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East Asiatic Company's Difficult Experiences with Containerization

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Introduction

On 9 January 1997, the remaining shipping activities of the Danish trading conglomerate East Asiatic Company (EAC) were sold to the Norwegian shipping company Tschudi & Eitzen A/S. EAC was out of business—at least out of maritime business. Thirty years earlier, in 1967, EAC had been the second-largest Danish shipowner, with 35 vessels and a total of 396,000 DWT. The largest Danish shipping company at that time, A. P. Møller, owned 86 vessels with 1482 million DWT.¹ In contrast to Norway, Danish shipping has traditionally been marked by a stable corporate structure in which old well-established shipping companies such as DFDS (founded in 1866), D/S Norden (founded in 1871), D/S TORM (founded in 1889)

¹Iversen (2016, 359).

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and A. P. Møller (founded in 1904) survived upheavals and continued to dominate the sector.² EAC, founded in March 1897, was considered one of the corporate pillars in Danish shipping and a pioneer in at least two important respects: First, in December 1897 and as the first Scandinavian shipping company, EAC was recognized by the British dominated liner conference ‘Agreement for the Working of the China and Japan Trade, Outward and Homewards’, thanks to personal contacts at the Danish and British royal courts. Second, EAC was the first shipping company in the world to introduce an ocean-going diesel driven vessel, M/S *Selandia* built in 1912.³

How and why, then, did EAC lose its position as a leading international shipping company? This chapter focuses on three factors which contributed to the decline of EAC: (1) The internal disputes of the 1980s within ScanDutch, EAC’s hitherto most profitable and successful shipping business operating liner shipping between South East Asia and Northern Europe; (2) the fatal investment in a completely new type of vessel, the Liner Replacement Vessels (LRV), in 1975–1977; and (3) EAC’s view of itself as a political force rather than an ordinary business enterprise as symbolized by the extensive knowledge transfer concerning containerization from EAC to Chinese COSCO in 1978.

Taken together, these three factors constitute a pattern which can help understand EAC’s maritime decline.

ScanDutch and EAC’s Initial Containerization

In spring 1966, when EAC was still the second-largest shipping company in Denmark, the container ship *American Racer* left New York on its way to Europe. The ship was owned by United States Lines (USL), which thus initiated the first intercontinental container service. Companies such as USL and the American competitor Sea-Land, owned by the inventor and businessman Malcom P. McLean, had introduced a new mode of transport in international shipping that allowed to offer safe, quick and

²Tenold et al. (2012).

³Iversen (2016, 64).

cheap door-to-door transport. It was based on standardized freight boxes which could easily be moved from ship to truck through efficient cranes. The economic benefits were obvious. Loading and unloading of traditional cargo ships was a labour-intensive process which kept ships at quayside for weeks. Goods were often lost or damaged in this time-consuming and expensive process. In the early 1960s, Trans World Airlines was able to transport 300 kilograms of freight from Chicago to Zurich in 15 hours for USD 208. Sending the same freight by sea took 20 days for a price of USD 267. Liner shipping faced major challenges.⁴

At a meeting on 15 December 1965, four months before *American Racer's* departure from New York, Mogens Pagh, the CEO and chairman of the largest Danish company at the time, the conglomerate EAC, raised the issue of containerization. Pagh stated that EAC's shipping department faced an 'almost explosive' technological development.⁵ The size of tankers had been doubling within a few years, and now the liner segment would probably undergo a similar transformation. The relatively small cargo ships which EAC built after 1945 cost DKK 5–6 million per ship and the ships of the early 1960s about DKK 25 million. The cost of the newest, significantly larger and more advanced semi-container ships for the Pacific line amounted to up to DKK 45 million. In addition, if EAC adopted the container technology, investments also had to be made in containers, port facilities and land-based transportation.⁶

Mogens Pagh was appointed CEO of EAC in 1960, and his vision was to change the old trading house founded in 1897 into a more industrial direction including further investments in manufacturing activities. Initially, he had no vision for the Company's shipping activities. It was noted at the headquarters in Holbergsgade in Copenhagen that the revenue from shipping rose only slightly from DKK 259.8 million in 1961 to DKK 267.3 million in 1963, while shipping costs rose sharply—by DKK 15 million from 218.7 to 233.8 million in just two years.⁷ The background to this depressing development was structural. EAC's traditional

⁴Levinson (2006) and Bruce (2014).

⁵The EAC Archive, Board Minutes, 15 December 1965.

⁶Iversen (2016).

⁷Ibid.

services were hit by competition from so-called outsiders, shipowners who had a surplus of tonnage and put these—primarily older—ships into the tramp trade, picking up cargo on the spot rather than sailing on a fixed route. In particular, customers who were more concerned with the price than with the frequency and speed of shipping used the new competitors. The problem was most severe on EAC's main service to East Asia. This service connected the important ports in Northern Europe with Southeast Asia through, among other destinations, Bangkok, Singapore and Shanghai. As a response to these challenges, Pagh and EAC's deputy director of the shipping department Storm-Jørgensen decided in June 1963 to strengthen EAC's organization by setting up a new specialized shipping office in Singapore.

So far, all ships had been commercially operated in a decentralized manner through EAC's local branches, but Pagh and Storm-Jørgensen concluded that the lines in the East faced such fierce competition that special coordination across the branches was required. For the management of the new office in Singapore, Pagh selected 34-year-old Henning H. Sparsø, one of the Company's younger, skilled shipping people who until then had led EAC's shipping department in Bangkok. Sparsø and his two employees Holger Castenskiold and Finn Ollendorff took on their task with great energy. Their first initiative was a new express route from Japan via Hong Kong and Singapore to Northern Europe. The route opened in October 1963 with EAC's fastest ships. By omitting a number of ports, the duration of the round trip was reduced from 169 days to 146. As a result, EAC became the only shipping company to offer a transit time from the last port of Japan to the first port of Northern Europe (Hamburg) of 37 days, against the usual duration of 59 days. 'Hurtigruten' (the fast route) produced encouraging results in 1964, helped by Japan's ever-increasing industrial exports to Europe. EAC's most modern ships—the A-Fleet with a speed of over 20 knots, delivered from 1964 to 1968—were put on the route. Thanks to the new route, EAC's shipping department managed to raise its revenue by DKK 84.2 million from DKK 267.3 million in 1963 to DKK 351.5 million in 1966, while costs rose by DKK

50.1 million. The profit margin increased—and so did satisfaction with Sparsø's work in Singapore.⁸

EAC's advantage was that the shipping routes to East Asia, India and Indonesia were unlikely to be affected by container shipping, at least in the short to medium term. On the other hand, renewed competition would soon emerge on the Pacific route which connected Europe to Japan via the American west coast. At the same time, the US shipping company Sea-Land was preparing to introduce container transport from the North American east coast to Europe. In EAC's shipping department, the development at the end of 1965 'gave rise to a major headache as it was difficult to foresee the course of the coming years'.⁹ The question was how, when and how much to commit to the new technology. Everyone knew that these were critical decisions. The markets were in rapid motion. New alliances were concluded. On the North Atlantic, USL and Sea-Land in 1967 were joined by a new consortium, Atlantic Container Line (ACL), consisting of six leading European shipping companies: Cunard, Holland-America, Compagnie Générale Transatlantique, Swedish American, Wallenius and Rederi AB Transatlantic. While the Americans entered the market one shipping company at a time, the common European approach became the creation of consortia or alliances which could jointly shoulder the large investments. Such partnerships suited EAC which had sailed in alliances with other northern European shipping companies since the turn of the century. The question was who EAC should work with, under which terms and when.

In spring 1968, Henning H. Sparsø was ordered home to the headquarters in Copenhagen in order to address these challenges. As head of the Planning and Development Department, Sparsø would prepare EAC strategically for a future in the container industry. The first task was to start cooperation negotiations with two Nordic partners, the Norwegian shipping company Wilhelm Wilhelmsen and the Swedish East Asian Company. The three Nordic shipping companies had for years sailed together on three routes from Europe to Australia, Indonesia and Pakistan–India. None of these was a candidate for an immediate introduction of container

⁸Iversen (2016); EAC Archive, Annual Reports, 1963–1967.

⁹EAC Archive, Board Minutes, 15 December 1965.

shipping. The idea was to initiate cooperation on EAC's main route, that to East Asia.

At the end of 1968 rumours in shipping circles said that Japanese shipping companies were 'just about' to contract fast and large container ships for the Japan-Europe trade.¹⁰ In addition, the British OCL alliance and US Sea-Land also considered introducing containers on the Japanese routes. In response to these specific threats, in autumn 1968 Sparsø negotiated an agreement with Wilhelm Wilhelmsen and the Swedish Ostasiatiska Kompaniet. It was an ambitious and crucial alliance containing four points¹¹: (1) A fully coordinated Scandinavian service on the East Asia route with a total of eight departures per month, starting approximately 1 April 1969; (2) an operating office in Copenhagen with the top position occupied by an EAC manager; (3) joint agents in all ports in Europe as well as in Asia, based on EAC's existing shipping offices with the exception of Manila; (4) an ownership pool, in which EAC's share was 46.87%, with Wilhelm Wilhelmsen and the Swedish East Asian Company sharing the rest.

The Dutch shipping company Royal Netherlands Lloyd joined this alliance in autumn 1971. This agreement, which became known as ScanDutch, was of major importance to EAC's shipping department in the 1970s. With the partnership, EAC managed the critical introduction of container operations. Moreover, the ScanDutch operating office in Copenhagen had a major impact on the general development of Danish shipping as it led to the formation of special skills in operating ships on behalf of other shipping companies within pool agreements. As Sornn-Friese, Taudal Poulsen and Iversen have argued, 'EAC's co-operative capabilities would, in the development phase of Danish shipping, spread into the whole Danish shipping industry and form an important basis for the development of Copenhagen as an international centre for the commercial management of, in particular, pools of product tankers'.¹²

The head office of the new Scandinavian Joint Shipping Service—usually abbreviated to ScanService—was established in the famous shipbroker C. K. Hansen's old offices in Amaliegade in Copenhagen. The three

¹⁰EAC Archive, Board Minutes, 18 December 1968.

¹¹Ibid.

¹²Sornn-Friese et al. (2012a).

Scandinavian shipping companies now offered barges on container ships from a number of selected ports. The service began on 1 April 1969 with a total of 51 ships, and on 2 September that year, the management concluded that provisional results were 'extremely satisfactory', despite fierce competition.¹³ On the other hand, profits on EAC's four other routes were now hit hard by increasingly intense competition, especially on the Pacific route from Northern Europe via the American west coast to Japan. The conclusion was that these services should either be closed down or restructured and modernized. With this in mind, the planning and development department was now working intensely on a major strategy and investment plan.

On 2 September 1969, 40-year-old Sparsø was given the opportunity to present the shipbuilding programme to EAC's Board of Directors. It was quite unusual for a young middle manager to be in the boardroom, but Pagh had a great deal of confidence in the young shipping man. This was the most daring and biggest investment plan in the company's history.¹⁴ For ScanService in East Asia, two new 2272 TEU container ships were to be contracted from the Danish shipyard B&W for delivery in the third and fourth quarters of 1972. The price for these two vessels was DKK 156.8 million. The ships, which received the classic EAC names *Selandia* and *Jutlandia*, were designed as the world's fastest ocean-going cargo ships with an operating speed of 28 knots (about 50 km/h) and a top speed of 31.5 knots. For the Pacific route, two container ships of 1200 TEU were to be contracted from the Danish EAC owned Nakskov Shipyard. The price for the two container ships was DKK 68.5 million, and they were to be delivered in the third quarter of 1971 and the second quarter of 1972 and were named *Falstria* and *Meonia*. *Falstria* was the first Danish-built container ship. In addition, EAC was negotiating an alliance with the British Blue Star Line and the Swedish Johnson Line, the latter being particularly strong on the Pacific Ocean. The alliance, named Johnson ScanStar, had a total of nine container ships in the Pacific from May 1972. Finally, one roll-on-roll-off would be contracted to the Australian line. The ship would cost NOK 75.7 million and was to be

¹³EAC Archive, Board Minutes, 9 September 1969.

¹⁴Ibid.

built at the Swedish shipyard Eriksberg. In autumn 1969, EAC signed the third cooperation agreement with Norwegian Wilhelm Wilhelmsen and Swedish Rederi AB Transatlantic, using 16 vessels. This alliance was named ScanAustral Carriers Ltd.

All in all, the plan Sparsø presented at the meeting of 2 September 1969 was extremely bold. Investing around DKK 520 million, EAC would become a main actor in the global container business as partner of three major alliances. The East Asia line was of particular importance. The two ships for this service were among the world's most expensive and most advanced cargo vessels. Their names, *Selandia* and *Jutlandia*, referred to EAC's history of bold innovation which included the world's first ocean-going diesel-powered vessel, *Selandia*, launched in 1912.

The cooperation within ScanDutch was coordinated from Amaliegade in Copenhagen with the participation of four leading shipping companies: Swedish Broströms, Norwegian Wilhelm Wilhelmsen, Dutch Nedlloyd Lijnen and French Compagnie Générale Maritime (CGM). ScanDutch was ground-breaking. The seven newly built container ships were supplemented with 22 conventional cargo liners, which allowed departures every ten days from all major ports between Europe and East Asia—EAC's original service started by the Danish company in 1899. On the eve of the 1973 oil crisis, ScanDutch's market share on the route from Northern Europe to East Asia was above 25%.

In the 1970s and 1980s, EAC enjoyed high and stable earnings of about DKK 100 million a year from ScanDutch. 1988 seemed to be an exceedingly profitable year. It was therefore extremely surprising—and unpleasant—when the Norwegian shipowner Niels Werring Jr. appeared at Sparsø's office on 19 August 1988 to tell him that the two Nordic partners, Swedish Transocean and Norwegian Wilhelmsen, had sold their 15% stakes in ScanDutch to Dutch Nedlloyd. The Dutch were already in possession of almost 30% of the company and they would thus own a majority of the alliance and consequently take control.¹⁵ The immediate explanation of the sale was that Wilhelmsen was in desperate need of liquidity. Sparsø was furious about the message. In the original agreement, the Scandinavian partners had promised each other a right of first

¹⁵Iversen (2016, 462).

refusal in the event of sale. Niels Werring Jr. left Holbergsgade with a sharp message stating that EAC's lawyers would be involved, 'unless the transactions mentioned [were] immediately reversed'.¹⁶ As a consequence, EAC entered into an agreement with the two Scandinavian partners regarding the acquisition of their pool and conference rights as well as two container vessels, *Toyama* and *Nihon*. EAC would be 100% owner of the Scandinavian branch of ScanDutch—ScanService—as of 1 January 1993. The price paid was USD 10 million for each partner's rights and USD 17.3 million for each of the two ships—in total, an investment of USD 54.6 million.¹⁷

ScanDutch thus changed from a joint venture between a number of different shipping companies to a partnership between EAC (c. 55%), Nedlloyd (c. 30%) and CGM (c. 15%). The Dutch partner was obviously not satisfied with the reversal of the agreement, and tensions appeared, but the two partners had to enter into a close dialogue. Despite tensions the commercial start was good. 1988 was a record year for the subsidiary due to more cargo and higher rates as well as lower crew costs, the result of the transfer of the two largest EAC vessels, *Selandia* and *Jutlandia*, to the newly created Danish International Ship Register (DIS). But competition was increasing in the international container market of the late 1980s. EAC therefore wanted to expand the cooperation and proposed that the two partners should invest in new, larger container ships and a modernized organization. Nedlloyd, however, did not share these views. On the contrary, the Dutch were upset by the acquisition of the Norwegian and Swedish interests by EAC. Their response was the promotion of an alternative line in their own name at the expense of ScanDutch. The situation was untenable—and it was made worse by the decline in the freight rates between South East Asia and Northern Europe in early 1989. At the beginning of August 1989, the three remaining partners held a crisis meeting in EAC's headquarters at Holbergsgade in Copenhagen. Sparsø, who was known to be a domineering manager, had personal difficulties with the Dutch and French colleagues. On a symbolic level, the climate between the two companies was poisoned when the Danish manager decided to

¹⁶EAC Archive, Board Minutes, 15 September 1988.

¹⁷Iversen (2016, 465).

return an official birthday gift from Nedlloyd. In early May 1990, the situation had become so difficult that the partners did not want to continue with ScanDutch. At about the same time, the two British shipping companies P&O and Ben Line Containers Ltd. informed the public that they would leave the TRIO consortium, ScanDutch's main competitor. EAC therefore initiated negotiations with Ben Line about a new cooperation on the important Europe–Asia route. The EAC-BenLine became a reality during the early 1990s and ScanDutch was discontinued. EAC was to contribute with six major container ships—including two new builds, *Arosia* and *Alsia*. The cooperation with Ben Line, a relatively small family-owned company with an old fleet, proved to be a disaster as it was launched in a difficult and competitive market. The service was unprofitable from the beginning, and in 1992 the partnership lost DKK 260 million. EAC sold its liner vessels to Maersk Line in March 1993 due to the combination of the depressed results from EAC-Ben Line and the additional problems in its shipping department resulting from the expensive investment in a new, but troublesome category of ships—the LRVs.¹⁸

The Liner Replacement Vessels: A Fatal Investment

On 2 October 1974, EAC's Board of Directors decided to promote Henning Sparsø to deputy CEO. Sparsø led the EAC's ship department and reported directly to Pagh, occupying what was traditionally the second most prestigious position in the Company. It was always the ships' results which were presented first at board meetings, and the department's development was placed at the beginning of the annual reports ever since the founding of the company in 1897. It was from a strong position that Sparsø on 24 September 1975 presented the Board of Directors with perhaps the most fatal initiative in the history of the EAC—an initiative which, according to insightful observers, would eventually destroy the entire company.¹⁹

¹⁸Iversen (2016, 503).

¹⁹Bjerrum (1991) and Højbo (1993).

The EAC board meeting on 24 September 1975 began at 9.30 AM with a review of the positive results of three shipping alliances: ScanDutch on the Southeast Asia route, Johnson ScanStar on the American West Coast and ScanAustral on the Australia route. After about two hours of a general review of the company's development, Sparsø was asked to round off the meeting with a review of EAC's shipbuilding programme.²⁰ Sparsø initially stated that the ship department had conducted in-depth analysis for a whole year in order to determine EAC's need for new ships. The conclusion was that the Company should contract a whole new type of ship to be called 'neo-bulk'. A relatively small and flexible ship—neither a traditional bulk carrier nor a container ship—of about 20,000 tonnes dwt, as against *Selandia* and *Jutlandia*'s 34,730 dwt. In fact, these ships went in the opposite direction to that taken with the recent container ship orders. Their service speed would be a modest 15.5 knots, and the energy-saving engine would only provide 11,600 hp against the two fast containerships' record-breaking performance of 82,000 hp. It was an ambitious plan of a series of eight modern ships. Such a series had not been contracted since the much smaller—and significantly cheaper—conventional liner ships of the 1950s and 1960s. Pagh presented an interesting argument for the contracting of the new vessels. Where ship orders so far had reflected EAC's specific strategic needs, what was sought now was 'the most commercially useful and economical ship that would be a good asset for future sale'. The ship was to be regarded as a financial asset.

The success of the new ship type was crucial for EAC, as it should, in Sparsø's cryptic words, 'fill the need beyond what conventional bulk carriers can accommodate and, on the other hand, make the modern container ships' facilities redundant'.²¹ What kind of cargo Sparsø specifically had in mind was not clear at the meeting, but the philosophy behind the new ship was *flexibility*. The ship should be able to transport containers, specialized cargo and traditional dry cargo such as timber or grain. However, the price for flexibility was the loss of economies of scale, and at the same time the small engines and low top speed prevented another type of flexibility namely the capability to catch up in case of delays. In October

²⁰EAC Archive, Board Minutes, 24 September 1975.

²¹EAC Archive, Board Minutes, 24 September 1975.

1975, the initial two ships, called the LRV, were contracted with the Mitsui Shipyard in Japan. There was an option for delivery of two more ships, and delivery would take place between 1 May and 31 December 1977. With this order, there was maximum pressure on EAC's own shipyard in Nakskov in Denmark. The prerequisite for placing an order for another six, maybe eight, ships was a competitive price. In this connection, it was crucial whether the shipyard management could achieve a pay-limiting agreement with the workers.²² On 4 February 1976, negotiations with Nakskov Shipyard ended with a positive outcome. Six LRVs were contracted with an option for two more vessels. For Nakskov Shipyard, it was the first serial order of such a large scale. The prize was held low due to the purchase of steel, engines (four out of six) and cranes in Japan. In addition, shipyard workers had agreed to limit wage increases until the last ship was delivered. On the other hand, the shipyard would pay a bonus to the workers for each ship that was delivered on time and according to the agreed specifications. Mogens Pagh, like many others, was deeply concerned with labour market conditions in the 1970s. As the first Danish company, EAC had introduced employee shares in 1971. The chairman was particularly proud of the agreement with the shipyard workers. To the Board of Directors, he expressed the hope that the agreement 'might seem like a model for other industries'.²³ With this pious hope, the happy circumstances surrounding the LRVs ended—even before the first ship was built.

At the same Board meeting on 5 March 1976, it was stated that the Company's newbuilding programme now comprised 14 vessels with a total contract value of DKK 1.6 billion. The ships were contracted for delivery over four years from 1972 to 1976. During that period, conditions in international shipping changed profoundly. With the oil crisis, demand for transport decreased, and the re-opening of the Suez Canal in 1975 led to the bottom falling out of the tanker market. International shipping faced a ten-year crisis around 1975–1985. In particular, the years 1978–1980

²²EAC Archive, Board Minutes, 3 December 1975.

²³EAC Archive, Board Minutes, 5 March 1976.

were bloody as the total amount of transported goods fell for the first time since 1945.²⁴

Between 70 and 80% of EAC's DKK 1.6 billion investment was financed by long-term loans over seven to eight years. There was thus no danger of an acute liquidity crisis. The problem for EAC was rather that the asset value of the ships dropped in line with the worsening market conditions. Thus, the value of the ships had to be written off faster—but could EAC afford that? Also on 5 March 1976, it was stated at the board meeting that even before delivery, the market value of the ships was 'significantly' below the value of the debt taken on to finance them. An attentive board of directors would of course have asked about the obvious risks of the large series contract for a completely new and untested ship type under these market conditions. But instead of this debate, management was congratulated on the wage restraint agreement at Nakskov Shipyard. The lack of debate and concern about EAC's indebtedness was particularly striking because the board was neither presented with an in-depth review of any specific market demand for the new ship type, nor with any analysis of the financial consequences of the investment. Such superficial scrutiny by the board of directors was in stark contrast to former large serial orders of ships under the previous chairman Hakon Christiansen in the 1950s and under the founder H. N. Andersen before and during World War I. At that time, decisions on major vessel contracts were discussed in detail—especially the financing, which often required the expansion of the share capital or new loan agreements. To make matters worse, the ship investments of the 1970s were relatively larger due to the increased size of the ships and more advanced technology. In March 1976, Pagh closed any possible debate with the claim that the ships were to be regarded as a 'financial commodity' created for the second-hand market rather than the company's own specific needs. The problem with this logic was twofold. First, the general shipping market turned out to be in free fall just in the years from 1977 to 1979 when the ships were delivered. Second and more important, it was uncertain whether there was any interest in a completely new type of vessel in the second-hand vessel market, whether depressed or not.

²⁴Tenold (2006).

On 10 December 1976, one year and three months after the first board discussion concerning the LRVs, Sparsø reported that it had been decided to deploy the ships in a new Pacific liner shipping trade between the west coast of the United States and East Asia.²⁵ EAC had served this route from 1932 to 1954, when the service was discontinued due to increasing competition and poor results. The Pacific route was particularly difficult to service for three reasons: First, the liner shipping conference agreements in the Pacific were open to free participation in contrast to the closed conferences to Asia. Thus there were more, and less disciplined, players in the Pacific. Second, long distances across the world's largest ocean caused challenges in relation to regularity. In case of a storm or accident, there was a high risk of expensive delays. In this respect, the low engine power of the LRVs was completely unsuitable for sailing on the Pacific as the ships would not be able to make up any delays. Last but not least, the service was characterized by an imbalance in cargo volumes: In the 1970s, there was a significant need for transportation from East Asia to the United States, while there was only a slight demand for goods from the United States which was in the midst of a deep industrial crisis.²⁶

The first report on the Pacific experience came in June 1977, when the first LRV ship in service had a 'reasonable' start.²⁷ This message was moderated in September that year to 'slightly slower start than expected'.²⁸ In December of the same year it was announced that two major shipping companies, German Hapag-Lloyd and Singaporean Neptune Orient Lines, were about to enter the Pacific route, which was already characterized by fierce competition and unbalanced trade patterns.²⁹ In March 1978, the message concerning the first two LRV ships, *Sumbawa* and *Songkhla* was clear: tough competition combined with the lack of appropriate cargo for the rather small and slow vessels. By the autumn of 1978, the situation had become so serious that the leader of the shipping department, Wøldike Schmith, decided to travel to Vancouver to investigate the situation. Since the spring of 1977, five new competitors had entered

²⁵EAC Archive, Board Minutes, 10 December 1976.

²⁶Bjerrum (1991).

²⁷EAC Archive, Board Minutes, 3 June 1977.

²⁸EAC Archive, Board Minutes, 6 September 1977.

²⁹EAC Archive, Board Minutes, 5 December 1977.

the Pacific trade. It was therefore not surprising that 1978 showed 'a significant loss' for the new EAC line. No specific amount was recorded to the Board on this loss. When the newly elected Member of the Board, L. Beckvard, at a board meeting in December 1978, asked for these figures, Sparsø replied 'that the final number would appear in the March 1979 financial statement'.³⁰

EAC's annual accounts for 1978 were depressing, for three reasons in particular: (1) the difficult conditions of shipping, particularly on the Pacific; (2) the high debt resulting from the new tonnage contracted in the mid-1970s; and (3) the industrial crisis in Western Europe and North America. EAC's total revenues dropped markedly from DKK 23.12 billion in 1977 to DKK 18.46 billion in 1978. EAC's earnings halved from DKK 100.4 to DKK 50.63 million. Most seriously, long-term debt increased by approximately DKK 470 million in just one year from DKK 2.47 billion in 1977 to DKK 2.9 billion in 1978. EAC was on an unsustainable financial course and the LRVs contributed to the problems until the mid-1980s, both through the increased debt EAC took on to build them and through annual operating deficits from 1978 to the mid-1980s when they were withdrawn from the Pacific trade and subsequently sold.³¹

From EAC to COSCO—A Difficult Case of Knowledge Transfer

After Mao Zedong's death in September 1976, Hua Guofeng was appointed President of the Communist Party and China's Prime Minister. In February 1978, Hua announced an ambitious ten-year plan, aiming to increase China's industrial output by 10% a year and agricultural production by 4–5%. The plan was based on the Four Modernizations, that is, in agriculture, industry, defence and science/technology. The following month, at a major science conference in Beijing, Deputy Prime Minister Deng Xiaoping announced a training programme for 800,000 researchers in China. The goal was to promote development in a number

³⁰EAC Archive, Board Minutes, 12 December 1978.

³¹EAC Archive, Annual Report, 1978.

of high-priority areas, including energy resources, computers, laser and space technology.³²

Mogens Pagh visited China a few weeks after Deng Xiaoping's ground-breaking speech and, on his arrival, received a spectacular invitation for a meeting with China's Minister of Transport.³³ The Minister initiated the meeting by introducing the ambitious goals for China's development over the following eight to ten years. The Chinese government was aware that this development could only take place through foreign technology and know-how. EAC was therefore requested officially to assist the Chinese government in the development of its external transport system. At the meeting, it was agreed that EAC would send a delegation to China in order to be able to draw up a more detailed programme. Pagh immediately saw almost unlimited potential in the official request. Later on the journey, his assumptions were confirmed, as he was asked to meet with the Deputy Prime Minister who proved to be well informed about the transport minister's proposal. Not since Andersen's days around 1900, when the company's founder established the first EAC office in Shanghai, had EAC worked at such a high political level in China.

Immediately after his return to Copenhagen, Pagh decided to send a delegation of senior EAC employees and experts to China, headed by CEO Henning Sparsø and EAC's China expert Holger Hansen. Their initial meetings with the ministry's officials showed that the Chinese wanted something very specific from EAC, namely support for initiating containerization. This was to include³⁴:

- plans for the physical lay-out, equipment, workflow and administration for the first two container terminals in China, Tianjin and Shanghai;
- suggestions for streamlining workflow and administration of the conventional shipping sector in Tianjin and Shanghai;
- proposals for the harmonization and streamlining of inland transport, which was under the responsibility of three different ministries. In this connection, verification and documentation procedures for land-based

³²Spence (1991, 668–671).

³³EAC Archive, Board Minutes, 14 June 1978.

³⁴Ibid.

transport of containers (road transport had not yet been completed) would also have to be developed.

- EAC assistance with the implementation of these plans in the longer term.

EAC's board of directors became acquainted with the Chinese plans at a meeting on 14 June 1978. Mogens Pagh was obviously excited about the perspectives: 'we have had our relations with China for a very long time and this gives us a big chance'. So far, it was not something that had made a financial surplus of significance, explained Pagh, but now there was hope of 'an opportunity for really great chances for us'.³⁵ The last remark made the 68-year-old board member Prince Georg raise the question of fees for such large-scale work. Pagh replied quite thoughtfully that the Chinese were the most skilled business people in the world. Regarding the fee, the chairman stated that it was nothing at all that he had wanted to speak about yet. 'We have expressed our satisfaction with the tasks that the Chinese are giving us, and we have to look at a suitable fee later on'. 'Surely', continued Pagh, 'the Chinese will never forget us if we do something like this for them now'.³⁶

By the end of 1978, Pagh considered the development in China as the true bright spot in an otherwise dark picture concerning the future of EAC. As stated above, the debt issues related to the liner business in the Pacific grew significantly during this period, and industrial plants in Western Europe and North America suffered significant losses. But at the same time, EAC's trading activities accelerated in Beijing. During 1978, agency import contracts to China amounted to DKK 230 million in total.³⁷ Representation in Beijing was increased from two to four men, and the office, as the first foreign company, was authorized to install a telex machine in 1978.³⁸ EAC was a Western pioneer in Deng Xiaoping's reforming China and the most promising project was containerization. EAC sent ten of the company's best shipping people to China in July

³⁵Ibid.

³⁶Ibid.

³⁷EAC Archive, Board Minutes, 12 December 1978.

³⁸Ibid.

1978. In the following months, the Danish staff prepared a whole new design of quays and warehouses in Tianjin, the largest port city in North China and the main port of Beijing. Specifications for and positioning of crane systems were established and the EAC experts provided a detailed manual for the management and documentation procedures that had to be set up before the container traffic could be introduced. Once this work was completed in November 1978, the EAC experts moved on to Shanghai. Here, port facilities were planned to handle 10,000 and 50,000–60,000 containers per year in port districts nine and ten, respectively. In order to implement the plan, cranes, forklifts and other special equipment worth USD 15–20 million had to be imported. As part of the agreement, the Chinese would pay EAC a commission on these imports, but otherwise the work was free of charge.³⁹

In addition to the work of reorganizing the Chinese port facilities in Tianjin and Shanghai, EAC staff also undertook a significant advisory task for the state-owned Chinese shipping company COSCO. The Danes conducted a complete review of the entire state-owned organization in China, covering all its functions. Marketing, management and control, repair and maintenance routines were reviewed, all for the purpose of introducing containerization. Concurrently with—and probably related to—the knowledge transfer from EAC COSCO established the first regular Chinese overseas container line.⁴⁰ On 26 September 1978, COSCO's first container ship, *Ping Xiang Cheng*, sailed from Shanghai bound for Sydney.⁴¹ The chief architects behind this development were EAC staff and the task also included training of Chinese personnel. In January 1979, the first Chinese employees arrived at the EAC headquarters in Copenhagen, where they were trained in administration. At the same time, Chinese teams of navigators and engineers were posted on a number of EAC container ships. And as a third step, in February 1979, Chinese port officials received a thorough introduction to EAC's roll-on-roll-off terminals around the world.⁴²

³⁹Ibid.

⁴⁰Ibid.

⁴¹For references to the history of COSCO, see <http://www.cosfrej.com/en/history.aspx>.

⁴²EAC Archive, Board Minutes, 30 March 1979.

Against this background, it was a shock to EAC that, in March 1979, the Chinese announced unexpectedly that the containerization cooperation had to be 'paused' with immediate effect. The Chinese officials underscored that the decision should not be known to the public. The unexpected suspension had nothing to do with the efforts of EAC. At a board meeting on 30 March 1979, Sparsø stated that China had suddenly decided to break off partnerships with all Western countries. EAC was affected relatively late and in a limited way—for example, the Dutch had been sent home and in other cases the Chinese had cancelled even relatively loose agreements. The background for the new Chinese policy was to be found in internal political conditions in China. On 18 December 1978, a small group of young Chinese held a demonstration for freedom and democracy in Beijing, and in January 1979 there were further demonstrations of up to 30,000 rural workers outside the capital. The Chinese government reacted by dropping its economic reform plans. The modernization process was not only politically risky, it was also costly. The trade deficit grew to USD 3.9 billion in 1979–1980. It was decided to emphasize modernization of agriculture over the three other parts of the Four Modernizations.⁴³ Against this background, EAC's modernization of container traffic was no longer urgent. The Chinese had time—plenty of time. And if nothing else, COSCO's first container line had been started, and the Beijing and Shanghai authorities had gained free access to valuable knowledge of how modern container lines, port facilities and ship management worked.

The suspension hit Pagh particularly hard. It had been his decision that the crisis-ridden company would allocate significant management and staff resources to the Chinese project for several months without charge. He had rejected Prince Georg's request for fees based on his understanding of *guanxi*—the importance of reciprocity and personal networks in China. Pagh was undoubtedly right that the Chinese would never forget the EAC's goodwill and generosity. On the other hand, Pagh at the same meeting described the Chinese as 'the best business people in the world'. The entire arrangement in 1978–1979 was costly for EAC and lucrative for China. Unfortunately for Pagh, neither he nor EAC could afford to wait for a

⁴³Spence (1991, 678–687).

long, slow and difficult economic and political development in China. It was Sparsø, not Pagh himself, who informed the board of directors about the Chinese withdrawal, and only three months later, Pagh announced his departure as Chairman of EAC. His era was over—as was EAC's.

Conclusion

EAC was founded in 1897 based upon the first shipping line connecting Northern Europe and South East Asia. Exactly 100 years later the last shipping interests were sold, and what had been a leading Danish international shipping company in the 1970s was out of business. This chapter has focused on the ScanDutch partnership, the investment in the LRVs and finally the knowledge transfer to COSCO in 1978 to explain this trajectory. All three factors in their way contributed to the fall of EAC as a leading shipping company. The financial losses from the LRV investment and the failure to develop ScanDutch in the late 1980s had obvious financial consequences for EAC. It is more complicated to assess the financial and organizational consequences of knowledge transfer to COSCO in 1978. These consequences may be analysed at three levels, the management, the company and the national economy, and in relation to three chronological perspectives, the short, medium and long term.

The first level concerns Mogens Pagh, CEO from 1964 to 1980. In the short term, the knowledge transfer project cost him prestige internally in the board, which again contributed to a coup d'état in 1980 in which Pagh lost his position as chairman. In the long term Pagh thus became irrelevant for EAC. At the level of EAC as a company, the knowledge transfer caused an immediate lack of man-power in 1978 due to the fact that key experts were transferred from various offices around the world to the Chinese project. It is difficult to measure the actual impact of this, but it is worth noting that EAC had a series of prosperous years in container shipping in the late 1970s and the early 1980s. The use of scarce manpower in China may well have prevented development of more promising opportunities at a critical time for containerization when, for instance, the competitor Maersk Line expanded rapidly. In the medium term, EAC's diplomatic

relations with China were probably strengthened by the knowledge transfer and EAC managed to occupy and develop a rather unique position in the mid-1980s as agent for major Western companies in China and even in the 1990s, EAC still enjoyed remarkably close relations with the Chinese authorities. In the long term, however, EAC was unable to exploit these commercial opportunities. At the national level, other Danish companies were able to benefit from a special relationship between China and Denmark. The chairman of Maersk, Mærsk McKinney-Møller, was received personally by President Jiang Zemin in October 1998 when Maersk Line was the market leader in shipping between Northern Europe and South East Asia. This was partly thanks to Maersk's acquisition of EAC in 1993, and thus linked indirectly to the special relation created by Pagh's decision to promote containerization in China in 1978.

According to Geoffrey Jones, the modern globalization process could be divided in three phases: the first globalization from the 1870s to the 1910s, the de-globalization from the 1930s to the 1970s and finally the second globalization after the 1980s.⁴⁴ Paradoxically EAC, traditionally one of the most internationalized Danish companies, suffered in the 1980s and 1990s as markets were opened through trade agreements and new technologies. In fact, these developments devalued EAC's historic competence in navigating closed markets via personal and political connections applied in commercial transactions. As markets opened up and level playing fields were established, EAC's political competences gradually lost their value. In the 1980s, EAC was thus unable to reap the advantages on the Chinese market, sowed by the knowledge transfer to COSCO in the late 1970s.

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⁴⁴Jones (2005).

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