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**First-mover in the 70s - out-of-business in the 90s:  
EAC and the difficult experiences with containerization**

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*Background of the paper:*

*This paper is the first draft of a chapter for a new anthology entitled "Shipping, globalisation and structural change in the post-war era: Contexts, companies, connections" edited by Niels P. Petersson, Stig Tenold and Nicholas J. White. The contribution is entitled "The fall of a giant: East Asiatic Company (EAC), 1946-1992". The paper is focused on the process of containerisation aiming to identify some of the reasons why EAC faced difficulties in the 1970s including a fatal investment in small slow ships (LRVs) and an expensive knowledge-transfer to China in 1978. The paper on the other hand unveils that EAC was rather successful with the early containerization in the mid 1970s.*

*The chapter builds on my research for the book "Udsyn, ØK, Danmark og verden" from 2016. Suggestions for further contextualization and inclusion of relevant theoretic concepts are very much welcomed.*

*Enjoy the reading*

*Martin*

On March 18, 1966, 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 container line across two continents. Companies such as USL and the American competitor Sea-Land, owned by the inventor and businessman Malcolm P. McLean, consequently introduced a new mode of transport in international shipping being able to transport safely, quickly and cheaply from door to door. The new mode of transport 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 the past cargo ships was a labor intensive process, which kept the ships at quaysides for weeks. Goods were also lost in this time-consuming and expensive process. The relatively small freight ships based on manual methods were simply not current. In the early 1960s Trans World Airlines was able to transport 300 kilograms of freight from Chicago to Zurich in 15 hours for 208 USD. The corresponding shipping transport took 20 days for a price of 267 USD. Shipping faced major changes.<sup>1</sup>

At a meeting on 15 December 1965, four months before American Racer's departure from New York, the CEO and chairman of the largest Danish company at the time, the conglomerate East Asiatic Company (EAC), Mr. Mogens Pagh, raised the issue concerning containerization with EAC's leadership. Pagh stated that the EAC's Ship Division faced a market with "almost explosive" technological development.<sup>2</sup> The size of tankers had been doubling in a few years - and now the liner segment would probably undergo a transformation of a similar dimension. The relatively small freight ships, which EAC built after 1945, were acquired for about 5-6 million DKK per ship. The ships in the early 1960s about 25 million DKK, while the costs of the newest, significantly larger and more advanced semi-container ships for the Pacific line amounted to up to 45 million DKK. In addition, if EAC entered the container technology, investments must also be made in containers, port facilities and land-based transportation.

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

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<sup>1</sup> Levinson (2006); Peter (2014), p. 143.

<sup>2</sup> EAC's archive, bestyrelsesrådsprotokol, 15.12.1965.

activities. Immediately he had no vision for the Company's shipping activities. It was noted in the headquarters at Holbergsgade in Copenhagen that the income 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.<sup>3</sup> The background to the depressing development was structural. EAC's traditional lines were hit by competition from so-called "outsiders". That was, shipowners which had a surplus of tonnage. These - primarily older ships - were put into a flexible tramp trade that was sailing for the load rather on a fixed lane. In particular customers, who were more concerned with price than frequency and speed, resorted to the new competitors. The problem was most severe at the EAC's main line - the Far East. The line 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 operated through the regional EAC branches, but Pagh and Storm-Jørgensen perceived that the lines in the East faced so fierce competition that special expertise had to be added. 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 had led the ship department in Bangkok so far. The young Sparsø - and his two employees Holger Castenskiold and Finn Ollendorff - faced the tasks with great energy. Their first initiative was a new express route from Japan via Hong Kong and Singapore to Copenhagen. The route opened in October 1963 with EAC's fastest ships. By omitting a number of ports, the round trip was reduced from 169 to 146 days. As a result, EAC - as the only shipping company - could offer a transit time from the last port of Japan to the first port of Northern Europe (Hamburg) in 37 days against the previous 59 days. "Hurtigruten" produced reasonable results in 1964 - helped by Japan's ever-increasing industrial exports to Europe. EAC's most modern ships - the A-Fleet - which were delivered from 1964 to 1968, were embarked on the route with a speed of over 20 knots. Thanks to the new route listing, EAC's shipping department managed to lift the income by DKK 84.2 million from DKK 267.3 million in 1963

to DKK 351.5 million in 1966, while expenses rose by NOK 50.1 million. The profit margin increased - and thus also the satisfaction of young Sparsø's work in Singapore.<sup>4</sup>

EAC's advantage was that the shipping lines to the Far East, 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 line, which connected Europe to Japan via the American west coast. At the same time the US shipping company Sea-Land was now on its way to introduce container transport from the West Coast to Europe. In the Shipping Department, the development at the end of 1965 "... gave rise to a major headache as it was difficult to overlook the course of the coming years."<sup>5</sup> The question was how, when and how much to engage in the new technology. Everyone knew that these were critical decisions. The markets were in rapid motion. New alliances were concluded. On the North Atlantic, the United States Lines and Sea-Land in 1967 became 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 shipping company one shipping company at a time, the common European tactics became the creation of consortia or alliances which could jointly manage the large investments. Such partnerships fitted well to EAC, which had sailed in alliances with other northern European shipping companies since the turn of the century. The question was who EAC should agree with, under which terms and when.

In the spring of 1968, Henning H. Sparsø was ordered home to the headquarters in Copenhagen in order to solve 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 the 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 lines: Australia, Indonesia and Pakistan-India. None of these three lines were candidates for an immediate introduction of container shipping. The idea was to initiate cooperation on EAC's main route - the Far East.

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<sup>4</sup> EAC archive, various annual reports

<sup>5</sup> EAC's archive, bestyrelsesrådsprotokol, 15.12.1965.

At the end of 1968 rumours in shipping circles said that Japanese shipping companies were "on the run" to contract container ships at high speed to Japan-Europe speed.<sup>6</sup> In addition, the English OCL Alliance and US Sea-Land also considered putting containers on the Japanese line. In response to these specific threats, Sparsø negotiated an agreement in the autumn of 1968 with Wilhelm Wilhelmsen and the Swedish Ostasiatiska Kompaniet. It was an ambitious and crucial alliance containing four points:<sup>7</sup>

- A fully coordinated Scandinavian service on the Far East with a total of eight departures per month, starting approximately April 1, 1969
- An operating office in Copenhagen with the top position occupied by a EAC manager
- Joint agents in all ports in Europe as well as in the East, where all EAC's own shipping offices - with the exception of Manila - were designated
- An "ownership pool", in which EAC's share was 46.87 percent, while Wilhelm Wilhelmsen and the Swedish East Asian Company shared the rest.

The Dutch shipping company Royal Netherlands Lloyd entered the Alliance on the Far East in the autumn of 1971, which became known as ScanDutch, and the agreement was of major importance to the EAC's shipping department in the 1970s. With the partnership, EAC could promise an introduction of container operations. At the same time, the second point - "operating office" in Copenhagen - have had a major impact on Danish shipping's general development of the special skills in operating many ships on behalf of other shipping companies within pool cooperation. As Sornn-Friese, Taudal Povlsen and Iversen have argued: "... EAC's co-operative capabilities would, in the development phase of Danish shipping (1988-2001), 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."<sup>8</sup>

The head office was established in the old shipbroker C.K. Hansen's offices in Amaliegade in Copenhagen; The name was Scandinavian Joint Shipping Service - in daily talk ScanService. The three Scandinavian shipping companies now offered barges on container ships from a number of selected yards. The sailing began April 1st, 1969 with a total of 51 ships, and on September 2nd that year,

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<sup>6</sup> EAC's archive, bestyrelsesrådsprotokol, 18.12.1968.

<sup>7</sup> EAC's archive, bestyrelsesrådsprotokol, 18.12.1968.

<sup>8</sup> Sornn-Friese, Taudal Povlsen and Iversen (2012), p. 74-75.

the management concluded that the result was provisionally "extremely satisfactory" - despite fierce competition.<sup>9</sup> On the other hand, ØK's four other lines were now hit hard by failing results due to increasingly intense competition - especially on the Pacific line from Northern Europe across the American west coast to Japan. The conclusion was that the lines should either be closed down or restructured and modernized. With this in mind, the planning and development department was now working intensively on a major strategy and investment plan that would solve the difficult situation for the EAC's shipping department.

Tuesday, September 2, 1969, 40-year-old Sparsø was given the opportunity to present the new-building program for EAC's Board of Directors. It was quite unusual for a young middle manager to be in the board of directors hall, but Pagh had a great deal of confidence in the young shipping man. Secondly it was the most daring and biggest investment plan in the Company's history.<sup>10</sup>

The plan was as follows: For ScanService in East Asia, two new 2,272 TEU container ships from the Danish shipyard B&W were contracted for delivery in the third and fourth quarters of 1972. The price for these two vessels was 156.8 million NOK. The ships, which received the classic EAC names, Selandia and Jutlandia, were dimensioned as the world's fastest 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 at 1,200 TEU from the Danish EAC owned Nakskov Shipyard were to be contracted. In addition, EAC was negotiating an alliance with the British shipping company Blue Star Line and the Swedish Johnson Line, who was strong on the Pacific Ocean. The Alliance's name became Johnson ScanStar and it had a total of nine container ships in the Pacific from May 1972. The price for the two container ships was NOK 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.

Finally, one roll-on-roll-off should be contracted to the Australian line. The ship would cost NOK 75.7 million and was to be 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.

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<sup>9</sup> EAC's archive, bestyrelsesrådsprotokol, 2.9.1969.

<sup>10</sup> EAC's archive, bestyrelsesrådsprotokol, 2.9.1969.

All in all, Henning H. Sparsø presented an extremely bold plan at the meeting of September 2, 1969. The investment framework was DKK 520 million, and EAC would in future be a main actor at the global container scene as partner of three major alliances. Particularly the Far East line was highly prioritized - and the two ships were among the world's most expensive and most advanced freight ships. The shipping names Selandia and Jutlandia were not coincidental - these should be regarded in the light of the ambitious level of the EAC history, which included the worlds first ocean-going diesel-driven vessel, Selandia, from 1912.<sup>11</sup>

After some clarifying questions and some additional comments, Pagh asked the young Sparsø to leave the room. The chairman emphasized that this was the biggest and most bold investment plan to date the Company had faced. The frame was over half a billion - and even without containers to be rented, as well as the following investments in terminals and land transport. The contractual plan, Pagh said, could be lifted thanks to the Ship Finance Fund. It was possible to borrow 80 percent of the purchase price at an interest rate of approximately 6 percent. The company itself would have to pay about DKK 105 million. The money would be raised by an expansion of the share capital of 50 percent from 170 to 255 million kroner. In addition, the sale of the oldest eight-nine ships, which would bring about 40 million kroner. However, the repayment to the Ship Finance Fund was DKK 45 million a year and would be initiated in 1973. With Sparsø's words, the company had to calculate a "skinny period<sup>2</sup> from 1973 to 1975 - both profit and liquidity.<sup>12</sup> What Pagh did not know at the meeting of September 2, 1969 was that, in the years when the large debt was to be repaid, EAC, Denmark and the world were to be hit by an oil crisis that was going to tarnish the Company's finances to the utmost.

The difficulties came in autumn of 1973. It was absolutely unexpected for Mogens Pagh that the economic temperature changed so suddenly. With the chairman's own turn, the world stood in September 1973 "in the midst of a significant boom".<sup>13</sup> A few weeks later - October 6, 1973 - war broke out in the Middle East. Western Europe in general - and Denmark in particular - were completely dependent on the Arab oil supplies. It was therefore fatal for economic growth as the

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<sup>11</sup> Selandia-bog...

<sup>12</sup> EAC's archive, bestyrelsesrådsprotokol, 2.9.1969.

<sup>13</sup> EAC's archive, bestyrelsesrådsprotokol, september, 1973.

price of crude oil was quadrupled in December 1973 - from three to almost \$ 12 per barrel. The first consequence for EAC was rising fuel prices, which affected the ships. In spite of the rising bunker costs, 1974 became a record year for the ship department. The cooperation in 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 liner ships, which secured departure every 10 days from all major ports between Europe and the Far East - EAC's original line started by the Danish company in 1899. When the oil crisis came, ScanDutch's market share between Northern Europe and the Far East was over 25 percent. In October 1975, Pagh noted that the Far East was less affected by the difficult economic conditions than the rest of the world when "... used to resist crises by providing extra work".<sup>14</sup> On the other hand, the oil crisis in 1973 led to economic stagnation and rising inflation in North America and Western Europe. In addition, there were massive economic and political crises in a number of African countries. The oil crisis was industrial. Traditional energy and labor-intensive industries such as shipyards, steel mills and oil mills were hit by ever-increasing costs in a declining market.

The consequence for EAC was a very clear division between, on the one hand, the still well-functioning trading interests, often in Southeast Asia, and the loss-making industry activities primarily in North America and Western Europe. The latter category included the large pulp and paper mill in Tahsis on Vancouver Island in Canada. The result of the mill in 1974 turned quickly in a catastrophically direction - from an expected net profit of 13 million Canadian dollars to a loss of ten million Canadian dollars. The at the fully owned Soy Cake Factory in Copenhagen was also critical. Due to falling demand and rising production costs, the loss in 1974 was DKK 17 million.<sup>15</sup> Naskov Shipyard now appeared as the third significant problem child of EAC. The operating profit was a minus of seven to eight million kroner due to a lossfull delivery of three ships to A.P. Møller-Mærsk. It was double irony that, indirectly, EAC supported one of its biggest rivals by the fact that the subsidiary sold the ships significantly below the production price.

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<sup>14</sup> ØK's bestyrelsesrådsprotokol, 24.9.1975.

<sup>15</sup> ØK's bestyrelsesrådsprotokol, 24.9.1975.

The power structures in the EAC top leadership were altered by the industrial downturn in 1974 and 1975. Mogens Pagh was weakened as he had followed an industrial vision of the EAC dating back to 1960. The two major investments in the 1960s were the prestigious project in Tahsis on Vancouver Island and the acquisition of Denmark's largest private butcher-group "Plumrose". Tahsis had been a financial disaster - now with a view to further deterioration - and Plumrose had never been properly integrated into the EAC Conglomerate, but rather continued as a fairly good but independent business. In addition, Pagh was geographically oriented to Western Europe, North America and Africa in his investment patterns. Exactly the parts of the world that were most affected by the oil crisis.

In contrast the second successful wing in the Company consisted of the traders in the South East Asia and the shipping personnel. EAC's Containerization from 1968 to 1974 had been a success. Both symbolically and financially. For once EAC had been at the forefront of A.P. Møller-Mærsk. Symbolically the two major container ships, bearing the traditional names of Selandia and Jutlandia, had made remarkable records. The world's fastest freighter ships with world-renowned records. And now ScanDutch even developed as a solid business - coordinated by EAC. The bright star of this adventure was the only 43-year-old deputy director Henning Hempel Sparsø. Sparsø was the man of the future. In 1968, as described, he was called home to the headquarters in Copenhagen to solve the substantial container-challenge which the Company - like other shipping companies - faced. This task was solved with an efficiency and a result that caused great respect – also from Mogens Pagh. By the end of 1974, the EAC Board of Directors could see that the industrial side suffered considerably, whereas the ships - despite rising bunker expenses - were in good shape. The only exception were the tankers, but that was a minor business to EAC and it did not change the young Sparsø's strengthened position. The impact of the asymmetric results followed in 1974 and 1975.

On Wednesday, October 2, 1974, the Board of Directors decided to promote Sparsø to deputy CEO – right under Pagh. Thus, the Executive Board consisted of the two elderly members - Mogens Pagh

at 64 years and Tage Wøldike Schmith at 59 years - and two younger members, Bent Hansen and Henning Sparsø - both 45 years. Sparsø received an almost overwhelming positive assessment in the board of directors - former director Werner Nielsen called the appointment "a very clever disposition" and the two employee-elected board members, inspector S. Jagd and I.H. Hansen stated that Sparsø was "highly respected by the employees for his absolute skill".<sup>16</sup>

In the shipping department, the division of labor was now that Wøldike Schmith handled the outgoing political tasks. From 1973 to 1979 he was chairman of the Danish Shipowners' Association and from 1976 to 1978 deputy chairman of the International Chamber of Shipping. The heavy international task at the time was to prevent UNCTAD's so-called 40-40-20 initiative, which suggested that shipping companies from the exporting home country should be secured 40 percent of transport and the importing country another 40 percent, so that only 20 percent of transport was left to the third countries – such as small shipping nations. The model would help shipping companies in third world countries, but it would exclude a large proportion of world tonnage from small redundancies such as Denmark and Norway.<sup>17</sup>

It was Sparsø, who led the EAC's ship department on the inner lines. With this, the young newly appointed CEO was sitting on the traditionally second most prestigious position of the Company. It was always the ship's results, which were presented firstly at the board meetings, and the department's development was placed at the beginning of the annual reports - it had been so since the founding of the company in 1897. It was therefore a strengthened Sparsø, which on 24 September 1975 presented the Board of Directors for the perhaps most fatal initiative in the history of the EAC. An initiative that, according to insightful observers, would eventually kill the Company.<sup>18</sup>

The Board meeting on Wednesday, September 24, 1975 was launched at 9.30 with a review of the positive results of three shipping alliances: ScanDutch on Southeast Asia, Johnson ScanStar on the American West Coast and ScanAustral in Australia. After about two hours of a general review of the company's relationship - including the financial problems at the Soybean factory in Copenhagen and

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<sup>16</sup> ØK bestyrelsesrådsmøde, 2.10.1974.

<sup>17</sup> Sornn-Friese & Iversen (2011)

<sup>18</sup> Bjerrum (1993); Højbo (1993).

Tahsis on Vancouver Island - Henning Sparsø was asked to round the meeting with a review of Kompagni's newbuilding program.<sup>19</sup>

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 ship-type entitled "neo-bulk". A relatively small ship of about 20,000 tonnes deadweight - against Selandia and Jutlandia's 34,730 tonnes deadweight. In fact, this ship went in the opposite direction. The service speed should be modest 15.5 knots, and the energy-saving engine would only provide 11,600 HP against the the two 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 in the 1950s and 1960s. Pagh presented an interesting argument for the contracting of the new vessels. Where ships had developed so far which reflected ØK's strategic needs, it was now "the most economically useful and economical ship that would be a good asset for future sale". The ship was to be regarded as a commercial asset. That was true for the Company, added the chairman, and for Nakskov Shipyard. Pagh ended up saying that it was crucial to EAC, "... if it's the right ship type we've found." A consensus minded board then expressed an enthusiasm approaching the promotion of Sparsø the previous year.

Pagh was right in one thing: It was crucial for EAC if had found the right ship type. The new ship type should, with Sparsø's cryptic turn, "... fill the need beyond what conventional bulk carriers can accommodate and, on the other hand, the modern container ships' facilities are unnecessary."<sup>20</sup> What kind of load Sparsø referred more specifically was not clear at the meeting, but the philosophy behind the new ship was *flexibility*. The ship should both be able to sail with containers, large freight 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 engine resulted in slow steaming without the possibility of obtaining any delays. In October 1975, the initial two ships, called the Liner Replacement Vessels (LRV), were contracted with the Mitsui Shipyard in Japan. There was an option

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<sup>19</sup> ØK bestyrelsesrådsmøde, 24.9.1975.

<sup>20</sup> ØK bestyrelsesrådsmøde, 24.9.1975.

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 and the functionaries.<sup>21</sup> Wednesday, February 4, 1976, negotiations with Nakskov Shipyard ended with a positive outcome. Six LRVs were contracted with an option for two more ships. 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 regulations. 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".<sup>22</sup> 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, Tage Wøldike Schmith explained that the Company's newbuilding program now comprised 14 vessels with a total contract of 1.6 billion DKK. The ships were contracted for four years from 1972 to 1976. During that period, there had been a shift in international shipping. With the oil crisis, transport demand 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 from 1975 to 1985. In particular, the years 1978 to 1980 were bloody as the total amount of transported goods fell for the first time since 1945.<sup>23</sup>

Between 70 and 80 percent of the 1.6 billion DKK investment was financed by long-term loans over seven to eight years. There was thus no prospect of an acute liquidity crisis. The problem for EAC

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<sup>21</sup> ØK bestyrelsesrådsmøde, 3.12.1975.

<sup>22</sup> ØK bestyrelsesrådsmøde, 5.3.1976.

<sup>23</sup> Tenold (2008).

was rather that the asset value of the ships dropped in line with the increasingly worsened market conditions. Thus, the value of the ships should be written off faster - and could EAC afford that? Also March 5, 1976, Wøldike Schmidt stated that the market value of the ships was "significant" *below* the debt that EAC altered due to the investments - already before delivery. An attentive board of directors would of course have asked for the obvious risks of the large series contract of a completely new and untested ship type under these market conditions. But instead of this debate, management was congratulated on the abovementioned wage restraint at Nakskov Shipyard. The lack of debate about - and concern for - The company's intense indebtedness was particularly striking because the 1976 Board of Directors neither had been presented with an in-depth review of any specific needs of the new ship type neither for the substantial financial effort. Historically such superficial treatment by the board of directors was in stark contrast to former large serial orders of ships under the former chairman Hakon Christiansen in the 1950s and under the corporate founder H.N. Andersen before and during the First World War. At that time, the decisions on major contracts were discussed in detail - especially the financing, which often led to the expansion of the share capital or new loan agreements. To make the matters worse the ship investments of the 1970s were relatively larger due to the increased size of the ships and the new technologies. In March 1976, Pagh drew the teeth out of such board of directors debate with the claim that the ships were to be regarded as an "asset commodity" created for the second-hand market rather than the Company's specific needs. The problem with this logic was, of course, that the market turned out to be freefall just in the years from 1977 to 1979, when the ships were delivered.

On December 10, 1976, one year and three months after the first orientation of the LRVs, Sparsø reported that it had decided to deploy the ships in a Pacific new liner shipping trade between the West Coast the United States and the Far East.<sup>24</sup> EAC had served this line from 1932 to 1954, when the service was discontinued due to increasing competition and poor results. The Pacific line 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. The result was more - and less disciplined players - in the Pacific. Secondly, long distances across the world's sovereign largest ocean caused challenges in relation to regular line sailing. In case of a storm or

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<sup>24</sup> ØK bestyrelsesrådsmøde, 10.12.1976

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 Ocean, as the ships could not be able to catch any delays. Last but not least, the service was characterized by a very uneven relationship between transport needs from east and west. In the 1970s, there was a significant need for transportation from the Far East 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. Thus, there was a risk of either sailing with expensive empty containers.<sup>25</sup>

The first official message of the Pacific experience came in June 1977, when the first LRV ship was loaded with chartered tonnage. It was a "reasonable" start.<sup>26</sup> This message was moderated in September that year to "slightly slower start than expected".<sup>27</sup> In December of the same month it was announced that two major shipping companies, German Hapag-Lloyd and the Singaporean Neptune Orient Lines, were about to enter the Pacific line, which was already characterized by fierce competition and unbalanced trade patterns.<sup>28</sup> In March 1978, the message was clear: tough competition combined with the lack of appropriate tonnage for the first two LRV ships, Sumbawa and Songkhla. In 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 there were five new competitors had entered 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 the size of the Pacific, Sparsø replied, "... that the final number would appear in the March 1979 financial statement."<sup>29</sup>

EAC's annual accounts for 1978 were depressing and characterized by three things:

- the difficult conditions of shipping – in particular on the Pacific
- the high debt caused by a renewed tonnage contracted in the mid 1970s
- and the industrial crisis in Western Europe and North America.

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<sup>25</sup> Bjerrum (1993).

<sup>26</sup> ØK bestyrelsesrådsmøde, 3.6.1977.

<sup>27</sup> ØK bestyrelsesrådsmøde, 6.9.1977.

<sup>28</sup> ØK bestyrelsesrådsmøde, 5.12.1977.

<sup>29</sup> ØK bestyrelsesrådsmøde, 12.12.1978.

Revenues dropped markedly from DKK 23.12 billion in 1977 to DKK 18.46 billion in 1978. EAC's share in consolidated earnings was halved from DKK 100.4 to DKK 50.63 million. Most seriously, long-term debt increased by approximately DKK 470 million in one year from DKK 2.47 billion in 1977 to DKK 2.9 billion. EAC was on an unsustainable financial course.<sup>30</sup>

For Pagh, it was particularly serious with the failing results of his industrial “darling”, the problem-driven shipping effort and the rapidly rising debt - at a time of galloping interest rates. Only a lucrative agency agreement with the German printing company Heidelberg combined with stable trade in Southeast Asia and the well-run ScanDutch line for Southeast Asia held EAC above water. There was obviously a need for change - or perhaps brand new initiatives.

Such an opportunity proved sudden and unexpected in April 1978 when Mogens Pagh visited China. Pagh immediately noted a noticeable change in the great empire. 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, two months before Pagh's visit, Hua announced an ambitious ten-year plan, aiming to increase China's industrial output by 10 percent a year and agricultural production by 4-5 percent. The plan was based on the Four Modernizations, that is, in agriculture, industry, defense and science / technology. The following month – in March 1978 - followed a major science conference in Beijing, where Deputy Prime Minister Deng Xiaoping announced a training program for 800,000 researchers in China. The goal was to promote development in a number of high-priority areas, including energy resources, computers, laser and space technology.<sup>31</sup>

Pagh arrived to China few weeks after Deng Xiaoping's groundbreaking speech and received a spectacular invitation for a meeting with China's Minister of Transport on arrival.<sup>32</sup> The Minister initiated the meeting by introducing the ambitious goals China's development for 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 should send a delegation to China in order to be able to concretise the task. Pagh immediately saw a large - almost unlimited - potential in the official request. Later on the journey,

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<sup>30</sup> EAC, annual account 1978

<sup>31</sup> Spence (1991), p. 668-671.

<sup>32</sup> ØK bestyrelsesrådsmøde, 14.6.1978.

these assumptions were confirmed, as he was asked to meet with the Deputy Prime Minister, who in addition proved to be well informed about the traffic minister's proposal. Not since Andersen's days around year 1900, had EAC worked at a higher 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 people showed that the Chinese wanted something very specific from EAC namely the support for initiating containerization:<sup>33</sup>

- Plans for the physical lay-out, equipment, workflow and administration for the two first container terminals in China: Tianjin and Shanghai.
- Suggestions for streamlining workflows and administration of the conventional shipping sector in Tianjin and Shanghai.
- Proposals for harmonization / streamlining of inland transport, which were under the responsibility of three different ministries. In this connection, verification and documentation procedures for land-based transport of containers (road transport had not yet been completed) which should also be developed.
- Proposed EAC assistance in the longer term in connection with the implementation of the above.

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".<sup>34</sup>

The last remark made the 68-year-old board member Prince George raise the question of fees for the large-scale work. Pagh replied quite thoughtfully that the Chinese are 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." "Given it is," continued Pagh, "... the Chinese will never forget us if we do something like this for them now."<sup>35</sup>

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<sup>33</sup> ØK bestyrelsesrådsmøde, 14.6.1978.

<sup>34</sup> ØK bestyrelsesrådsmøde, 14.6.1978.

<sup>35</sup> ØK bestyrelsesrådsmøde, 14.6.1978.

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. The debt issues related to the liner business at the Pacific Ocean 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 resulted in a total DKK 230 million.<sup>36</sup> 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.<sup>37</sup> EAC was a western pioneer in Deng Xiaopings reformed China and the most promising potential was in the containerization. EAC sent ten of the Company's best shipping people to China in July 1978. In the following months, the Danish staff prepared a whole new design of quays and warehouses in the largest port city in North China Tianjin - the main port of Beijing. Specific specifications for and positioning of crane systems were established, the need for load handling regimes, and the EAC people provided a detailed manual for the necessary management and documentation procedures before the container traffic could be introduced. The work was completed in November 1978, after which the EC experts went to Shanghai. Here in the spring of 1979 planned port facilities were planned that could handle 10,000 and 50-60,000 containers per year in port districts nine and ten respectively. In order to implement the plan, cranes, chassis trucks, forklifts and other special equipment worth 15-20 million USD had to be imported. As part of the agreement, the Chinese would pay an EC commission on these imports - but otherwise the work was free of charge.<sup>38</sup>

In addition to the work of reorganizing the Chinese port facilities in Tianjin and Shanghai, the 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 - in all its functions. Marketing, management and control functions, repair and maintenance routines were reviewed - all for the purpose of introducing containerization. As a concrete result of Danes' work in COSCO, it was possible to establish the first regular Chinese container line out of China.<sup>39</sup> On September 26, 1978, COSCO's first container ship, *Ping Xiang Cheng*, sailed out of Shanghai's

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<sup>36</sup> ØK bestyrelsesrådsmøde, 12.12.1978.

<sup>37</sup> ØK bestyrelsesrådsmøde, 12.12.1978.

<sup>38</sup> ØK bestyrelsesrådsmøde, 12.12.1978.

<sup>39</sup> ØK bestyrelsesrådsmøde, 12.12.1978.

harbor against Sydney.<sup>40</sup> Thus, China's first containerized line-up was initiated. The chief architects behind this historical development were EAC people, and the task also included training of the Chinese staff. In January 1979, the first Chinese employees arrived to the EAC headquarters in Copenhagen, where they were trained in administration. At the same time, there were posted Chinese teams of navigators and engineers on a number of EAC container ships. And as a third step in February 1979, Chinese Harbor officials received a thorough introduction to the Company's roll-on-roll-off terminals around the world.<sup>41</sup>

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 background to the unexpected suspension did not necessarily coincide with the efforts of the EAC. At a board meeting on 30 March 1979, Sparsø stated that it was a sudden break of partnerships which China decided in relation to all Western countries - indeed, it was relatively late for the Company and in a subdued form - 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 rather to be found in internal and political Chinese conditions. On December 18, 1978, a small group of Chinese young people held a demonstration of freedom and democracy in Beijing, and in January 1979 the event was followed by further demonstrations with up to 30,000 rural workers outside the capital. The Chinese government reacted by dropping down the economic plans. The modernization process was not only politically risky for the powers, it was also costly. The trade deficit abroad grew to \$ 3.9 billion in 1979-1980. It was decided to emphasize modernization of agriculture over the three other parts of the Four Modernizations.<sup>42</sup> Against this background, EAC's modernization of container traffic was suddenly no longer so urgent. The Chinese had time - plenty of time. And if nothing else, COSCO's first container line had been started - like the Beijing and Shanghai authorities could be delighted by the free access to valuable knowledge of how modern container lines, port facilities and ship management worked.

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<sup>40</sup> <http://www.cosfrexj.com/en/history.aspx>.

<sup>41</sup> ØK bestyrelsesrådsmøde, 30.3.1979.

<sup>42</sup> Spence (1991), p. 678-687.

The interruption hit Pagh particularly hard. It was his decision that the crisis-prone company would allocate significant management and crew resources for several months without charge. Prince Georg's request for fees had been rejected by Pagh's understanding of *guanxi* - the importance of reciprocity, personal networks and relational services. Pagh was undoubtedly right when he determined that the Chinese would never forget the EAC's goodwill and generosity. On the other hand, it was also an important point to note that Pagh at the same meeting described the Chinese as "the best business people in the world". The entire arrangement in 1978-1979 was expensive for EAC and lucrative for China. That's how the bottom line was in March 1979. Unfortunately, for Pagh, neither he nor EAC could afford to wait for a 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 retreat - and only three months later, the chairman announced his departure as Chairman of EAC. Pagh's era was over.

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