore, Shanghai, Shenzen, Pusan and Kaoshung (Levinson, 2006, p.273).

Thus transformed, shipping finance and multi-national management strategies combined with dwindling state support to undermine established UK shipping companies. In 1960, eight cargo liner groups[73] controlled 80% of liner tonnage and all had many subsidiaries. For example, Ellerman Lines had 130 ships in three subsidiaries.[74] By 1980 there were just four ships left and these were taken over by Cunard. Furness Withey had 160 ships owned by subsidiaries including Shaw Saville & Albion, Royal Mail Line, PSNC and Manchester Liners. All were sold to Tung in 1980 for £112 million and transferred to the Hong Kong flag. At the time of Cunard's absorption by Trafalgar House, the shipping company operated 42 cargo ships. The owner sold all of them, including the cruise line business, finishing with the container ships (1989-91). P&O, the largest of all the British shipping companies, adapted more successfully and lasted longer than most. It was a founder partner of OCL in 1965 (see

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[70] The Maersk Corporation of Denmark is a global conglomerate, which with Danish government help retained its Danish identity. However, by 2016 it was in the process of dividing the company into stand-alone divisions in effort to combat falling cargo rates for its container ships.

[71] The factory in Sunderland being selected for, amongst other things, ease of entry into the European Union market.

[72] *Sogo shosa:* Japanese trading companies facilitated by the government, with many subsidiaries and able to repatriate earnings to Japan.

[73] P&O, Furness Withy, Cunard, Ellerman, Ocean Steamship, Vestey Group and Andrew Weir.

[74] Subsidiaries included Ellerman & Wilson, Ellerman & Papayanni and Ellerman City & Hall Lines.

Chapter 3,p.58) and absorbed the British & India Steam Navigation Company (1972) and the shipping lines Strick and Hains Nourse. The cargo division disappeared in the early 1980s, being replaced by the container ships of OCL. These ships went to the Maersk shipping company in 2005. The passenger division was rebranded in 1977, then demerged to Princess Cruises in 2000 leaving P&O with its ferry company, European Ferries. The rest of the company disappeared into the Dubai-based conglomerate DP World in 2006.

Many UK shipping companies disappeared in the 1970s and 1980s, as official subsidies were removed, and market pressures became stronger. Court Line,[75] many companies in the Seabridge consortium (bulk carriers), Ropener shipping, Reardon Smith, Lyle shipping, Runciman and Anchor Line all collapsed in 1981, and Brocklebank in 1983. Bibby Line's last ships disappeared in the 1980s, but it survived through diversification (floating accommodation and distribution), returning to shipping in the twenty-first century. Ben Line of Leith joined the Trio consortium in 1973, and with its demise and with no ships left, became Ben Line Agencies of Singapore, concentrating on shipping services. British & Commonwealth Shipping, which included Clan & King Lines, closed in 1986.

Some UK ships re-registered, particularly to the Isle of Man, Bermuda, Gibraltar and Hong Kong (see Appendix 1). British Petroleum had 93 ships on the British register in 1974. In 1984, renamed BP Shipping, it moved its remaining 30 ships to the Bermuda, Gibraltar and Bahamas registries and dismissed its entire sea-going staff of 1,690 officers and men (Hope, 1990). Shell Transport transferred 23 British registered ships to the Isle of Man registry in 1986-7 (ibid). The Isle of Man opened an offshore shipping registry in 1984, with a $300 fee and 20% direct taxation to companies. There was also the Income Tax (Exempt Companies) Act which gave further advantages to shipping. The Isle of Man registration system was classed by the International Shipping Federation as an Offshore register,[76] which is a secondary register for traditional maritime states for owners unable to stay in business under a national flag because of high labour costs. 'Ships on the Manx registry were allowed to fly the Red Ensign and were included on the UK register' (Hope, 1990, p.464). The Norwegian shipping

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[75] Court Line's shipping and shipbuilding were viable but their diversification strategy (tourism) bankrupted them.

[76] The other two classes being: an Independent open register i.e. Liberia, Panama and Cyprus; and dependency registers i.e. Hong Kong, and Gibraltar.

companies used a similar arrangement called the Norwegian International Register. The Germans and Danes also had a similar arrangement for their shipping.

A picture emerges of an industry propped up by (partly inadvertent) official subsidies that collapsed when that prop was removed. The closure of tax loopholes and the blanket withdrawal of state help following the election of a Conservative government in 1979 did not help, but the outcome was inevitable by then. Government intervention throughout the post-war decades had repeatedly rescued the shipping industry, most notably when promoting the foundation of OCL, but changing global finance and globalisation finished it off. The decline was exacerbated by complacency, a sense of entitlement and a desire to restore past practices found within much of the industry itself. Leaders of the industry failed to adapt to new circumstances and were unable to respond to the globalisation pressures which followed containerisation.

So far, this thesis has dealt with the general picture. In the following chapters, this study will examine the trajectories of two shipping companies whose origins were closely entwined: one weathered the decline of British shipping, but the other failed. These case studies illustrate the previously identified pressures which affected the shipping industry in general. In particular, the finances of shipping, the use of foreign jurisdictions for shipping and tax purposes, corporate administration, diversification initiatives and their selection of ships and trade routes, demonstrate the difference between success and failure to offer an analysis of factors that explain the different outcomes.

Chapter 5. The Ocean Steamship Company and John Swire & Son Ltd: An intertwined historical background

5.1 Introduction

The early chapters of this thesis offered an overview of the principal factors that contributed to the decline of the British shipping fleet, most of which have been discussed by many other authors. To these were added some new perspectives to demonstrate how fiscal and financial forces contributed to the decline. In the following chapters the situation is examined in more detail, using two case studies of shipping companies whose origins and early developments were closely entwined. Yet despite this close collaboration, their later histories unfolded very differently. One, Ocean, had virtually disappeared by the late twentieth century, while the other, John Swire and Son (JS&S), continues to flourish and prosper. Later chapters explore the historical development of each shipping company after the Second World War, but this chapter introduces them through their early history. Early success was built not on cut-throat competition, but on careful negotiation and close collaboration, not only with each other but also with the myriad of associated companies they created or engaged with to secure their commercial interests. In this regard, the banks played a prominent role.

Both companies originated in Liverpool in the early nineteenth century. Not only were their origins intertwined, both were also involved with a third party, Scotts of Greenock, a shipbuilding firm on the Clyde. From the 1860s until shipyard nationalisation in 1977, the three firms formed a support system which involved mutual ownership of shares, directorships and the sharing of information and technical expertise (Boyce & Ville, 2002). This arrangement was not unusual; many British shipping companies in the 1950s were allied to equally old established ship-building companies (Jamieson, 1998). This chapter will look at the origins of the two companies and will identify the joint ventures they undertook during the latter part of the nineteenth and into the middle of the twentieth centuries.

JS&S was a Liverpool-based trading company, founded in 1816, which imported cotton from the US for the Lancashire cotton mills. The founders of Ocean, Alfred and Phillip Holt, were the sons of a wealthy cotton-broker who also imported cotton into Liverpool from the US, and one of whose ships, *Plantagenet*, was built by Scotts of Greenock. In 1865 after the death of their father and the sale of their small fleet, the Holt brothers formed the Ocean Steamship and Trading Company (Hyde, 1957) to provide a

steamship cargo-service between the UK and China. The company was privately owned, and the capital came from the Holt brothers, family and friends. This included the Swire family 'who purchased 2,000 shares valued at £1,570' (Marriner & Hyde, 1967, p.17). The Holt brothers took on the management of the ships. Shares in a ship were often divided into sixty-fourths, which could be held by any number of individuals, and out of this group a minority would manage the ship, as the Holt brothers did. The business world of Liverpool at the time, particularly the shipping and trading elements, was fairly close-knit and the same family names recur. These include the Ismays of the White Star Line (later Cunard White Star), the Harrison brothers, the Rathbones, the Lamports and the Booths. The Holts, Rathbones, Lamports and Booths (all of whom later became Ocean's partners in the US trade) were not only business acquaintances but were all members of the same Unitarian chapel (Smith, Crosbie et al., 2003), and Unitarian beliefs tended to infuse the companies' ethical position for the next 125 years. Sometime between 1866 and 1876, JS&S relocated its offices to London. There is no documented reason for the move, but one reason could be that banking and associated maritime industries were located there and JS&S at this time was more of a trading than a shipping company. In 1871, JS&S was appointed as the inward-bound agent for Ocean's ships arriving in London, usually from the Far East. This particular agency existed until 1945. JS&S's original trade orientation was to the US then Australia, but the focus eventually shifted to China. It established a subsidiary company, Butterfield & Swire (B&S), in Shanghai in 1866: the partner Richard Butterfield was a Yorkshire wool merchant with business in China. There were disagreements between the partners, and so the partnership was dissolved in 1868 when Butterfield withdrew from Butterfield & Swire (Marriner & Hyde, 1967).

Alfred Holt was also an engineer and had devised a new propulsion unit for the three ships that he had ordered in January 1865 from the Scott shipyard on the Clyde. The tandem-type, triple-compound steam engine used less coal and was therefore more economical (Hyde, 1957). When Ocean's ship *Agamemnon* sailed on 19 April 1866 for the Far East, it was the first steamship to sail non-stop round the Cape of Good Hope to Mauritius, arriving at Shanghai 77 days after leaving Liverpool, fore-shadowing the end of the merchant sailing-ship. All Ocean's ships had classical Greek names and the distinctive funnel colour of azure blue topped with black. The vessels built by Ocean

performed with reliability and economy for the length of the company's business involvement in shipping.[77]

By 1870, B&S had become the shipping agent for Ocean in the Far East, and in 1872 John Samuel Swire decided to form a shipping company to trade in the Far East, to be known as the China Navigation Company (CNCo). This was set up in London with a nominal capital of £360,000, with the main shareholders being J.S. Swire and W.H. Swire, other shares were held by the Holts, Rathbones, Ismays, Imrie, Dale, Harrison and John Scott, while B&S was appointed to manage the company (Marriner & Hyde, 1967, p.60). In 1874 JS&S set up the Coast Boats Ownery Shipping Company. Though the total number of these coastal ships was never more than seven, they became very profitable, transferring beans and bean cake[78] from northern China to the southern ports of Shantou and Xiamen (Marriner & Hyde, 1967). The CNCo and the Coast Boats Ownery Shipping Company were amalgamated in 1883. The original intention behind the formation of the CNCo was to provide a feeder service[79] for Ocean's ships. The CNCo moved cargoes from the hinterland of China, in particular the Yangtze River trade,[80] to Ocean's deep-water ports. Several of the larger ships in the CNCo fleet traded in the Pacific Rim area as far afield as Australia.

5.2 Butterfield & Swire: a joint venture

B&S, integral to the early success of both JS&S and Ocean, used the Chinese name Taikoo[81] (Marriner & Hyde, 1967) throughout its business life in Asia. The company was the main interface between shippers, both import and export, and the shipping lines. Through its Chinese contacts (the compradors[82]) it arranged for cargos to be collected and loaded onto ships for export. It also arranged for the unloading of ships and the storage and onward transfers for imported cargos. B&S had branches in

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[77] See Appendix 6 for specifications and pictures of 4 Blue Funnel ships through the period 1931-1960

[78] The modern colloquial name for CNCo ships is *beancakers*

[79] Feeder service: small craft using rivers, waterways and creeks to pick up/deliver small parcels of goods from/to larger ocean-going vessels.

[80] The Yangtze River trade was based on the 2,000-mile-long river from Shanghai to Chongqing and was the only entrance into some of the vast inland sections of China.

[81] Taikoo: a Chinese Hong (House) name meaning 'Great and Ancient', given by the Chinese and referred to by J.S. Swire in 1881.

[82]See Chapter, 7 p.144, for description of the Compradors and their work.

Shanghai, Fuzhou, Shantou and along the Yangtze River, and from 1870 in Hong Kong, which would eventually become the firm's headquarters in Asia. In Japan, the Yokohama office was set up and maintained in the hope of establishing a trans-Pacific trade with the US (Marriner & Hyde, 1967).

B&S initially exported tea and silks from the Far East and imported cotton and woollen goods from the UK, but the agency business also encompassed the representation of UK banks in China. At smaller ports, B&S acted as a bank, printing its own promissory notes. B&S also acted for insurance companies in China, such as the London and Lancashire,[83] the Royal Exchange and the Palatine and Atlas Assurance Company. At the same time, it built up its own fire and marine insurance account under the *Taikoo* firemark (Havilland, 1992). B&S's shipping agency interests included its own shipping line, the China Navigation Company (CNCo), also White Star and Scottish Oriental lines. But the biggest client for the B&S agency was always Ocean's Blue Funnel Line on whose behalf they acted in the Far East for more than 120 years.

5.3 Ocean's companies

After the opening of the Suez Canal, Stapledon & Sons,[84] a subsidiary of Ocean, opened shipping agency offices to service both ends of the canal in Port Said and Port Tewfik. By 1891, Ocean had become a majority shareholder in an Amsterdam-based shipping company, Nederlandshe Stoomvart Maatschappij Oceaan (NMSO) which traded in the Dutch East Indies. The minority share was held by a Dutch company, J. B. Meyer and Co. At the same time, Ocean created the East India Ocean Steamship Company, a feeder fleet for NSMO, specifically for the Malaccan Straits trade based in Singapore but controlled from Liverpool. NSMO gave Ocean freedom of entry into Javanese ports where their ships, under the Dutch flag, competed on equal terms with those of the Dutch shipping companies, Nederland Lloyd and Rotterdam Lloyd (Hyde, 1957). This led to a rates war with the Dutch in the East Indies, until an agreement was reached in 1892 over trades between what is now Indonesia and Europe. Ocean remained associated with NMSO until the 1970s. The East India Ocean Steamship Company had been sold to North German Lloyd in 1899. At the start of hostilities in the First World War, the Straits Steamship Company (SSC) of Penang, Malaya, was

[83] SOAS Archive JSS/1 /7/9/1 Peat Marwick Report, London & Lancs Insurance, a 17.5% preference stockholder in JS&S June 1976.
[84] The Stapledon family were a sub-branch of the Holt family.

approached by Ocean to take over from North German Lloyd. In return, Ocean made capital available to enable the Straits Company to increase the size of its fleet (Hyde, 1957). This was the start of a long and profitable relationship between Ocean and the SSC. As a result, a relationship was also built between JS&S and the SSC, who then used the JS&S-owned *Taikoo* dockyard in Hong Kong for building and refurbishment of its ships.

Though B&S represented Ocean in China and Japan, Mansfields of Singapore represented Ocean's interests in Singapore, the Straits of Malacca, Malaya, parts of the Dutch East Indies and Borneo. Mansfields had been Ocean's agent in Singapore from 1868. 'From 1903 Ocean held the majority of shares (130 shares out of a total of 200) in Mansfields of Singapore, making Ocean the actual owner'. (Falkus, 1990, p.79) Ocean then appointed the managers to run the company, many of whom were Ocean executives who, later in their careers, often returned to Ocean or Elder Dempster, another Ocean-managed company. Mansfields, whilst acting as agents for Ocean, also acted for JS&S and its shipping line CNCo in Singapore, Penang, Burma, Malaya and the Straits of Malacca. Mansfields were also managers and agents of the Straits Steamship Company (SSCo). The SSCo specialised in small ships (75 tons) and was the pre-eminent feeder company in the Straits, visiting remote villages, very rarely losing sight of land, but shifting large amounts of cargo, principally to Singapore, for loading onto Ocean's Blue Funnel ships. Originally a Chinese, British and Dutch company, the board of SSCo was:

> 'Sino-British, its shore-side, technical and managerial staff comprised Britons, Eurasians and Chinese, its shore labour Malays and Chinese, its sea staff Britons, Chinese and Malays' (Woodman, 2010, p.103).

The closeness of the SSCo and Mansfields to Ocean was illustrated by the fact that they both operated out of Ocean House, Ocean's headquarters in Singapore, and the SSCo ships funnel colours were the same as Blue Funnel except for an additional white band at the base: '[s]o there was no mistaking the connection with a *Semprong Kapal Blau* of the larger line'. (ibid, p.103)

5.4 The Far East Shipping Conference and other joint ventures

Opened in 1869, the Suez Canal shortened the journey time between Europe and the Far East considerably. Whilst this increased Ocean's and JS&S's business, it also encouraged new entrants into the market. This unregulated market had caused

problems in the India trade[85] and a conference system was introduced in 1875. This success provided a template for John Samuel Swire to set up the Far East Trade Agreement, or the Agreement for the Working of the China and Japan trade in 1879 (Hyde, 1957).[86] The principal aim of JS&S was the protection of Ocean's trade with China, but a secondary consideration was the fact that the shipping routes were lines of communication for the transport of colonial administrators and supplies, so Ocean could ensure an orderly supply of British ships to service the needs of the British Empire. JS&S was also instrumental in persuading the Holt brothers of the merits of the conference system. In 1902, Ocean bought one of its rivals in the Far East trade, the China Mutual Steam Navigation Company Ltd, which traded from Glasgow, the third of the imperial-based trade ports, the other two being London and Liverpool (White, 2008). This brought a further thirteen ships to the fleet and strengthened Ocean's association with Glasgow, but it was China Mutual' s voting share in the Far East conference which was a major advantage in the purchase. China Mutual remained a separate entity for conference voting and accounting purposes.

In 1881, Swire established the Taikoo Sugar Refinery in Hong Kong, with the Holt family taking a share of the business, along with Thomas Ismay (White Star Line). Swire had acquired the plans of the most efficient sugar refinery in Britain at that time (Richardson's on the Clyde) and had a replica refinery built which opened in 1884 (Marriner & Hyde, 1967). By 1925, the *Taikoo* Sugar Refinery was the largest single-unit sugar refinery in the world.

Further industrial developments in the Far East started in 1900. On the land leased but unused by the Taikoo sugar refinery, it was mooted to build a dockyard, but it would have required more land. JS&S:

> '…[a]pplied to Joseph Chamberlain, Secretary of State for the Colonies, for an extension of the lease of ninety-nine years offered by the Hong Kong government, to a period of nine hundred and ninety-nine years and for additional land' (Marriner & Hyde, 1967, p.130).

This would be the Taikoo Dockyard and Engineering Company, eventually established in 1908 by the then chairman of Swire, James Henry Scott,[87] who had acquired the 52

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[85] See Chapter 3, p 41. Cartels/shipping conferences

[86] Hyde (1957) p.60. Original signatories were the Holt's, Glens, Castles, P&O and the French line Messageries Maritime.

[87] James Henry Scott was the son of the Greenock shipbuilder C.C. Scott, and senior partner in B&S, and he became chairman in 1898.

acres of land at Quarry Bay in Hong Kong. In gaining the extra land, they also gave assurances to the British government that the dockyard would be able to cope with the largest Royal Navy warships. The cost was £250,000. Scott's engineers helped with the construction and provided the technical support for the dockyard which continued throughout the inter-war years. Ships were built at the yard from 1909 and included those for the CNCo, the Philippine government and Ocean's Straits Steamship Company.

In 1904, Ocean and JS&S formed the Tientsin (Tiansin) Lighter Company Ltd, each holding 50% of the shares and appointing B&S as operating manager. The main access to the Chinese central hinterland was via the Yangtze River and Shanghai. Entry into Southern China was through the ports of Fuzhou, Xiamen, Shantou, Hong Kong and Gwangzhou, but access to northern China was problematic. The port of Tiansin, gateway to Beijing and Northern China, was protected by a sand bar (the Taku Bar) so the cargo of larger ships had to be unloaded into barges. To overcome the problem the Tiansin Lighter Company had its own tugs and barges specifically equipped for the fast discharge of ships which enabled a quicker turn-round. The position of Tiansin in relation to Korea and Japan also gave Ocean and B&S, who had established offices there, the opportunity to advance their trade with those countries. Ocean had long held ambitions for a trans-Pacific trade from the US to the Far East via Japan. B&S already had an office in Yokohama, Japan, in the hope of starting the same trade. The prospects of that trade greatly increased after Ocean bought the Indra Line Shipping Company in 1915. The line itself was of little consequence but it gave Ocean conference rights on the US east coast. Allied with Ocean's ports on the west coast and the opening of the Panama Canal in 1914, this founded Ocean's round-the-world service.

5.5 The years before the Second World War

Similar diverse developments continued throughout the inter-war years, with Ocean and JS&S collaborating on a number of projects, including property deals in Liverpool, Hong Kong, Singapore, Hangkou and Sumatra, with favourable concessions to each other in shipping-related matters. These included private discounts to Ocean ships at the Taikoo dockyard, with Ocean agreeing to train cadets for Swire's CNCo line and to provide diesel engineers for Swire ships. JS&S continued to form companies in China, and in 1932 it founded the Orient Paint and Varnish Company in Shanghai with the British paint company, Pinchin Johnston & Co. The Orient Paint and Varnish Company

was extremely successful. At that time there were high quality paints in China and low quality locally produced paints, but there was no company in China producing industrial quality paint. With Pinchin Johnston providing the expertise in paint production, B&S mobilised its Chinese connections by providing board level information to those same connections. This enabled a senior government ministers and a senior official to invest in the company, which gave the company a Chinese presence which it needed to break into the wider Chinese market (Boyce, 2001). B&S also carried out the marketing functions, providing the paint to the Taikoo Dockyard to paint the ships for instance. In 1948 it merged with Duro Paint Manufactures. This firm continued into the post-war period with the business moving to Hong Kong.

Ocean, like many other shipping companies, had a profitable time throughout the First World War (Hope, 1990). Its finances were such that Ocean was able to pay a dividend to shareholders throughout the 1930s depression, which very few shipping companies were able to do. In 1932 the British government had asked Ocean's senior manager, Richard Durning Holt, to take part in the rescue of Kylsant's Royal Mail Group. The rescue was organised by Lord Runciman, a leading shipowner, who appointed the merchant banking firm of Baring Brothers to assist in the sale of assets. Ocean bought some of those assets, including Glen Line with its subsidiary Shire Line. Ocean also took a major share in Elder Dempster shipping. Baring Brothers began a long association with Ocean as a result of these acquisitions and would continue to advise Ocean on the full takeover of Elders by Ocean in 1965, and the acquisition of Wm Cory Ltd in 1973 (White, 2011). This nexus between banking and shipping has been noted in previous sections of this thesis.

By 1939, Ocean's position in world shipping was still pre-eminent. This was due in part to the existence of the British Empire and Ocean's logistical place in the running of that Empire, also in part due to Ocean's and JS&S's places in a globalised, though Eurocentric, operation carrying cargoes of colonial commodities homeward to Europe and manufactured and processed goods outward. The two companies had created a diversified, globalised operation with multiple productive and trading interests, stretching from the UK through Malaya, China, Australasia, Japan and across the Pacific to the US. This was the globalisation which had its origins in the late nineteenth century which for many others had ended in 1914 (Osterhammel & Petersson, 2005). However, as Miller (2012, p.209) points out: 'Globalisation advanced as well as contracted in the years viewed as ones of retreat', and that throughout the twentieth

century maritime commerce was globalised. The economic trading empires, which including Ocean and JS&S, continued to operate in a global environment with their operations controlled through their main offices in Liverpool, London, Singapore, Hong Kong, Yokohama and Shanghai. The CNCo and Ocean's shipping companies, Blue Funnel and Glen Line, would be engaged in numerous collaborations throughout the subsequent decades. This involved the sharing of shipping routes, conference partnerships and shared involvement in the containerisation of trades as modernisation encroached on traditional practices. At a senior level, as following chapters show, JS&S and Ocean were later involved in creating shared companies such as airlines and air-cargo services, joint shipping companies and the organisation in the Pacific Rim of container terminals.

5.6 Future trajectories

As private corporations, both Ocean (until February 1965) and JS&S had the advantage over publicly-quoted shipping companies such as P&O, Cunard Ltd, Furness Withy & Co Ltd, Ellerman Lines, Donaldson Line Ltd and Ropener Holdings (primarily a tramp company), in the way that they presented their finances. The managers and family members were the owners and there was no need to answer enquiries from the financial press or to present accounts to satisfy outside shareholders. There is no evidence to suggest either company took advantage of the Companies (Shipping Companies Exemption) Order 1948, an exemption which, among other things, allowed shipping companies to conceal the amount held in their reserves and to conceal the amounts transferred to and from those reserves. However, both were private companies at the time the Order was in force, and they could obfuscate their accounts without relying on its coverage. By the 1960s, both JS&S and Ocean had opaque tax arrangements: Ocean owned Bermudian companies and JS&S had tax arrangements which revolved around Hong Kong, a low-tax haven.

The following chapters will document how Ocean and JS&S faced the challenges in the far eastern trades in the years following 1945. Those challenges were quick to emerge, especially in the case of JS&S. China was the focal point of their business until 1939, then during the Second World War until 1945, quickly followed by a civil war in China which ended in 1949, business in the region was at a standstill. Initially JS&S

thought that they could work with the communist regime[88] which had taken control of the Chinese mainland, but foreign companies were placed under severe restrictions, so the company finally withdrew in 1954.[89] JS&S, through its agency B&S, was forced to turn to the Pacific rim countries, especially Japan, New Guinea and Australia.

For Ocean, the post-war problems were slow to make an appearance. The conference system and trade routes were soon back to what Ocean understood to be their rightful position, in fact somewhat better as there were no rival Japanese or German merchant fleets in the picture. Self-determination for India, though not directly affecting Ocean, did mean that there was shipping diverted away from India looking for cargoes outside their usual areas. However, the independence of the former Dutch East Indies, later Indonesia, directly affected Ocean and its subsidiary the NMSO, and made the area an increasing worry for some of Ocean's executives.

5.7 Summary

This chapter has outlined the joint development of the two shipping companies used as case studies in this thesis. It illustrates how early commercial interests and close family connections created a bond that blossomed into joint initiatives, particularly in the Far East, where new corporate entities widened and reinforced networks of trade and associated commercial ventures to secure collective profit. This chapter has also demonstrated how a private family firm was not accountable to any external pressures to conform with established accounting practices. This allowed sleight of hand to reduce tax liability in the UK, but also allowed extensive flexibility for these companies to take advantage of the opportunities offered by imperial links and preferences, enabling effortless expansion. In the post-war world, however, as European dominance was thrown into question, both companies encountered stiffer challenges, which the following chapters will show.

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[88] SOAS Archive JSS/1/2/27. Chairmen's Company Report 1950: 'there is no corruption and there is among officials a sense of duty'.

[89] SOAS Archive JSS/1/3/21. Letter dated 77/3/1952. B&S Hong Kong to London China: 'the situation has deteriorated rapidly, we can no longer ask people to live and work over there [the Chinese mainland]'.

Chapter 6. Case Study No 1: The Ocean Steamship Trading Company

6.1 Introduction

This chapter is organised into two periods: 1945 to 1965, and 1965 to 1990. The first covers the years when Ocean operated as a private company and the second was when Ocean became a public company with shares traded on the stock exchange. This was the era of the corporate raiders, otherwise known as the asset strippers, such as Tiny Rowland (Lonhro) Jim Slater (Slater Walker) James Hanson (Hanson Trust) and Oliver Jessel (Jessel Securities). The modern term for this sort of business is the Private Equity Company. In light of the changing nature of stock trading in the late 1960s and 1970s, it was common for hostile takeovers to take place, with the asset strippers buying up shares piecemeal until they could make a bid to take over the whole. Companies coming to the market with an investment fund as large as Ocean's and with unused tax allowances would be targets for speculators. When Ocean became a stock market quoted public company, the established management team did not recruit any experienced financial staff from outside the company, instead it was business as usual. Ocean sought to continue with the same managerial staff and structures that had been acceptable for a private company, but which proved singularly inappropriate for a public-quoted company.

Ocean had started in an advantageous position after the war, thanks to the re-instatement of pre-war conference agreements and the rebuilding of the Straits Steamship Company. Although Ocean had lost ships and some property in the Far East, the fundamentals remained in place. The conference was in working order minus the Japanese and German fleets (the New Guinea trade). Old trade routes were re-opened and new ships were on order, their agents in the Far East were recovering fast and coping well with the chaos following the war, and Ocean regained its position as a senior and active member of the shipping conferences. The early period witnessed the re-construction of Ocean's fleet, with the last conventional ships being built as late as 1967. External factors caused problems for Ocean, notably de-colonisation. The major apparent problem for other shipping companies, FoC, had very little impact on Ocean until a much later date, and flag discrimination as practised by the US did not impinge on Ocean's business.

In the period 1945 to 1965, Ocean seemed to have all the assets required for a successful shipping company. It was the most successful of Liverpool's many shipping

companies and made a virtue of the fact that it was Liverpool-based. In shipping: 'Liverpool led the world and they [Ocean] led Liverpool.' (Miller, 2012, p. 52) The company had a seemingly successful management team with senior managers recruited from an Oxbridge intellectual elite. They were also pillars of Liverpool's civic establishment and influential members of the various shipowners' professional and political organisations. However, the organisation of the company and decisions taken by management in the period before 1965 would have a decisive bearing on the company's eventual collapse.

The second period, 1965 to 1990, was mostly concerned with Ocean's attempts to come to terms with a totally different way of doing business after its stock market flotation. Management structures were re-organised at least three times. The decisions made by the company, such as joining the container consortium Overseas Containers Limited (OCL), buying Liner Holdings, and the diversification into various shipping trades in which Ocean had very little knowledge, are examined below. The acquisition of Wm Cory & Son and the loss of OCL, which led to the demise of Ocean as a shipping company, are also discussed.

The next section shows the advantageous conference arrangements Ocean initially enjoyed. Though many of the arrangements were made pre-war, the post-war period saw a full restoration of all conference rights. The re-organisation of Ocean's subsidiary, the Straits Steamship Company, gave its agents in the Straits of Malacca, Mansfields, a head start over its rivals which was fully exploited. As argued below, it was the changed form of corporate finance and the failure of the company to adapt managerial practice to new circumstances that proved Ocean's undoing.

6.2 The Far East Freight Conference after 1945

The conference system was vital to the commercial success of Ocean and this section addresses Ocean's attempts to deal with pricing issues relating to availability of ships, cargoes and routes. While Ocean undoubtedly benefited from the conference system, this cosy relationship where the conference provided guaranteed loads or payment and rates for cargoes which were set by members of the cartel, had an inbuilt disadvantage, namely inertia. Ocean, like other companies in a similar position, had long been sheltered by agencies, companies' agreements and cartels built up before the war. Ocean's business had long relied on collaboration, so the advent of post-war competition took it by surprise. The company had not considered building bigger or different types of ships or competing for different trades because they were guaranteed

returns in the conference as reflected by the terms and conditions of the conference agreement. In the long run, Ocean was completely reliant on the conference system and unable to envisage any alternative.

For Ocean, the cornerstone of the Far East Freight Conference was the Lancashire and Yorkshire Agreement of 1911, which divided outward-bound cargos to the Far East between loading ports on the East and West coasts of the UK. Ocean's Blue Funnel Line and a wholly-owned shipping subsidiary, the China Mutual Line, had a monopoly over loading rights for two major imperial ports (Glasgow and Liverpool) on the West Coast of the UK, with the East Coast and London split between all the other shipping companies. There was also a pooling agreement for Lancashire and Yorkshire fine goods with some general cargoes added later. Essentially, Ocean and its subsidiaries got two-thirds of all outward-bound cargoes to the Far East. In 1951 a memorandum from P&O confirmed that: 'In our view the Lancs/Yorks Agreement remains the basic agreement of the Far Eastern Freight Conference' (Falkus, 1990, p.128). This agreement would hold until the advent of containerisation in the 1970s.

In 1932, in the aftermath of the Kylsant affair (see Chapter 3, p.53), Ocean had acquired Glen Line and its subsidiary, Shire Line. This gave Ocean additional voting rights in the Far East conferences. Along with the China Mutual and Blue Funnel votes, Ocean dominated the conference. To maintain the separate votes in the conference, China Mutual, Glen and Shire Line were named in the Ocean accounts as separate entities, a ruse used by other shipping companies with subsidiaries. With the acquisition of the Glen and Shire lines, Ocean also gained rights (thanks to their conference allocations) to load on the UK East coast. Combined with its monopoly of the West coast, this increased Ocean's flexibility with its cargo loading.

Another trade agreement which had significant impact on Ocean's profitability was the Victoria Point agreement. This was reached in response to Ocean's and Mansfield's shipping lines' (along with its associates JS&S and its shipping line CNCo) encroachment on trading areas which were spheres of influence of P&O and B&I. An agreement was signed on 21 May 1925 effectively dividing up the Far East from Aden to Vladivostok (Woodman, 2010, p.45). P&O and B&I would have the Indian area, Ocean's Blue Funnel line, JS&S and the CNCo would have the China area, and the Straits would be open to both sides with Mansfields providing a feeder service through its SSCo shipping line.

After the Second World War, ties with the Empire were being cut or shortened. Newly independent countries linked to Ocean, notably Indonesia and eventually Malaya, wanted to run their own trade and shipping lines outside the conferences. Although the conference system was becoming restrained, Ocean remained an active and committed player. Ocean's senior manager, Sir John Nicholson, was chairman of the Far Eastern conference from October 1969 to June 1972. While the conference system suited Ocean and its management teams, a more sophisticated business policy in the Far East could have seen Ocean taking a more pro-active stance in helping emerging countries achieve their ambitions. However, Ocean made no move towards any co-operative policy in the Far East, unlike their associated company JS&S.[90] It was not until the container age was firmly established, when Ocean had withdrawn from shipping in any meaningful way, that the cartel system changed. The Far East Freight Conference, known in its later years as the Europe Asia box cartel, was, after a four-year study by the European Union, noted previously, finally banned in October 2008 (Goss, 2011).

6.3 Rebuilding the Straits Steamship Company (SSCo)

Ocean considered Mansfields and, in particular, the SSCo, to be a vital cog in the Malacca Straits trade and went to considerable lengths to recover its pre-war position in that area. This particular episode demonstrates the extent to which Ocean retained considerable advantage in this area at the end of the war.

SSCo had closed during the war and had been re-registered in London in 1943 as the Singapore Straits Steamship Company for the duration (Falkus, 1990). The directors of the company were Ocean executives led by Sir John Hobhouse, a senior manager. The Straits Steamship Company was re-registered in Singapore in 1947 and the London company closed, by which time SSCo had: '53 vessels totalling 38,386 tons compared to 52 vessels, 38,103 tons pre-war' (Falkus, 1990, p.279). This extraordinary re-building programme had started in 1943 when the company and its directors had been selected to build and run the cargo fleet for the forthcoming invasion of the Far East by allied forces. The contractual and financial reasons for the building of this fleet are obscure. However, Sir John Nicholson, an Ocean manager, was seconded to the Ministry of War Transport and, according to White (2008), was an adviser to the Allied Command on shipping aspects of the liberation of south east Asia.

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[90] See Appendix 5 JS&S, Malaya and the pilgrim ships.

With the surrender of the Japanese in 1945, the armada was not needed. By 1947, SSCo had acquired 29 ships plus: 'Further additions, three other ex-ministry ships, two new 75 tonners from England and four Australian built ships' (Falkus, 1990, p.279). In the late 1940s the SSCo found itself in a much stronger commercial position than any of its competitors in the Far East.

6.4 Trade and decolonisation in the Far East

For Ocean, trade in the Far East was mainly conducted through its agents, B&S and Mansfields, although it did have managers whose portfolio included politics in the various areas for which they had responsibility. Although there were conflicts after 1945 in the Far East, China, Indonesia, Indo-China, Korea and Suez, this only made for buoyant trading conditions, of which Ocean companies Blue Funnel and Glen Line were able to take full advantage. The British government's decision in 1949 to encourage British shipping to develop trade within the sterling area greatly benefitted Ocean, as many of its traditional trading areas lay within the sterling-based Commonwealth, Malaya, Hong Kong, Singapore, Australia and New Zealand. Another advantage was that German and Japanese shipping did not re-enter the conferences until after 1953. This gave Blue Funnel an early start in the Japanese trades. The Korean War (1950-1953) provided a boom time for most British shipping, not only with the shipment of war supplies but also with the stockpiling of goods and raw materials in expectation of further conflict with the USSR. With the closure of the Suez Canal in 1956, there was another brief opening for large profits to be made as shipping was re-routed round the Cape of Good Hope, leading to a shortage of tonnage, and pushing freight rates ever higher.

However, after Indian independence in 1948, nationalism in other countries was on the rise. Malaya had an ongoing insurgency and there was unrest in Indo-China. In Ocean's case, trade with Malaya and Indonesia became particularly problematic. Indonesia had excluded NMSO from Indonesian waters from 1957 to 1958 after it nationalised Dutch assets in the former colony.[91] In the early 1960s, Ocean was caught in the middle of a confrontation between Indonesia and Malaya. Ocean was seen by the Indonesian authorities, especially by President Sukarno, as backing the Malaysian regime. Sukarno told Ocean that the British flag would have to be withdrawn from Indonesia from January 1965. However, by then the NMSO was allowed to return as

[91] OA 1696 Box 2. Complete file on Indonesia and the NMSO.

a Netherlands-registered concern, but it did not have the necessary number of ships to cover the withdrawal of Ocean's Blue Funnel line (White, 2008).

The situation in Malaysia and Singapore was a constant source of concern to the managers of Ocean, from the Communist insurgency in 1953 up to and beyond independence in 1957. This was because the trade in both directions made up 50% of Ocean's (Blue Funnel and Glen Line) total trade (White, 2008). Unlike their counterparts in JS&S[92], Ocean's managers were mistrustful of local politicians and business people running their own affairs. Senior Ocean managers[93] expressed anti-decolonisation views at various times on the de-colonisation process in Malaya and Singapore.[94] The Malaysians had expressed a wish to be involved in shipping[95] that served their country. Ocean had hoped that the SSCo could form the basis of a national line, but the Malaysian entrepreneur Robert Kuok had by 1968 formed the Malaysian International Shipping Corporation with Malayan government participation.[96] By 1970 the Malay shipping company had three ships running between the Far East and Europe. This was followed by Chinese entrepreneurs in Singapore forming their own line, the Neptune Orient Line. This left the SSCo side-lined. According to the Ocean board its future was in doubt and liable to become less profitable (White, 2008).

6.5 Shipping developments: new ships and the advent of containerisation

Ships and shipping were the reasons for Ocean's existence as a business, and its ships and crews enjoyed a high reputation for efficiency and reliability. One would expect that, in the areas of investment strategy and restructuring decisions made by the managers of Ocean, they would be first class given the elevated view they had of their own competence and the position of their company within the industry.

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[92] See Appendix 5 Swire in Malaya

[93] OA 671 Sir John Hobson, who joined Ocean in 1912 became senior manager in 1920 and resigned in 1957, in a Lecture on 26 May 1952 he blamed the Labour government for giving foreigners the wrong idea (nationalisation). Sir John Nicholson opined in 1957 that he did not like the political smell of the Malaya.

[94] OA 1075, Memorandum by Hobhouse, 14 March 1956. Political leaders without experience of government or the obligations of a responsible position.

[95] See Appendix 5 Malaya and the pilgrim trade

[96] Robert Kuok started with two ships bought with Japanese reparation money A former rice trader under the Japanese occupation, Kuok became the richest man in Malaysia. He was also involved with Ocean and Malaya Airways

By 1945, Ocean's Blue Funnel Line had been reduced to 34 vessels, from 75 in 1938. However, Ocean had been making plans since 1943 on the assumption that post-war all Blue Funnel (and Glen) trades would recover their pre-war shape and that the company would recover its traditional share (Falkus, 1990). Ocean decided to build new tonnage as quickly as possible and purchase some war-time tonnage. The company bought three British-built ships, fourteen American-built ships, and ordered eight cargo liners from British shipyards. Ocean had £13 million in cash reserves to build the eight (A class) cargo liners which cost at least £600,000 each. The fourteen US liberty ships (six *Victory* type and eight *Liberty* type) which cost a total of £4 million were in service by the late 1940s. The average cost in the market of a *Liberty* ship as noted ppreviously was approximately £40,000.

There is some debate about the management decisions taken by Ocean to build these ships (Falkus, 1990; Woodman, 2012). The decision not to buy more war-built tonnage in 1947 could have been due to a misreading of the markets by senior managers. There was a shortage of tonnage after the war, and with rising freight rates, it would have made good business sense to buy ready-built ships instead of placing orders in overstretched yards for new builds. Ocean built 38 ships between 1947 and 1957 for Blue Funnel, the last ships arriving just as the boom was ending in 1958. Although Ocean's ships generally had a long life-span and were well built, they were expensive. Such ships would last 25 years, when the write-off period around this time was about 10 to 15 years. It is possible that if Ocean had bought more ready-made ships, had not modified them and used them to plug the gap while their ships were being built, then sold them on as their new ships came on line, their business would have continued, and they would have had more time to judge what ships (size and speed) would be required for future trade. 'The foundation for liner companies was being in the right trades in the right ships in the right numbers' (Miller, 2012, p.97). Discussions within Ocean to replace early post-war tonnage started in the late 1950s. The decision whether or not to build *Glenalmond* and *Priam* [97]classes in 1958 was difficult for Ocean. In this same period, barely noticed in the UK, containerisation was already underway

[97] Shipping companies tended to build classes of ships with the first ship in each class carrying the name e.g. the Encounter Bay for OCL the following ships with the same spec were Encounter Bay class

in the US, and Matson had started oceanic services with containers from California to Hawaii in 1958.[98]

Whilst debating the decision about the *Priam* class ships in March 1958, Ocean decided to go ahead with an order for a new class of four notable motor ships for Glen Line, which had taken some time to recover after the Second World War. When it received their ships back from government service it had the fastest ships on the Far East run, but Ocean was in constant competition with Ben Line of Leith, a member of the same conference which loaded on the UK's east coast. The two companies were bitter rivals throughout the 1950s and 1960s (Woodman, 2012). Eventually, in 1974, Ocean: 'swallowed its long-held rivalry with Ben to form a joint service' (White, 2008, p.179).

In the interim, Ocean needed faster ships to compete with Ben Line. These were ordered in 1960, two from British shipyards and two from Dutch shipyards, and delivered in 1962 and 1963. The senior managers were possibly half right about the *Glen* ships but, with the advent of container ships on the horizon, wrong about the *Priams*, as there was always the ability to charter ships as a stop gap. But, as Miller (2012) points out, the history of shipping is littered with wrong choices and occasionally the company crash which follows.

In 1959, Sir John Nicholson, along with other chairmen of British shipping companies, having heard about containers, commissioned a report on the future of cargo handling from R T Crakes, a cargo superintendent at Ocean. Unfortunately, Crakes' remit was so limited that his report concluded:

> 'So far as Blue Funnel is concerned there is certainly no future in fully containerised vessels in the near future or indeed in the foreseeable future'.[99]

It could be that Crakes was telling his employers what they wanted to hear. Crakes argued that the way forward was palletisation.[100] However, American shipping companies had rejected pallets, finding that too much cargo space was lost on board ship. Pallets did not lend themselves to intermodality, that is the easy transfer between

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[98] See Chapter 3 sec 4b US container services.
[99] OA 2001 Report on Containerisation dated 20 Dec 59. Crakes also links the furtherance of containers to nuclear powered ships.
[100] The stacking of goods on wooden or metal bases and using fork lifts to stack and load/unload the cargo.

one transport system and another (Miller, 2012). It is surprising that, given the supposed intellectual capacity of the senior managers at Ocean, the report ended any more discussion on containers within the company. This begs the question, of whether Ocean managers were basing their decision solely on the Crakes Report when ordering the *Priam*-class ships in 1964, at a cost of £18 million. These British-built ships were disastrously delayed by inefficiency in the shipyards and ran over budget at £3 million each. This led to an estimated loss of earnings of £4 million, with the first ships delivered in September 1966 and the last in 1967, just as the first container ships were being built in Germany, by the consortium of which Ocean was a major partner.

6.6 The company: finance and organisation

Until 1959 there was no reason to suspect that anything was amiss at Ocean. It was a one venture company that generations of managers had run at a profit for its stake-holders, i.e. family members. Problems with the financial side of the business appear to date from 1959, with a management team that had no accountancy department and was led by senior managers whose working life and academic qualifications left them with limited financial knowledge.[101] Subsequent corporate investment decisions, following the public flotation in 1965, included ventures into projects in which the company had no experience or expertise. These were promoted by a management team and organisational structure unsuitable for the company and which eventually undermined its financial viability.

An unbroken management line runs from the founder, Alfred Holt, who managed the company from 1865 to 1904, through Sir Richard DurnIng Holt (1895 to 1941), to Sir John Nicholson who ran the company until 1976. Sir John Nicholson considered himself a disciple of Sir Richard Holt whose mission was to maintain the company in the way Alfred Holt would have wanted. The company therefore was managed on Victorian lines. Each area of Oceans trade had a desk with a manager and an assistant (second string) responsible for everything in the area, including local politics. One desk was concerned with engineering; it was like all other desks, responsible directly to the

[101] Despite a lack of financial qualifications, Sir John Nicholson (Ocean) was chairman of Martins Bank (1962-64).

chairman for all decisions.[102] With the chairman responsible for all major policy decisions, he was the point from which all initiatives flowed. The ships' companies were treated strictly but fairly, masters of ships were given details of their voyages and charts for that voyage with the course lines between ports inked in.[103] The ships had a 'ship's husband' in the office responsible for welfare (the ship being female).[104] This management structure continued into the second half of the twentieth century and was based on: 'Intellectual arrogance and rightness founded on high intelligence, a system of management unique in British industry'.[105] Ocean's senior management system revolved around the recruitment of men from a good public school, with a successful Oxbridge degree, coupled with an intake of recruits from the extended Holt family.[106] These people were often recruited in pairs and known as crown princes. This is not an unknown management system and is described by Clements (1957) and Fiddler (1981) who called this group the reserved seats. These management trainees were trained in the various company departments and, in Ocean's case, made visits to the Far East, always in Blue Funnel ships, before attaining the rank of assistant manager. This system of recruitment and training remained in place until 1965, an enduring structure of management which the company historian suggests was the single factor, more than any other, which gave the Ocean Steamship Company: 'Its unique character, a management team which was small, centralised, elitist, non-technical and for a time remarkably successful' (Falkus, 1990, p.9). Clements (1958, p.36) points out that: '[t]he effect on the careers of ambitious and talented young men in the firm without family connections should not be overlooked'. Bott (2009) puts forward a similar view which was also held by Sir Andrew Crichton, a former P&O executive and chairman of OCL. This view was that the system was elitist, paternalistic and prevented promotion from middle management, thus depriving Ocean of a reserve of untapped talent. Sir Andrew, on the formation of OCL in which Ocean was a major shareholder, was adamant that OCL's management team would not use the crown prince system as found at Ocean.[107] In an interview in 1969, Sir John Nicholson[108] discussed the internal

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[102] See Appendix 3.1 Ocean organisation chart pre-1965
[103] Usually Masters/Captains make all course decisions and all courses are pencilled in.
[104] In 1963 the ship's husband was G.P. Holt (Falkus, 1990 :285)
[105] OA 665 Liverpool Daily Post 27 Oct 69. Interview by Ian Hargreaves of Sir John Nicholson.
[106] In 1933, Sir John Nicholson became the first crown prince to be recruited from outside the extended Holt family.
[107] MRO Warwick MSS/367/Cos/ 3 Jul 59. Letter dated June 1968 to Castle from Crichton promotion in OCL to be fair and consistent open to all; 'no crown princes'.
[108] OA 665 Liverpool Daily Post, dated 27 Oct 69.

management system at Ocean, demonstrating that as late as 1969 the company still used their traditional system. This involved all senior management sitting in a large room at desks in pairs facing each other, with one telephone per desk, on a dais known as the quarter-deck. Any major disputes between dissenting parties were settled in private rooms leading off the main room. There was, apparently no planning department or promotion system either from the sea-going staff or the ranks of middle management. Therefore, it would seem that this recruitment process left no place for financial professionals who understood and had experience of stock market operations. This meant that Ocean had a weak foundation on which to proceed into the age of containerisation, that would ultimately involve a public quotation of the company.

Finance at Ocean revolved in part around the investment fund, which was established to pay for new ships. The fund included a portion of the trading profits which were invested in gilts with profits returned to the fund. The investment fund was so large that it tended to dwarf trading surpluses in the internal consolidated profit reports, which was not a problem while the company was a private one and could present its accounts to the public how it wished. However, the investment fund, combined with the reserves which the company held after the issue of new script in 1959 and the flotation on the stock market in 1965, meant that the accounts could be scrutinised by investment analysts. This led Ocean to spend as much of its fund as was possible in any diversification acquisition in an attempt to head off hostile acquisition attempts by companies not interested in shipping. This practice led Ocean to acquire a company for which, at face value, it had no need, which in turn led to the demise of Ocean as a shipping company.

The foundations of the problems which afflicted Ocean were laid before the First World War. Its founders always insisted on having a large reserve fund which was used to underwrite the cost of building and insuring new ships after Ocean took the decision to classify[109] and insure its own tonnage. This fund was established by withholding dividend payments in the first year of profitability from the earnings of ships, then in each subsequent year money was transferred into the reserve fund. An average which seems to have been transferred from earnings to the reserve fund would seem to be

[109] Ships have classifications used by the insurance industry, the top being Lloyds A1. Ocean instituted their own class which it was claimed was in excess of Lloyds A1.This was Holt's class.

£4.5 million a year for the years 1957-1964 (Falkus, 1990). In addition, there were investments, which were mostly in gilts, in the consolidated accounts which gave potential shareholders a distorted view of the company's profitability. Control of the company had remained much the same from 1865 to 1959. The 1865 list of shareholders contained 26 names, in 1955 there were 630 names, many of whom had the same surnames as the original 26, with control still resting with the owners and managers. However, the company's decision in 1959 to increase its capital led to institutional investors gaining a foothold in the company. This decision is hard to rationalise; since it is too early for containers, the only other explanation is expansion, that is the building of the *Priam* class ships, but the reason is unclear.

In 1957, Ocean's senior manager was Sir John Nicholson, who had succeeded Sir John Hobhouse. It was said that: 'Sir John Nicholson had a certain lack of confidence in his colleagues and an unwillingness to delegate responsibility'. (Falkus, 1990. p.291) There was an absence of qualified accountancy staff in the company which remained an enduring omission until the mid-1960s. Sir John also kept overall direction of policy in his own hands, along with such traditional responsibilities as investment policy, allocation of partners' remuneration and allocations of stock (ibid, 1990). It was under Sir John Nicholson that the decision was taken to move Ocean's ship insurance business to Bermuda in 1960-61.[110] This was allied with Ocean's other Bermudian venture, Odyssey Trading, set up in 1957 as a ship charter company. In a legal opinion,[111] it was suggested that all insurance board meetings should be held in Bermuda and all contracts of insurance should be made anywhere but in the United Kingdom. Details of the move to Bermuda, which could only be for tax-avoidance purposes, were kept from the majority of the personnel in the company and not mentioned in the company newsletter. Ocean's owners, for whatever reason, felt some embarrassment in using what could be interpreted as a tax-avoidance device, though it is indicative that Ocean told their associates, JS&S, of the move to Bermuda as the owners of that company were no strangers to matters of tax avoidance.[112]

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[110] OA 1696 Box 1. Insurance and a new pension fund run by an Ocean subsidiary Nestor Custodians.
[111] OA 1696 Box 1. Legal opinion from F. Heyworth Talbot to Board dated 12 Apr 60.
[112] OA 1696 Box 1. Letter dated 4 Apr 61 to Sir John Swire from Sir John Nicholson explaining the Bermuda decisions. 'Before uniformed gossip starts'.

A major decision by Sir John Nicholson was to take charge of the plan to inject more capital into Ocean. A possible reason for this could be the decision to build the *Priam* class of ship, though the investment fund should have covered the initial costs. The company's capital had stood at £425,337 since 1902, in 1959 the owners wanted to increase it to £12,760,110. This was achieved by issuing new £1 shares to existing shareholders in the ratio of 29 new shares for each £1 of stock held and selling the remaining stock on the open market. This meant that the company now had large liquid reserves, with a good part of its income generated from investments, in particular gilt-edged securities, which was intended to be its shipbuilding fund. It now had a large capital base and around 2,300 stockholders. This inevitably altered the composition of ownership and pressure for a public quotation began to arise from these new institutional holders (Falkus, 1990). Again, it is difficult to ascertain whether the public quotation was to raise funds for future containerisation or whether Ocean had decided to join the modern business community and start to diversify in an effort to spread the risk of being a one-venture company. The downside of a public quotation for a company such as Ocean was that its large reserves made it vulnerable to a hostile takeover. The reserves in December 1965, after the public quotation, were valued at 48s 5d a share, which was close to the market price,[113] leaving only a few shillings to represent the fleet and other assets. This meant of course that a successful hostile bid for the company would acquire the whole of the Ocean fleet for pennies.

The public quotation came in March 1965 on both the Liverpool and London stock exchanges when the managers proceeded to form themselves into a board of directors with Sir John Nicholson as chairman. This was a move that would change Ocean; it would have to produce annual accounts to show a true picture of the company's financial position and this possibly had implications for the company's tax position. However, while the management of Ocean was very efficient at moving goods around the world, performing the same processes for generations did not equip a company for radical change. Turning the managers of a shipping company into a board of directors overnight did not transform their attitudes or capabilities[114] and this became apparent

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[113] Market price 1965: high 57s 3d low 44s 0d per share. The Stock Exchange Daily Official List, April 1965.

[114] OA 665 Liverpool Daily Post, dated 27 Oct 69 by Ian Hargreaves: 'the company are more sprinkled with firsts in subjects like zoology, classics, English and history'.

in the later period when diversification was allied with poor risk assessment and where financial planning took no priority.

6.7 Ocean post-1965: attempted expansion

It seems incredible that a company like Ocean, apparently known for considered judgement, should try with its limited experience to achieve a stock market quotation, buy a large company and join a major consortium to save its business, all within just six months, though the pressure to dissuade speculative investors interested in Ocean's liquid assets was probably a major motive. After the public quotation, the new Ocean board made a decision in March-April 1965 to buy Liner Holdings, but this deal seems to have been badly executed[115] and rushed, with Ocean paying a higher price than might have been necessary.[116] Liner Holdings included Elder Dempster, which had 40 ships, trading mostly with West Africa; Ocean had a 25% share in the company and was already managing its ships. Included in the Liner Holdings portfolio was Henderson Line, a shipping company whose trade was predominantly with India and Burma. Burmese and Indian trades were already under pressure from their respective governments' nationalist ambitions. Ocean also gained interests in car transportation through Liner Holdings, with Seaway Ferries, which was losing money heavily by 1967 and had to be closed, with further losses, in 1973.[117] They also acquired a further container business, African Container Express, which had agencies throughout West Africa. At the time that Liner holdings was acquired, Ocean was heavily involved with the formation OCL. It has been difficult to find out who was in charge of the purchase of Liner Holdings.

In 1967 Ocean ended the use of the name Alfred Holt & Co.[118] This, coming after the 1965 flotation, could be seen as a further break with the past, though the use of a personal name for a public company was probably thought inappropriate. In 1967 Ocean also bought a half-share in JS&S's CNCo but in 1975 sold its share back to JS&S apparently because CNCo failed to live up to expectations (Bott, 2009). It seems that JS&S paid Ocean £6.06 million plus some shares in Cathay Pacific,[119] but without

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[115] OA 4007/8 Liner holdings.
[116] OA 1696 Box 2. Comment Article from Investors Chronicle dated 11 Aug 65.
[117] OA/JLA/ Box 17/2.
[118] OA 554. Though it kept the house flag with the initials in the white diamond and blue background.
[119] OA/JLA/ 27/2. Board meeting at Ocean 23/9/75.

knowing what Ocean paid it is difficult to make any sort of judgement on the deal. JS&S did, however, continue to make the CNCo profitable throughout the period covered by this thesis.

Ocean's diversification into the airline business possibly came after seeing JS&S's success with Cathay Pacific. Ocean had been involved in Malayan Airways from the late 1940s through its stake in Mansfields, but with increasing Malayan state participation throughout the 1950s, Ocean lost much of their stake and the management of the company to Robert Kuok, the Malaysian entrepreneur who gained control and renamed the company Malayan-Singapore Airlines in 1969. In 1968, with Sir John Nicholson still in control of investment, Ocean bought a stake in Transglobe Airways and had a joint venture with JS&S and P&O in Bahamas Airways. Both airlines collapsed, in 1968 and 1971 respectively, with a loss of around £800,000 each (Falkus, 1990). Though the Bahamas Airways purchase resulted in a loss, much of the blame could not be laid at the shipping company's door. However, in the case of Transglobe Airways, it became obvious that due diligence was carried out in a lax manner and the company was not as well founded as had previously been thought. The file[120] suggests that the expected numbers of tourists and destinations were over estimated. This was coupled with delays in the delivery of aircraft ordered for the tourist trade. Ocean's other air venture was McGregor Swire Air Services (MSAS), again with JS&S, started in 1968. It was involved in the air-cargo market, a difficult business and it made substantial losses, not making a profit until 1976.

Ocean continued to involve itself in all manner of ship types: Very Large Crude Carriers (VLCCs), Oil Bulk Ore (OBOs) gas and chemical tankers, offshore supply vessels, ferries and ocean-going roll-on-roll-off (RORO) ships with which it had no experience (Woodman, 2012). This effort of spreading its shipping risk seemed to show that the end of its traditional business, cargo-liner shipping, was imminent with the advent of containerisation. However, most of the trades that Ocean was involved in required a degree of expertise that it did not possess. The chemical-tankers business, started in 1969 in association with P&O, was named Pan-Ocean Shipping and Terminals. The

[120] OA 1696. Transglobe Airways involved in the tourist trade, never made much money, delays in aircraft delivery meant the business could not survive.

offshore supply-vessels business begun in 1971 was in association with the Inchcape Group, under the name of Ocean Inchcape, which after some initial disappointments, made a profit. In 1973, on the eve of the oil crisis, the company decided to commission two gas and oil tankers, the 135,551grt[121] *Titan* and the 120,787grt *Troilus*. Both lost money, one was never even used, and both were eventually sold. The liquefied natural gas (LNG) tanker, *Nestor*, was ordered in 1970, completed in 1977 for £40 million when the estimated price had been £25 million, was mothballed on completion, never used and sold in 1982 with a write-off of over £41 million (Falkus, 1990). This was due to a serious misreading by senior management of the market in liquefied gas.

The period from 1965 to 1972 was not a good one for Ocean. It had pursued a diversification policy and tried to re-organise its management structure into a modern company, complete with accountancy departments. This re-organisation, in place by 1967, was due in part to the integration of the Elder Dempster fleet into the Ocean fleet. This organisation was to last until 1973 when, with the acquisition of Wm Cory & Son, a new round of re-organisation took place[122] In this same period the Ocean board was casting around for a company to buy due to the need to spend unused tax allowances and get rid of surplus cash, which tended to attract unwanted hostile takeover bids. One of the companies looked at was their OCL partner, Furness Withy.[123] It was hoped that if the deal for Furness Withy went through, it would act as a catalyst for the British & Common-wealth Company, the third partner in OCL, to sell up its shares in the consortium. This would leave just two partners in OCL, P&O and Ocean, the two most dynamic of the four originals, as the Ocean board saw it. The dilemma in which Ocean found itself was made clear in the consultative paper produced for it by the Boston Consultative Group (BCG).[124] Ocean wished to achieve a balanced company, with marine and non-marine businesses working in tandem. The board was advised to seek a non-marine acquisition, as shipping just generated more tax allowances, did not use much cash and would not broaden the base of the

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[121] See Glossary p 10 Grt. Gross Registered tonnage
[122] The diagram in Appendix 3 shows the management team as it was constituted after the new round of organisation.
[123] OA/JLA/Box 10/2. Furness Withy, code name Pheasant, 10 page rationale for the purchase of FW though not taken up.
[124] OA/JLA/ Box 35/1. A summary of the report circulated to all directors of OSS.

company. In its report, BCG also pointed out that in a switch back to a tax equalisation position where non-marine and marine tax positions cancelled each other out would perhaps lead to the company actually paying taxes, but what the real tax position of the company was in this period is hard to determine.

Ocean had rebuffed overtures from the Rank Organisation and offers from P&O and European Ferries[125] in 1971 and 1972. Again, these offers were stimulated by unused tax allowances and the investment fund and had nothing to do with shipping. Speculators would start to buy Ocean shares until they could make an offer at a price that would reflect the value of the cash reserves and investment funds. This would leave the buying company with Ocean's unused tax allowances to be spread over its own subsidiaries, with the investment funds for its own use and the ships which virtually come for nothing being sold or scrapped but making a negligible further profit. These overtures towards Ocean had raised serious concerns about its long-term stability amongst the senior executives of JS&S[126] partly because JS&S had a significant holding[127] in Ocean. JS&S executives had a fall-back position regarding Ocean if a hostile takeover was imminent. This was to make an offer for Ocean in conjunction with other Hong Kong companies. Ocean was aware of all these possibilities but felt that it had enough cash to be able to take its time in assessing which companies were viable.

The acquisition of Wm Cory & Son, apparently a 'willing victim',[128] was planned by Ocean as the best option available, as the company would be seen to be re-deploying resources and so reduce its vulnerability to criticism that it was doing nothing to prevent a hostile takeover. Ocean felt that it needed to demonstrate foresight and to be innovative in the transportation and distribution business. Cory had a wide distribution network, but it was losing about £1 million a year, a cost which Ocean thought was manageable.[129] One of the reasons for the successful acquisition of Cory by Ocean

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[125] European Ferries was eventually bought by P&O in 1987.
[126] SOAS Archive JSS 1/4/4/19. Letters dated 17 Dec 73 & 20 Dec 73 between Swire and John Bembridge. Worries about Hong Kong rivals including Jardines making an offer for Ocean. Maybe a cash bid by Swire would secure 20% to 30% of Ocean. Worries that P&O were also vulnerable and concern by Swire for OCL.
[127] SOAS Archive JSS 1/11/1/250. Letter dated 16 Mar 73. Ocean shares valued at £3.5 million.
[128] OA/JLA/29/7. Note to Anderson, apparently from Sir John Nicholson dated 24 Mar 72.
[129] OA/JLA/ Box 29/7. Paper dated 19 Apr 72. Ocean-Cory (CDS & Industrial logic).

was thought to be that Ocean was a cash-rich company whose prospects were poor, while Cory was seen as a cash-poor company whose prospects were rich, a perspective the company historian argued was invalid (Falkus, 1990).

In 1972-73 Wm Cory & Son was being stalked by two other companies, Court Line[130] and Jessel Securities,[131] driving up the company's share price. As a result, Ocean paid over the odds to acquire Cory. The press[132] noted that Cory shares in February 1972, after the Jessel offer, were at 380p but by May 1972, after Ocean's offer, they stood at 615p. This valued Cory at £56 million, £20 million more than Jessel's offer. Oliver Jessel sold his shares to Ocean, making a profit for his firm of £3 million. Court Line lost out, having sold their shares to Jessel at a much lower price than the end price.

In 1973, after the acquisition, Ocean changed its name to Ocean Transport & Trading Limited, which involved a change in ownership and management of the ships. Before 1972 the ships of Ocean Steamship and China Mutual were managed by Alfred Holt & Company. After 1973 all the ships were owned by China Mutual and managed by Blue Funnel Line Limited.

This story of unwise acquisitions and the purchase of over-priced assets demonstrates the central argument of this thesis, that inexperienced and unprofessional decision-making could not meet the demands following the public flotation of Ocean. The flurry of activity during these years signals a possible lack of sound information when making new investments. The speed at which diversification was pursued indicates how shareholder demand and market pressure combined to force investment decisions. Ocean's hierarchical managerial structure remained a weakness, specifically in relation to financial management. This is also indicated in the history of its relations with OCL which follows below.

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[130] Court Line was a shipping company that diversified into the holiday tour business (Horizon Tours) and went bankrupt in 1974 with debts of £27 million.
[131] Jessel Securities was a finance company specialising in take overs: 'a conglomerated conglomerate' £500 million managing assets in trouble (Monks, The Age Melbourne,1976).
[132] OA/JLA/Box 29/7. *The Guardian* dated 9 May 72 and *Daily Telegraph* dated 9 May 72.

6.8 Ocean and OCL

1965 was an especially frenetic year for Ocean. For such a traditional company, the decision to enter the container market was a gamble which the newly formed board of directors decided they had to take or go out of business. It has been a moot point whether the decision in 1959 to raise more capital was for containerisation or not. Given that the negative Crakes report on containers was also issued in 1959, it would seem unlikely. A paper had been presented by three former crown princes[133] to the Board in April 1965 which said that: 'If no move was made on the issue of containers it was quite possible by 1970 that Ocean would lose one of its main trades, Australia and, not long after the Far East trade'. Though the finance to containerise was exorbitant, it was suggested that: 'A larger grouping than Holt's would be required if the drastic reformation of liner services envisaged was to be made to work' (Bott, 2009, p.26). Sir John Nicholson was initially reluctant to accept the diversification of company resources away from that of traditional shipping activity, but OCL was incorporated in 1965. The other companies in the consortium were P&O, British & Commonwealth Shipping and the Furness Withy Shipping Company. For Ocean, there was no other way of continuing their involvement in shipping other than by joining the container revolution. Ocean, like the other three members of the consortium, had reason to be grateful for the help in financing the venture by the Labour Government's Minister of Transport, Barbara Castle, of which there is no mention in the Ocean archive.

6.8.1 Finance

OCL was fairly typical as a listed shipping company,[134] in that it was a limited company which was publicly quoted but its management continued to act as if it was a private company. All the shares were owned by the four principal founding companies. This protected OCL from outside financial predators, but encouraged the companies involved to prioritise their own individual corporate interests. This was a criticism contained in the Rochdale Report arguing that:

> 'It was undesirable that ownership should, in the long term remain wholly with the present participating companies. We do not regard it as desirable that their boards of directors should be appointed entirely by the management of other ship-owning companies or that public participation in ownership of such important elements of the industry

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[133] Ronald Swayne, Lindsay Anderson and Kerry St Johnson.

[134] A number of shipping companies, were publicaly listed, but did not raise cash by issuing equity capital to the public. So keeping control close to the initial investors.

> should only be possible indirectly through investment in the shares of member companies' (Cmnd 4337, 1970, para 1188).

The company was structured in such a way that the shareholdings and dividend percentages changed over time, depending on which of the parent companies' conventional trades were containerised, the percentages were adjusted to allow for the company bringing its trade to the new company OCL. This is demonstrated in the table below:

Table 4 - Percentage shareholding

	P&O %	Ocean %	FW %	B&C %
Initial Europe/Australia trade only	37.0	19.5	28.3	15.2
At Sep 72 after FET & AJCL	30.0	49.0	13.4	7.6
At Nov 77 after SAECS & ANCL	30.7	33.9	16.0	19.4
At Nov 79 after Europe-Jeddah	30.9	34.1	15.8	19.2
At Nov 80 withdrawal of FW	36.7	40.5		22.8
At Nov 81 Europe Gulf & East Africa	47.4	32.8		19.8

Key:

FET	Far Eastern Trade & Australia Japan Container Lines
SAES & ANCL	South Africa Container Service & Australia New Zealand Container Lines
P&O	Peninsular and Orient
FW	Furness Withy
B&C	British and Commonwealth

Source: Bott (2009) British Box Business, A History of OCL, p 210

In 1965, finance for OCL stood at £1 million after the initial £10,000 for share capital and loan stock, which enabled the company to start planning. By March 1969, the principals had contributed funds totalling £15 million made up of £5 million share capital and £10 million loan stock, £6 million was then dedicated to setting-up costs. These costs were partly off-set by Castle's support, including tax breaks and state guarantees. The principals were paid interest on the loan stock, so they had some return when there was no dividend. In 1970 a further £5 million was contributed. After losses in the first three years of trading, £8 million was written off leaving the share capital at £2 million and total capital £12 million. By 1971, Ocean's losses in OCL amounted to £15 million. At the beginning of 1971 OCL had reduced its capital by £8 million, Ocean's share of the loss being around £1.6 million (Falkus, 1990). Some of the losses were outside the control of the company; for instance the rising value of the German currency was especially significant to OCL because many of the OCL ships had been built with Deutschmark loans. At the time this had been an extremely good deal with interest rates low and subsidised, but the DM rate doubled against sterling, increasing the amount repayable by £30 million. OCL tried to claim to claim tax rebates

on the amounts repayable, and this led to a protracted legal case ending in 1985 with OCL losing to the Inland Revenue and found liable for a repayment of £20 million in tax, plus costs (Bott, 2009).

OCL's financial position meant that it had no profits to distribute until 1974. The four principals, the owners of the company (known colloquially as the Grannies) made what was, with hindsight, a serious market miscalculation. They demanded that they should receive the best possible return for their investment, which could be seen as a reversion of the traditional system of distributing returns within family-run firms. But this dividend policy in a public company left a shortage of capital in the reserves to be invested in growth. From 1974 to 1984, the total of dividends paid out to the principals was in excess of £170 million. The capital expenditure in the same period was £300 million which was borrowed, the principals not even providing guarantees. This was coupled with a reluctance to containerise the remaining trades that the OCL companies still held, principally the New Zealand and South African trades which were still carried on conventional ships (Bott, 2009).

Much of this can be explained by a change of direction by the principals in 1971. The original objective for OCL had been for the new company to become the dominant force in the field of containerisation. However, the desire for the best possible return to the principals on their investment took priority (Bott, 2009, p.205). This policy effectively undermined OCL's expansion plans, leaving the way open for other companies to exploit the market.

There had seemed to be a rise in OCL's fortunes after the appointment of the former Ocean crown prince, Ronald Swayne, as its chairman in 1973. Part of the rise was put down to re-organisation by him of the company's structure, but the upgrading of the computer systems by a younger, computer-literate group was one of the major factors in the rising profitability of OCL from 1972 to 1973. The period from 1977 to 1978 was also profitable, and profits came in as the Trio consortium (of which OCL and Ben Line were founder members) became fully functional.[135] For a time, OCL was part of the biggest liner fleet in the world, with most of the trade stemming from Ocean's Far East trade, once it had been fully containerised. The financial return which three of the original four principals received on their £63 million investment in the period was £170

[135] Trio consortium, originally Nippon Yusan Kaisha (NYK) of Japan, Hamburg-Amerika Line (Hapag) of Germany and Ben Line and OCL of the UK.

million, and after payment of dividends they still owned a company with a book value of £338 million (Bott, 2009, p.221). Though the later period had seemed profitable, the company was not moving forward. The main protagonists in the company, three of four founder members, were evidently rather complacent.

6.8.2 The loss of OCL

In 1980, Furness Withy, one of the principals in the OCL consortium, received a takeover bid from the Orient Overseas Container Line (OOCL), a Hong Kong based shipping line owned by the Chinese business man C. Y. Tung. It was an open secret in the maritime world that Tung was buying Furness Withy to become a partner in OCL (Bott, 2009). However, the three remaining principals, in an attempt to deny Tung a seat on the board, triggered a clause in the original contract and bought the Furness Withy share of OCL for £27 million. However, Tung went ahead and bought the Furness Withy fleet for £112 million and received the £27 million which OCL had by then paid Furness Withy. OOCL then transferred most of the ships and crews to the Hong Kong flag, despite assurances to the contrary given to the British government (Woodman, 2003). OCL's policy was a mistake. It is possible that racism rooted in the make-up of the people who sat on the management board may have played a part in the rejection of the offer[136]. By refusing to have Tung on the board, they had alienated a powerful competitor, to whom they had also given £27 million. Years later when OCL had long since disappeared, OOCL, after some initial problems, became one of the largest container and logistics companies in the world.

For Ocean in the immediate term, the loss of OCL revolved around the figure of Jeffery Sterling, a financier and originally a junior member of the P&O board.[137] Sterling had come to prominence in 1983 during a take-over battle for P&O, initiated by Trafalgar House, owners of Cunard Shipping. Lord Inchcape, chairman of P&O and Overseas Containers Holdings (OCH)[138] appointed Sterling as deputy chairman in July 1983, then chairman of P&O in October 1983, to lead the fight against the takeover. However, Inchcape wanted a shipping man in charge of OCH, which controlled the day to day

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[136] See Footnotes 93 &94 for the views of Ocean's chairmen.
[137] Recommended by Sir Andrew Crichton, former P&O executive, now of OCL who bought Beagle House from Sterling's Company the Sterling Guarantee Trust for OCL's HQ.
[138] OCH was set up in January 1971, as a result of a management consultant report (Cooper Bros). This institutionalised the split between the founder partners, who retained financial policy & control and strategic decisions, and those in OCH now responsible for the day-to-day running of the company.

running of OCL. In this he was thwarted when the Cayzer family, owners of B&C and one of the original founder members of OCL, backed Sterling. The chairman of Ocean was also by then a non-shipping man, the industrialist William Wilson, a former director of British Steel who had been appointed in 1980 (Bott, 2009). By November 1983, Sterling was chairman of both P&O and OCH. He conducted an exhaustive survey of OCL in which he deduced that it could be very profitable if it could be run by one company in a more finance-orientated way, and he wanted P&O to be that one company. By 1985 the now-knighted[139] Sir Jeffrey Sterling had started to buy shares in Ocean Transport & Trading on P&O's behalf, acquiring a 9% stake. By September 1985, P&O had increased its holding in Ocean to 13%. At this time, P&O owned 47.5% of OCL, and then Sterling bought out the British & Commonwealth share of OCL. The owners, the Cayzer family, held 19.83% of OCL stock worth £270 million. The Cayzers received £7.2 million of new deferred P&O stock valued at the time at 540p per £1 share with the balance in cash (Bott, 2009). Ocean did not want to sell, so Sterling threatened to take over the whole Ocean company but offered a cash deal plus full ownership of Pan-Ocean Transport and Storage. In 1986, Ocean decided to sell its 32.8% shares in OCL to P&O for £88.6 million. P&O put the 13% shares it had acquired in Ocean back on the market and OCL was renamed P&O Containers. Ocean and its advisers[140] were no match for a ruthless modern financier. The incident was reminiscent of the financial battle for Wm Cory & Son when Oliver Jessel and his advisers displayed more than enough financial acumen to outwit the Ocean board and its advisers. It should be noted that: '[t]he takeover by P&O of OCL was greeted by wild enthusiasm on the London Stock Exchange' (Bott, 2009, p.199).

By 1991, the Trio consortium had ended. After a brief alliance with the Danish shipping Line Maersk (1990-95) P&OCL joined with the Dutch carrier Nedlloyd 1997-2005 to become a global carrier, with OOCL the Chinese shipping line. In 2005 the company, now named Royal P&O Nedlloyd, nominally a Dutch company, was quoted on the Amsterdam stock exchange, but traded as P&O Nedlloyd based in London. The company was approached by Moller-Maersk, the largest container shipping company in the world, with a cash offer for the whole business, which was accepted in August 2005. The exact amount is unknown, however profits posted for P&O Nedlloyd were

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[139] Awarded the Knighthood by Mrs Thatcher, the Conservative Prime Minister, for services to Industry.
[140] Barings Bank, also advisors in the acquisition of Wm Cory & Son.

$330 million in 2004. Within a year, the name P&O in container shipping had been subsumed into the Maersk Corporation.

During the last decades of the twentieth century, Ocean's Glen line had gone, and the last two conventional (non-container) ships had been sold in 1978. In the same year, NSMO was closed down, ending 87 years of joint enterprise with Ocean. In 1982, the last two Blue Funnel conventional ships were sold. In 1983 Ocean sold its large share in the Straits Steamship Company to Keppel Shipyards Singapore. In 1988, India Buildings, the Liverpool headquarters, was sold to a London-based property company and the group moved its headquarters to London. In 1989, Elder Dempster was sold which marked the end of Ocean as a deep-sea shipping company.

6.9 Conclusion and comments

Ocean was stuck in the past. Company management did not understand the changing world after the Second World War with the loss of Empire, the indigenisation of former colonial business enterprises, the rise of the European Economic Union and shipping containerisation all destroying the networks that had held the shipping industry together. However, other industries besides shipping were also blind to some of these facts but did not collapse. After the public quotation in 1965, the managerial system used by Ocean was certainly not conducive to running a complex and increasingly diversified business. The decisions to go for a public quotation and, at the same time, join the OCL consortium and then buy Liner Holdings certainly overstretched managerial resources. The diversification policy, if indeed there was one, appears haphazard at best. Liner Holdings, apart from Elder Dempster shipping, represented a loss, and Ocean's other attempts in trades where the company had no experience, as in the case of the gas tankers, were a disaster. As far as containerisation was concerned, Ocean's mind-set as a company was like many of its contemporaries, still rooted in past practice. It had no concept of what competition was to come or where it was to come from. The company ignored the effects of huge conglomerates based in Taiwan, China, Korea, Hong Kong and Denmark, whose companies and ships had no loyalty to past practices. The conference system was swept away and, with it, all the old models of the shipping business.

The rising importance of shareholder value to corporate profile continued from the late 1960s to 1990. However, a dissenting voice was Jack Welch, chairman of General Electric, who said: 'shareholder value [was] the dumbest idea in the world' (Kay, 2015, p.48). The idea of shareholder value came to the fore, particularly in the 1970s and

1980s. Short-term profit-taking by financial institutions who knew little and cared less about the company business and who were more interested in the tax allowances and sustaining share value, represented unknown territory and were anathema to the upper echelons of Ocean's management. Short-termism on the part of investors contributed to the decline of long-term planning strategies in Ocean as in others, and eventually led to the demise of OCL. It is ironic that Ocean and its partners, as the principal shareholders in OCL, created a demand for ever larger dividends by the principals. The refusal to look to long-term investment in the company led to their own downfall.

After the loss of Elder Dempster, Ocean's ship management had no expertise in any of the operations the company was now undertaking (waste disposal and the movement of oil and coal by barge) and consequently they became peripheral players within the organisation. Ocean subsequently merged with the National Freight Corporation to form EXel Plc, with its head office in Bracknell, Berkshire. EXel eventually sold the whole Cory business to Montague Private Equity. It was possible to move with the times in shipping and make diversification profitable, as John Swire & Son, Ocean's closest business associates, proved and their story is examined in detail in the next chapter.

Chapter 7. Case Study No 2: John Swire & Sons Limited

7.1 Introduction

John Swire & Sons (JS&S) is a company which is little known outside of the shipping world and even there it retains a very low profile. There is no written history of the company apart from a detailed discussion of the man considered to be its modern founder, John Samuel Swire, and that history ends in 1900 (Marriner & Hyde, 1967). There is some discussion of the company in histories of the Ocean Steamship company (Hyde, 1956; Falkus, 1990) and several pictorial histories of the JS&S shipping arm, the China Navigation Company (CNCo) (Haviland, 1992: Hawes, 2001). Most of the material used in this chapter has been accessed at the John Swire archive at the School of Oriental and African Studies, and this is the first time that this material has been used for academic purposes. It has proved impossible to verify any of the information the archive contained as several requests to the company for an interview were politely refused. There is no doubt that the company is proud of its heritage, as demonstrated by its website, and the fact that at their headquarters in London there is a large model of the *Anshun 2*, a traditional CNCo ship that was used in the pilgrim trade in the far East.

JS&S is a private limited company and has options whether or not to publish its accounts or provide any information about its internal management and operations in the wider world. The company's structure has proved difficult to define, and some of its overseas shipping companies have no paperwork trail at all, but this opacity has not hindered the company's success. Its history can be divided into two. Firstly, the pre-Second World War period with its division of the Europe-China trade, which involved competing with similar companies, with JS&S's operation based on the conferences and the Empire and enabled by the company's long-term profitable relationship with Ocean. Secondly, the post-Second World War period, which itself is divided into two periods, the first following JS&S's forced reconstruction after the company's expulsion from China, and the second involving the re-organisation of the company into the Swire Group, with all subsidiaries answerable to the Group and to JS&S as the parent company. The first period was spearheaded by the JS&S subsidiaries, Butterfield & Swire (B&S) and its shipping arm, the China Navigation Company (CNCo) which spread JS&S's operations throughout the Pacific Rim countries. The second period,

loosely dated from 1970, was more financed-based and enabled JS&S to grow into a multi-national conglomerate.

JS&S, as noted in Chapter 5, was originally a Liverpool-based trading company, founded in 1816. The Swire family moved in the same circles as Ocean's owners, the Holt family, and associated with many of the other trading and ship-owning families of Liverpool. They had connections to Ismay's White Star Line and were known to advance mortgages to shipowners. They also belonged to the Lancaster Ship Owners' Company (Marriner & Hyde, 1967). All this would suggest that JS&S was an established company in the commercial world of nineteenth century Liverpool. The senior management of Swire had always considered themselves to be shipping people, though the majority of their business and profits came from other activities. After the Second World War all shipping operations were moved to the Hong Kong office for the day-to-day running of those lines but with overall responsibility remaining with the London office.

The chairmen of the company during the post-war period[141] were always senior members of the Swire family, were educated at New College Oxford, all received knighthoods, and all were resident in the United Kingdom. The upper echelons of the JS&S management team were recruited from members of the Swire and Scott families. However, JS&S had initially started recruiting graduates in the inter-war period stressing: '[t]hey must be linguists and understand the Chinese' (Jones, 2000, p.208). This recruitment of graduates was later accelerated to include those from Oxbridge and Edinburgh universities: 'where many (often with 3rd class degrees but good at team sports) were recommended to JS&S by R. Truslove of the Appointments Committee at Oxford University' (Miller, 2012, p.117). This was allied with recruitment from the expatriate communities in the Far East, particularly Hong Kong. The senior management of JS&S also took an interest in politics and international banking operations, especially in London and Hong Kong.[142] The success of the company could

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[141] Sir John Kidston Swire 1946-66, Sir John Anthony Swire 1966-87, Sir Adrian Swire 1987-97.

[142] Notably the Hong Kong & Shanghai Banking Corporation and shipping politics involving the Chamber of Shipping and the Shipping Federation, which amalgamated later as the General Council of British shipping before reverting to Chamber of Shipping (see Chapter 4,p.62).

possibly be attributed to having a continuous line of direction, led by chairmen who were not only family members, but also the major stockholders in the company. Throughout this period, they were ably assisted by senior managers who were members of the Scott family[143] the second-largest shareholders in the company.

The following sections provide a description of the commercial activities of the JS&S subsidiary, B&S, and the JS&S shipping arm, the CNCo, and its diverse fleet operations. In subsequent sections, diversification through the airline Cathay Pacific Airlines (CPA) and the financial aspects of the company are examined. The penultimate section is devoted to the corporate structure of JS&S as it evolved into the conglomerate, the Swire Group, with the final section containing the conclusion for this chapter.

7.2 Swire HK

The major subsidiary components, the building blocks of a resurgent JS&S after the Second World War, were B&S and CNCo. These companies, in particular B&S, were the engines which drove the business. Everything stemmed from the B&S Hong Kong office which operated as the Eastern arm of JS&S London. B&S was one of the principal shipping and insurance agencies working in China and the Pacific before the Second World War (see Chapter 6). After the Second World War, business with China was effectively ended with the installation of the Chinese communist government in 1949 but B&S retained the contacts it had gained over the previous 75 years. As many of its Chinese associates still operated around Pacific Rim, it was able to compete for business throughout the Far East. Fortunately for B&S and JS&S, Ocean with its Blue Funnel shipping line also resumed its trade in the Far East and re-established B&S as its principal shipping agent in that area.

B&S also made a concerted effort to target Japan. A subsidiary of JS&S, Swire Japan,[144] which was managed by B&S, had reconstructed its insurance and shipping agencies in Japan by 1947. The head of the American occupying forces in Japan, General MacArthur, had decreed that Japan would be self-sufficient in both shipping and ship-building by 1952 (Hope, 1990). This policy implied an increase in Japanese

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[143] Scott family chairmen of JS&S: J.H. Scott 1898-1912. E.D. Scott became chairman 1997-l 2002.

[144] SOAS Archive JSS/1/7/9/1. The Peat Marwick Report List of Swire Subsidiaries, Swire Japan incorporated 11 Jul 28.

imports. Amongst those goods would be pig-iron from the West Coast of America, iron ore, coal and wool from Australia, timber from the Philippines, potash from the Pacific Islands and oil from the Persian Gulf. Acting as agents, B&S imported many of these goods using both its own CNCo ships, Ocean's ships and chartered vessels.

Swire Japan became a profitable part of B&S and a container division was created in 1967. In 1970 Swire acquired, on behalf of Swire Japan, the Mackinnon Mackenzie agency which represented P&O in Japan. This subsidiary of JS&S became one of the biggest agencies in Japan. As the container revolution spread, there was a jostling for position as a lead agency in the Far East. JS&S, which had the confidence of Ocean, a founder member of OCL, was informed[145] that Asia would be Ocean's sphere of influence within the OCL consortium, leaving P&O with control over Australian area. In the same letter, Ocean's chairman assured Adrian Swire, that: 'As far as Holts [Ocean] and P&O are concerned Butterfield and Swire are the chosen instrument in Hong Kong and Japan and that is that'. This arrangement for B&S to become the biggest container agency in Asia owed everything to Sir John Nicholson of Ocean and to the older hands in the upper management of that company. The Swire family had held a considerable shareholding in Ocean from its inception in 1865 (Falkus, 1990), and by 1973, Swire's holdings in Ocean had increased to £3.5 million.[146]

Swire Japan continued to expand its container activities by forming the Pegasus Container Service, with ships running between Kobe in Japan and Pusan in Korea. The ships were owned by the Dong Young Shipping Corporation of Korea with JS&S owning 59%, but financed by Swire Korea. Also in the 1970s, Swire Japan made arrangements with the Danish shipping company Maersk Line Limited to operate a container terminal in Kobe, and with Nippon Yusan Kaisha,(NYK) a leading Japanese shipping company, to operate a container terminal in Yokohama.

Elsewhere, B&S had set up its own office in Australia in 1952 and later expanded to New Zealand and Papua New Guinea. The Australian company that B&S had set up became John Swire & Son Pty, with 100 shares all taken by nominated JS&S executives. Thus, the company, wholly owned by JS&S,[147] remained under JS&S

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[145] SOAS Archive JSS/1/4/4/19 dated 31 Apr 66. A.C. Swire London to Browne head of Swire HK discussing its involvement the container industry and Ocean's influence inside OCL.
[146] SOAS Archive JSS/1/11/1. Director's Memo by A.C. Swire to Browne head of Swire (HK) 16th March 1973.
[147] SOAS Archive JSS1//3/22. Director's correspondence.

control as Swire Australia. Woodmasons, a cold-storage company, was bought in 1952 and along with Frig-mobile, acquired in 1957, to form Swire Cold Storage which later became Australia's largest nationwide cold-store chain logistics provider. Additional interests eventually included Clyde Agriculture which had two million acres of land in New South Wales and Queensland, used for cattle ranching, sheep farming and cotton production.

B&S had taken an unsuccessful interest in New Guinea before the Second World War in an attempt to enter the copra trade (then monopolised by German ships). In the early 1950s with the demise of the German fleet, the transport of copra was quickly seized on by B&S, with JS&S forming the New Guinea-Australia Line (NGAL). Steamships Trading was one of the largest companies in New Guinea and, after meetings in Australia, Swire visited Papua New Guinea to meet Steamships Trading, representatives. A letter from Swire Australia to London following the fact-finding visit to Papua New Guinea shows B&S continuing to seek business opportunities based on shipping: 'Opinion is fast growing on me that our future in this hemisphere is likely to be based on ships'. There is discussion about buying the Steamship Trading Company after talks with its then owner, ending: 'A link up would of course, also make it finally clear to everyone we are in New Guinea to stay'.[148] JS&S later acquired 72% of the Steamships Trading Company. It is clear from this that the London office still considered shipping to be the future of JS&S in the Pacific.

B&S continued to lead as the main JS&S Company in Hong Kong, entering the marketing and distribution business there through a new subsidiary, Swire & MacLaine. This led to an entry into the soft-drinks market via the acquisition of franchises and acquiring a bottling company, the Hong Kong Bottlers' Federal, which came with the Hong Kong Coca Cola & Sun Kist franchises, both of which were transferred to Swire Bottlers in 1965 and both becoming highly profitable ventures.

As the business was re-structured in the early 1970s much of B&S's work such as the Swire Bottlers was hived off into Swire Pacific or its subsidiaries (see Appendix 2). However, the company structure chart for the remodelled B&S under its new name Swire (HK) (see Figure 2, p.129) shows that most of the companies were wholly owned by Swire (HK), with Shrewsbury Holdings, an investment holding, in Hong Kong. The

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[148] SOAS Archive JSS/1/3/21 letter dated 8 Mar 54 from Speyer, Swire Australia to JS&S London HQ.

rest all have a connection: Taikoo Royal, a general insurance company in Hong Kong; Young Shin, crewing and shipping agents in Korea; Van Gend & Loos, cargo consolidators in Hong Kong. Taikoo Ltd was classed as an investment holding in Hong Kong, Wardley Swire Assurance was a retirement benefit insurance company in Hong Kong, Cannon Trustees Ltd was a trustee for provident funds in Hong Kong and Joseph Sebag was a merchant bank. All remained within the purview of J&S, London but were managed from Hong Kong.

7.3 The China Navigation Company (CNCo)

CNCo was the shipping arm of JS&S. The Swire family seems to have held it in some regard, possibly because its ownership made the family into shipping people with all the social and political advantages this entailed. The CNCo was owned and directed from London but managed from Hong Kong. It appeared to be impervious to the fluctuating conditions affecting the British registered fleet, increasing and modernising its fleet from 27 ships in 1950 to 33 modern ships in 1990, including chartered shipping.

CNCo's trade before the Second World War was mainly on the Chinese coast but trading as far as Australia with a smaller deep-sea fleet. For the duration of the war the CNCo ships were seconded to the Ministry of War Transport with the CNCo office moving to Mumbai, India. By the time the war had ended CNCo had lost 19 deep-sea vessels and twelve river steamers (Havilland, 1992). JS&S made a decision not to buy any war-time standard ships as replacements and returned the war-time shipping (Hickory class ships) that it had managed for the government for the duration of the war (Hawes, 2001). In 1943, JS&S had decided to place orders for new ships with British shipyards, and three orders were placed with William Grey & Company of West Hartlepool. The first ship was delivered in 1945 with the other two soon afterwards. Four more new ships were ordered between 1946 and 1947, two from Scott's of Greenock, one from Caledon S&E Company of Dundee (both companies in which Swire had a financial interest) and one ship from Ingliss of Glasgow.

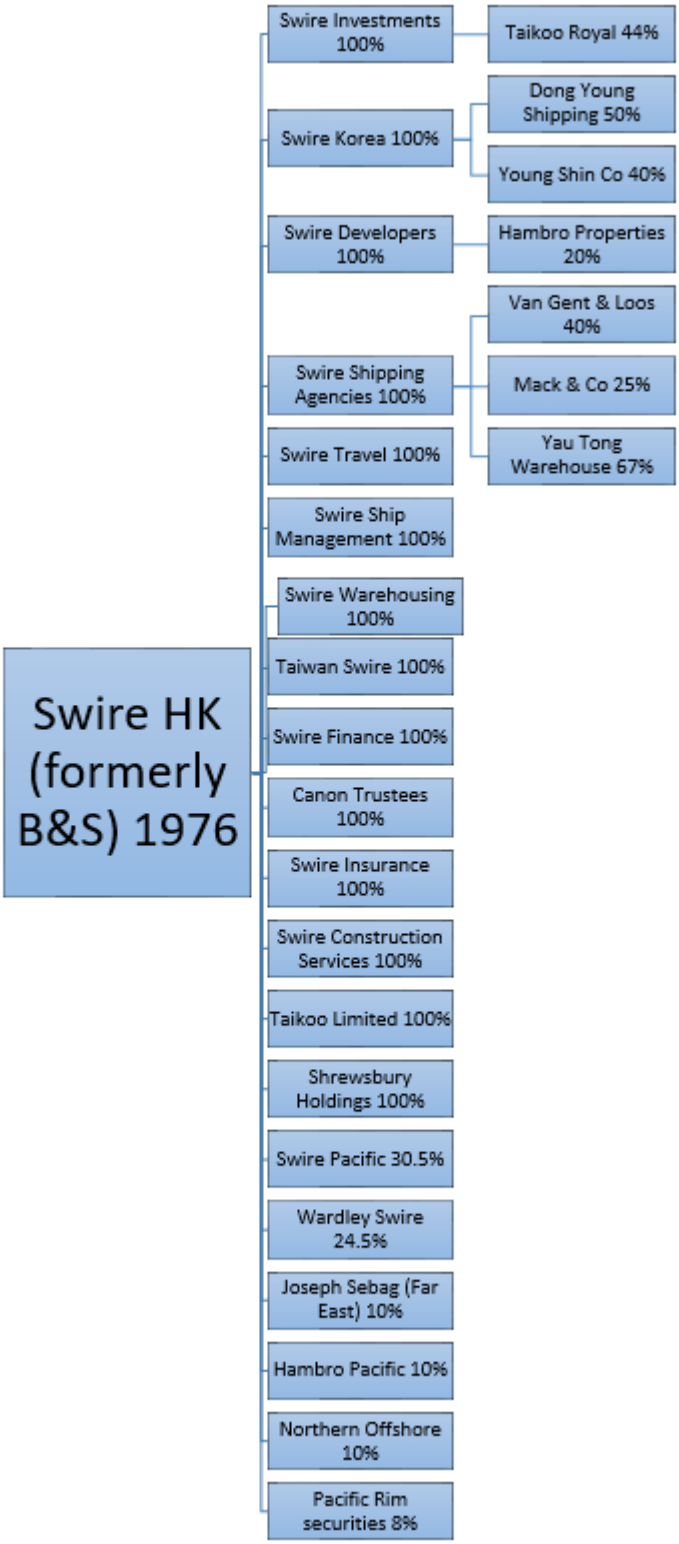

Figure 2 – Swire UK (FORMERLY B&S) 1976

Source: SOAS Archive JSS 1/7/9/1 The Peat Marwick Report

British shipping companies generally preferred to finance new ships through retained profits, but JS&S approached the National Provincial Bank on 23 November 1949 and acquired a loan of £2 million to be repaid from the future earnings.[149] The accounts for the CNCo for the years before and after the loan show that the CNCo made an average loss of £33,579 in 1947, 1948 and 1949 but made a profit of £500,000 by 1952.[150] Two more ships – *Chungking* and *Changchow* – were built at Scotts of Greenock but they were never in service with CNCo. They were put out on charter to Messageries Maritime, a French shipping line, for two years and then sold to the Royal Fleet Auxiliary (RFA). From 1948, JS&S ships were built at the JS&S Taikoo dockyard in Hong Kong for the CNCo, bigger than the normal run of ships that the company usually operated. The first (*Anshun*) was delivered in 1951 (Hawes, 2001). Throughout the 1950s and the early 1960s, JS&S had one ship built each year at the Taikoo dockyard, each one paid for with the retained earnings of the previous ship. Like all British shipowners, JS&S bought ships with very generous British government investment grants (see Chapter 4). In this period JS&S employed its ships profitably because they were modern and fast, but by the 1960s the fleet needed to be replaced as in the early 1960s trade was starting to pick up for both B&S and CNCo. To accommodate this the CNCo had bought 3 second-hand ships, rather than build new ships, for the Australia-Japan wool trade (Woodman, 2010). This was either extremely far-sighted or lucky, as the shipping industry everywhere was starting to change.

In the early 1960s, different forms of cargo-handling were beginning to affect the future of ships' cargo-carrying capacity and dock work. JS&S had to choose between roll-on/roll-off, containers or palletisation, and the choice had to be made before any new ships were built. There is no doubt that JS&S in London was swayed in its decision by the Crakes report commissioned by Ocean[151] which dismissed containers and promoted the use of pallets as the best way forward. JS&S, drawing on work done on pallets by the Norwegian shipping company Fred Olsson, decided on a system called unitisation, which meant that instead of building new ships, they would cut doors in the sides of their ships and call them side loaders. These ships carried their own fork-lift trucks for loading and unloading the pallets. This was a successful and profitable operation in the Philippines and New Guinea where ports were small and difficult to

[149] SOAS Archive JSS 1/4/3/11. Letter from the National Provincial Bank.
[150] SOAS Archive JSS/1/4/8/11. Accounts sheet.
[151] OA 2001. Report on Containerisation dated 20 Dec 59.

access. The first of these ships had been bought second-hand and converted in the Taikoo Dockyard and a further three ships were converted there at a cost of £600,000 each (Haviland, 1992), but JS&S recognised by 1967 that palletisation was a dead end and the use of containers was the best way forward.

In 1967, CNCo was bought out by its parent company, JS&S, which sold 50% of its fleet to Ocean Steamship. The rationale for this decision was that Ocean, a founder member of the container consortium OCL, would help JS&S move into the container market. This joint venture did not last long as CNCo returned to JS&S's full ownership in 1975 because Ocean claimed that CNCo had failed to live up to expectations. The details of this venture are obscure as neither company nor the company historian for Ocean explore the history further.

The CNCo's container shipping operations required expensive ships and terminals, so the company had to form or join consortia to share costs and trade routes with others. This often involved CNCo ships being operated under consortium colours rather than its own company colours. Though the ships of the consortium all appeared in the same colours, the decisions and agreements on pooling of cargoes and schedules of shipping times and routes remained under the control of whichever conference was applicable to that trade. Large amounts of correspondence appear in the files regarding these matters, with designated directors and staff of all the companies involved liaising with the conference administrators. As conference membership was required to be able to ship cargo, the CNCo had joined the Australia–Far East conference in 1948. This enabled it, despite being one of the smaller shipping companies, to have its position taken into account when containerisation developed. When the same amount of trade carried by regular cargo ships was parcelled out to be carried by fewer container ships, the CNCo, thanks to its association with Ocean and its membership of whichever conference was applicable, would receive its agreed share.

To expand activity in the container trade, CNCo had a small number of gantry-fitted container ships built at the Miho yard in Japan in 1977. These ships generally operated on the Australia-New Guinea trade route replacing the side-loading ships, but this time with gantries for unloading the containers. With various partners, CNCo also operated in the New Zealand container trade, but with mostly second-hand ships until the modern multi-combi ships arrived in the 1980s.

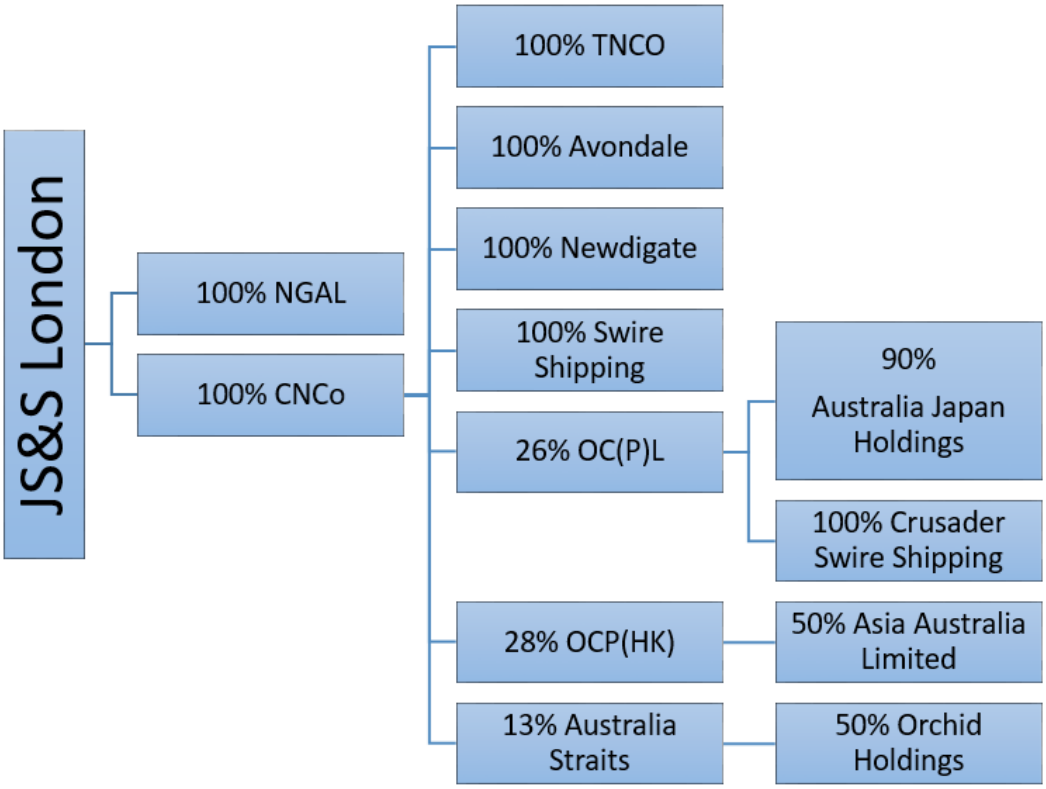

Figure 3 - The structure of CNCo 1976
Source: SOAS Archive JSS/1/7/9/1 the Peat Marwick Report

Key:NGAL, New Guinea Australia Line, TNCO Taikoo Navigation Company, OCP, Overseas Containers (Pacific) Limited. Overseas Containers Pacific (Hong Kong) Orchid Holdings 50-50 with NedLloyd.

7.3.1 Ship Registration

Ship registration is an important point in this thesis and has been discussed in Chapter 3The majority of British shipowners registered their ships in the UK, at least until the mid to late 1970s, and their trade body (CoS) has tended to blame the decline in their business on, amongst other things, the use of the FoC. They claimed that the use of these flags by other countries' shipping companies, notably oil and bulk carriers and later cruise liners, not only lowered costs but offered the means to avoid taxation and associated responsibilities. If JS&S was seen to be using the flag of Hong Kong, even though it was a British dependency, as a FoC with all that this implied, this would be a subject for discussion in the employers' shipping associations, a move which senior members of JS&S would have found at least embarrassing.

The majority of JS&S ships were registered in Hong Kong but flew the British flag, but whether this was because Hong Kong was classed as a dependency is unclear. The company also had ships registered in other jurisdictions including Panama, Liberia and Singapore. A case in point is the Blue Funnel (Ocean) ship *Perseus*, transferred to CNCo as the *Kwangsi,* then transferred to the Panamanian flag in 1982 and renamed *Asia Dragon*, although apparently still owned by CNCo. It has proved very difficult to find out what ships JS&S registered in Hong Kong and what the status of registration in Hong Kong entailed. Between 1972 and 1990, CNCo had 17 ships delivered, and they were registered as follows: nine in Hong Kong, two in Panama, two in Liberia, two in Pusan, South Korea, one in Singapore and one in the UK. The International Transport Workers Federation's said that they classed the Hong Kong ships as FoC ships on a ship-by-ship basis.[152] There was no nationality requirement with regard to crews in Hong Kong. The CNCo ships usually had Chinese crews with European officers, and the JS&S ships operated by the Taikoo Navigation Company were manned by Chinese officers and crew.

Hong Kong registration had some other benefits for owners; for example they could be comprehensively managed by a nominated agent, thus hiding the identity of the beneficial owner. Anything classed as profit from international trade, including the chartering of ships, would be exempt from any tax on profits, and double indemnity relief[153] with a number of governments including the UK further reduced tax liability. In the UK, the Swire Group used all possible tax relief, taking advantage of free depreciation and other capital allowances to eliminate any tax liabilities which could arise in UK companies. In the UK, the Inland Revenue allowed 100% first year allowances for new ships purchased after 26 October 1970. If the purchaser gave notice to the Inland Revenue about a postponement of the first-year allowance, then the company could in subsequent years use the whole or part of the postponed balance as free depreciation. In 1974, JS&S claimed group relief totalling £1.05 million from their shipping companies Avondale and Newdigate. The losses of the two companies were represented by free depreciation on ships acquired in earlier years and were set at a level to cover the original taxable profit in JS&S.

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[152] Conversation with Finlay Mackintosh (Inspectorate Coordination Supervisor) at ITWF HQ Borough Rd, January 2016.

[153] According to the Inland Revenue, '[i]f an agreement exists between the UK and the overseas country double taxation relief will be given as a tax credit on overseas earnings'.

It is difficult to determine what the JS&S position regarding tax and Hong Kong was. According to Sir Adrian Swire, the attractions of Hong Kong were convincing:

> 'There are: no exchange controls, low taxation, rule of law, pragmatism at all levels, no governmental corruption, realistic unions, laissez faire economy and availability of Chinese management skills' (Young, 1988, p.226).

The Swire family has always avoided disclosure of any kind. When Sir Adrian Swire found out that he could be offered the presidency of the General Council of British Shipping (GCBS), he wrote that there was:

> 'A danger of CNCo and its running arrangements coming under the spotlight so will forget CNCo and concentrate on my activities at [other shipping companies] OCL, ANCO, Stirling, CSO etc. CNCo just our traditional HK operation managed from HK, I find the whole prospect alarming'.[154]

Sir Adrian became President of the GCBS in 1980. This letter would imply that JS&S was not only using British government grants to buy ships but was also engaged in some form of tax avoidance through its Hong Kong operations (see Chapter 8) which, although legal, would not sit well with other shipowners in the GCBS (CoS). Hence Sir Adrian's apparent reluctance to head the GCBS at the time.

7.3.2 Trade routes and their development

The Swire family always considered themselves to be shipping people, probably for the social advantages this offered.[155] Their shipping business for most of this period accounted for 40-45%[156] of the total volume of business. After the Second World War, there was some opportunity for CNCo to enter some trades which had not been available before the war. In part this was due to the loss of the Japanese and German merchant fleets and the ongoing war of independence between the Dutch and the Indonesians. In 1947, CNCo entered the China-Straits-Indonesian cargo and passenger trade, taking over from the Dutch shipping line KPM. Also in 1947, the CNCo, in conjunction with Yuill's of Australia, opened up an Australia-Hong Kong service which led the CNCo into the Australia Far East shipping conference. Outside of the conference CNCo, again in conjunction with Yuill's, started a Japan-HK-Australia

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[154] SOAS Archive JSS/1/4/4/20 dated 22 Mar 79. Swire to J.H. Bembridge Swire (HK) about the presidency of the General Council of British Shipping.
[155] See Chapter 4
[156] SOAS Archive JSS/1/11/2. Board position paper dated 1978.

service. This collaboration led to a company being formed, Swire & Yuill's, in 1961 (Havilland, 1998). In 1956, a direct Japan-Australia service was started for the wool trade.

In 1952 CNCO entered the copra trade. This, former German monopoly was allied at a later date with a service to the Solomon Islands and the New Hebrides. In 1955, a joint Ocean, Blue Funnel and CNCo Pacific service was set up to run mainly trans-shipments from Hong Kong to New Guinea and Australia, and again the Solomon Islands and the New Hebrides, Fiji and New Caledonia were added later. Northbound cargoes between Western Australia and South East Asia tended to be sugar, copra, scrap-metal and later nickel ore for Japan. The southbound service from Hong Kong was usually general cargo discharged from ships arriving from Europe, with cargo bound for the Pacific Islands.

In 1958 another joint Ocean-CNCo service was started between Australia and Japan, and an Eastern Australia–Far East service for the sugar trade was underway. The Australia–New Guinea–Philippines trade boomed in the decade after the war for B&S and the CNCO. The recovery and rebuilding of the CNCo was largely based on this trade. To run these services the CNCo had nine C-class ships in operation.

In 1967, the unitised business started with cargoes into New Guinea of rice, consumer goods and small trucks; cargoes outward were generally copra, initially carried by the side-loader ship, the *Papuan Chief*. This continued until containerisation, when the CNCo entered the Australia–Japan Container Line (AJCL) on the basis of its existing conference rights. In 1974, China– Hong Kong–Taiwan–Philippines were incorporated into the Asian–Australia Express Limited (AAE). The start of a partial containerisation service began in 1978 with the intro-duction of one CNCo ship into the Bali Hai service between Korea, Japan and the Pacific Islands.

New Zealand was not a regular CNCo trading destination and until 1961 was considered to be only a waystation of the Australia–Japan trade route. In 1961, as part of the sugar trade for the Taikoo Sugar refinery, a service was set up leaving Hong Kong for Auckland, Wellington, Dunedin, Christchurch, then to Northern Queensland to load raw sugar for Hong Kong. At the same time, CNCo joined the Crusader Service run by a consortium of shipping companies. The main trade was transporting mutton to Japan and wool to the UK, the Middle East and seasonally to Japan. Eventually, this led to the formation of Crusader Swire Container Services, with the CNCo providing two ships for the New Zealand–Japan trade route. The New Zealand Unit Express was

re-organised to cover the Hong Kong–Taiwan–Philippines-New Zealand trade, with Fiji added later. The northbound cargoes now included forest products (wood pulp and wood chips) along with frozen meat and dairy products. This trade continued until 1991 when the whole trade was restructured.

7.3.3 Passenger traffic and the cruising trade

In 1953, CNCo inherited the Straits–Jeddah pilgrim service from Ocean's Blue Funnel line. The CNCo was familiar with moving large groups of people. The company had an emigration service that transported agricultural labourers from South China to Penang and Singapore, but which was lost in 1949. The pilgrim service was seasonal, so its two ships, the *Anking* and the *Anshun*, were used either in the Australian service or in the Recruit service, provided on behalf the British Phosphate Commission, which needed to transport labour from the Gilbert and Ellis Group to the Ocean Island mines. In 1960, the liner *Kuala Lumpur*, originally built in 1936, was converted at the Taikoo Dockyard to replace one of the older ships in the Haj trade. In the off-season it was used in the cruising trade, mostly between Australia, New Zealand and the South Pacific. In the 1950s and 1960s, voyages to Pakistan, Aqaba and the Southern Philippines were added to the Straits pilgrim trade, and further voyages from Borneo and Sarawak were included from 1966. However, the rising popularity of air travel to the pilgrim sites eroded profits. The CNCo withdrew from the trade in 1970, the two older ships were sold, and the *Kuala Lumpur* was scrapped.

The CNCo operated a cruising service of sorts from about 1961 when ships not employed in the Haj trade or the Recruit service were used for cruising trips from Freemantle in Australia to the Far East. The company's Danish-built ship, *Taiwan*, was used for cruising for two years. In 1970 the CNCo took delivery of a former Brazilian liner, converted it at the Taikoo Dockyard and re-named it the *Coral Princess*. This ship was one of CNCo's most profitable concerns for the next twenty years. It ran seminar cruises from Japan for various industrial companies, trade unions and universities creating a successful repeat business. The *Coral Princess* ran cruises until it was sold to a Taiwanese firm in 1990 and CNCo abandoned the cruise and passenger liner business after the sale. Their reasons for this complete withdrawal do not appear in any of the files but presumably reflect the growing preference for air travel.

7.3.4 Bulk carriers

The bulk carriers that JS&S operated were different from their other shipping activities as they were all chartered out, so JS&S had no control over their routes or cargoes.

This was unusual for JS&S. However, the company admitted that it had no knowledge of the bulk market but knew that the best way to make money was to let other people take the risks. JS&S invested in bulk carriers on its own account. The first, the *Erradine,* was built in 1968 in Japan using the *shikumisem* system. Originally a system used to support Japanese ship building, it:

> 'usually involved the sale of a Japanese-built and owned vessel to a company owned elsewhere [usually Hong Kong] which was then chartered back for the whole of its lifetime' (Davies, 2008, p.121).

This opportunity was extended to foreigners who could claim very favourable conditions from Japanese Development Banks, which would finance up to 65% of construction costs with a smaller share for the commercial banks. The shipowners' contribution might occasionally be limited to only 5%. In 1971, the Export-Import Bank in Japan was offering 70% of the construction price at a repayment at 8.5% over 7 years. If JS&S (with CNCo classed as a Hong Kong company) also used British government grants, this would make buying these ships very cheap. JS&S owned the ships, but they were managed by CNCo. These first bulk carriers were E-class ships of approximately 35,000 tons dwt. By 1973 the company had five bulk carriers of this type with a valuation of just under £10 million with outstanding loans for all ships at £4.5 million. All the ships were now on medium-term charter to Japanese interests which generated a gross revenue in 1972 of more than £2 million. All the bulk carriers were profitable, but the first, the *Eredine*, was particularly so, continually on charter for six years from 1968 to 1974 throughout a downturn in bulk shipping. In 1974 it was sold for its purchase price, but whether or not this included the grants is not clear. However, JS&S considered this a: 'particularly successful venture' (Havilland, 1992, p.108). This would suggest that, for JS&S, the whole six years the *Eredine* was on charter were profit, and after receiving the purchase price back from the sale of the *Eredine* the whole period was free from risk. The second generation of carriers was much larger. The *Eredine II w*as 60,000 tons dwt and on delivery in 1975 was immediately chartered to a Japanese concern. Two other bulk carriers followed which were placed in the Scanscott timber pool for the British Columbia timber trade. These ships were later sold to an associated Swire Group company, a shipping concern, Dong Young (Korea), which then traded under the name *Pegasus Timber*.

Two further bulk carriers were built in 1981 and 1984. These were *Handymax* bulk carriers which were around 45,000 tons dwt and able at that time to enter most ports. These were traded on the time-charter market and both sold in 1990. All the ships on

charter were generally profitable, but profit and loss information is not available for individual ships.

7.3.5 Tankers and oil exploration

As well as owning 100% of CNCo, JS&S also owned Swire Ship Management and the Taikoo Navigation Company Limited. It also had a number of one-ship companies – Avondale Navigation Company and the Newdigate Shipping Company – which were registered in London and appeared in the company diagrams. They also had two shipping companies registered in Monrovia, Liberia – Halsbury Shipping and Bisley Shipping – probably to take advantage of the FoC and the associated company secrecy. These two companies seemed to be subsidiaries of Swire Pacific Ship Management which was formed in 1982. JS&S made its first foray into the tanker market that year with the purchase of the VLCC *Jagarda* from the Norwegian shipping company Andres Jahre by the Halsbury Shipping Company. This vessel had been laid up after making only seven voyages. CNCo then mothballed it under the name *Eriskay II* for a further four years then brought it back into service in 1986 under new owners, the Bisley Shipping Corporation, when an upturn in the oil business made it financially very profitable, so profitable that they bought another VLCC in 1988, the *Erradine III*. One reason for operating the oil tankers under the guise of Liberian companies could be that in the event of a catastrophic oil spill, the owners could hide behind the numerous devices available in such jurisdictions. In 1988 *Eriskay II* was transferred to the Taikoo Navigation Co, registered under the Hong Kong flag. At that time the Royal Navy was providing protection in the Arabian Gulf, so the company took advantage of this measure for its ship. JS&S also joined the offshore oil business, forming Swire Northern Offshore with Northern Offshore, operating in Dubai. In 1978 the company became Swire Pacific Offshore (SPO) after buying out Northern and moving its headquarters to Singapore. The company had a large number of oil-supply vessels which JS&S used to find employment for CNCo sea-going staff when there was a down-turn in other maritime business. The SPO was a separate company for all intents and purposes and not connected to the CNCo

7.4 Cathay Pacific Airlines

The most public face of JS&S was their airline, Cathay Pacific Airways (CPA). JS&S had expressed an interest in air transport before the Second World War and had been in talks with Imperial Airways in 1933 (Young, 1988). With the war in China and the onset of the Second World War this approach came to nothing. By the mid-1940s a

number of shipping lines, including Ocean and JS&S, saw that air transport could develop profitably. In 1946, John Kidston Swire, an advocate of air travel, took a leading part in the negotiations in Australia and Hong Kong, which led to the acquisition of CPA. Ocean, through its interests in Mansfields of Singapore, took a share in Malayan Airways (Falkus, 1990) but whether or not the two companies encouraged each other in this diversification is unclear.

In 1947 B&S had set up an aircraft maintenance facility at Hong Kong's Kai Tek Airfield which became the Pacific Air Maintenance and Supply (PAMAS), later merging with Jardine Mathieson Aircraft Maintenance Company to form the Hong Kong Aircraft Engineering Company (HAECO), a listed company by 1965. HAECO serviced CPA and most of the airlines using Hong Kong airport. These companies became increasingly important to the success of JS&S as Hong Kong airport became a hub of air travel and air cargo transport from the late 1950s onwards.

In 1947-48, B&S approached Australian National Airways (ANA) about starting a Hong Kong to Australia air service but this was not seen as a viable option at the time. However, the chairman of ANA suggested to B&S that they should talk to Syd de Kantzow and Roy Farrell, owners of Cathay Pacific Airways (CPA) in Hong Kong. A basis of agreement for a CPA take-over was signed on May 5 1948 between JS&S, CPA, ANA, Skyways and Far Eastern Aviation, with the new company to be known as Cathay Pacific Airways (1948) Ltd. However, before the agreement was ratified on June 1 1948, Skyways and Far Eastern Aviation dropped out. The company was registered on 6 October 1948 with a nominal capital of HK $10 million. Its shareholders were CNCo with 35%, ANA with 35%, JS&S with 10%, de Kantzow with 10% and Cathay Holdings (Roy Farrell & friends) holding 10%.

In 1949, the Hong Kong governor Sir Alexander Graham helped negotiate an agreement on the division of airline traffic in Hong Kong between Cathay Pacific and Hong Kong Airlines (HKA), a subsidiary of British Overseas Airlines Corporation (BOAC). All northbound traffic from Hong Kong (including that to China and Japan) would be handled by HKA, all south-bound traffic (including that to Bangkok, Singapore, Manilla, Haiphong, Saigon[157] and Rangoon) would be handled by Cathay Pacific. This agreement was signed in May 13 1949 by Cathay Pacific and BOAC on

[157] Saigon, now Ho Chi Minh City, Rangoon now Yangon.

behalf of HKA (Young, 1988, p.117). The fact that China was in turmoil and Japan was still occupied meant that JS&S and Cathay Pacific had the better deal. Cathay Pacific expanded, and in 1959 it had absorbed HKA from BOAC, giving BOAC a seat on the board and swapping 15% of Cathay stock for HKA. Although northbound traffic rights for China were still moribund, Japan was recovering quickly. In 1961, Cathay Pacific bought its first jet aeroplanes and formed Air Caterers Limited with Hong Kong and Shanghai Hotels. It later took part in the formation of Hong Kong Terminals, in which it held a joint 30% share with Swire Pacific. Through its various companies JS&S now covered every aspect of flights into and out of Hong Kong.

Though Cathay Pacific was a headline company for JS&S, there were considerable misgivings at boardroom level about the financial gearing of the airline. In a 1975 letter, Sir Adrian Swire requested a debate on the debts of Cathay Pacific. At the time, JS&S had an underlying holding in Cathay Pacific of 14.6% with Swire Pacific holding 37.7% and Cathay Holdings (another JS&S dominated company) holding the balance. The airline had borrowings of £22 million which were expected to rise to £60 million by December 1977. Swire wrote: 'These figures in themselves make me feel physically ill and I am not impressed by the argument that the degree of gearing in CPA is quite reasonable by airline standards'.[158]

CPA was also the cause of some bad feeling in London. Senior civil servants noted that: 'CPA was living off the back of British Airways (formerly BOAC) and the Swire family benefited very greatly from this'.[159] The general inference was that the Swire family was avoiding payment of taxes. In a private meeting with Patrick Shovelton,[160] Swire was assured that the same tactics, of suggesting tax avoidance and poor company management, had been used against Freddie Laker (Laker Airways), an independent airline operator[161] and that they had little effect,[162] but the accusations clearly irked some members of the Swire family. In December 1979 representatives from CPA, British Caledonian (BCal) and Freddie Laker of Laker Airways all applied to

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[158] SOAS Archive JSS/1/11/2 letter dated 1/7/1975.
[159] SOAS Archive JSS/1 /11//2 letter dated 27/10/78 Swire to J Bembridge HK chief.
[160] Patrick Shovelton (18/8/19-20/1/2012) a senior civil servant, involved in shipping and later in the Ministry of Aviation. Became Director General of The General Council of British Shipping, on his retirement from the civil service.
[161] The post-script to this note suggests that the recipient burn it so there would be no record of it being sent.
[162] Despite Shovelton's assurances, Laker Airways was declared bankrupt in 1982.

the Hong Kong Airline Authority (HKALA) to challenge British Airway's (BA) monopoly of flights between Hong Kong and London (Young, 1988). There were a number of appeals both in Hong Kong and London and they went both for and against CPA. This whole process culminated at a dinner at the Dorchester Hotel on 17 June 1980 in aid of the Hong Kong Dragon Boat Association attended by John Nott, the Minister of Trade, and chaired by Sir John Swire, where the Minister announced that the final appeal had been allowed and that all three airlines could compete with BA on the Hong Kong to London route. This transformed CPA into an international airline and an extremely profitable business for JS&S. The airline was eventually floated on the Hong Kong stock exchange in 1986. All of this seems to suggest that their social networks in London and Hong Kong functioned well on the company's behalf, although a Thatcherite government would hardly condone a monopoly such as BA held between Hong Kong and London.

7.5 The company: finance and management

The businesses in which JS&S and especially B&S were involved in throughout the Far East required extensive trade and family networks. B&S delegated authority to Chinese businessmen known as compradors (from the Portuguese word *comprar*, to acquire) to run their business in China from the 1820s until the Second World War. JS&S started to modify the comprador system in the late 1930s and 1940s to a Chinese manager system, but: '[t]here were in fact strong continuities between the contracts of the compradors and the Chinese managers' (Jones, 2000, p,223). After the war the same Chinese business class continued to provide services to JS&S for the rest of the twentieth century, although known as managers after 1948. In the late nineteenth and early twentieth centuries it was especially difficult for foreigners to gain redress for any business mishaps that took place in China. Language problems and ignorance of Chinese culture played their part. It was common for many in the Chinese business world to see a foreigner as a source of easy money and of course there were genuine misunderstandings.

The Chinese government, however, was mainly interested in keeping order and controlling criminal activity, not in the plight of foreign businesses. It was therefore necessary and prudent for foreign companies to employ a comprador. JS&S was fortunate in its choice as it was said that their comprador who was: 'the hinge on which Swire's swung open the door' (Miller, 2012, p.91) to the Chinese business world. Compradors were respected heads of trading houses (trading *Hongs*) and forwarding

agents (shipping *Hongs*), connected to the various guilds and fraternities that ran Chinese business affairs, the two biggest being the Gwangzhou and the Ning Po guilds. Compradors guaranteed the delivery of services to the agency that contracted them. A system of financial deposits was imposed on the smallest trader and any employment of non-family members in the *Hong* meant they had to post financial bonds for good business behaviour. The services provided could be the assembling of cargoes, dispersal of cargoes, and dealing with the other *Hongs*. The comprador would provide the labour, the transport inland, the depots and payments for all services involved. Many of the *Hongs* had branches run by family members in non-Chinese ports such as Singapore, Bangkok and in the East Indies. The relationships between the *Hongs* and the agencies (such as B&S) were enduring, with the occasional personal mishaps, but the same Chinese family names crop up throughout JS&S's business history in China and later in the Pacific rim, with examples of JS&S executives, such as F. E. Lamb, becoming closely involved with the Chinese families of *Hong* members (Miller, 2012). It was possibly fortunate for JS&S and B&S that the Gwangzhou *Hong* moved its entire business to Hong Kong before the arrival of communist troops in Gwangzhou in 1948[163]. Without this long and profitable involvement with the Chinese business community, B&S would have had a more difficult time securing business after their withdrawal from mainland China in 1949.

7.6 Hong Kong enterprises

For the Swire Group as a whole, the main injection of cash and the impetus to become a major international conglomerate based in Hong Kong stems from its property deals under-taken by Swire Properties, a subsidiary of Swire Pacific. Crucial to JS&S's success and the source of capital in the latter part of the twentieth century were the Taikoo Dockyard and Engineering Company[164] (established in 1900) and the Taikoo Sugar Refinery (established in 1881). Both firms were very successful in their respective businesses, but it was the land they occupied in Hong Kong which would generate the expansion capital that Swire needed. In contrast to many other British

[163] Whilst the author was employed by Ben Line, (Ocean's competitor), on the ship's first trip, outside the Far East, on arrival at Cartagena Columbia, the jetty was lined by Chinese agents with ship's stores and fuel. We assumed they were related by clan to the Hong Kong branch.
[164] The name changed to Swire Pacific in 1974.

shipping companies, the senior management of JS&S, though professing to be shipowners first and foremost,[165] were in fact traders and businessmen.

The Taikoo Sugar Refinery opened in Hong Kong in 1884[166] and by 1925 it was the largest single-unit sugar refinery in the world. Production eventually ceased in 1970 when sugar refining was no longer profitable. To free up the land without losing its customer base, especially in China, JS&S formed the Taikoo Cube Sugar Company to import sugar. The Taikoo Dockyard & Engineering Company was established by J H Scott, chairman of JS&S, who had acquired 52 acres of land at Quarry Bay Hong Kong and built the Taikoo Dockyard in 1900.[167] In 1940, Swire Pacific was incorporated in Hong Kong as The Taikoo Dockyard and Engineering Company. This name was dropped in 1974 and the name Swire Pacific Limited was adopted. The shipbuilding activities were discontinued in 1969 and the dockyard re-located to the Hutchison Group in the Whampoa dock facility in 1972. In 1973 all dockyard activities were merged with the Hong Kong and Whampoa Dock Company Limited under the title Hong Kong United Dockyards (HUD). The Hutchison Group and Swire Pacific each owned 50% of this new company. This eventually left Swire Pacific with a large area of land (the dockyard and refinery) ready for development. Swire Properties, a subsidiary of Swire Pacific, was set up in conjunction with Mackenzie Hull Holdings and Barclay Hambro Property Company Limited and was incorporated in 1972. By February 1975 Swire Properties had acquired properties and property-owning companies from Swire Pacific and Swire Industries in exchange for shares.

Swire Properties also retained the option to acquire any remaining properties when they were no longer required for trading activities. The large swathe of land comprising the former dockyard and sugar refinery was 52 acres located in the Quarry Bay, Eastern District of Hong Kong Island. Given the scarcity of land in Hong Kong, this was an opportunity for a series of major construction projects.

The Taikoo Shing Development was started in 1975.[168] It consisted of a private housing estate for 60,000 people built on the old dockyard and was completed in 1986.

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[165] SOAS Archive JSS/1/11/2. Directors memo John Swire Shipping dated 1976: 'shipping, accounts for at least 40% of our business and will continue to do so until Swire Properties fulfils its forecast'.
[166] See Chapter 5, p.93
[167] See Chapter 5, p.93
[168] Taikoo Shing was the name of the road which bounded the dockyard

Construction was also started on Taikoo Place with its ten multi-storey towers designed as a commercial hub. To complement it, a shopping complex known as Citiplaza 1 was built. The foundation stone of the original dockyard, built in 1900, was placed at the entrance to the complex. The property was opened in 1982 and completed in 1986. Both subsequent Citiplaza's 3 and 4 were developed, managed and owned by Swire Properties. All this development would eventually lead to an injection of nearly £50 million into JS&S. When discussing future projects with the JS&S board in 1973, Adrian Swire[169] presented future projects in Hong Kong, Australia, Japan, UK and shipping: 'There will be enough profitable opportunities to hand, if the present pipeline is anything to go by'.[170] Money generated by Swire Pacific and Swire Properties offered sound foundations for JS&S's future prosperity.

7.7 Hong Kong networks

JS&S operations were centred on Hong Kong alongside a number of similar companies such as Jardine Mathieson, Hutchinson Whampoa and Wheelock & Marden, all of which had similar backgrounds to JS&S. All were established in the nineteenth century and all still operated in Hong Kong in the late twentieth century. Networks in such a close environment were essential. It would seem that although JS&S was continually at odds with Jardine Mathieson,[171] it did not prevent them collaborating to make money. The same approach operated with regard to Hutchinson International when they amalgamated both their respective dockyards in 1973 to become Hutchinson United Dockyards (HUD). The Hong Kong & Shanghai Banking Corporation (HSBC) was the bank which most of these firms used.[172] The bank had always been accommodating to the Swire Group and had found them a good investment, having at one point a 30% interest in Cathay Pacific. Young (1998, p.226) quotes Sir Adrian Swire: 'I cannot overemphasize the importance of the link we have had with the Hong Kong Bank. A line of credit for many millions of dollars could be

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[169] SOAS Archive JSS1/3/26. Director's correspondence letter dated 19 Mar 73 to H.J.C. Browne, head of the HK office, from Adrian Swire discussing the money which was about to arrive at Swire.
[170] SOAS Archive JSS 1/3/26. Director's correspondence letter dated 19 Mar 73.
[171] SOAS Archive JSS/1/4/4/19. Letter dated 12 Jul 73. 'Re-think our position as regards JM not outright war but being very selective in our dealings with them'.
[172] HSBC eventually bought 20% of Hutchinson to save it and in 1979 sold to a Chinese concern, retaining the name.

arranged on trust by a simple phone call'. By the early 1970s, the Swire Group had a potential indebtedness to the bank of £10 million.[173]

The influence of the major corporations, on the financial and political framework is reflected in their involvement in the banking system and their influence over the outcome of the position of Governor of Hong Kong. It is unclear whether the other corporations in Hong Kong had a seat on the HSBC board but the head (the *Tai-pan*[174]) of B&S in Hong Kong had a designated seat. As senior positions became available in the bank, there was much manoeuvring between the corporations and no doubt there was a *quid pro quo* element to the bargaining. JS&S and B&S executives also found their advice sought on the chairmanship of the bank.[175]

When a change in the governorship of Hong Kong was being discussed, members of the JS&S board were heavily involved. Letters between Hong Kong (B&S) and London (JS&S)[176] discussing candidates in 1978 and 1980. There were informal meetings between the head of B&S and Lord Chalfont, a senior British government minister. On his eventual reappointment Governor MacLehose, advised Adrian Swire on the future prospects of Hong Kong and whether or not to open an office in Beijing.[177] I have no doubt that other Hong Kong corporations were also involved in similar discussions especially the firm of Jardine Mathieson.

The approach of Hong Kong's transfer to the mainland Chinese government in 1997 caused much apprehension, particularly amongst foreign-owned business's. Many major companies tried to adjust their expectations and corporate strategy long before the hand-over. As a company, JS&S had employed Chinese nationals in high positions, but from the middle of the 1970s discussions at board level centred on securing a Chinese partner to safeguard the future. There was a decision to be made on who, among the Chinese business world, would be a suitable senior board member

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[173] SOAS Archive JSS/1/4/20. Note dated,3rd June, 71 between A.C. Swire and J.A. Swire concerning the over reliance on HSBC and the amount of indebtedness of the company.
[174] Tai-pan (Mandarin Chinese) – big shot or top class. Applied to foreign born heads of trading houses (Hongs).
[175]SOAS Archive JSS/1/4/4/20. Letter dated,15th March, 61.Correspondence between Bembridge (B&S) & J Swire re Board of HSBC.
[176] SOAS Archive JSS/1/11/1. Letters dated 1978 & 1980.
[177] SOAS Archive JSS/1/11/1 dated 16 Oct, 79.

of one of the Swire Group of companies. At a meeting between A.C. Swire and Y.K. Pao, a Hong Kong shipowner who operated an oil tanker fleet of 52 VLCCs, the question was raised as to why JS&S had no substantial Chinese partner.[178] Swire[179] briefed Bembridge, head of the Hong Kong office on the issue. Pao was an influential man, both with the Chinese government and in the UK, being an associate of Prime Minister Margaret Thatcher and two of her senior ministers, Lord Carrington and Geoffrey Howe. His influence with the Chinese government came from holding a $150 million shipbuilding investment in China. Other influential Chinese businessmen under consideration included Sidney Leong, the property magnate and Tung, who was also considered as a potential associate because of his shipping connections. JS&S as a company was particularly eager to avoid any accusations of discrimination.[180] Eventually Baroness Lydia Dunn (an associate of Swire since 1964, a JS&S (HK) director in 1978 and a Swire Pacific director in 1981[181]) who had sat on the board of HSBC was co-opted onto the board of John Swire & Son Ltd in 1990 as executive director. This could be construed as the positioning of the company to take advantage of the forthcoming opening of the mainland Chinese economy to capitalist companies when Hong Kong was assimilated into the Chinese state.

Hong Kong, with its Chinese merchant class, remained the headquarters of the company in the Far East. At the end of the twentieth century, when China was again open to trade, JS&S (which had kept its Chinese staff and its Chinese name *Taikoo*), was able to take full advantage of its position and contacts. In 1983, John Swire & Sons (China) Ltd was incorporated. 'In 1987 it sold 12.5% of CPA to the mainland Chinese company China International Trusts & Investment (Citic), a company in which the Chinese government had a stake'. (Jones & Zeitlin, 2007, p.253) Then in 1990, Swire and Citic took control of Dragon Air of Hong Kong, and in the same period, again

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[178] SOAS Archive JSS/1/11/1. A note dated 18 Nov 77 on the conversation from A.C. Swire to the board of Directors.
[179] SOAS Archive JSS/1/11/1 letter dated 7 Nov 80.
[180] SAS Archive JSS/1/9/3/3 Letter dated 18 Nov 77.
[181] South China Post, July 2010, Baroness Dunn (anglicised Deng) former board member of HSBC, a senior member of the Chinese legislature (Hong Kong). Resigned from the House of Lords 2010 to maintain her non-domicile status to evade the rule that required her to pay full tax in the UK.

with Citic, JS&S entered into other diversifications in China, including a Coca Cola bottling plant.

7.8 The corporate structure

The corporate structure of JS&S is important because the way in which the company was organised contributed to its profitability and showed that the senior managers were astute businessmen who also moved in financial circles in the city of London.[182] The risks in finance were well understood by JS&S: '[w]ho declined to become involved in financial services except insurance, through a long-standing aversion to making money out of money' (Jones 2000, p.154).

The company was also controlled by the two families who seemed to be in agreement on company strategy throughout the period of this thesis. Before 1914, JS&S was a private company which meant that the capital in the company was provided by the brothers John Samuel and William Hudson Swire. There were four partners who provided no capital but had shares in the profits which were related to their positions in the company, three were managers of Butterfield & Swire and the fourth was head of the London office. A new partnership agreement was drawn up in 1892 with a time limit of 21 years, which divided the profits into equal shares between the five partners (W.H. Swire had retired) with a new arrangement for the provision of capital (Marriner & Hyde, 1967). This arrangement lasted until 1914 when the company became a private limited company and remains so until the present day. This usually means that it has shares which will not be offered to the public, because the disclosure requirements were much lighter. It also means that the liability of the shareholders to its creditors is limited to the capital originally invested hence personal assets are protected.

The corporate structure of the company as revealed to the Inland Revenue in 1954[183] identified JS&S as a private limited company with all company directors resident in the UK.[184] JS&S, through its associated and subsidiary companies, held interests throughout the Far East and Asia in shipping, ship-building, ship-repairing, sugar-refining, paint-manufacturing, merchanting, insurance, air trans-port, and maintenance

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[182] SOAS Archive JSS series of letters dated 3, 4 and 17 Aug 72 between HK & London over offers to join investment fund run by Angus Ogilvy, a minor royal, but also an associate of Tiny Rowland. JS&S turn down the opportunity.
[183] SOAS Archive JSS/1/3/21. Letter to the Inland Revenue.
[184] SOAS Archive JSS/1/3/21. Letter to Inland Revenue. UK residents hold 80% of share capital.

and repair of aircraft. The company's interests in 1954 were much the same as in 1990, with property development and marketing added. The company also ran the shipping line CNCo and its activities, with all of its shipping operations managed from London. JS&S also financed its subsidiaries and associated companies, for some of whom it acted as buying agents in the UK. This corporate structure, with JS&S acting as a holding company in London and B&S running an eastern branch based in Hong Kong, continued until the late 1960s. From the late 1950s to the end of the 1960s the company restructured the business as a group with JS&S as the parent company. However, making decisions about the name changes and corporate reorganisation into some semblance of order took time. The changes which followed the JS&S business plan – that is, acting as a holding company with the majority of its enterprises organised as one-ship companies – meant keeping all its interests separate and constantly moving them around the organisational charts as required for tax and investment purposes. This constant movement of subsidiary companies gave JS&S a fluid appearance and the flexibility required to safeguard the whole group against risk by isolating its numerous ventures. Separate corporate agencies were controlled by the management teams who, though nominally independent, were paid by JS&S and operated under contract to it. In effect, JS&S contracted its management services out to its various companies and received payment for those services (Jones & Zeitlin, 2007). The organisational chart included in this chapter was compiled by an accountancy firm, Peat Marwick, at the request of JS&S in 1976 (Figure 4). However, the changes in the company were under-way from the late 1960s. In 1974 the name of B&S was changed to Swire (HK) and the Taikoo Dockyard and Engineering Company was renamed Swire Pacific. Swire Pacific had received a stock exchange quotation in Hong Kong in 1959. In 1969, Swire Industries was incorporated in Hong Kong, purchasing Swire Bottlers and Taikoo Sugar; B&S (Swire HK), which had held approximately 40% in both the companies, acquired a 40% stake in Swire Industries. In 1971 Swire Industries acquired Swire Douro, originally the Orient Paint & Varnish Company (1934) then Duro Paint Manufactures (1948), a paint manufacturing and marble company, and 10% of Metropole Hotels. This moving of companies and share-holdings was a feature of the early 1970s in JS&S's business re-organisation. It seemed as though the whole thrust was to create a holding company (Swire Pacific) and move most of the companies based in Hong Kong into its portfolio. Swire Industries continued to acquire other companies such as 11% in Cathay Holdings and the whole of Swire MacLaine in 1971. In 1973, it acquired Swire (HK)'s 25%

shareholding in HAECO, then Swire (HK) sold its shares in Swire Industries to Swire Pacific in return for shares in Swire Pacific, later that year Swire Industries became a subsidiary of Swire Pacific. During 1972, surplus property companies within the group were transferred to Swire Properties, a subsidiary of Swire Pacific, set up for the purpose of property development.

In 1974, when JS&S re-organised itself into a group structure, the eastern branch's operating companies were organised into six operating divisions, based in Hong Kong, with the publicly-quoted holding company, Swire Pacific, having four divisions: Properties, Industries, Aviation & Hotels and Offshore Services & Dockyard (see Appendix 2) with JS&S (HK) making the sixth division with its own organisational chart. The shipping lines under the control of JS&S London retained their own structure.

The description of JS&S in the 1976 Peat Marwick Report[185] states that the Swire London office provided management services to various Swire Group companies in Hong Kong comprising CNCo, Swire (HK), its subsidiaries and its associates, and to Swire Pacific and its subsidiaries and associates not based in Hong Kong. It also acted in an advisory and consultancy capacity for Swire (HK) and acted as buying agents in the UK. The description of the company activities is similar to that in the letter to the Inland Revenue in 1954,[186] but the diagram of the company activities which follow make the Swire Group appear to be much larger than the 1954 analysis. The diagram for the Swire Group showed that JS&S still owned all the shipping companies but each one operated in a separate compartment. The Swire Pacific diagram shows a large number of companies with each company also having a diagram; an example of this is shown in the figure of Swire Properties (see Appendix 2). B&S disappeared in 1974 to re-appear as Swire (HK). The organisational diagrams for Swire Pacific and Swire Properties can be found in Appendix 2.

Key for Figure 4: BGI,Blythe Green Jourdain. ILS, International Learning Systems. NGAL, New Guinea Australia Line. CNCo, China Navigation Company. OCPL Overseas Containers cific Limited. OCPHK, Overseas Containers Pacific, Hong Kong. ASCL, Australia Straits Container Line.

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[185] SOAS Archive JSS/1/7/9/1. Peat Marwick.

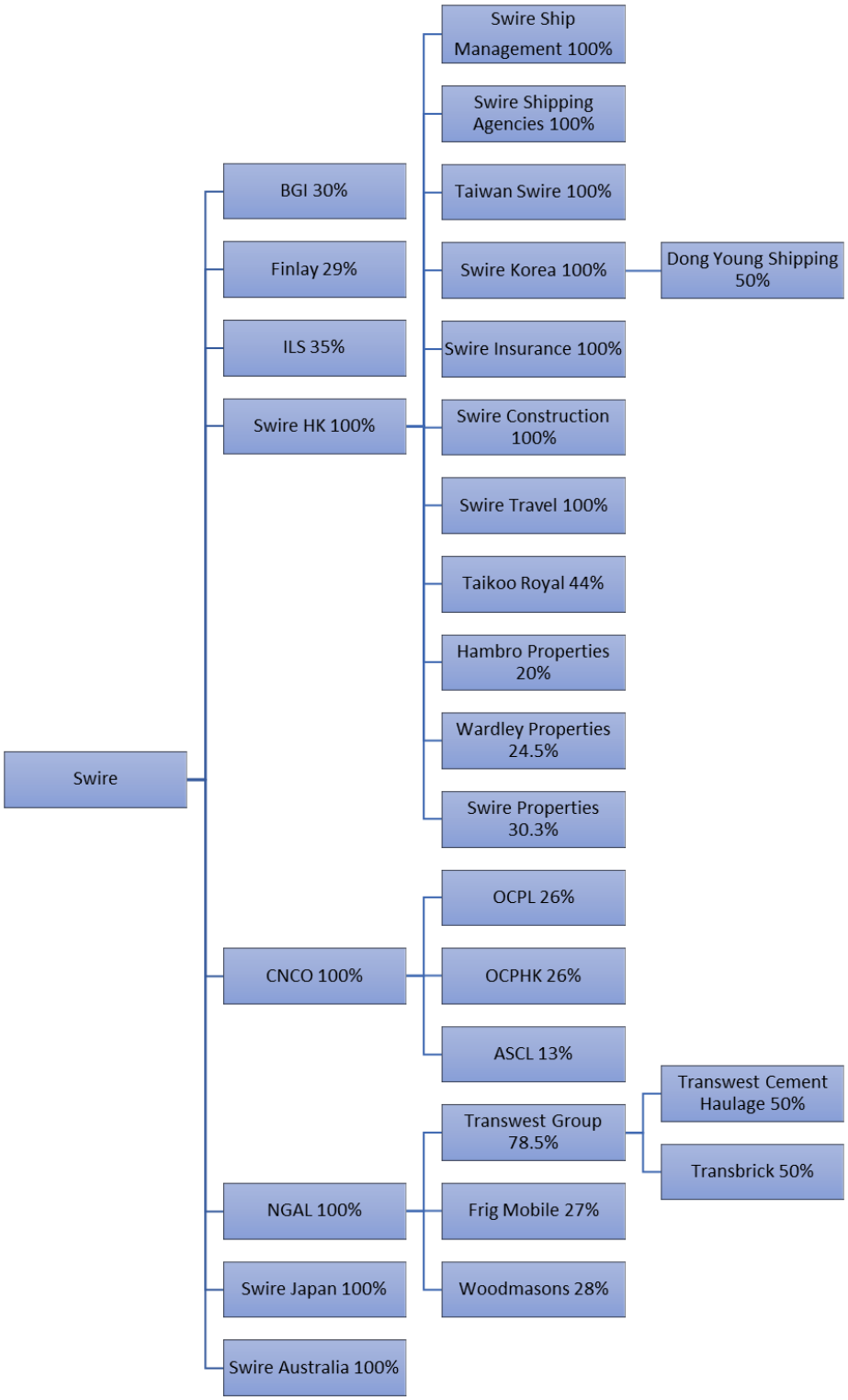

Figure 4-JS&S organisational diagram

Source: Peat Marwick Report 1976

7.9 Conclusion

JS&S has always considered itself to be primarily a company of shipowners and traders and continued to operate traditional ship-owning lines. JS&S was the holding company and the rest of the companies falling within its sphere acted as semi-autonomous interests. Ultimate control operated through senior managers who were directly employed by JS&S. This ensured that if one company went bankrupt or met with commercial disaster, the rest would survive. This is illustrated in the company structures of the various branches of the Swire Group which have been documented in this chapter.

One of the components of the success of the company was the drive of the agency B&S, which became known as Swire (HK). It was B&S which took the initiative in forming the aircraft maintenance company PAMAS (later HAECO) in 1947. The London office took the lead in some instances, and a case in point was the airline CPA, probably JS&S's first major venture (1948) in the post-war era. The initiative came from London and certainly from John Kidston Swire who was enthusiastic about aviation. The management displayed serious reservations about the indebtedness of CPA, but once profitable routes had been negotiated these disappeared. By 1961, B&S covered most of Hong Kong airport's requirements for catering and baggage handling. The success of the engine maintenance company HAECO, jointly with Jardine Mathieson, strongly suggests that B&S was very far-sighted as it could see that air transport would become central to the commercial operations of an island economy. The Swire Group ended up with a profitable interest in everything pertaining to Hong Kong airport, from the airlines to all other airport businesses.

Swire Properties, whose property portfolio in Hong Kong is discussed above, also had property developments in the US and later in China. Property was the most successful diversification which Swire undertook, as it released assets which had fulfilled their purpose (namely shipbuilding and sugar) and turned the land on which they stood into a very valuable profit stream. A further diversification initiated by B&S in 1965 was into the food and drinks market, purchasing the HK Bottlers (later Swire Bottling Company), which included Coca Cola and Sun-Kist franchises. These franchises allowed the Swire Bottling Company to gain ground in other markets especially China and the USA in the period following that covered by this thesis.

It would seem that the diversification policy JS&S pursued generally went well, especially when management remained in company hands. Those initiatives that did

not go as well tended to be in association with other companies who were less well adapted to diversification and delegating to subsidiaries. An example was the Bahamas Airways airline bought in 1968 in association with Ocean and P&O. The airline was liquidated in 1970 with a loss of £800,000 (Falkus, 1990, p.341).

Success derived from the management strategies employed by JS&S. Based on family members of both the Swire and Scott families, it profited by delegating authority to business networks secured through the compradors and managers. Senior members of JS&S were known to one of the two families before their employment in the company. According to Miller (2012, p.117), John Swire personally conducted the final interviews of all the new staff sent to the Far East to join the expatriate managers based in Hong Kong. The way business was done in the Far East, through family networks, friendship and trust and the operation of cartels, was not so different from the way that business had been done in the UK. JS&S made the transition to the Far East model of business over a prolonged period of time, arriving at the modern Hong Kong model some 130 years later. The transferability of JS&S know-how derived from their capacity to absorb Chinese personnel and practices. They would have had more difficulty operating in the US using such systems of networks, as different constructions of business efficiency are found that country. The JS&S companies currently active in the US have had to adopt different ways of doing business.

Through its shipping company CNCo and using B&S and the compradors and managers to secure cargoes, JS&S created an integrated trading system to be supervised from London. Allied to its policy of exploiting tax allowances and subsidies to build ships, offered to all British-registered shipping – the company was not averse to using all available tax avoidance schemes to protect profit. Some JS&S vessels were registered under the Hong Kong, Singapore, Liberia or Panama flags, enabling JS&S to use the taxation systems of those particular countries to retain larger shares of their shipping profits for the company as a whole (see chapter 3). This use of FoC to advance the shipping company's profitability was at odds with the attitude of the majority of shipowners in London, until the mid-1970s, according at least to their representative body, the CoS.

The success of its holding company in the Far East, Swire Pacific and its divisions, was due to the Swire London office seeing the advantages of land development. Land values in Hong Kong had always been high following the influx of large numbers of people into the territory in 1949. Subsequently, Hong Kong developed as a city state

attracting multi-national companies, many from China and Korea, allowing Swire Pacific to transform its land holdings into a lucrative source of revenue. The development of Hong Kong contrasts to that of Macau, the former Portuguese colony, 64 kilometres to the west of Hong Kong. Now a Special Administrative Region of the People's Republic of China and the most densely populated place on earth, it too has offshore banking status, providing a tax haven and a free port with no foreign currency controls. However, its economy is based on tourism, gambling and the garment industry. There is no port and multi-national businesses tend not to locate there, mainly because Macau does not have an internationally recognised system of law. In contrast, contract and business disputes in Hong Kong can be settled by arbitration based on the English legal system. Of course, Hong Kong and its city state organisation suits the mainland Chinese government, and for as long as it continues to make money and not involve itself in politics, its status seems unlikely to change.

By 1980, the Swire Group had transformed itself into a multi-national conglomerate, but the board of the holding company, JS&S, was having second thoughts about the direction the company was taking. In a letter A.C. Swire said:

> 'The fact is that over the past 35 years there has been a clear JS&S, policy i.e. the Swire, Scott family, strategy which with occasional aberrations has been consistent and right; and moreover in line with the inclinations and ambitions of the whole staff'.[187]

However, the business seemed to be growing too large for family control. One option was to sell Swire Pacific, which by then constituted 60% of the business, in order to revert back to being a London-based shipping company. Temporarily, this was the preferred option, even though JS&S had never been just a shipping company. The strategy was not adopted. Today the Swire Group business has a £9 billion operating income and 121,000 employees, very different from a shipping and trading company. Thanks to its business acumen, some luck and astute tax dealings, JS&S has come through the worst downturn in British shipping history. This is largely due to the decision to remain a private limited company, answerable only to family and close associates (the Scott family), and an ability to provide accounts to satisfy the Inland Revenue, but never to provide public details. The company had no need to provide information, dividends or justification to shareholders, who had neither interest in nor

[187] SOAS Archive JSS 1/11/1. Letter dated 26 Nov 80 to J.H. Bembridge, HK office.

knowledge of shipping or trading in the Far East, allowing a stability of managerial strategy and structure to secure the corporate future.

Chapter 8. Conclusion

8.1 Introduction

Most explanations found in general historical accounts have focused on multiple exogenous factors to account for the decline of British registered shipping. This thesis, while acknowledging that most of these factors played some part, adds to established explanations by pointing up other developments that precipitated the disappearance of the British flagged ships. In answer to the question posed in the introduction, the additional factors that contributed to the decline of the British flagged merchant marine other than those already described in the literature highlight two or three other explanations, which tend to be overlooked in the general shipping histories of the late twentieth century.

First are the changes in corporate finance which took place in the mid to late 1960s. Stock market globalisation and the rise of the corporate raider coincided with the need for UK shipowners to raise finance for investment in new technological innovations (notably containerisation) that created a new wave of globalisation and revolutionised world trade. Second, the thesis draws attention to the importance of politics and reassesses the role that governments are said to have played in the decline. In much of the literature, authors have been inclined to generalise, claiming too little (or too much) state intervention created problems for British shipping. Research here stresses the varied policies followed by different governments, noting the role played by Castle as the Labour Government's Minister of Transport in the late 1960s in encouraging shipowners to face the challenges posed by containerisation and promoting state help for firms willing to take up that challenge. Finally, we should note how, in addition to the grants and subsidies afforded the shipping industry by various administrations, the shipping industry offered a master class in tax avoidance and evasion, particularly in the early part of this period.

The analysis is illustrated by two case studies, Ocean and JS&S, both companies originating in Liverpool, and connected to the ship-building firm of the Scott family of Greenock. Each company held shares in the other's businesses. Both Ocean and JS&S were global concerns by the early twentieth century, demonstrating Miller's (2012) argument that shipping was already a globalised industry. The case studies used here demonstrate that, from their inception, they had compatible financial and managerial strategies which remained in place until 1965. Following that date, Ocean went to the market and became a publicly-quoted company, while JS&S remained in

private hands. This divergence of financial orientation and strategy from 1965 onwards gives a perspective that is of central importance in explaining the success or failure of shipping companies and their ability to cope with change and the modernisation pressures in the new wave of globalisation.

A range of widely acknowledged factors contributed to the decline of British shipping companies. This thesis revises and expands on some commonly used explanations for the demise of British shipping found in the literature. Firstly, the use of FoC. This thesis has examined the various processes involved and has demonstrated the ability of FoC countries to disguise the ownership of vessels registered under their flags whilst also obscuring financial accounts and enabling owners to evade taxation. Secondly, research here addresses flag discrimination in greater detail, both by foreign governments in support of their shipping industries and by the UK government in support of its shipping industry. Thirdly, this thesis notes that shipping conferences which underpinned the cargo liner trade were trade monopolies. As the Empire declined and globalised container companies became the norm, the shipping conferences eventually became redundant. Finally, there is general agreement in the literature that containerisation was handled successfully by British shipping companies. This assertion is true in the first phase. However, in subsequent years, fundamental problems arose in the finance and senior management of the premier container company, OCL, a problem foreseen by the Rochdale Report.

This points to a general conclusion that the fundamental problem for British shipping was not only economic or commercial but also social. The failure to adapt managerial strategy to new financial circumstances plays a major part in explaining why British shipping companies failed to maintain their dominance of global commerce. The point is made by comparing developments in JS&S and Ocean. While financial strategies changed in Ocean, established managerial practices did not with dire consequences for the company. In contrast, JS&S retained a much looser and more flexible managerial structure with more devolved authority that retained financial control in London while accommodating new business initiatives that accommodated local strategies and contacts. All of which leads to the conclusion that the sociology of management played a significant role in determining the success of new ventures.

8.2 Changing financial structures, corporate ownership and management strategies

The financing of ship acquisition changed several times, from the traditional British option of financing through retained profits, to charter- and asset-backed finance and then asset play which was used mainly by foreign competitors. There was also the rise of various financial structures called Limited Partnerships such as the KG system in Germany and the K/S system in Norway. These structures generally required 80% of the purchase price of a ship raised as a bank loan and the remaining 20% was cash drawn against committed equity. This committed equity could be depreciated, then be issued as shares sold through the Limited Partnership. These were tax avoidance systems for the banks and national investors of the countries involved. These systems declined in the 1990s when tax benefits were reduced.

Finance is rarely discussed in the histories of shipping. However, by using the prism of changing global practices, finance emerges as a significant factor that helps to explain British shipping's demise. The changes involved are dramatic. From the late 1950s to 1990 the financing of all industry changed profoundly, and shipping proved particularly vulnerable. The change, which included the rise of shareholder value and the expanding influence of the institutional investor, affected those shipping companies which were publicly-quoted on the stock exchange. Starting with Euro-dollars in the 1960s, followed by the influx of petro-dollars after the 1973 oil crisis, then a repeat event in the early 1980s as the price of oil rose to $40-a-barrel, money flowed into capital markets, pouring into shipping, especially shipping which flew FoC. This enabled tax evasion and protected against accountability or liability for accidents. Ships became floating real-estate, and this put the bulk shipping and oil tanker markets under severe pressure, leading to the loss of many British shipping companies from the bulk/tramp shipping trade. Container shipping was also an obvious target for investment, and by the early 1970s, OCL was using the international market for finance for its second generation of ships.

The preferred British method of building ships with retained profits, which were then transferred into an investment fund, made established companies such as Ocean and Furness Withy, with their commensurately large funds, prime targets for corporate raiders. Allied to the tax allowances which all shipping companies accumulated as a matter of course, and a management incapable of understanding looming threats, shipping companies were an easy and attractive target for asset strippers. Furness Withy, one of Ocean's partners in OCL, spent ten years fighting off hostile bids (Ocean

seriously considered making a bid for the company) until the company succumbed to an offer of £112 million in 1980 from the Hong Kong shipping company, Orient Overseas Containers Limited. Ocean's market problems started as early as 1959, when the decision was taken to widen the capital base by the issue of new shares, many of which were taken up by institutional investors who were eager to realise immediate profits. The clamour for a stock market quotation followed swiftly. Ocean went to the market in 1965 and thus completed the transformation from a private to public company. It was this switch that precipitated Ocean's fall. By publishing full accounts, the company was thus exposed not only to the taxman but also to shareholders eager to raise the value of their holdings. This shook Ocean's established hierarchy. A bigger shock for a management steeped in ships and shipping was to discover that their revered ships had little or no market value. To fight off financial speculators, management adopted a dubious strategy of spending the assets that had attracted market attention, thereby dispersing large sums on unsuitable projects that eventually undermined the company's financial future.

The financial problems that came to dog OCL are complicated, but comparatively common knowledge. This thesis, however, adds a new perspective by focusing on the role played by Barbara Castle during her tenure as Minister of Transport. She provided government support for an industry at a crucial moment in its history. If OCL had not had that support, the American firm Sea-Land would have taken much of the international container trade. Mrs Castle's offer to OCL involved a considerable sum of taxpayers' money. The government's other suggestion, that some part of the nationalised industries should be involved in the containerisation project, was discarded by a managerial team who considered their company was private property and, financial support aside, wanted no further government intervention. Given the large amounts of capital needed to create a container company involving ships, terminals, inland ports and containers, we may assume that something similar to the Limited Partnership (in this case the German KG structure) was used to provide the ships which were built in Germany. Because of the instability of sterling and the strength of the German currency, OCL subsequently experienced difficulty repaying Deutschmark loans taken out at German banks leading to a protracted legal case with the Inland Revenue and eventually a considerable loss in repaid taxes and costs.

The senior partners, the chairmen of the shipping companies or their representatives (in Furness Withy's case) continued to run the financial affairs of OCL in the same

fashion as was traditional for a private shipping company. Dividends, when they were realised, went straight to the respective companies involved in the OCL consortium, leaving little for re-investment. This again reflects how management strategies failed to respond to new financial circumstances. Only P&O recognised how the game had changed. Using money raised by the financier Jeffrey Sterling (recruited to the P&O board initially to fight off take-over bids), P&O bought out the other companies in OCL. In its various new guises as P&O Containers and P&O Nedlloyd, the company subsequently became extremely profitable for share-holders and was briefly the largest container company in the world. However, this was not the end of the story. Subsequent takeovers at ever higher prices witnessed the transfer of the remnants of OCL into the ownership of the Danish company Maersk in 2004 that netted approximately $330 million for P&O Nedlloyd. By that date, however, financial markets had long undermined the value of publicly quoted shipping companies in terms of their commercial worth.

In contrast to Ocean and OCL, JS&S remained in private hands and retained control of its companies. A holding company (JS&S) insulated the subsidiary companies from each other, enabled the parent-company to retain overall direction and ownership and perpetuated well-established managerial strategies and institutional structures. The descriptions of the company's activities given to the Inland Revenue in the 1950s and to its accounting agency in the 1970s vary very little, in spite of ongoing transformations in global finance. However, the key to both documents is that the parent company remained the provider of management services. Placing people in management positions in the various companies and having these nominally independent companies pay for such services gave JS&S control over all their subsidiary interests and guaranteed that a common commercial strategy was followed by all its component interests. Although described as independent companies in their own right, in effect they were all one-ship companies or their equivalent. Swire Pacific was a JS&S creation in which JS&S placed a substantial amount of their Eastern business (36 companies). On becoming a public company, Swire Pacific was listed in Hong Kong but was controlled by JS&S through its senior managers who held a minority equity stake. All of this gave JS&S fluidity in the management of corporate financial dealings, which were difficult for a layman (or the taxman) to comprehend.

JS&S was financially astute and refused to be involved in financial services[188] except insurance, rejecting invitations to join investment funds. For JS&S, the distinction between trading and banking became increasingly blurred. For example, Swire Property (a Swire Pacific subsidiary) was set up in conjunction with two British banking groups and was one of the largest property companies in Hong Kong by the 1980s (Jones, 2000, p.148).

Control of the Swire Group remains with the parent company JS&S, with power held within the Swire and Scott families, whose representatives still dominate the board. All except Lydia Dunn (who lived in Hong Kong until 1995) are resident in the UK. JS&S had long understood that to operate in the Far East and to be profitable it was necessary to include nationals of other countries in their senior management. In all areas of operations, JS&S was prepared to sell parts of its business to local entrepreneurs. They would retain a substantial share (20%-25%) and keep their own managers in place (see Appendix 5). The outcome, whether in Malaya or New Guinea, would be a profitable local business managed by JS&S executives. The company had been making forays into mainland China since the mid-1980s and eventually came to a business arrangement with the Chinese company Citric, to which it sold part of its business interests in Hong Kong. Citric had the backing of the Chinese government and this gave JS&S access to the Chinese mainland and to its business community. This strategy contrasts markedly with that in Ocean, where all business was retained in native British hands in London, an approach which did nothing to appease the likes of the Malaysian entrepreneur Robert Kuok or the Chinese shipping magnate C.Y. Tung. All of this leads to the conclusion that JS&S used its subsidiaries as a means to incorporate local interests into their affairs, whereas Ocean had neither the desire nor the foresight to involve itself in anything but in its own narrow interests in the UK.

Both JS&S and Ocean were, from the late nineteenth century, global trading companies. Their ships had transported goods and people around the world, they had set up systems of traders, office staff and port workers for buying, collecting and dispersing every type of cargo in numerous ports and countries. After the Second World War, they attempted to re-establish their version of a global system, based on shipping cartels centred on the UK and British trading interests. For a short while there

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[188] See Appendix 4 – the Shell offer: ‘we do not make money out of money’.

was some success, thanks in no small part to the various financial and trading advantages that British shipping had at its disposal in the immediate post-war decade. However, the advent of containerisation and new global trading systems based on increasingly globalised finance, changed the business foundations from which companies like Ocean operated. Without the financial know-how required to manage changing stock markets or the institutional flexibility to acquire it, this blue-blooded shipping company proved unable to survive. JS&S remained as a private company throughout, confounding accepted truths that companies needed to be publicly quoted to modernise, to raise funds for expansion and dividends for investors. Under this argument, private family-run companies were an anachronism in the modern financial world. The Swire and Scott families still exercise ownership and control, preserving their families' wealth and power. Ownership on this scale is rarely seen in Western trading companies but is often seen in Japanese family-run companies: 'where family control and power remain a major pre-occupation' (Jones & Zeitlin, 2007, p.252). JS&S continues to be a successful, multi-national conglomerate and the most successful of all Britain's former global shipping companies, but the one least known about in Britain.

8.3 State intervention and the politics of shipping

British shipowners as a class were generally well connected and exerted some influence over governments from 1947 until 1979. The war-time department which was in charge of the British merchant fleet was run by British shipowners. This ensured that the British foreign-going merchant fleet was never nationalised, unlike much of the transport industry in the UK after 1945. As part of its efforts to foster industrial reconstruction, the post-war Labour government introduced the Companies Act 1948, granting an exemption from various sections of the Act under the Companies (Shipping Companies Exemption) Order. This legislation put shipping on a par with banking and insurance industries. It enabled shipping companies to disguise not only their profits but also the movement of money between accounts. From the government's point of view, the encouragement of trade carried in British ships would assist with the balance of payments and thus alleviate continuing pressures on sterling, a source of concern for successive governments in the 1950s and 1960s. Shipping publications rarely mention the Order, and even when they do, it is dismissed as under-used. However, this research has found that 250 companies applied for exemption, including 30 liner companies. If the legislation was under-used, it is difficult to understand why such a robust defence of the Order was offered by the

shipping companies' representatives to government before its repeal in 1962. The removal of the exemption heralded a decline of British flagged shipping, as the most profitable years were 1947-1958. It is impossible to say how those profits were assigned, or if indeed they could have been used for shipbuilding or refurbishment of ships or possibly general re-investment in shipping as the taxation of the shipping firms remained hidden from public view.

The post-war export drive and the desire to revive British ship-building continued to justify the sustained financial support that British governments offered shipping in the immediate aftermath of the war. This preferential treatment can also be explained as an attempt to alleviate pressures on the balance of payments in defence of sterling. Throughout the 1960s and into the early 1970s, British shipping continued to be assisted by British governments of all political persuasions. In 1964 (for one year only) it was possible to build a ship with an 80% grant, including free depreciation. In 1965 it was possible to build a ship with very little private investment. By the late 1960s there was more state aid for shipping in the UK than in almost any other maritime country. More legislation was introduced in 1966, 1967 and 1968 to replace allowances with grants to build ships. This period of government assistance ended in 1970 after over 1,000 ships had been built, many for foreign owners, at a cost of £620 million to the British taxpayer. Much of this legislation represented an attempt to improve the prospects of British ship-building, a pressing political problem for a Labour government reliant on trade union support.

All of this puts into perspective the arguments sporadically put forward by British shipowners' representatives at official enquiries, to claim that overseas fleets gained unfair commercial advantage, thanks to their governments' support. It is hard to resist the conclusion that shipping was among the most feather-bedded of all UK industries in the immediate post-war decades.

As a result of extensive state assistance in the period from 1965 to 1975, there was a rise in British-registered shipping. Even so, by 1975 the British-registered fleet stood at less than 10% of the world's total tonnage. The outcome of this government assistance left a number of foreign shipowners and finance companies better off, but it also shored up the numbers of British-registered ships for a short period and the ship-building industry was temporarily reprieved. In 1979, with the election of Margaret Thatcher, a Conservative government committed to neo-liberal economics and free enterprise determined that no subsidies for any industry would continue. It

was highly unlikely that shipping, dependent on monopolies and state assistance, could continue to rely on the sort of influence it had exercised in the past to protect its interests. This Conservative government turned down all requests for discussions from the shipping industry and removed the financial support that had been its lifeline for so long.

8.4 Taxation issues and state protection of shipping

The sensitive subject of taxes in shipping circles is rarely addressed in the academic literature, yet nearly every move that the shipowner makes has a consequence for tax. Tax and its relevance in the decline of British shipping may be seen as marginal, but if a percentage of profit is dependent on manipulating the tax system, this would tend to reduce a firm's competitive instincts and induce complacency and a false sense of security. Shipowners and their representatives were not averse to wrapping themselves in the flag of patriotism when claiming the need for grants, allowances and free depreciation, in fact anything provided by the taxpayer, but when it came to paying taxes, shipping companies and their owners seemed to be remarkably reluctant to comply. From 1948 to 1962 it is hard to know what a shipping company's profits were, because of (a) the Shipping Exemption Order and (b) the private nature of the enterprise. Some shipping companies, through legal but manipulative accountancy practices, even managed to claim back tax which had never been paid. This information, documented from 1962 by a House of Commons Committee, an Inland Revenue review and the Rochdale Inquiry, is rarely mentioned in any shipping literature (Goss being the exception). The Vestey family (owners of Blue Star Line) paid no company or personal tax for approximately 70 years, but this is not noted in the published literature either.

Throughout the late 1960s and 1970s tax avoidance was practised by shipping companies. To obtain state grants and allowances, they created finance companies to buy ships which were then leased back to shipping companies, thus spreading the free depreciation and tax allowances throughout their subsidiaries. This loophole was only finally closed under the 1975 Finance Act. The case studies illustrate how Ocean and JS&S both looked for tax advantages, Ocean transferred parts of its business to Bermuda at the time of the repeal of Exemption Order and JS&S used various FoC, along with the Hong Kong flag. Both Ocean and JS&S were adept at moving tax allowances and depreciation around their companies and through their subsidiaries.

In both cases, these manoeuvrings meant that the companies paid little or no tax in many of the years covered here.

Shipowners and their trade organisations have often claimed that the use of FoC by unscrupulous foreign competitors formed a major contribution to the decline of British shipping. However, the FoC is no more than the end result of a free market in shipping. The shipping industry in the UK, while espousing the virtues of an ostensibly free market, partly operated under monopoly rules of which it was the principal architect. It is plain that the bulk trade and in some degree the oil trade were affected, but FoC had little or no impact on the cargo/liner trade. No effect can be detected in the two case studies. The bulk trade had the option to move to a FoC, but very few companies took up the option and most of the oil trade in the UK was in the hands of the major oil companies. The use of a FoC usually meant that the company was evading some legal obligation such as taxes (corporate or personal), safety regulations, international labour laws or the operator's home country regulation of business. Later in this period, British shipowners tended to use Bermuda and the Bahamas along with the use of dependency registers such as those from Gibraltar and Hong Kong. There was also increasing use of the Isle of Man registry set up 1984. This served as a secondary register, similar to others found in traditional maritime states, where shipowners concluded that labour costs were too high under the national flag. JS&S's use of the flag of the British dependency of Hong Kong and other FoC flags did give it an advantage over other British-registered shipping companies. JS&S also understood the charter market and the idea of buying, selling and moving ships when they had fulfilled their purpose. This followed patterns set by the more efficient users of FoC.

Today, most British shipping companies are registered in off-shore jurisdictions; the Isle of Man, Bermuda and Hong Kong being popular. British cruise liners still retain the old names, but all are foreign-owned and registered off-shore. Most national fleets are now registered off-shore, or in constructions set up since the late 1980s like the Manx, Norwegian, German or Danish International shipping registers. By 1990, the FoC had become the flag of choice for those who used global finance to build ships, global recruitment for crews, and who were determined to avoid national oversight. Multi-national companies with their ships flying FoC have become major players in the race for the global shipping trade. For this reason, it is extremely hard, if not impossible, to measure the expansion or decline of an ostensibly 'British' fleet as its

boundaries are so heavily disguised and ownership is now largely splintered between a myriad of institutional investors.

In summary, the few companies that did survive tended to have agile management systems in place; JS&S serves as a prime example. They also tended to be private, family-run companies, such as Andrew Weir (now the AW Agency), Bibby Line (part management, part family-owned, now with three ships and a distribution agency) and Ben Line (owned by the Thomson family, now known as the Ben Agency based in Singapore). P&O and Cunard, the two big, formerly publicly-owned, shipping companies are now foreign-owned (except P&O ferries) and their ships use the flags of Bermuda or Bahama, with all that that entails. It is hard to argue that such companies remain part of British shipping.

8.5 The decline of UK shipping: international perspectives

The decline of the UK's share in international shipping took place within the context of Britain's liberal trading traditions. The industry largely assumed that state intervention was automatically counter-productive and a burden to enterprise. In this, it was not alone. The Labour government's intervention in 1967, with Castle's suggestion to OCL of involving state enterprises in the formation of the consortium, was quite exceptional. This singular (but swiftly abandoned) attempt to draw together transport trading components to co-ordinate a programme of modernisation for UK commerce never gained traction among most major shipping companies or in the wider political community. For shipping companies, any history of co-operation was confined to cartels and these only covered cargo-liner shipping. There was certainly no history of co-operation between local government, the port authorities, trade unions and the maritime industries to use containerisation as a means to modernise shipping and trade in Britain (Felixstowe was privately owned). The notion of co-ordinated planning of any integrated system to support the development of commerce remained essentially alien. Meanwhile, in Holland (Rotterdam), Germany (Hamburg) and Belgium (Antwerp) with France (Marseilles) joining in at a later date, concerted efforts were made by national and local governments in conjunction with shipping companies, trade unions and port authorities, to modernise ports and associated transport systems, introducing container technologies across the board to the long-term benefit of all sections of the maritime industry. The acceptance of the container revolution by the British maritime industry was, initially slow but acceptance increased rapidly, as the situation revealed itself. However, when the first OCL container ship

sailed in 1969; the US firm Sea-Land already had nineteen container ships at sea by 1966.

Much of the response and the lack of co-ordination in the UK's maritime industry was conditioned by its market-orientation and much of government's reluctance to get involved in its private affairs (as opposed to those in Europe where planned development won positive political support) reflected similar liberal assumptions. In the UK there was no co-ordinated planning by shipping, port authorities, trade unions and others (although the Port of London Authority (PLA) and national government sporadically took an interest[189]). In general, market forces were understood to be the most efficient way to determine development. Shipping companies, as private concerns, were largely allowed the autonomy to run their affairs as they saw fit. Shipping was (and remains) understood as a private concern, not as a component of a public service on which the wider community depended. Even the post-war Labour government, willing to take on private interests to forge the foundations of decent public services in health, energy and transportation, apparently viewed shipping as a step too far. The end result was that all maritime trades in the UK were left behind as global commerce expanded. It took some time for the maritime industry and its associated financial services in the City of London to realise the cost of their refusal to contemplate a planned, co-ordinated strategy. In 2015, the Baltic Exchange at last recognised how the loss of British-registered shipping was affecting business:

> 'There are now so few British registered ships, that it will no longer be able to support the services cluster in the city' (Economist, 2015).

In spite of the industry's protests, it is hard to conclude that this belief in the superiority of free markets as the basis for successful commercial expansion was anything other than a fiction used by the industry to retain private profit for personal consumption. Liner companies in particular were strong defenders of monopolistic trading controls exercised by shipping cartels largely dominated by British shipping firms. There was a case for these to be referred to the Monopolies Commission when it was set up in 1957, but they never were. The notion that free competition dominated commerce on Britain's major trading routes was simply not true. Indeed, it is very hard to find a free market in shipping anywhere in the period under review; nearly all countries operated

[189] The Rochdale Report into Ports, Cmnd 1824, Investment into container berths by the PLA and Mrs Castle's intervention in OCL.

some form of protectionism to foster their domestic fleets. The United States was certainly anti-cartel, but exercised flag discrimination to favour American ships and the federal government invested heavily in containerisation. International commerce was grounded less in open competition than in the political strategies adopted by various governments to promote the growth of their shipping lines until the lines themselves became large and powerful enough to play governments off against each other and so evade legal and other responsibilities.

British shipping received extensive government subsidies (intended and otherwise), but was largely left alone to determine how such subsidies were spent. Some shipping lines amalgamated to form consortia that could share the additional investment burden and accompanying risk while modernising fleets and crew levels, if not prevailing managerial practices and structures. However, such belated and partial efforts to bring the industry into the late twentieth century, to transform it from an imperial-based business to a globalised commercial operation, ultimately bore little fruit as far as most of the industry was concerned. As for the river and coastal communities that had served the industry in the past, many went into decline. Working patterns changed as terminals moved downstream and European ports took on the trade once handled in Britain, while the loss of the British-registered merchant fleet passed by, with little or no notice taken by the majority of the British people.

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JSS/1/3/ 21	[1952-54]	Directors correspondence
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JSS/1/11/2	[1972-77]	As above but including shipping
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JSS/3/1/49	[1980-81]	Management of CNCo, results and sale of the Eridine
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Appendices

Appendix 1. UK merchant fleet

Table 1: UK Merchant fleet ships sold to foreign buyers and re-registered abroad
(excluding vessels to be scrapped)
Analysis by country of new registry, thousand gross registered tons (grt)

Registry	1977	1978	1979	1980	1981	1982	1983	1984
Bahamas & Bermuda	2	13	14	19	27	77	137	254
China	12	37	12	-	-	9	29	37
Cyprus	1	77	56	25	33	23	103	186
Greece	77	626	1,102	248	281	113	339	152
Holland	38	2	343	3	2	5	-	3
Hong Kong	72	176	228	198	416	536	765	482
India	10	12	14	-	-	-	-	-
Italy	2	24	115	62	13	79	28	52
Korea	-	3	39	68	57	-	-	-
Liberia	657	913	1,182	316	714	385	457	346
Norway	44	14	10	-	219	-	-	3
Panama	452	299	172	192	323	407	609	162
Saudi Arabia	39	209	254	125	316	296	178	-
Singapore	14	189	104	101	306	61	185	32
Taiwan	16	102	-	-	-	-	-	41
Others	267	322	271	93	528	526	126	130
Thousand grt	1,731	3,183	3,919	1,490	3,402	2,612	2,961	1,181
Thousand dwt	2,771	5,276	6,705	2,372	5,846	4,403	5,142	2,934
Number of ships	122	198	196	109	175	139	135	103

Source: Business Monitor, General Trends in Shipping, Nov 1985 No. 8 (Table 1.12) HMSO

Table 2: Analysis of the UK fleet (100+grt) and percentage change 1973-1986

		1973	1986	% Change
Oil Tankers	Ships	590	216	-63.4
	GRT	14,107,064	4,302,604	-69.6
Oil/Chemical Tankers	Ships	N/A	20	-
	GRT	N/A	91,504	-
Liquified Gas Carriers	Ships	28	23	-17.9
	GRT	533,044	708,166	+32.8
Chemical Tankers	Ships	13	32	+146.1
	GRT	88,802	133,023	+49.7
Miscellaneous Tankers	Ships	N/A	7	-
	GRT	N/A	20,317	-
Bulk/Oil Carriers	Ships	33	6	-81.9
	GRT	2,436,090	51,356	-79.0
Ore & Bulk Carriers	Ships	235	56	-76.2
	GRT	4,545,276	1,636,180	-64.2
General Cargo	Ships	1,129	472	-58.2
	GRT	5,231,668	1,124,850	-78.5
Container Ships	Ships	92	49	-46.8
	GRT	1,344,805	1,418,666	+54.0
Vehicle Carriers	Ships	6	6	0
	GRT	7,378	6,052	-28.0
Ferries Passenger v/s	Ships	167	138	-17.4
	GRT	938,871	640,400	-31.8
Other traders	Ships	2,293	1,025	-55.3
	GRT	29,232,998	10,595,298	-63.8
TOTAL FLEET	Ships	3,628	2,256	-37.9
	GRT	30,159,543	11,567,117	-61.7

Source: Lloyds Register Statistical tables 173-1986, Taken from HC 303 Transport Committee: xi Table 3

Table 3

Major Beneficial Ownership*of open registry fleets 1987-Number of vessels and thousands of Deadweight Tons (500+grt)

Country or territory of beneficial ownership	Country or territory of registration													
	Liberia		Panama		Cyprus		Bahamas		Bermuda		TOTAL	
	No	DWT	No	DWT	No	DWT	No	DWT	No	DWT	No	DWT
Greece	187	14,024	377	8,333	709	20,161	38	2,637	-	-	**1,311**	**45,155**
United States	286	27,537	234	6,088	6	86	39	4,275	4	1,014	**569**	**39,000**
Japan	161	7,880	1,388	25,323	21	185	21	425	-	-	**1,591**	**33,813**
Norway	220	11,015	103	3,581	8	50	44	1,763	10	265	**385**	**16,674**
Germany FDR	102	3,432	121	2,132	196	1,751	5	13	3	12	**427**	**7,340**
United Kingdom	27	968	99	1,377	21	653	61	1,344	49	1,344	**257**	**5,676**
TOTAL	**1,576**	**98,923**	**3,879**	**71,086**	**1,228**	**27,522**	**396**	**15,723**	**90**	**3,128**	**7,169**	**216,382**
Share in open-registry fleets	22.0	45.7	54.1	32.9	17.1	12.7	5.5	7.3	1.3	1.4	**100**	**100**

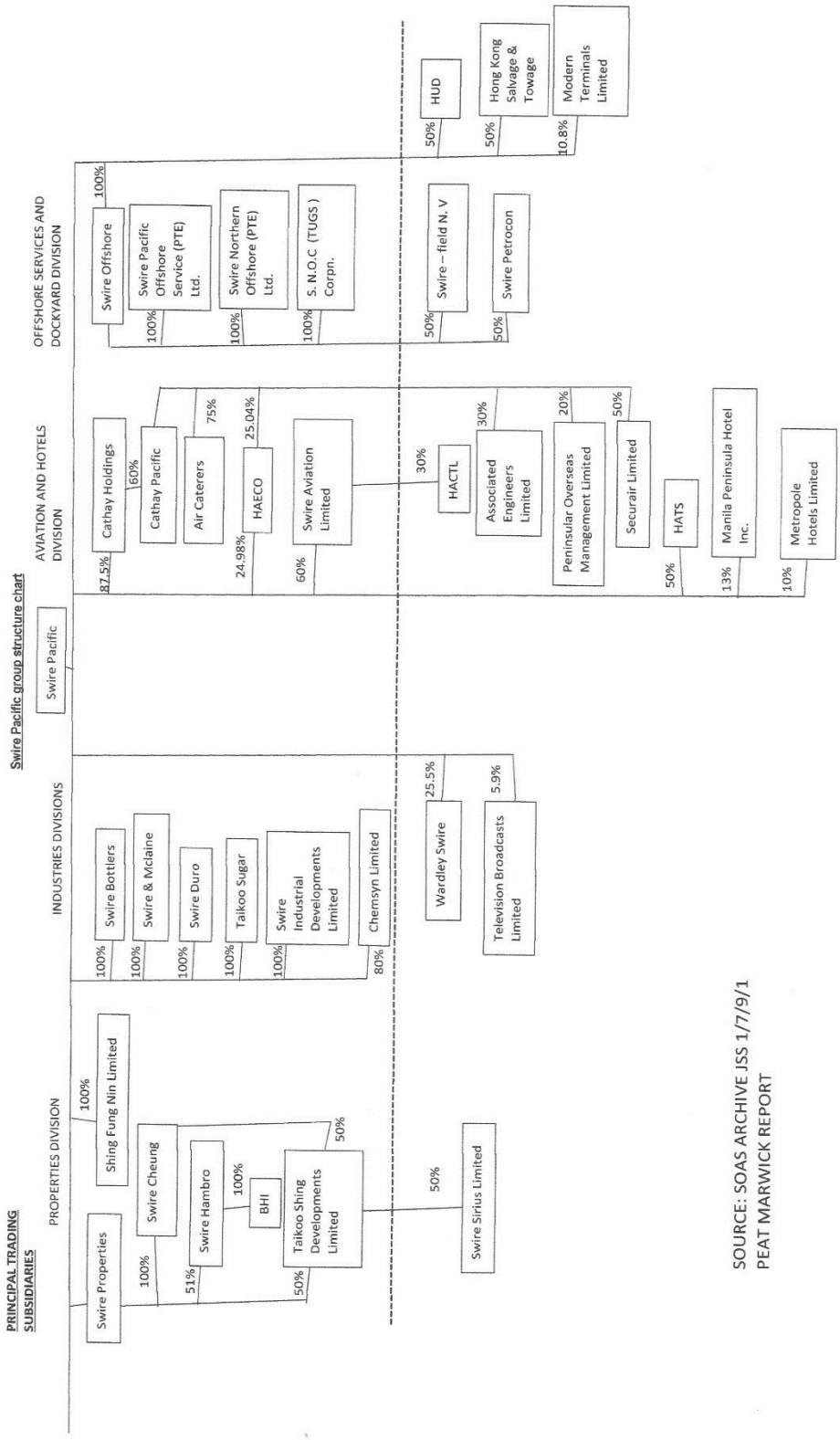
source: UN Conference on Trade and Development, Review of Maritime Transport, 1986 Beneficial Ownership of Open Registry Fleets, Report, by the UNCTAD secretariat, 24th November 1897. The beneficial owner is the person, company or organisation which gains pecuniary benefits from shipping organisations.

Table 4: Dependent territories registered vessels
Analysis by trading type at 31 December 1988
(v/s of 100grt & over) thousand dwt tonnes

Registry	Trading vessels		Non-trading vessels		Total all vessels	
	No	DWT	No	DWT	No	DWT
Anguilla	12	5	1	1	13	5
Bermuda	90	7,638	29	75	119	7,713
British Virgin Islands	15	5	15	2	30	7
Cayman Islands	119	613	130	91	249	704
Falkland Islands	2	0	10	64	12	64
Gibraltar	93	5,594	13	4	106	5,596
Hong Kong	304	11,243	78	56	382	11,299
Monserrat	1	1	0	0	1	1
St Helena	2	3	0	0	2	3
Turks & Caicos	9	5	5	0	14	5
TOTAL	647	25,108	281	293	928	25,401

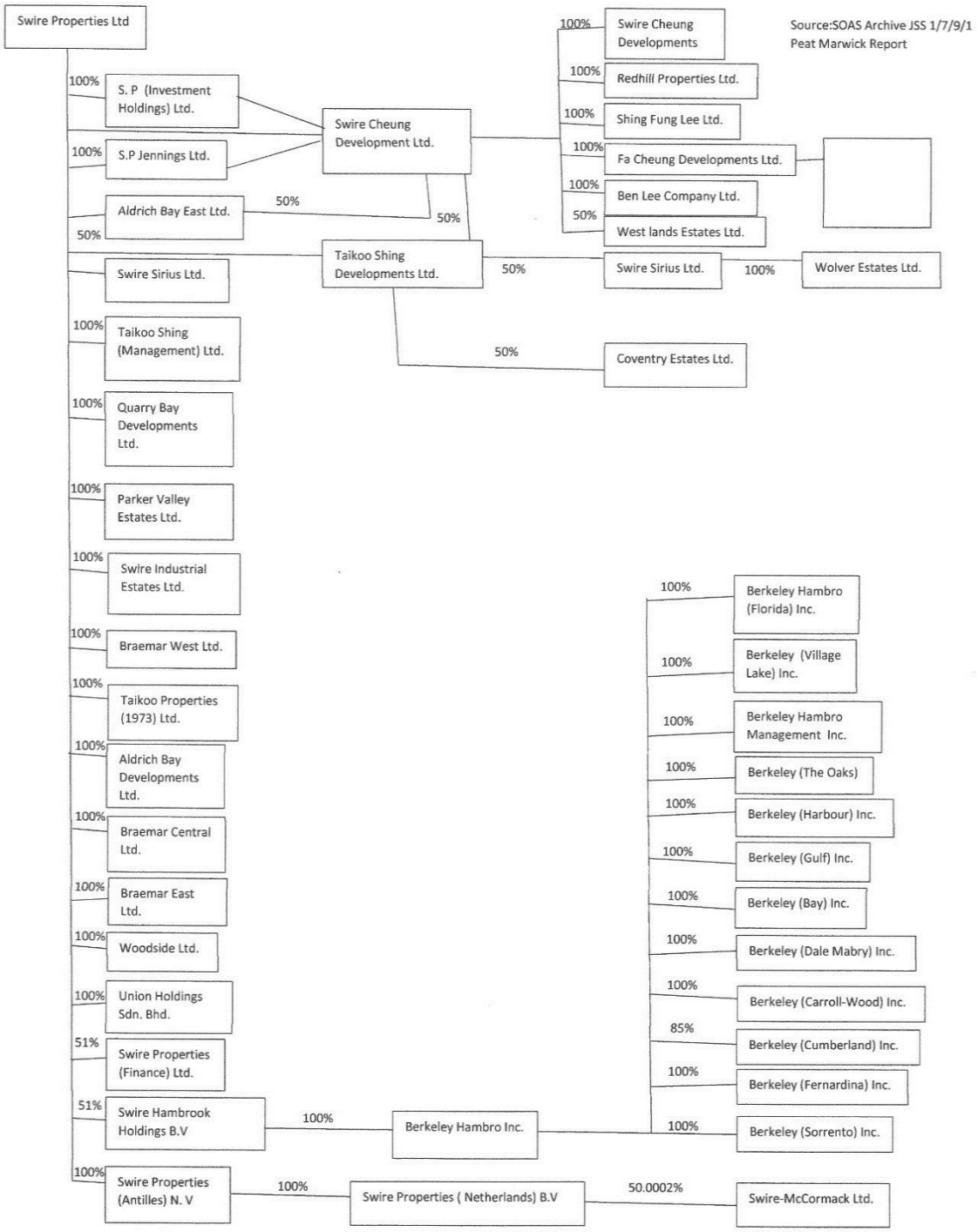
Source: Transport Statistics Report, Merchant Fleet Statistics 1988 (Table 4.3) London TSO.

Appendix 2.1: Swire pacific



SOURCE: SOAS ARCHIVE JSS 1/7/9/1
PEAT MARWICK REPORT

Appendix 2.2: Swire properties

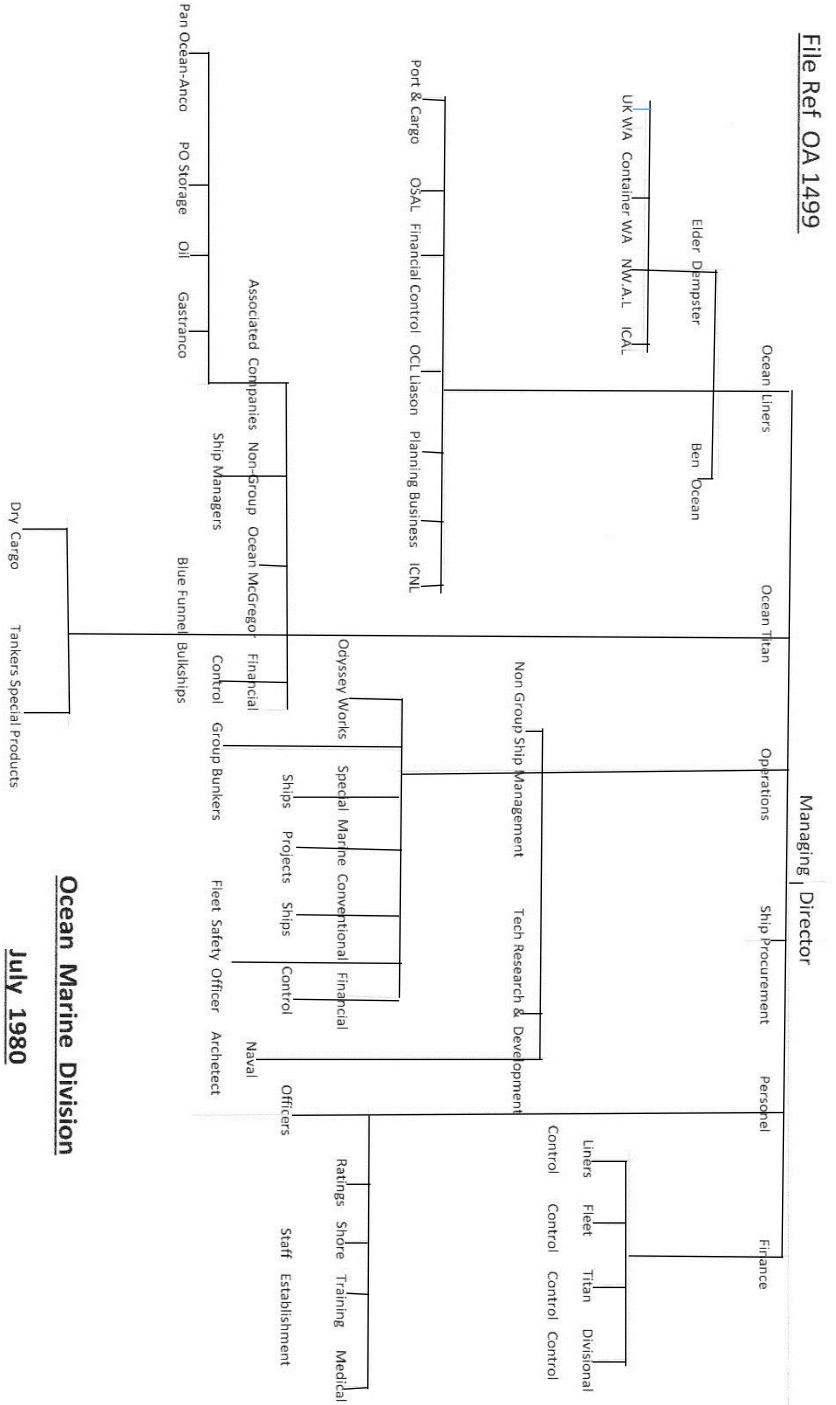


Appendix 3.1: Ocean managers – main areas of responsibility, June 1963

Manager	First string	Second string
John Nicholson	Outward freight European agencies Accounts Berthing outwards Far East conference Glen McGregor Straits steamship Liner holdings	Cash Engineers Roxburgh/Scott Caledon Kincaid Mayer/NMSO **Politics**: Japan, Hong Kong
Lindsay Anderson	Inward freight Berthing homewards Stevedoring Hong Kong property Stapledons Odyssey Trading **Areas**: Malaya, China, Japan, Hong Kong, Suez Canal **Ports**: Malaya, China, Japan, Hong Kong, Philippines **Politics**: Japan, Hong Kong, Malaya, Borneo, Bangkok	Philippines Ceylon Philippines
R S MacTier	Engineers and shipwrights Naval architects Laboratory Technical Engineers Cadets Birkenhead property Rea-towing Caledon	Glen/McGregor Liner Holdings
R O C Swayne	Legal Australian conferences Chinese ratings Roxburgh, Scott Mansfields Graduate recruitment **Areas**: Australia **Ports**: Australia **Politics**: Australia	Passengers Steamship Victualling Masters and officers Ratings India Buildings Philippines
G P Holt	Java conference Steamship Ships husband Masters and officers European ratings Philip Holt trusts Mayer/NMSO Apprentices **Politics**: Indonesia	**Areas**: Indonesia, Australia, Jeddah **Ports**: Indonesia, Australia
K St Johnston	American department Passenger department New York conferences Trans Pacific conferences **Areas**: Philippines, Jeddah **Ports**: Japan, Hong Kong, Philippines **Politics**: Indonesia	Outward freight Legal Berthing outwards Stevedoring Hong Kong property **Areas**: China, Japan, Hong Kong
R J F Taylor Assistant Manager		Engineers and shipwrights Naval architects Laboratory Technical estimate Cadets Odyssey Works

Source: Falkus, 1990 p.286

Appendix 3.2: The last Ocean organisational chart, 1980



Appendix 4: JS&S and the Shell Tanker Company

Another factor which sets JS&S and their shipping company apart from other British shipping companies was their willingness to get involved in the oil tanker business when the majority of British shipping companies refused all offers from the oil majors.

There is a series of letters and discussion documents starting on 28 March 1954[190] about oil tankers which gives an insight into how the shipping business operated at the time. A proposal from Shell Tankers and a number of life assurance companies was put to the director of JS&S by a friend of his, Mr Chavet. He was a former Shell executive, employed by Richard Benson & Company, a financial investment company, which was advisor to a number of Scottish life insurance companies. They had evolved a scheme whereby the life insurance companies would find £4-£5 million to build four or five 18,000-ton oil tankers. The tankers would then be bare boat chartered to Shell for 20 years, at a rate of 11/- per ton deadweight over a period of sixteen years, amortise the capital value of the ships and return 6% interest. The charter hire for the years seventeen to twenty would be the jam, at the end the company would be liquidated. JS&S director John Scott said: 'The whole scheme is designed to avoid any taxation or profits tax'.[191] JS&S would be paid a fee of £5,000 per year for managing each ship, at this time JS&S was managing ships for the Ministry of Transport at £1,500 for each ship.

The life insurance companies would receive 6% guaranteed by Shell, more than they would have received from the government which would have been about 4.5%, and they would retain the paper value of their money. For Shell, it would produce tonnage a great deal cheaper than chartering on the open market or from charters offered by Greek ship-owners. Scott made the point that all of the above 'violates all the rules about incentives to keep down expenditure'[192] a point made both by Sturmey (1962) and Goss (1998) in their critiques of shipping companies. Scott concluded: 'Although JS&S could make a profit and a substantial profit, we think the whole thing is too much of a financial operation and does not gives us enough scope for building up a valuable property in tanker owning, therefore as put to us we discard it'.[193] He then said that

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[190] SOAS Archive JSS 1/3/21. All the paper for the Shell deal are contained in this file.
[191] SOAS Archive JSS 1/3/21. Initial thoughts on Shell offer dated 28 Mar 52.
[192] SOAS Archive JSS1/3/21 dated 28 Mar 52.
[193] SOAS Archive JSS&S 1/3/21 dated 27 Feb 52.

they have put forward an improved idea for the scheme and they (Bensons) seemed to like it.

This scheme was the idea of the Scottish life insurance companies. Everyone involved thought that if the scheme was successful then the English life insurance companies would take it up, even though they were more conservative and disliked ship owning. The idea was for a series of rolling companies and each one would be liquidated with the others following on.[194] This was similar to the scheme that Greek shipowners were using and was discussed previously. There were some other considerations apart from the management fee. There was a chance for JS&S to open up the North American trade under the cover of the tankers. The US was particularly protectionist about liner traffic especially around the Pacific coast of Southern California. If or when JS&S switched to tankers when the time came, it was noted in a letter that a deal with Shell would also 'bring us into the London shipping arena and strengthen our links with the Shipping Federation'.[195]

Eventually (1980-81) Sir Adrian Swire would become the chairman of the General Council of British Shipping, a successor to the Shipping Federation. In October 1980, his brother, John Swire, was appointed a director of the Shell Trading Company.

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[194] SOAS Archive JSS&S1/3/21. Sir John Masson to Swire dated 9 Apr 52.
[195] SOAS Archive JSS 1/3/21 letter dated 27 Feb 52.

Appendix 5: JS&S and Malaya

By May 1963, in a letter from the JS&S director J S Scott, the decision seems to have been made to try and enter the Malaya trade. Scott ended the letter: 'Anyway just a few thoughts, we will not stand in the way of any of the younger people who want a try at Mansfields'.[196] In a series of letters starting only two months after Scott's letter on Mansfields and Malaya, a JS&S executive in London, M Y Fiennes, was corresponding with a D E M Fiennes of the Commonwealth Development Corporation (CDC) in Kuala Lumpur, Malaya. This gives some idea of the networking involved in creating new business. (It should be noted that the two men are related by family ties but it is never clear what that relationship was.)

M Y Fiennes pointed out that JS&S had never had direct investment in Malaysia and had not wanted to invest, but now wanted advice from D E M Fiennes, as they had a fund of £10,000 to £15,000 to invest in Malaya.[197] In reply D E M. Fiennes noted that the general manager of the Pilgrim Savings Corporation was looking to invest the advance money from ticket sales from pilgrim travellers. As Islamic law forbade investment in fixed securities they were looking to the CDC for advice, possibly to run their own pilgrim ships.[198] M Y Fiennes replied in a letter that they (JS&S): 'Have never had a dog in the manger attitude and have always accepted that the Malaysians would wish to do their own pilgrimages in due course…but we do want to hand over to responsible people and that at all important points in the past we have in fact dealt with or involved the *Tunku* himself'.[199] This is an important difference between many European companies and JS&S who had accepted that the most profitable way forward was to be involved with people who wanted to run their own businesses in their own country. Another point in this particular business is that the pilgrim trade was not as profitable as it once was.

In response to a further letter from Malaya, with an offer to form a pilgrimage shipping corporation, M Y Fiennes suggested that the Pilgrim Savings Corporation should take

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[196] SOAS Archive JSS 1/4/9/19 dated 17 Jun 63. All letters concerning Malaya are here.
[197] Ibid, letter dated 15 Aug 63. M.Y. Fiennes to D.E.M. Fiennes.
[198] Ibid, letter dated 18 Sep 63. D.E.M. Fiennes to M.Y. Fiennes.
[199] Ibid, letter dated 25 Sep 63 M.Y Fiennes to D.E.M. Fiennes. The Tunku, the Prime Minister of Malaysia, Abdul Rahman.

25% of the new company, offer 50% to the public and JS&S would take 25% and run the company.[200] In a further letter, M Y Fiennes pointed out that J Scott and A Swire, two of the most senior figures in JS&S, would be in Malaysia to see their ship the *Kuala Lumpur* begin her first pilgrim voyage of the season and would be meeting the Malaysian Prime Minister (the *Tunku*).[201] A JS&S representative, D Morrel, was sent to Kuala Lumpur to meet with D E M Fiennes and a representative of the Pilgrim Savings Corporation.[202] It is difficult to assess whether this business was set up in the way suggested. However, if the *Tunku* and the JS&S senior executives discussed the matter and a senior JS&S executive went to Malaysia three weeks later it is reasonable to assume that the business was resolved as proposed.

A letter from the CDC to M Y Fiennes, headed private and confidential, contained pages drawn up by the Singapore Development Board in which investment was required for thirty companies in Malaya. There is a detailed analysis of a wide spread of companies and their estimated profitability.[203] There are no papers to show if any JS&S company invested in any of these companies. All of the above would suggest that the younger element in JS&S and B&S had decide that the profitability of the Malay trade outweighed any reprisals that Mansfields could inflict. Many in B&S saw Mansfields as a spent force in Malaya and Scott's letter in May 1963 was seen as the green light to go ahead.

All the above would suggest that B&S in Hong Kong prompted by JS&S in London, was a formidable business force throughout the Pacific rim and was fully aware of the political and commercial development in the areas in which it operated.

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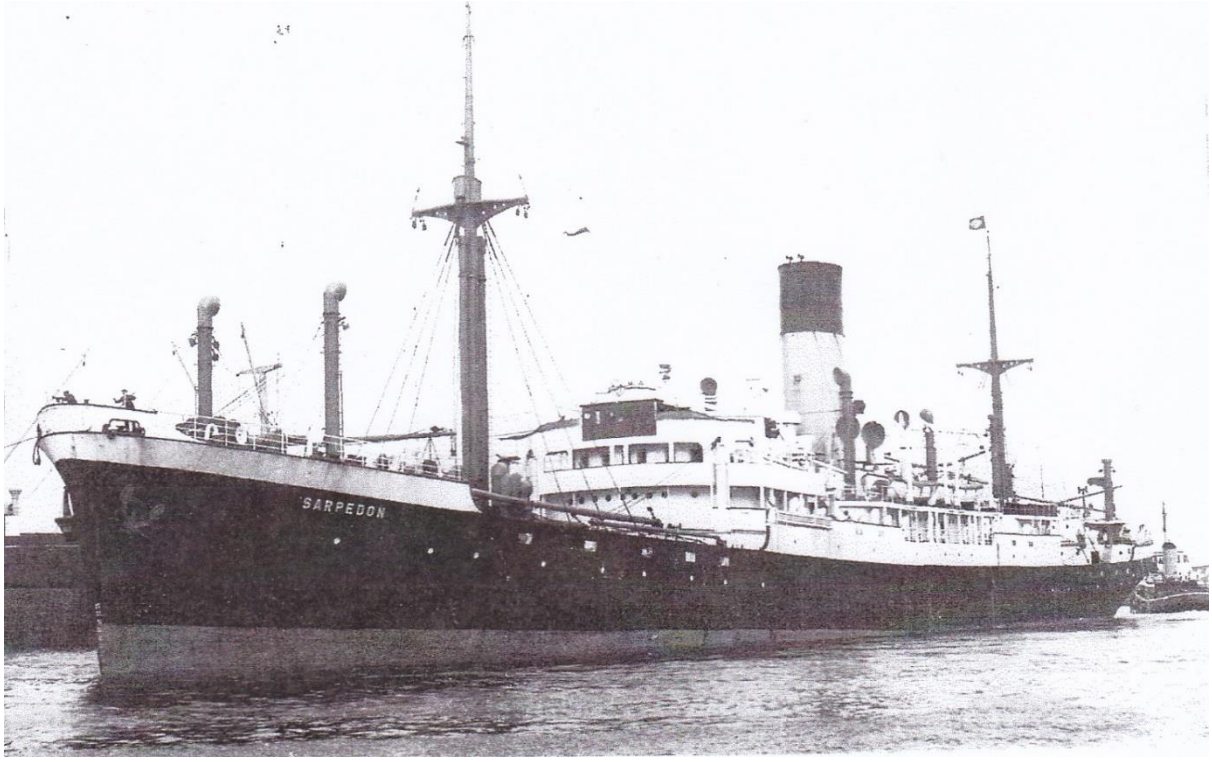
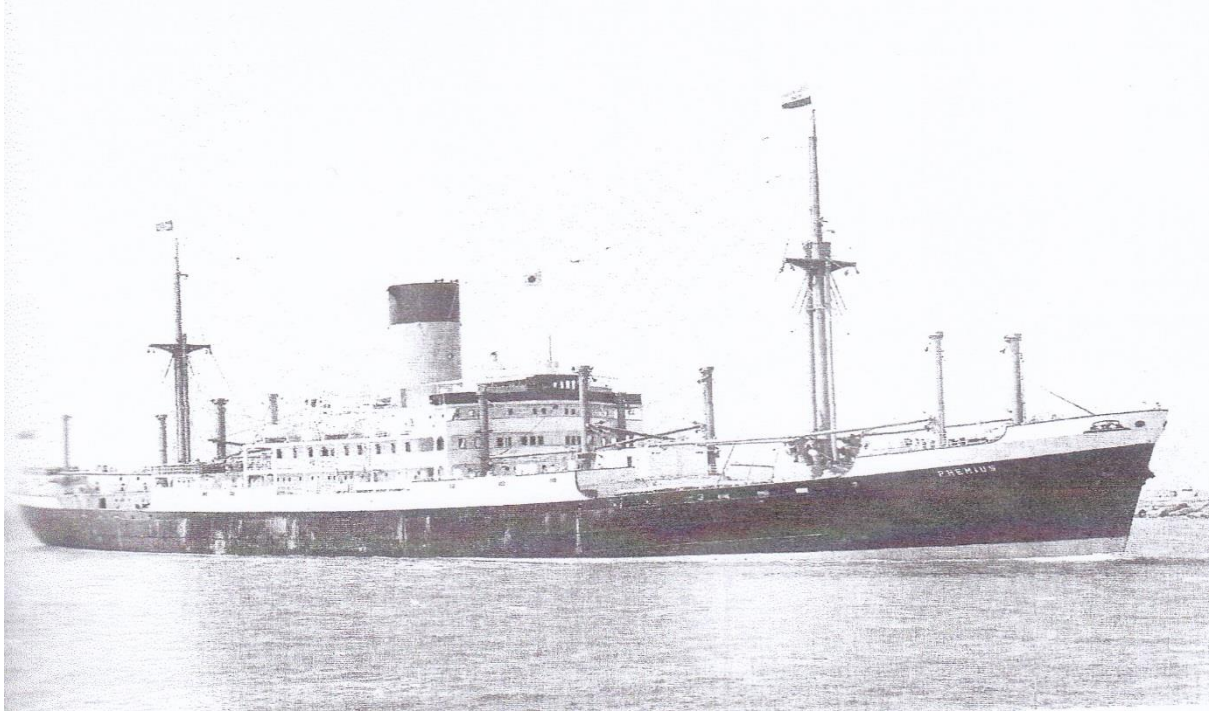
[200] Ibid, letter dated 18 Oct 63 from D.E.M. Feinnes to M.Y. Fiennes.
[201] Ibid, letter dated 6 Dec 63 from M.Y. Fiennes to D.E.M. Fiennes.
[202] Ibid, letter dated 24 Dec 63 From M.Y. Fiennes to D.E.M. Fiennes.
[203] Ibid, letter dated 20 Sep 63 from D.E.M. Fiennes to M.Y. Fiennes sent during the correspondence on the Pilgrim ships.

APPENDIX 6: Blue Funnel Ships 1931-1960



Sarpedon: built by Scotts of Greenock 1931, scrapped 1962, GRT 7,540 tons



Phemius V: built by Caladon of Dundee 1941, scrapped 1971, GRT 9,975 tons

Adrastus: built in 1953 by Vickers-Armstrong, scrapped 1981, GRT 7,857 tons

Maron (3): built by Caladon of Dundee 1960, scrapped 1987, GRT 8,242 tons

Source: Blue Funnel Line Ships in Focus 1998

As noted, all the ships, despite the thirty-year disparity, look much the same and carry much the same. Longevity is much the same, all the ships were well built. There was very little innovation, which proves the point, that ships need to change. It should be noted that the first container ships were already at sea when the *Maron* launched.