

Furness, Withy & Company, Limited

The history of the company

90. Furness, Withy & Company, Ltd (FW)¹ was incorporated in 1891. The company was an amalgamation of the ships, investments and offices of Christopher Furness and the Middleton shipyard and dry docks owned by Edward Withy & Co. In 1898, four years after the opening of the Manchester Ship Canal, Sir Christopher Furness took the lead in the formation of Manchester Liners Ltd (ML), a shipping company which was to trade mainly with Canada and certain destinations in the USA. FW subscribed slightly less than half of the original share capital. The FW group then expanded by the purchase of a number of other shipping companies and their fleets and consolidated its position as a leading shipping group. In 1951 it operated 81 ships with a total tonnage of 680,000 gross registered tons.

91. The FW group has continued to grow by acquisition. In the 1960s the FW group bought out the minority interests in Prince Line, Cairn Line, Shaw Savill and British Maritime Trust, and in 1965 the Royal Mail Lines group of companies (Royal Mail) became wholly owned by the purchase of the balance then held by other investors. The Houlder group of companies, in which the FW group had a substantial interest, became subsidiaries in 1968 and wholly-owned in 1974. In 1970, the FW group increased its interest in ML from 42 per cent to 53·6 per cent following a formal offer in that year for the issued ML ordinary share capital not already held by it. A complete take over of ML by FW, being a cash offer, was resisted successfully by the then board of ML and certain Mancunian interests.

92. The FW group is involved in liner operations, voyage charters, time charters and demise charters (see Appendix 7). While the principal business of the FW group is shipowning and ancillary activities related thereto, such as ship management, ship agency, shipbroking and stevedoring, the FW group is also involved in activities not directly connected with shipping. These non-shipping activities are life, marine and non-marine insurance underwriting, insurance broking, road haulage and warehousing, engineering, hotel ownership, travel and portfolio investment. Non-shipping activities amount to approximately a one-fifth share of the total turnover of the FW group. A number of the subsidiaries are based overseas.

93. Recently the FW group, through Houlder Brothers, has extended its traditional maritime operations into activities connected with the exploration for, and extraction of oil from beneath the North Sea.

94. Prior to the 1960s the FW group was a loose federal structure consisting of independently managed companies in which FW or one of its subsidiaries

¹In this report 'FW' is used to denote the holding company, Furness, Withy & Company, Ltd. 'FW group' is used to denote Furness, Withy & Company, Ltd (FW) together with all its subsidiaries including ML.

held a majority interest. In the last few years the group has been restructured on functional lines and FW itself is no longer an operating company.

Current liner operations of the FW group

95. The main liner trades in which FW subsidiaries, other than ML, operate are described below:

(i) *United Kingdom and Continent/New Zealand:*

A fully rationalised sailing schedule is currently operated in both directions and the United Kingdom section of the trade, in which Shaw Savill¹ is chiefly concerned, is subject to freight and cargo pooling arrangements, covering both conventional and container carryings: the other British participants are the Peninsular and Oriental Steam Navigation Company, Blue Star/Port Line, and Associated Container Transportation Ltd (ACT). Most of this traffic will in future be moved in containers; after delivery of the ships on order the participating lines will be Overseas Containers Ltd (OCL)², ACT and the New Zealand Shipping Corporation, and the FW interest will be maintained through its membership of OCL.

(ii) *United Kingdom/east coast South America:*

The FW lines are Royal Mail and Houlder Line which operate in co-operation with the other British lines, Blue Star Line, Lamport and Holt and the national flag lines.

(iii) *United Kingdom/west coast South America:*

The FW subsidiary, Pacific Steam Navigation Company (PSNC), is the only British flag operator. In the southbound trade PSNC is in a full freight pool³ with European shipping lines and national lines; northbound there is no pooling arrangement.

(iv) *United Kingdom and Continent/Central America:*

Royal Mail operates in this trade entirely with charter tonnage, in conjunction with European partners.

(v) *United Kingdom and Continent/Mediterranean:*

A number of services are provided in the Mediterranean through FW's subsidiary Prince Line, either on its own or in conjunction with British and other shipping lines. ML's container services from the United Kingdom to the Mediterranean and beyond are described in paragraph 140.

¹Shaw Savill also maintains a separate service between New Zealand and the Caribbean area, calling at US Gulf ports for southbound cargo.

²OCL is a consortium of British shipping concerns, and is described in paragraph 97.

³A freight pool is an arrangement whereby each member is allocated a given share of the cargo on offer.

96. The volumes of cargo carried on various routes by the FW group in 1975 were as follows:

	<i>Volume of cargo 1975 m tons</i>
(i) United Kingdom and Continent/New Zealand and also West Indies, Mediterranean, west coast South America, South and West Africa	0·401
(ii) United Kingdom/Brazil and River Plate and thence Continent/United Kingdom	0·152
(iii) West coast United Kingdom/Bermuda, Bahamas, west coast South America, Caribbean	0·385
(iv) Continent and United Kingdom/Panama and Pacific coast Central America	0·057
(v) East coast United Kingdom/Malta, Cyprus, Israel, Continent and east coast United Kingdom/Libya, Egypt, Lebanon, Syria, South Turkey	0·230
(vi) Manchester, Liverpool, Greenock and Dublin/Montreal (ML)	0·583
(vii) Manchester/Mediterranean (ML)	0·102

Overseas Containers Limited (OCL)

97. OCL is the largest British container consortium and was formed in 1966 by British and Commonwealth Shipping Company Ltd, FW, Ocean Transport and Trading Ltd and the Peninsular and Oriental Steam Navigation Company. The aim of the consortium was to develop and operate container services on those trade routes in which its partners operated, with the intention of preserving a major British interest in these trades. The United Kingdom/Australia trade was the first to be containerised in 1969 and this was followed by the Far East trade. Ships are being currently built to containerise the New Zealand trade, which it is hoped will be achieved by the middle of 1977, and there are also plans to containerise the United Kingdom/Europe/South African trade as well as three trades in the Pacific basin.

98. OCL, when incorporated, issued to each of the four member companies an equal number of shares. Once a firm programme for containerising a particular trade has been agreed by the procedures laid down in the agreement covering the formation of the company, each of the members becomes liable to provide its share of the additional capital or its share of guarantees given for money borrowed to finance the new trade, any United Kingdom capital expenditure being shared equally. In trades in which more than one of the constituent companies participates its particular share of the newly containerised trade is related to the gross freights earned on its old conventional service. The interest in OCL of each company varies as its share of the estimated profits of the newly containerised trade affects its share of the estimated profits of all OCL's existing trades, and this interest is reflected in its holding of ordinary share capital and loan stock. If any of the companies default then the others have to make good the deficiency in their respective basic proportions within 60 days. FW's current total share of the firm programmes financed is 13·4 per cent but this is expected to rise to 16 per cent.

99. Under this same agreement any substantial change of ownership has to be notified if the company concerned ceases to be under United Kingdom control or under the control of five or fewer persons, firms, corporations etc. The other member companies are then entitled to acquire the share of the member company concerned. In this context, FW ceasing to be under United Kingdom control means that more than 25 per cent of the nominal value of its issued share capital is either beneficially owned by persons or corporations who are not citizens of the United Kingdom and colonies within the meaning of the British Nationality Act 1948, or by corporate bodies registered with an address outside the United Kingdom.

Associated shipping companies managed by FW

100. FW has shares in and manages the following companies:

(i) *Ocean Gas Transport Ltd (Ocean Gas):*

This company, in which FW has a 49.99 per cent interest, was formed in 1963 between the Houlder group, and Gazocean SA of Paris, which we understand is one of the world's leading companies in the trading and transportation of liquified petroleum gas. Ocean Gas owns five vessels, with a sixth under construction, which are all managed by Houlder Brothers and chartered to Gazocean SA or its affiliate, Sud Atlantica. It has a somewhat unusual structure in that the shares are divided equally between the two participants, but with four shares held by London and Yorkshire Trust Ltd, so that neither participant has control.

(ii) *Ore Carriers Ltd:*

FW has a 48.7 per cent interest in this company which owns two ore carriers, two bulk carriers and one medium size oil tanker, the other partner being the British Steel Corporation.

(iii) *Warwick Tanker Co Ltd:*

FW has a 35.16 per cent interest in this company which until recently owned two medium size tankers.

Other FW shipping interests

101. Through the Cairn Line the FW group has, at present, five small bulk carriers and one general cargo vessel engaged in short and middle sea trading; a further three small bulk carriers are on order for delivery in the near future.

102. FW has been participating in a consortium formed to enable a group of British companies to pool their bulk carrier tonnage. FW disagreed with the operating policy of the consortium, Seabridge, and will be leaving it at the end of 1976. One of the FW ships on charter to Seabridge has been laid up by that company.

103. A tramp trading venture with chartered tonnage which began in 1971 in South East Asia has been, we are told, very successful. FW plans to expand it with a proportion of owned tonnage. The company involved in this trade is a

subsidiary of FW's own chartering company and operates contracts of affreightment¹, as well as acting as brokers. The company is unique in that there is a profit sharing scheme, whereas other FW employees in similar fields are on commission.

104. FW also has a chartering company (Furness, Withy Chartering Ltd) which, *inter alia*, charters out FW group's own ships.

North Sea and offshore operations

105. The FW group's participation in this particular field is in three categories: oil rigs, diving support work, and under-water maintenance and offshore construction work. Its participation in drilling is through its 44 per cent participation in Kingsnorth Marine Drilling Ltd, of which Houlder Offshore Ltd is the manager. This company owns one semi-submersible drilling vessel and has recently taken delivery of another which was laid up briefly having, we are told, missed a potential charter due to late delivery; it is not yet employed at a remunerative rate. The FW group also has a 30 per cent interest in a Norwegian flag rig on charter to the Norwegian State Oil Company.

106. We are told that the leading company in the diving field is Comex SA, a French company registered in Marseilles. This company has a wholly-owned subsidiary, Comex Diving Ltd, which is a British company with one French director, while all the remaining directors and virtually all the staff and employees are British. FW has a 100 per cent owned subsidiary, Houlder Offshore Ltd, which in turn has formed a 100 per cent subsidiary, Houlder Comex Ltd, in order to secure business for which a British Government grant would be available (see paragraph 356) and formerly done by Comex Diving Ltd; it has already obtained two major contracts with others in the offing. It will itself be the prime contractor, using the services of Comex Diving Ltd initially to do the actual work. The bulk of profits from diving only operations goes to Comex Diving Ltd, with only a small part being retained by Houlder Comex Ltd.

107. FW's main concern is with under-water maintenance and offshore construction work. Houlder Offshore Ltd owns the support vessel *Oregis*. Comex Diving Ltd does most of the marketing and provides all the diving and sub-sea technology while Houlder Offshore Ltd provides all the surface technology. This vessel is used in all types of sub-sea work including pipeline connections and platform repairs. The contractual arrangements provide for profits to be shared between Houlder Offshore Ltd and Comex Diving Ltd. Houlder Offshore Ltd is also interested in other matters connected with the search for, and production of, oil from under the sea including a drilling rig to be used as a floating production platform, flow lines, single buoy moorings for loading tankers and a new design for an under-water well head.

¹A contract between a shipper and a ship operator under which the latter undertakes to carry specified quantities of a bulk commodity over a specified route or routes over a given period of time, using ships of his own choice.

Non-shipping activities

108. FW group's non-shipping activities account for only a small proportion of the total asset base. They consist of the following:

- (i) A shipping and forwarding agency (Brantford International Ltd).
- (ii) Engineering (The Lytcott group).
- (iii) Chemical deposition of metals (Fescol Ltd).
- (iv) Insurance underwriting (Economic Insurance Co Ltd).
- (v) Insurance broking (Furness-Houlder (Insurance) Ltd).
- (vi) Hotels (Saxon Inn Motor Hotels Ltd).
- (vii) Investment and finance (Shipping Investment Trust Ltd; British Maritime Trust Ltd).

109. FW also has an interest in the following overseas activities:

- (i) Terminal operating and stevedoring (Empire Stevedoring Company Ltd, Vancouver).
- (ii) A number of hotels in New Zealand, Seychelles and Kenya.
- (iii) Trading businesses in Trinidad, the majority of which are operated jointly with other companies outside the FW group. Most important of these is Swan Hunter (Trinidad) Ltd owned 50:50 with the Swan Hunter group, engaged in ship repair work.

The FW group fleet

110. In June 1976, the FW group operated a fleet of some 85 vessels; of these 21 were chartered in. The FW group also had 16 ships under construction of which 7 were being built in the United Kingdom and the remainder abroad; of the ships being built abroad, 6 were small bulk carriers. The total deadweight tonnage of ships owned, chartered in, and under construction was 1,741,000. (See Appendix 7).

The FW group's shipping policy

111. Over the past five years the strategy of the FW group has been to broaden the investment area into the various sectors which have different characteristics of risk, profit potential and flexibility. The market value of the FW group's marine assets at the end of 1974 owned directly or through associates, and excluding vessels leased on domestic terms was distributed as follows:

	<i>Directly owned within the FW group per cent</i>	<i>Through FW group shareholding in associates per cent</i>	<i>Total per cent</i>
Conventional liner trading	31	—	31
Bulk tonnage	13	4	17
Container operations—OCL	—	13	13
ML	18	—	18
General cargo market	6	—	6
Gas carriers	—	3	3
Offshore operations	7	5	12
Totals	75	25	100

The management of the group

112. The board of FW normally consists of 15 members, the maximum permitted under the company's articles of association, but there are three vacancies at present. Sir James Steel, who took over from Lord Beeching as chairman in July 1975, is also a director and deputy chairman of Rea Brothers Ltd, a bank which acts as financial advisor to FW. Of the eleven other directors of FW five are non-executive, two represent Hambros Bank and one represents Rea Brothers. There is no chief executive, executive authority being vested in an executive committee elected by the FW board. This committee, which has five members under the chairmanship of Sir James Steel, is responsible for formulating policy recommendations for the board and for implementing board plans and policies when agreed. The chairman of ML, Mr R B Stoker, is an executive director of FW but not a member of the executive committee.

113. Line responsibility by the chief executives of the operating companies of the FW group is to the executive committee as a whole, but the normal channel of communication is with the particular member of the committee designated to take responsibility for the type of business engaged in by the company or division concerned. In addition three members of the executive committee have special responsibility for central staff functions. FW's head office corporate staff is organised into departments corresponding to the various functions of the FW group and, in addition to assisting the executive committee, some co-ordinating and advisory services are provided for the operating companies. FW group companies are, however, in the main, self-sustaining as far as staff services are concerned. FW acts as 'banker' for the group, holding surplus funds and allocating these for investment as approved by the board.

Shareholdings

114. FW has an authorised capital of £30,000,000 divided into 150,000 preference shares of £10 each and 28,500,000 ordinary shares of £1 each. At 30 November 1975 all the preference shares and 26,803,054 of the ordinary shares were in issue. The following is a classified analysis of the issued ordinary shareholdings at that date:

<i>Category</i>	<i>Number of holdings</i>	<i>Per cent</i>	<i>Total amount</i> £	<i>Per cent</i>
Banks	204	1.95	872,164	3.25
Pension funds	22	0.21	665,208	2.48
Insurance companies	37	0.35	1,665,605	6.22
Investment trusts	38	0.36	352,983	1.32
Other corporate bodies	263	2.52	1,289,542	4.81
Nominees (including ECS nominees)	232	2.22	14,943,498	55.75
Others	9,661	92.39	7,014,054	26.17
Totals	10,457	100.00	26,803,054	100.00

115. The directors' ordinary shareholdings, including those held as trustees were very small, totalling only some £116,583 or under 0.4 per cent of the

issued ordinary share capital. Of the shareholders with over 50,000 shares (61.94 per cent of all issued ordinary shares) only six held more than 500,000 ordinary shares; of these, the two largest were nominees of ECS.

116. Under the articles of association of FW there is a requirement for the company to carry certain matters by special resolution which needs a 75 per cent majority of the shares voted at the meeting. Such matters include, *inter alia*, changing the name of the company, altering its objects, altering or adding to the articles or any existing special resolutions, and reducing the capital of the company.

117. The limit placed on the directors' power to exercise the borrowing powers of the company may be exceeded with the sanction of an ordinary resolution but the formula on which the limit is based may only be changed by alteration of the articles which, as mentioned above, requires a special resolution. The current permitted limit is 1.5 times the issued capital and reserves.

118. FW's articles of association, unlike those of some other British shipping companies, do not provide for any limitation on holdings of FW shares by non-residents (see paragraph 16). The introduction of any such limitation would require a special resolution.

Trading results, capital employed, and sources and application of funds

119. We summarise below the FW group historic capital employed¹, turnover and profit² by reference to the published accounts for the five years to 31 December 1975:

	1971	1972	1973	1974	1975
	£m	£m	£m	£m	£m
Average capital employed	117.0	124.1	141.2	153.6	163.5
Turnover	93.9	97.5	115.8	142.6	154.1
Profit					
Amount	2.7*	8.8	17.4	28.8	19.6
Return on capital employed (per cent)	2.3	7.1	12.3	18.8	12.0

*The book value of passenger ships was reduced by £5.0m in 1971 by a transfer from reserves. The profit shown of £2.7m was arrived at before deducting the transfer of £5.0m.

120. We show below the percentage contributions of ML to FW group total capital employed, turnover and profit:

	1971	1972	1973	1974	1975
	%	%	%	%	%
Capital employed	15	17	19	20	20
Turnover	19	20	24	28	26
Profit	22	9	16	26	18

¹Average of opening and closing capital employed with fixed assets at cost less accumulated depreciation and excluding the increase arising on a revaluation of ML property assets of £1.8m in 1974; bank overdrafts, future tax liabilities, and proposed final dividends have been treated as sources of capital employed and at 31 December 1975 amounted to £4.2m.

²FW group profit is stated before charging interest and taxation and includes profit on sales of ships, profits and losses on sales of quoted investments, and share of profits less losses of principal associated companies.

121. The FW chairman's statement on 18 May 1976 with the 1975 accounts refers to the group trading results for that year in the following terms:

Early in 1975 the shipping industry began a slide into depression as one country after another suffered economic and employment problems. That slide has continued. Added to the problem of a much reduced tonnage of cargo to be carried is the problem of new building of ships greatly exceeding the scrapping of obsolete tonnage.

The 1975 profit should be compared with the more normal years of 1972 and 1973 rather than with the boom year of 1974. Against this background and by comparison with other shipping companies, I think we can claim that our performance in 1975 was satisfactory and that it is the result of good management and sound policies. This is not to say that we can be complacent. We believe that our company is capable of earning a much higher return on capital than we have done in the past and that we shall achieve this with our reorganised structure as soon as world trade recovers.

122. From 1972 onwards FW group's charges for depreciation of ships have generally been based on the amounts required to write off their cost, less the estimated realisable value, over an assumed life of 18 years. The book value of the group's ships and containers, and including payments on account of new tonnage, at 31 December 1974 was £92.5 million and the corresponding market value was about £135 million. The average age of ML's ships at the end of 1974 was about four years, whereas the average age of the ships of the other FW subsidiaries was about ten years.

123. FW provided revalued figures of capital employed at 31 December 1974¹ by reference to its estimate of the current market value of its ships and property, the market value of its quoted investments and the directors' valuation of its unquoted investments. Capital employed at 31 December 1974 on a revalued basis was £210.7 million compared with £159.2 million on an historic basis.

124. FW group sources and application of funds from 1971 to 1975, based on the published accounts, are summarised below:

	1971	1972	1973	1974	1975	Total
	£m	£m	£m	£m	£m	£m
<i>Sources</i>						
Internal cash flow (retained profit plus depreciation)*	1.9	12.3	15.4	24.0	13.7	67.3
Loans, including bank loans	2.5	11.7	8.6	10.9	7.0	40.7
Totals	4.4	24.0	24.0	34.9	20.7	108.0

*Excluding profits on sales of ships and profits and losses on sales of quoted investments.

¹The latest date for which revalued estimates were readily available to us.

	1971 £m	1972 £m	1973 £m	1974 £m	1975 £m	Total £m
<i>Uses</i>						
Net additions to fixed assets and investments (less investment grants)	7.2	19.0	10.8	20.0	17.3	74.3
Changes in working capital	[8.6]	5.0	[2.3]	2.3	3.2	[0.4]
Termination losses	3.6	—	—	0.6	0.5	4.7
Reduction in minority interests	1.0	0.6	3.4	10.4	0.4	15.8
Consolidation adjustments and other items	1.9	[1.0]	1.5	2.4	2.2	7.0
Together	5.1	23.6	13.4	35.7	23.6	101.4
<i>Changes in liquid resources</i> (Cash and Government securities less bank overdrafts)						
	[0.7]	0.4	10.6	[0.8]	[2.9]	6.6
Totals (as above)	4.4	24.0	24.0	34.9	20.7	108.0

In the five years to 31 December 1975 the main source of finance has been internally generated but FW has made increasing use of shipbuilding loans. Apart from the reductions in minority interests the application of funds has been largely towards the building of new ships.

Ordinary shareholders' interests

125. At 31 December 1974 FW ordinary shareholders' interests, including deferred tax reserves, were estimated by us by reference to information provided by FW. These interests totalled £87.5 million¹ with all assets, including ships, at their book values. The FW group revalued its ships, quoted investments and certain properties at 31 December 1974, but not its remaining assets; on this basis FW's shareholders' interests at 31 December 1974 totalled £135.1 million. These amounts are made up as follows:

	<i>Book value basis £m</i>	<i>Revalued basis £m</i>
Equity share capital		
26,803,054 ordinary shares of £1 each	26.8	26.8
Reserves (including investment grants reserve)	52.2	73.0
Deferred tax reserve	8.5	35.3
Total	87.5	135.1
The asset values per share were:		
Assets per £1 ordinary share	<i>p</i> 327	<i>p</i> 504
Represented by:		
Share capital and reserves	295	372
Deferred tax	32	132

¹Before including the proposed dividend of £1.0 million at 31 December 1974 (see footnote 1 to paragraph 119).

126. The market prices of FW's shares were 129p at 31 December 1974, and 210p at 26 November 1975, the date of announcement of the first reference to the Commission. The average 'assets backing' per £1 share at 31 December 1974 totalled 327p on a book value basis and 504p on a revalued basis.