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John Reeves Ellerman:
entrepreneur
or
Empire Builder ?

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Abstract

This work discusses Sir John Reeves Ellerman's career and shows how he translated inherent skills which were apparent at an early age into financial acumen. This resulted in his becoming not only a major shipowner, but a powerful figure in publishing, breweries and property. The genesis of Ellerman lies in his apprenticeship as an accountant, and a legacy from his maternal grandfather, which gave him ready resources. This led swiftly to a period during which he was building up business as an accountant, an auditor and a company promoter. Over the next three or four years Ellerman made useful acquaintances in finance, breweries, commerce and industry; which developed into a network of colleagues and which formed the foundation of later successes in his eclectic spheres of operation.

In 1891 Ellerman participated in the incorporation of the shipping company Frederick Leyland (1891) Ltd. Within a year he was chairman of the company, and took it from strength to strength while acquiring two other shipping lines. In 1901 Ellerman sold all his ordinary shares - with which went control of Leyland Line - to J.P. Morgan and his embryo International Merchant Marine. Part of the agreement of sale was that Ellerman would not take any interest in the Atlantic trade for fourteen years; if he wished to continue in shipping he had to find other areas of opportunity.

Ellerman bought back the Leyland Mediterranean steamers from IMM complete with managements, crews and trades. He then, in rapid succession, acquired two short-sea and two deep-sea companies - all with their own ancillary services. Ellerman formed Ellerman Lines Limited, which totally owned all the shipping subsidiaries. The majority of ordinary shares in the new company were owned by Ellerman and his immediate colleagues, with the result that three directors and one secretary effectively ran the whole group.

Over the next decade, Ellerman built up and modernised his fleets. In 1913 he acquired Bucknall Lines as a wholly owned subsidiary and increased the nominal capital of Ellerman Lines Ltd to £3,500,000. His last purchase, of Wilson Line of Hull in 1916 brought total ownership of some 200 ships.

Ellerman died in 1933, leaving almost £40,000,000 and a memory which lasted among seafarers until the 1970s. It is believed that this work has contributed to the spread of knowledge by explaining those areas of his life hitherto considered as being most obscure.

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Preface.

The *raison d'être* for a sixty-seven year-old retired chief engineer from the Merchant Navy finding himself carrying out research in the University of Glasgow is directly attributable to a conversation with Professor Anthony Slaven, then Dean of Faculty, and Professor Michael M. Moss, then Archivist of the University, at a meeting of the Scottish Records Association. Believing that my salt-encrusted background might cast a blast of fresh air through the academic world by the banks of the Kelvin, it was suggested that I look at the records in the University Archives, and possibly carry out research into the career and works of Sir John Reeves Ellerman, Bart, eponymous founder of Ellerman Lines in all its different guises.

It became evident that there was very little that had been written about Ellerman in the form of definitive biography, and once the covers of the shipping company minute books were breached, a completely different story emerged from the anecdotes, lists of ships and rumours of dealings in breweries and collieries which comprised existing literature. Much of the discoveries of the years of obscurity were made among the Scottish Brewing Archives, including a prospectus that in the contents of one page confirmed Ellerman as a company promoter, as an auditor, and working with Panmure Gordon. This unlocked further doors and produced the chapter called 'City Gent'.

Ill-health precluded my extending my research furth of Glasgow or Edinburgh, but the facilities and willing help given to me wherever (and whenever) I appeared asking questions, demanding help with reaching books from shelves and the patience shown to my problems with Information Technology went far beyond any reasonable expectations. The first term - in the winter- was the most uncomfortable until Dr Mike French took pity on me and arranged for me to share a room in 4 University Gardens where I could leave clothes and books and use a computer.

Professor J. Forbes Munro was my principal supervisor, and was unable to conceal his disquiet about having a post-graduate student who was not an academic. However, it was his suggestion to produce the Ellerman Chronology and the Smith genealogy, and within the limits of his knowledge and experience he tried to turn me into a quasi-economic social historian, rather than attempting to see that my only justification for research into Ellerman was a nautical background. To me Ellerman, the sea, ships and shipyards were part of my life, and I was - still am - unable to be sufficiently objective about it.

The most important single source which provided clues to my further pattern of comprehensive research was the University Archives, both in Thurso Street and Dunbarton Road. It is not possible to name any particular person - everyone went out of their way to help me from lending pencil-sharpeners to photo-copying pages from publications such as *Burdett's Official Intelligence* or *Lloyd's Register of Shipping*. As it is, I only scratched the surface. To complete the research into Ellerman, let alone George Smith and Sons, would take another twenty years in the archives alone. The University of Glasgow Library, apart from the text books used, also provided various snippets of information which rounded off other pieces of research. In addition there were all the reference works and volumes of journals and periodicals covering the period.

Next came the Mitchell Library - invaluable not just for the shipping sections but also for business with a full set of the *Directory of Directors* starting in 1886. The *Registers of Ships* fleshed out details of the original City Line Fleet, including vessels owned by the Debenture Trustees. Volumes of *Fairplay* provided details of public shipping companies and copies of annual balance sheets. One departure from Glasgow was to the Royal Bank of Scotland Archives in Edinburgh, and the assistance given me to determine conclusively the reason for the incorporation of City Line Limited in 1891.

Due to problems with my health, it was simpler for me to stay in university accommodation during the Easter and Summer vacations rather than travel during term time. In this I was helped by those working in the accommodation itself and in the main office where everything was organised. Lastly, but far from least, were the patient and long suffering inhabitants of the computer centre, who recognised my appearance as a disaster ranging from losing my password to printing out hundreds of pages from a reference book because I had pressed the wrong button.

A (fifth) heart attack in 1999 halted my studies, but thanks to encouragement from Professor Moss and Dr Mike French, I was able to start working again in April of 2002, after a successful cataract operation which restored full sight to one eye. In conclusion I must mention Dr Duncan Ross who has taken over from Dr Mike French and has encouraged me to continue and submit the completed work before the end of the academic year.

CHAPTER ONE - BACKGROUND

Introduction

John Reeves Ellerman, who overnight became the owner of a large British merchant fleet, was the son of a grain merchant in Hull. Newspaper commentaries, biographies and obituaries ensure that his name is associated with shipping and also with being the richest man in England. Yet, despite his wealth and his seemingly effortless success in running profitable enterprises, there has been little attempt to research his career and relate it to business history by examining his tactics, strategy and possible motivation. My interest in Ellerman began in 1972, when I was working for a Swedish company in direct competition with Ellerman Lines. Those were the days when British shipping began the steady slide to near-oblivion which has left a merchant fleet, in 1999, of not more than 300 ocean-going vessels. The phrase that 'Ellermans is symptomatic of British shipping' was coined in conjunction with my Swedish colleagues, and the question raised was whether John Reeves Ellerman would have stopped the rot. The objective of this thesis is, therefore, to examine the life and career of Sir John Reeves Ellerman so as to evaluate his business leadership. The emphasis is on his shipowning activities, since his name is best remembered as a shipowner although that was not necessarily the most profitable sector of his interests. As chairman or director he sat on the boards of many companies, including breweries and financial trusts, but it is as the eponymous founder of Ellerman Lines that he is chiefly remembered. Despite his large holdings in brewery companies, he is never described as a brewer. With majority share-holdings in *The Financial Times*, *The Times* and significant holdings in other publishing interests, he is never considered a newspaper proprietor. His dealings in collieries and property were almost un-noticed (*Daily Chronicle*, May 1917)¹. Shipping is highly visible, because it comprises a large number of individual units - the ships. Breweries and collieries usually remain more in the background so far as public interest is concerned. With ships, each one is immediately identifiable, and regular reports of movements and cargoes were to be found in the popular press as well as the specialized

¹ In 1917 an article appeared in the *Daily Chronicle* drawing attention to his various holdings and suggesting that, unlike other shipowners, he escaped public opprobrium because of his publishing interests and influence with newspaper proprietors.

journals. Although the focus is on shipping, comparisons may be made with Ellerman's other interests such as publishing and property.

A general pattern is sought from existing literature on shipping to determine questions and arguments relevant to Ellerman's significance as a shipowner, and his rôle as the controller of a major British liner fleet. One question is whether his existing entrepreneurial ability simply transferred to shipping, or whether the industry had different requirements which depended upon original ideas and methods. Another is whether the companies he acquired would have expanded at the same rate had the original managers employed by Ellerman worked under any other owner. In other words, did Ellerman have a particular expertise in shipping which made the apparent success of his company an individual attainment, or was it simply the possession of particular management or entrepreneurial skills which were also displayed in his other areas of interest?

The hypothesis to be tested is:

Sir John Reeves Ellerman's success as a shipowner was due to specific entrepreneurial qualities which he transferred to shipping and distinguished him from his contemporaries.

Rubinstein, (1984, p.68-69) describes Ellerman as having found shipping 'on the same entrepreneurial slope as breweries', without explaining his understanding of the phrase. Gourvish and Wilson (1997, p.214-216) refer to '[Ellerman] and others coming into the brewing industry and displaying equal entrepreneurial skills to the existing owners'. Certainly Ellerman displayed many of the characteristics attributed to the present-day entrepreneur, but others in shipping also possessed these qualities. Apart from amassing the largest fortune in the United Kingdom (*The Times*, Obituary, 18th July, 1933), how did Ellerman differ from other shipowners of his day, and was he indeed superior in his operation and management of shipping companies to, for example, James Mackay, initially Holt or Runciman, Owen Philipps or Christopher Furness? These are questions to be addressed in this thesis, and if it appears there was no magical ingredient to Ellerman's success, it should be possible to identify specific characteristics and qualities which distinguished his work from that of his contemporaries.

Literature on shipping falls into distinct categories. There are 'popular' publications which deal primarily with ships and their characteristics, with anecdotal extracts of specific voyages, companies or characters. These usually deal with one

company, and may include a potted history of growth or decline, and biographies of prominent individuals such as chairmen. Useful in general terms, they usually pay meticulous attention to the details of ships, and the visible differences between parts of a company's fleets. There are seldom references given, and the source is generally Lloyd's Register or fleet lists; their value lies as a medium for confirming numbers and tonnages of ships against other sources. More specific and of some historical value are company histories. These are usually produced to celebrate an anniversary and are often 'in-house' publications. The periods covered may vary between fifty to one hundred years, and there is usually a biography of the founder and sometimes of his successors. Some financial detail is provided, particularly where take-overs have been involved, and sometimes personal correspondence on shipping matters is included. Again, there are seldom references to other works, although there may be useful tables of ships and their operating costs, or freight rates for certain trades.

Semi-academic works are usually well-researched and deal with some event or personality engaging the attention of the public at large. In the case of shipping, these are usually disasters, either financial or human, or a combination of both. Then there are academic works concerning themselves with shipping in a wider sense of trends and behavioural patterns of shipowners and their companies. They may include details of networks and particular characteristics of individual owners but by the very range of the subject matter there is little room for detailed examination of all owners and all management patterns. There is, however, sufficient of a consensus among most authors to define certain general characteristics in shipping operations, technical changes, and access to finance.

In the early part of the nineteenth century British shipping and British seafarers generally had a poor reputation. There were some good shipowners, such as the Smiths of Glasgow² and the Holts of Liverpool, but generally marine casualties were high, and the indiscipline and incompetence of seamen the subject of Parliamentary inquiry. From 1834 onwards, regulation was gradually introduced into the shipping industry, with the Board of Trade being made responsible for the monitoring of merchant ships and their crews. Examinations and Certificates of Competency were introduced in 1864, records of service introduced for all sea-farers, and rules for the safe construction, loading and operation of

² Also known as City Line, they carried British crews until 1896, when they made substantial savings by changing to lascars, even when offset by accommodation alteration costs.

all British ships introduced with the Merchant Shipping Act of 1894. This introduced the Load Line (Plimsoll Line) and other statutory safety regulations for all United Kingdom registered shipping. As it was introduced unilaterally, other flags were not affected, which was considered by most British shipowners to impose an additional burden on an already hard-pressed industry (Hyde and Harris, 1956). This, at least, was the shipowners' story. At the same time, technological advances increased the size of ships and engines, with consequent increases in speeds and fuel consumptions. There was added competition from 'non-traditional' maritime countries which subsidised their fleets on uneconomic routes; while increased capital requirements led some existing companies to either insolvency or incorporation and amalgamation. Reading the arguments of some shipowners in publications such as *Fairplay* makes one wonder why any of them continued.

There is no disagreement among historians about these changes; but there is disagreement about the effects they had on the shipping industry, its financing and management. It is undeniable that there was a movement away from small family firms into large groups controlled by one individual or a small board of directors, who may or may not have held a majority financial interest in the undertaking (Boyce, 1995). It may be argued that the reasons underlying these changes were those which brought about similar phenomena in other industries such as brewing, steel-making or shipbuilding. It may be suggested that the old shipowner was being replaced by the entrepreneur, not necessarily knowledgeable about, or trained in, shipping, but possessed of inherent transferable skills in negotiation and management. Traditionally, 64thrs had represented the investors in ships, which had a managing owner who may have been either an individual or a partnership drawn from the existing 64th owners. Management fees and commissions were charged, and deducted from profits before paying dividends. No accounts were published, and depreciation was fixed by the managers - a common figure being 5 *per cent per annum* of the initial cost of the vessel - which was the maximum allowed in tax relief. Greater capital requirements for steamships meant that family networks were insufficient to fund expansion, and greater use had to be made of intermediaries and negotiators such as brokers, bankers and accountants. This enabled corporate sources such as investment trusts to be drawn in as investors. Frequently the family management firm remained a private partnership or company after incorporation and the introduction of public shareholdings. The share structure of the newly incorporated company was designed to

leave control in the hands of a minority, usually ordinary shareholders, while the bulk of the capital was provided by preference shareholders whose dividends were guaranteed but fixed, and whose shares had diminished voting rights (Boyce, 1995), or by the issue of debentures. Like other industries, shipping was passing into the hands of professional managers, although most of these managers were still, at the end of the nineteenth century, shipowners themselves and part of the original owning family.

As competition between lines increased in the nineteenth century, shipowners in the United Kingdom introduced and developed the Conference system (Rochdale, (1970, p.116-136) where particular trades were shared among shipowners, with minimum freight rates and sometimes a 'loyalty' rebate to regular shippers. This had the effect of restricting entry to those trades, requiring a newcomer to reduce rates below those of the Conference lines, or negotiate entry on Conference terms. Incomers also had the problem of acquiring tonnage, either by buying second-hand vessels, which may not have been suitable for the intended trade, or building new ships. Both these methods were capital intensive, and did not address the further problems of fleet management and building up a network of agencies. In addition, low prices for ships usually coincided with slumps in the freight market. An experienced owner could out-guess the market, and buy when prices were low in the expectation of an upturn of the cycle before too extended a period of low freights. A new entrant, however, was faced with an indeterminate period of certain expenditure and questionable returns. Not surprisingly some existing companies were unable to weather depressions, and so were ripe for takeover by larger undertakings. The simplest means of both entry and expansion came from the opportunity to buy out existing companies, complete with their managements and agency networks. By the end of the nineteenth century there was an acceleration in this process, which led to the disappearance of many family companies, and a growth in size of those companies which were bent on expansion and formed groups under one overall management and financial control.

Comparison with Contemporaries

With this study of Ellerman, the time-frame chosen is between 1886 and 1933, and the contemporaries with whom he will be compared are Lord Inchcape (1852-1932) and Lord Kylsant (1863-1937). Both these men controlled large shipping groups and operated liners on similar trades to Ellerman. Both can be seen as 'Twentieth Century' rather than

‘Victorian’ shipowners, as their activities mostly took place after the technical and regulatory changes of the nineteenth century which altered the whole culture of British shipping.

The choice of Inchcape, of the Peninsular and Orient Steam Navigation Co. (P&O) Group, and Kysant, of the Royal Mail Group, is based on two factors: first, they are near-contemporaries of Ellerman in age and careers in shipping. Secondly, both, like Ellerman, expanded fleets by accumulation; that is, acquisition of existing companies complete with management and agency networks. However, unlike Ellerman, Inchcape and Kysant were public men, involved in government committees and politics. Kysant, as Owen Philipps, was first elected an MP in 1906. Inchcape, as James Mackay, was appointed to the Viceroy’s Legislative Council in 1891, coming into shipping late in his career (Jones, 1989, p.50-53.)³, although involved with the British India Steam Navigation Co (BISN) from 1876 through MacKinnon MacKenzie (Jones, 1989, p.50-53).

James Mackay, Lord Inchcape

Coming from a family with a shipping and shipbuilding background, James Mackay was left an orphan at the age of seven years. Thanks to family connections and a legacy from his father, Mackay entered a lawyers office in Arbroath after leaving Elgin Academy. In 1874, after two years as a trainee shipping clerk with Gellatly, Hankey, Sewell and Company in London, he joined Mackinnon Mackenzie in Calcutta. In 1898 a deed of co-partnership officially recognised Mackay as second only to the senior partner, Duncan Mackinnon. Mackay demonstrated his effectiveness in shipping by personally settling a dispute with British India Steam Navigation Company’s masters and officers in February 1898, which, although costing the company about £4,000 in lost revenues, resulted in a return to work on the original terms of the officers involved. Returning to London, in 1901 he was sent to China by the government to take charge of negotiations for a commercial treaty, following the resolution of the Boxer troubles. The mission was successful, and Inchcape returned to London to become involved in more government committees, including one which was examining the question of insurance for British shipping in war-time.

His career as a publicly recognised shipowner began in 1911 when he succeeded Duncan MacKinnon as head of BISN. Then, for the first time, he was actively involved in

³ Inchcape was 59 years old when he became a shipowner; Kysant was 26 and Ellerman 29 when they acquired their first ships.

ordering new vessels and agreeing contracts with shipbuilders (Jones, 1989, p.62-66). Once established as chairman and manager of BISN, Inchcape started on a programme of expansion, with a reverse take-over of P&O in 1914 that gave him control of a combined fleet of 180 ships totalling 1,400,000 grt. Although he claimed to delegate responsibility to his juniors, in fact Inchcape remained as managing director of the shipping companies until his death. During the First World War, the P&O group lost many ships both to government service and from enemy action. With high costs of replacement some companies decided to dispose of their assets - the ships - while prices were high. So began a series of take-overs by P&O which continued until 1920, when the oldest steamship company in the world, the General Steam Navigation Company, was acquired for £1.9mn (Jones, 1989, p.132).

The financial management of the group was entirely in the hands of Mackay (Inchcape) to the extent that the true accounts of P&O were only disclosed after his death in 1932. Then a full examination of the books was made by Deloitte, Plender and Griffiths, CAs, which revealed large deficiencies amounting to over £9mn between 1922 and 1931 (Jones, 1989, p.121-125). Yet during this period preference dividends of 5 *per cent* were consistently paid, while deferred dividends never paid less than 10 *per cent* until 1931, when they fell to 6 *per cent* (Jones, 1989, p.202). The whole group was desperately illiquid although this true state of affairs had been concealed by Inchcape's refusal to reveal any figures other than 'net results' to the shareholders. The public perception of his ability as a successful shipowner was at odds with the reality of the accountants' report.

Inchcape was also the senior partner of Mackinnon, Mackenzie and Co, through which firm he had entered BISN in 1909. This relationship enabled funds to be re-directed from the Mackinnon/Inchcape group to P&O, with the primary objective of boosting both public confidence and the share price. Inchcape died on 23rd May 1932, but news of his death was withheld until after the Stock Market had closed in London. This was a wise precaution, as the following day P&O £1 deferred stock sank to eleven shillings, and the whole market weakened significantly (Jones, 1989, p.186).

Inchcape was chairman of an organisation which owned ships rather than being a shipowner in the traditional sense of the word. The companies he controlled were dependent for their funding upon the willingness of the general public to deal in their shares, expecting the payment of satisfactory dividends. These dividends were maintained

by not depreciating the fleet and using acquisitions or revaluing assets to create a notional surplus rather than admit the absence of profits. Although Inchcape's public probity was never in question - he had disposed of prize ships and standard ships at little cost to the government - his business ethics were those derived from his background as a Scottish merchant adventurer. The relationship between Mackinnon Mackenzie and BISN concealed tax evasion on a large scale (Jones 1989, p.25-28), and Inchcape's manipulation of the scheme for compensation for vessels lost in enemy action showed imagination while assuring generous terms for the owners (Jones, 1989, p.110)⁴.

The vast range of other informally associated companies meant that Inchcape, and his companies, were well placed to gain intelligence and also to resource various avenues of funding. In addition to his political career in the House of Lords, he sat on numerous committees, not all concerned with shipping.

Owen Philipps, Lord Kylsant.

Owen Philipps was one of six sons and five daughters of the indigent Reverend Sir James Erasmus Philipps, vicar of Warminster. He served an apprenticeship as a shipmanager and broker, and on completion in 1886, joined Allen C. Gow and Co in Glasgow. After two years, Philipps started his own company, buying his first ship in 1889. In July 1889 the King Alfred Steamship Co was registered with a capital of £12,500, divided into fifty shares of £250 each which were taken up by family and friends. Concurrently his brother, John Philipps, was making a name in investment trusts, which were to provide a source of funding for expansion of the shipping interests. By November 1893 the company name was changed to King Line, with a nominal capital of £50,000 of which £20,430 was paid up and to which two of John Philipps's investment trusts subscribed. Over the next ten years the interests of the Philipps brothers widened, among them Philipps Philipps and Co, a ship management company (Green and Moss, 1989, p.12-15) and the London Maritime Investment Co.

The shipping interests had been strengthened by the formation of the Scottish Steamship Co Ltd as a wholly owned subsidiary in 1896 and Northern Transport Ltd in 1901, in which year an attempt was made to acquire the Tyne Steam Shipping Co. This was given up to allow Christopher Furness to form the Tyne-Tees Steamship Company,

⁴ The *Ballarat*, lost in 1917 had cost £175,000 in 1912, and was written down to £15,000. Inchcape refused £395,000 in compensation and was eventually awarded £420,000.

from Tyne-Tees Shipping, Tees Union Shipping Co and Free Trade Wharf Co. Furness had been negotiating for the Royal Mail Steam Packet Co. (RMSPC) but, having acquired Tyne Steam Shipping at the expense of the Philipps brothers, now allowed them to make an offer for RMSPC. In 1903 Owen Philipps was appointed chairman of that company. This takeover of one of Britain's leading liner companies by a relatively insignificant tramp shipowner (Green and Moss, 1989, p.19) must be seen against the background of the perceived threat to the British Mercantile Marine offered by J. Pierpoint Morgan and his creation the International Mercantile Marine (IMM). RMSPC, incorporated by Royal Charter in 1837, needed to modernise and expand. In 1906 the issued capital was £1.5mn, and ordinary shareholders, which included the Philipps family investment trusts, had their voting rights strengthened. The RMSPC fleet comprised 32 ships aggregating 92,000 grt when Owen Philipps became chairman; four years later it had increased to 42 ships totalling 165,000 grt.

A series of acquisitions and new-buildings then ensued, with an increasing demand for capital which by 1908 amounted to £2.5mn of which £1mn was in debentures, while Royal Mail was now fourth in the first league of British shipping companies (Green and Moss, 1989, p.25). A partnership with Lord Pirrie, of Harland and Wolff, led to the acquisition of the entire shipping and commercial interests of the late Sir Alfred Jones which was concentrated around West Africa. This gave the partners control of Elder Dempster and Co, three other shipping companies and a host of subsidiaries and other assets in West Africa, with a combined fleet of 109 ships totalling 300,000 grt. Then in June 1910 the Royal Mail acquired the Pacific Steam Navigation Co with 37 steamers. Further acquisitions over the next few years included Glen Line and Lamport and Holt. In all, new issues of debentures totalling £3.25mn were raised to meet these liabilities, which now included new-buildings. With the purchase of Union Castle in 1912 and another 44 ships of 320,000 grt, the total tonnage of the group was now over 1.3mn grt, with a capital valuation of £6.9mn for Royal Mail plus £4.3mn for Elder Dempster (Green and Moss, 1982, p.30-32). This round of acquisitions ended with the purchase of Nelson Line and its 17 modern ships of 113,389 grt, bringing the total tonnage above 1.6mn grt, and the fleet and steamship company shares' account to £8.92mn (Green and Moss, 1982, p.33).

From this time onwards, the seeds of the eventual collapse of the group had been planted, and high gearing became a necessity, not an option. By the end of 1922 the

Group had £18mn in debenture or preference stock, demanding annual interest payments in excess of £1mn. Sir Owen Philipps, MP, was credited with the expansion of the group, and his operation, with frequent references to transfers to reserves, was seen as an example of conservative management. In fact, as these reserves were not supported by cash or liquid assets, they were, for practical purposes, non-existent (Green and Moss, 1982, p.37-38). As the controller of 1.5mn grt of shipping, with a paid-up capital and loans of £28 mn, he basked in the soubriquet of 'Colossus of the seas', confident in the ability of his professional managers to operate the ships while he looked after the finances, acting as his own guarantor (Green and Moss, 1982, p.40). One expedient was the incestuous purchase of shares among the constituent companies, which, in the days before consolidated accounts, had the dual advantages of not requiring cash payments either for the shares or the dividends, an entry in the accounts being sufficient (Green and Moss, 1982, p.51-53). As early as 1914 doubts had been raised about the financial integrity of the Royal Mail companies, these were based on the fact that mixing fleet values and shares in subsidiaries made it difficult to interpret trading results (Green and Moss, 1982; *Fairplay*, May 1914).

The full story of the Royal Mail Group, with details of all the financial transactions concerned with both the near-collapse and eventual long-drawn out rescue of most of the shipping interests is told in *A Business of National Importance* (1982) by Green and Moss. In 1931 Lord Kylsant was charged with publishing false statements of the Royal Mail's accounts in 1926 and 1927, and with making false claims in a prospectus issued in 1928. Cleared on the first charges, Kylsant was found guilty of the last, and sentenced to imprisonment for one year. The opinion of the City and the Establishment was that the one-time Owen Philipps had been unlucky, and no social sanctions were imposed on him. His obituaries glossed over the unpalatable facts that he had nearly wreaked havoc to the British shipping industry, and that un-secured creditors and shareholders lost £50 mn (Green and Moss, 1982, p.202), while banks and brokers profited from the sorry saga with its continuing fees, commissions and interest charges. His shipping empire disintegrated. Kylsant presided over a house of cards that eventually collapsed when the pressure of an international depression was placed on it. Inchcape created and led a group that, despite its growth in size, was continually haemorrhaging its internal resources and was kept afloat only by dubious accounting practices. John Reeves Ellerman's methods were diametrically opposed to these - he believed in cash, not paper. High yield coupons could be dangerous

unless guaranteed funds were available; Ellerman's debentures were instruments designed to provide maximum security and earn interest.

The Ellerman Historiography

These questions - about the knowledge and skills that Ellerman brought to the shipping industry, and about how his reputation as a shipowner/manager should stand alongside those who controlled shipping groups of comparable size and complexity - are not addressed by the only recent scholarly assessment of his career. In a study published in the *Dictionary of Business Biography*, Rubinstein (1984, p.257) combines what is known of Ellerman's biography with an account of the development of his business interests over the years. This describes rather than explains Ellerman's success as a shipping entrepreneur. Rubinstein's purpose, given his prevailing interest in men of wealth and property, would appear to provide an explanation of how Ellerman became 'the richest man in Britain' and how he disposed of that wealth. He is at times compelled to admit that he does not have a good grasp of the inner workings of Ellerman's enterprise network; referring, for example, to the period from 1886 to 1900 as 'perhaps the most obscure phase of Ellerman's career' (Rubinstein, 1984, p.258). He remarks that 'the known facts of Ellerman's career and his approach to business entrepreneurship are probably insufficient to explain his extraordinary and singular success' and he offers tantalizingly few insights into why it was that Ellerman was apparently more efficient and skillful than the likes of Kylsant and Inchcape (Rubinstein, 1984, p.68-69).

Other than Rubinstein's predilection for analysing business wealth rather than business capabilities, the main reasons for such deficiencies in his account of John Reeves Ellerman are that he has been obliged to rely on secondary sources. In preparing his essay, Rubinstein undertook no primary archival research and for his understanding of the organisation of Ellerman's shipping firms, he was forced to rely on a single work - James Taylor's *Ellerman's A Wealth of Shipping* (1976). (Rubinstein is not the only author to rely on Taylor's account. Duncan Haws's *Merchant Fleets 16 - Ellerman Lines* (1989) is essentially a précis of Taylor's book - potted history but with a comprehensive and illustrated list of ships in all the companies except Ellerman-Wilson Line). It transpires, therefore, that all we know of Ellerman as a shipowner and manager rests on the essentially

amateur efforts of a retired manager, who made selective rather than comprehensive use of source material.

Taylor's work is not a history in the sense of giving much in the way of references and sources. He joined Hall Line as a junior in 1927, eventually becoming managing director. He then moved to London when Ellerman City Liners was formed, becoming deputy chairman and retiring due to ill-health in 1974. Part Two of the book is devoted to potted histories of the constituent companies and lists of ships dating from the formation of the original companies. This leaves only one-third of the book concerned with the first Sir John Reeves Ellerman. Taylor would undoubtedly have access to the Hall Line share register, voyage returns and the Hall Line directors' minute book, but there is no information on, for example, the financing of new-buildings. It would also appear that Taylor had no access or acquaintance with such sources as the Ellerman Lines Ltd directors' minute book, or of the special rôle played by City Line and its general manager W. S. Workman. At first sight there would also appear to be a number of glaring factual inaccuracies in Taylor's account. Much of Taylor's work may be based on oral transmission of personal and business information among office staff which was never recorded and must be considered anecdotal. The purpose of this thesis is therefore to attempt to go beyond Taylor's essentially narrative-descriptive account of the shipping group that became known as Ellerman's City Lines, and to explore fully the motivations, methods and achievements of Ellerman as a shipowner. To this end it employs a range of archival and printed sources which were not exploited by Rubinstein (1984) or Taylor (1976).

Methods and Sources

When dealing with a period before the age of electronic records, whether oral or visual, sources are limited to written evidence. Although the telephone and typewriter, photography and recordings developed during Ellerman's lifetime, inevitably most of the available records are confined to documentary sources. As Ellerman died in 1933, at the age of seventy-one, there are no contemporaries alive with whom to conduct interviews. There is, therefore, a lack of corroborative evidence about his business behaviour and the personality of the man himself. This means that, while his deeds may be recorded, his ideas, motives and relationships must be the subject of conjecture. It will therefore be

necessary to identify certain common elements in his undertakings and evaluate them in the light of modern business history. Knowledge of the early years of his life until 1880 has been accepted without further investigation as there is sufficient consensus among his biographers about his date of birth, parentage, early education and professional training to justify its veracity. During his lifetime there were suggestions that Ellerman was of Jewish origin. However, according to the autobiography of his daughter, Winifred Bryher⁵ she traced relatives in Germany who, over several generations, were identified as Lutheran in faith and minor officials by occupation (Bryher, 1973).

There is, however, a question about his accountancy background, as there were no Chartered Accountants in England until after 1880 (Hewitt, 1966, p.21-23). It is from 1886 that little hard evidence has been produced to help explain his genesis as a company promoter, financier, and shipowner by 1901. To fill this gap, a general view of his career has been formed from the existing biographies, which noted his involvement with Henry Osborne O'Hagan and company promotion, while Brewery directories and histories of brewing have been used to establish a chronological background for some of his activities from 1886-1901. Relying solely on archival sources, it has been possible not only to show his development as an independent accountant, but also to make an estimate of his income during this period. So far as the years 1892-1901 are concerned, there is no primary evidence concerning his shareholding in Leyland Line as all records were destroyed during the Liverpool *blitz*. However, enough material has been derived from other sources, such as stock exchange directories, newspapers and financial journals to provide an account of financial operations during Ellerman's tenure as chairman. Similarly, the changes made in the Leyland fleet during this period, attributed to Ellerman, have been traced by entries in *Lloyd's Register* which show modernisations and new-buildings. These sources have proved sufficient to shed some light on what Rubinstein (1984, p.68-69) called 'the years of obscurity' in Ellerman's career. So far as his associates are concerned, all, apart from O'Hagan, seem to have hidden their talents from public scrutiny (O'Hagan, 1929).

However, studies by Hanna (1976) and Cottrell (1980) have provided useful information. With one exception, all these are secondary sources and it is only with the founding of Ellerman Lines Ltd in 1902 that primary source material begins to be available.

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Winifred Ellerman was illegitimate and adopted the nom de plume Bryher for her literary works and other activities. She has a page of biography in *The Enclopaedia Britannica* while her father is not mentioned.

There are two differing views on Ellerman's founding of London, Liverpool and Ocean Steam Ship Co Ltd (LLOSS), with the subsequent acquisition of five shipping companies within a few months. One view is that of the press and existing biographers, the other is that shown by the entries in the Directors' Minute Book of LLOSS. In January 1902 the company name was changed to Ellerman Lines Ltd, but the Minute Book was retained with the original title - a minor economy. With access restricted to the few directors and the company secretary, it shows how Ellerman linked his activities and developed his strategies for a world-wide shipping organisation. Unfortunately the entries end in 1919, when the book was full, and the subsequent volume has not been available. However, the years between 1902 and 1919 covered the bulk of the shipping acquisitions and the First World War. Subsequently the world descended into a major recession, and Ellerman's fortunes must be followed in the published accounts of Ellerman Lines Limited (ELL) and the minute books of individual companies.

Initially the intention was to focus attention on Ellerman's relationship with City Line Ltd, as that appeared to be the major component of the group. It gradually emerged that, although important, there were factors in the composition of the other companies just as significant. A comparison was made of the original companies and their profitability, and details from the individual minute books and from the Ellerman Lines Ltd directors' minute book (UGD131/2/1/1) were correlated. This gave a good indication of the way in which financial control was exercised, and the limits of responsibility of the original managers. Similarly with the agencies and other companies with which Ellerman was connected, this document reveals the degree of control personally exerted by Ellerman.

Accounts were published for the public companies only, which meant that little or no financial information about the subsidiary companies ever appeared in the public domain. However, City Line has been chosen as a case study because it appeared to have a special relationship with Ellerman. Gradually, over many years, more and more ships in the group were re-named with the *City* prefix⁶. Not only is there more data available on City Line and the family firm of George Smith and Sons which preceded it, the subject also provides a good example of the changes which took place in the social and economic environment of shipping both during the years when Ellerman was developing and when he was established.

⁶ In 1971 the shipping side of the Ellerman operation was split off and became known as Ellerman City Liners.

Material from the account books of George Smith and Sons shows how a family firm worked. Private family letters tell how the network of Lowland Scots exploited their religious and political privileges in Northern Ireland to build dynasties of shipowners, shipbuilders, textile manufacturers and merchants. The move over the generations towards gentility is documented by the changes in occupation, from weaver to country gentleman. The influence of religion and politics is evident from the participation in politics which led, in some cases, to knighthoods and even baronetcies. One matter which has exercised the attention of biographers has been the incorporation of George Smith and Sons as City Line Ltd in 1892. Between the account books, bank correspondence and Registers of Ships, a true picture is drawn of the reasons and the effects of incorporation. The method of take-over by Ellerman can be traced, as can the means by which the purchase was funded. Here both the City Line Share Register and the Ellerman Lines Share Register provided valuable information. After the take-over, there was an exchange of correspondence between William Service Workman, an ex-director of City Line Ltd who became General Manager of City Line Ltd, and John Reeves Ellerman which lasted from 1912 until Ellerman's death in 1933. Although Ellerman kept in daily touch with his other companies, there does not appear to have been a similar personal correspondence with an equivalent individual in these firms. With all this material it is possible to form a clear idea of how City Line was assimilated into the Ellerman Group, although there is a gap in information about the activities of ex-principals in City Line between 1902 and 1912. Of equal interest and importance is the function of City Line as part of a network which Ellerman added to his existing sources of information and patronage. This network extended from Glasgow to Belfast, Liverpool and London through family members, by blood or marriage, who were involved in various branches of shipping. Although Ellerman bought into other networks with his various acquisitions, this was probably the most important since he was readily accepted by Workmans, Allans and Clarks who doubtless saw mutual benefits arising from their association with him.

The re-organisation of the fleets and the process by which orders were placed and funded is shown in the ELL Minute Book. A data-base was built up including all ships from 1902-1933, in the companies of Ellerman Lines Limited. From this, it has been possible to classify the ships and determine how Ellerman introduced a degree of interchangeability so employing the most effective ships in any trade as required. It was

also possible to determine when Ellerman took an interest in companies he later purchased outright. During the First World War, reports of vessels lost by enemy action were not recorded in the Ellerman Lines Limited Directors' Minute Book (ELLDMB), so other sources were used.

The frequent references to the Ellerman Lines Directors' Minute Book underline the importance of this source as a key to other documents and a guide to Ellerman's operations. It has provided a focal point against which other information was tested and accepted or rejected. The biggest problem has been to identify the personal contribution of Ellerman to the operation of the ships. He left existing managers in place, and frequently consulted with them - but whether or not these consultations affected his decisions is difficult to determine. The real question is to identify the particular skills he brought into shipping, and whether these were adapted to meet the specific requirements of his own companies. By comparison with two other shipowners, particularly in the fields of management and finance, it may be possible to determine what makes a successful enterprise. In terms of numbers, Ellerman had a fleet which could not compare with either the P&O Group or the Royal Mail Group. On the other hand, both groups chosen for comparison were technically insolvent for much of the period. The question may also be asked whether Inchcape and Kysant were successful entrepreneurs or whether Ellerman alone can claim that distinction.

CHAPTER 2 CITY GENT

City Gent

Ellerman began his career as a newly qualified accountant with two years experience in Quilter Ball, leading accountants in the City of London. William Quilter was a significant figure in the establishment of a national body for accountants, and supported moves to impose greater regulation on limited companies. However, in 1877 he resigned from the Institute of Accountants in England as he disagreed with some of its new rules, and so never became a Chartered Accountant⁷ (Hewitt, 1965, p.48-49; Cottrell, (1980), Pp. 41-2.). The new conditions under which chartered accountants were to operate prohibited advertising, sharing commissions and acting as brokers, agents or company promoters.

In 1886, therefore, William Quilter started a new career as a broker, under the name Quilter Balfour and Co, while the accountancy practice continued as Weldon and Bond (Hewitt, 1965, p.248-249). It is likely that Ellerman followed his principal's example - certainly, he never became a Chartered Accountant but moved into auditing and company promotion. Accountants were among those pressing for legislation to make the employment of external auditors a statutory requirement for all public limited companies. These were companies which offered shares to the general public, with liability limited to the value of their shareholding, whether or not fully paid up. From 1886 the practice was followed voluntarily by most companies, and from 1887 the names of auditors appear among the details of companies published in *Burdetts Official Intelligence*. Although several Bills aimed at revising the Companies' Act of 1862 were introduced over the next decade, those not defeated in the Commons ended on the floor of the Lords, so that no new legislation was brought in until the 1900 Companies' Act (Cottrell, 1980, p.41-42).

Ellerman's progress can be traced, first as an auditor to companies being incorporated, and then as a financier, by references in directories and company prospectuses. The bulk of his activities were in brewing. His entry into shipping may be

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In Scotland the style of CA was used from 1854, when the Society of Accountants in Edinburgh was granted a Royal Charter. Scots CAs could practise in England, but English CAs required to pass an examination in Scots Law before being able to practise in Scotland.

seen as a further deployment of his accountancy and financial skills rather than an 'outsider' straying into unfamiliar territory. This predicated an ability which maximised employment of any resources available, whatever their nature. Examination of his activities, and the rewards they brought, may show a natural exploitation of the opportunities offered by the shipping industry (Boyce, 1995, p.76-77; p.86-87). Ellerman was able not only to display financial acumen but also an undoubted ability to judge character and inspire confidence in those who worked with him.

The Companies Act of 1862 was passed the year Ellerman was born; and made limited liability a right and not a privilege. There were fewer safeguards for shareholders than those intended in the 1856 Act and more opportunities for disreputable promoters. Between 1862 and 1864 limited liability companies with total capitals averaging £120m a year were floated, but this gradually decreased to £28.8m in 1867 (Cottrell, 1980, p.57-59). The decline followed the Overend and Gurney failure of 1866, directly related to over-optimistic and over-extension of new issues. Despite this, incorporation of private firms into companies continued, usually with the primary intention of limiting shareholders' liability to the nominal value of their investment. However, by the 1880s only 5-10 *per cent* of larger businesses which might have benefited from outside investment had adopted limited liability status (Hanna, 1976, p.20). There was no question that limited liability was necessary - the collapse of the City of Glasgow Bank (in effect an extended partnership) in 1878 showed that directors had not only mis-applied £8mn of depositors' funds, which was repaid, but left shareholders with unlimited liability to the extent of 27 times the value of their shareholdings (Kynaston, 1994, p.333). It had never been intended in 1862 that the 1856 Companies' Act should be so emasculated that England would have the most permissive company legislation in Europe (Cottrell, 1980, p.54). This meant that contemporary legislation on limited liability was increasingly seen by the public as a means of diverting capital raised from shareholders into the pockets of company promoters and unscrupulous vendors of businesses. Despite this dis-incentive, the last decade of the nineteenth century brought with it the metamorphosis of ever more family firms into larger, frequently public, organisations. There was no legal distinction between public and private limited liability companies until 1906, but companies which did not solicit the public for investment, and restricted the issue of shares to individuals, with transfer of shares subject to the approval of the directors, did not have to submit copies of

the accounts to outsiders. Brewing and shipping were similar in that domestic competition increased even as markets grew and the demand for capital accelerated.

As fiscal pressures intensified, the separation of ownership from management was inevitable and a wider and individually smaller share ownership developed, with directors becoming less representative of the majority of shareholders. The advantages of the early Acts included reducing the risk to private investors, and offering an opportunity to accumulate the increasing capital required for ever-rising costs of technological change: bigger ships, more sophisticated industrial machinery, better distribution systems. The use made of this opportunity depended on the fiscal climate of the time, and the pressures of competition. For most of the Victorian era, the British economy was in a state of equilibrium, with wealth creation in the form of rising wages keeping pace with population growth (Fischer, 1996 p.157-177). The individual not only earned more, but kept most of his income, whether an employer or employee. Income tax was levied on incomes over £300, and varied between 2d/£ to 8d/£ between 1860 and 1895, when it started to increase to meet growing government expenditure. In 1897 Death Duties were introduced, which prevented the whole of an estate's assets not subject to a previous disposition passing to the heritors. Since many family firms had no assets other than their business stock, whether factories or ships, this could mean either selling up or incorporation, thereby raising enough to pay off Death Duties at the expense of bringing in outside investors. Relief from Death Duties could be granted by transferring shares to relatives at least one year before death, which was a risk usually acceptable only to a testator who was *in extremis* and unlikely to require much of a future income. The combination of Income Tax, Death Duties and, from 1907, sur-tax on incomes over £5,000, inhibited the retention of personal wealth which would remain available for re-investment, and meant that minimising tax payments was as important as maximising margins.

One view was that limited liability made a profound breach with tradition by 'legalising irresponsible wealth' (Ensor, 1992, p.112). An opposite view is that the methods of those such as J.R. Ellerman may be seen as exemplifying one of the possible benefits of the Companies Act of 1862: 'an antidote to the evil of nepotism, where wealth descended to heirs in [a] form ... they were personally unfitted to run' (Ensor, 1992, p.112). Both views were correct to a certain extent, and a combination of legislation and experience eventually brought some form of balance. Neither could completely eradicate

Original in colour

greed and fraud, but by releasing capital in the hands of individuals for investment, an entrepreneurial system developed. This recognised the potential for wealth creation by enabling industry and commerce to expand - the fructification of wealth (Bryher, (1973).

Until 1900 the Companies' Acts precluded firms from raising capital by issuing shares at a discount or by paying commissions to those willing to take them up. This gave rise to the company promoter, who positively encouraged family firms to raise capital from the public while reducing their own risks of under-subscription. Acting as a *de facto* issuing house, the promoter secured underwriting of the share issue by farming it out on a commission basis. The vendor, therefore, would not lose if there was a poor response to the offer, now underwritten by the issuing house (Kynaston and Dynes, 1984, p.480-481). Some companies, however, preferred to use their own professional advisers such as solicitors, accountants and brokers (Armstrong, 1990, p.6) for this purpose. Merchant banks such as Barings and Rothschild were also involved, but were not interested in small amounts - the flotation of Guinness was an example of merchant bank involvement (Kynaston, 1994, p.404)⁸.

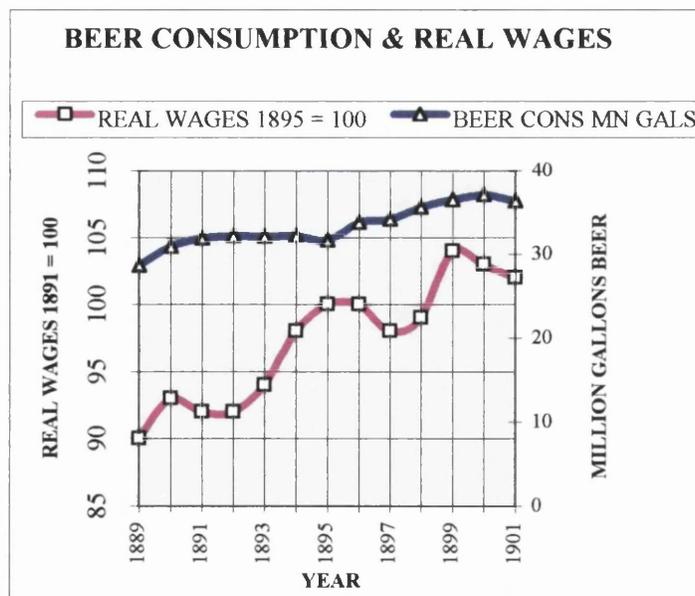


Figure 1. Beer consumption and real wages. (Compiled from Mitchell and Deane, 1962).

Brewing was a capital-hungry industry with a wide consumer base that was generally expanding as real wages increased (figure 1). Ellerman and other professionals were invited into the brewing industry to raise money for such companies. In that context

⁸ Barings made £1mn from the Guinness flotation by 'staggering' the issue.

it is not surprising that 'they achieved similar entrepreneurial goals as established brewery families' (Gourvish and Wilson, 1994, p.224-225). After all, they were not engaged in the business of brewing, but in providing capital to do so.

From 1886 breweries wanted more licensed premises, obtained either by building new premises, amalgamating or buying out existing companies. Competition in the acquisition of 'tied' houses increased from 1869 when local magistrates, reluctant to increase the number of licensed premises (Cottrell, 1980, p.168), resumed their authority to grant licences. In addition, to increase productivity meant modernising plant and the capitalisation of wealth locked up in small businesses by incorporating family firms into limited companies. The demand for capital by brewery companies increased and by 1890 there was a separate Stock Exchange brewery list. By 1900 over 200 breweries had quoted assets of over £185mn (Mathias, 1969, p.385).

The family firms raising money on the Stock Exchange retained effective control of the company through ordinary shares, sometimes augmented by ordinary shares with special voting rights. Preference shares had priority over ordinary shares for dividends, but frequently had limited or no voting rights unless dividends were passed (Cottrell, 1980, p.164-167; UGD131/2/1/1, p.192). Debentures, which had to be redeemed at a fixed date and had high coupon rates, had a *prior lien* on tangible assets (in other words, they ranked before other creditors) and gave a guarantee of security that was an added incentive to invest in enterprises with growing production and increasing market potential (Cottrell, 1980, p.68-69). The consumer base meant that breweries generally yielded a higher rate of return than most other businesses and, for individual investors, compared favourably with consols and railways. Investment trusts and insurance companies were often allowed only to invest in guaranteed debt, debentures rather than shares.

These sums represented borrowable monies, that is, funds available to support investment. The United Kingdom was rich, and led the world in commerce. If 1870 marked the beginning in the loss of markets in manufactures to countries like the United States, Germany and France, the City of London remained the major supplier of investment capital for another fifty years. The new breed of accountants and brokers found rich pickings not only in Britain but also in the Dominions, the U.S.A. and Latin America both for private finance and for government loans.

There was certainly enough capital in London to meet the demands of the United Kingdom and less advanced countries. In 1873, Walter Bagehot, in *Lombard Street*, calculated the known deposits in banks as shown (table 1):

Country	Date of computation	Amount available.
London	(December 31st 1872)	£120,000,000
Paris	(February 27th, 1873)	£13,000,000
New York	(February 1873)	£40,000,000
German Empire	(January 31st, 1873)	£8,000,000

Table 1. International capital.

Ellerman must have been aware of the possibilities in his chosen occupation, and so struck out on his own at the age of twenty-four years. When he left Quilter Ball in 1886 to start J.R. Ellerman & Company at 10 Moorgate Street, it is likely that he took with him the foundation of a network developed while working for his employers. One of his early contacts was an independent company promoter called Henry O'Hagan, of the City of London Contract Corporation. O'Hagan, in his book *Leaves From My Life* (1929), described a developing network of stockbrokers, solicitors, and accounting firms participating jointly in company flotations (O'Hagan, 1929). He is known to have been close to the stockbroker Harry Panmure Gordon who provided O'Hagan with business links and 'a greatly increased underwriting connection' (Kynaston, 1994, p.404; Cottrell, 1980, p.184-186; Armstrong, 1990, p.123). This lends some support to O'Hagan's claims to have introduced underwriting into the City of London. Ellerman opened a branch office in Birmingham in 1889, and O'Hagan claims that they were partners in controlling four trust companies by 1891 - although there is no corroborative evidence for this assertion. He also claimed to have assisted Ellerman's incorporations of breweries. Although there appears to be no direct link, Ellerman was associated in at least one flotation with the brokers Panmure Gordon Hill and Company of London. O'Hagan was possibly an essential early link and there is enough co-relation between O'Hagan's lists of breweries, Ellerman's auditing, and a connection with at least one broker to identify him as part of the Ellerman network. Before entering shipping, therefore, John Reeves Ellerman had already established communication and information links with solicitors, brokers, banks and other

accountants. This was expanded to embrace political and commercial links, through his investment companies which drew upon a wide range of talent from commerce and finance. Financiers, brokers and MP's were, wittingly or unwittingly, included in a burgeoning intelligence network.

From 1886 this pattern of collecting colleagues through his original accountancy practice and establishing his own network becomes clear. Two of these early colleagues were to outlast Ellerman in the service of Ellerman Lines Limited. Frederick George Burt joined him, as an employee, in the first days at Moorgate Street and was to serve as Secretary or Director in many companies until his death in 1941. Miles W. Mattinson (1854 -1944) was a barrister and an MP - a useful extension to Ellerman's network. Like Ellerman, he had distinguished himself early in his career and was '[a] major figure in the investment trust world' (Van Helton and Cassis (eds) 1990, p.151-152). In 1884 he was a director of the Mercantile Debenture and Agency Corporation, and with T.W. Bischoff formed the Law Debenture Corporation in 1889. Mattinson was a founding director with Ellerman, in 1889, of London General Investment Trust and United Discount & Securities Co Ltd (*Burdett's Official Intelligence 1890, volume IX*). Edward Cordrey and Charles Eves joined Ellerman's network in 1886. Cordrey was a director of Johnson, Cole, Brier and Cordrey, manufacturers, one of the first companies Ellerman audited, and was a director of the two financial companies Ellerman formed in 1889. Charles Eves was company secretary of Johnson, Cole, Brier and Cordrey Ltd; as a Chartered Accountant he subsequently took over much of Ellerman's audit work. Eves sat on the boards of a number of breweries, sometimes as chairman. Cordrey was also a joint shareholder with Ellerman at the floating of London, Liverpool and Overseas Steamship Co Ltd (UGD131/2/2/1, folio 125). Mattinson and Burt became Ellerman's closest colleagues, sitting on the boards of many companies in which Ellerman had a large interest but where he did not choose to be visible. Mattinson was to be a director of Leyland Line and share in the birth of Ellerman Lines Ltd.

Between 1886 and 1890 records show Ellerman as auditor to seventeen breweries with a total capital of over £3mn. Arranging for incorporation at a modest fee of 2.5 *per cent* - a reasonable commission (Cottrell, 1980, p.184-7)⁹, he would have made some £70,000 in three years. Audit fees averaged between seventy-five and one hundred guineas

⁹ 'Issuing' commissions ranged between 2.5% and 12.5% for O'Hagan's company. Merchant banks charged between 1% - 5%, depending on the size of the issue).

per annum providing an annual income of about £1,500. Having formed two financial firms in 1889, The Brewery and Commercial Investment Trust was set up in 1890 (*Breweries Manual, Vol I, UB1, p.302*)¹⁰ and Ellerman's name no longer appears as an auditor in any of the company details published in *Burdett's Official Intelligence* or *The Stock Exchange Official Intelligence* which succeeded it in 1899 (table 2).

COMPANY	CAPITAL	DIRECTORS
Hull United Brewery	£185,000	B.H. van Tromp
Hull Brewery Co Ltd	£300,000	H.C. Gleadon, Gordon-Rebon
Bent's Brewery Co Ltd	£250,000	Walter Glynn
Baltimore Brewery Co Ltd	£140,000	(USA)
Dandicolle and Gaudin Ltd	£160,000	B. H. van Tromp
Emerald & Phoenix Brewing Co Ltd	£200,000	H. Massey; J. Gordon-Rebon
Photographic Co Ltd	£100,000	T. G. H. Glynn; Sir Oswald Brierly

Table 2 Audits by JRE 1886 - 91.

On the other hand, his financial trusts appear more frequently as Trustees for Debenture Holders, while Charles Eves is now shown as an auditor in his own name.

Although most of Ellerman's work was with brewery companies, he was also involved with some industrial undertakings from which he drew wider contacts. The Debenture Securities Investment Trust was registered 21st March 1896, so adding another tool to his financial armoury which now comprised four Ellerman-controlled investment trusts. Having dropped the accountancy side of his business around 1890 to concentrate on financial enterprises and investments, his rise in financial circles was rapid and most of the companies he incorporated between 1886 and 1890 stayed in business. This was in contrast to the many companies floated by promoters whose object was to make profits from the promotions and not from the operation of the companies (Hanna, 1976, p.21). Over 30 *per cent* of firms formed between 1856 and 1883 ended in insolvency, many in the first five years of their existence. Ellerman did not believe in 'un-called capital'. Shares might be paid for in instalments but the time allowed was never more than twelve months,

¹⁰ 'the object being to provide a medium for the Investment Capital in Brewery Debenture, preference and ordinary Shares'.

and no dividends were paid to that shareholder until full payment had been made (Hanna, 1976, p.21-22)¹¹. He also increased protection for the Debenture Holders, who already had a *prior lien* on assets, by creating a Sinking Fund or Guarantee Trust, which required regular instalments to build up capital in order to retire the dated debentures at maturity. These monies took priority over the payment of preference dividends which ranked before ordinary dividends which in turn depended on any remaining profits.

A Sample Brewery

Edinburgh United Breweries was incorporated from the amalgamation of four brewery partnerships in Edinburgh and Leith. A copy of the original prospectus (EUB 2/1/1) shows clearly the circles in which Ellerman was now moving¹². His office in London was the temporary address for the flotation, and associated with Ellerman as auditors was the Edinburgh accountancy firm of Moncreiff & Horsbrugh, while the Brokers included Panmure Gordon, Hill & Co of London. James Panmure Gordon was a close friend and associate of O'Hagan and provided him with links to underwriters. The Mortgage Trustee was the Commercial Union Brewery Investment Corporation Limited, one of the financial institutions which had developed to service the increased demand for capital by brewery companies.

These institutions were in fact investment trusts, and took up debentures as an investment for their own clients. Possibly the realisation of the potential of such institutions spurred Ellerman on to the formation of the Brewery and Commercial Investment Trust the following year. Independent auditors were not required until the 1900 Companies' Act but increasingly incorporations used them to add credibility to the flotations. In the case of Edinburgh United Breweries (Cottrell, 1980, p.41-42) the Auditors provided a report on the financial composition of the participating companies, and also included a forecast of dividends from the new ordinary shares. Unfortunately for the shareholders, this erred on the side of optimism in that the dividends were slower to arrive than had been expected.

Some of the newly-formed limited companies made extravagant forecasts of profits which never materialised before the company went bankrupt. There was a rather jaundiced view taken of those companies with illustrious boards of directors, a Member of

¹¹ Unexpected calls on part-paid shares eroded the limitation of liability.

¹² See Appendix 1, p.154.

Parliament to add the palm of probity, and little called-up capital. Publications such as *Fairplay*, the shipping magazine, like Gilbert and Sullivan, (Gilbert, 1893)¹³ also had no qualms in expressing their opinions about some new companies and their directors. One MP who appeared on the boards of several companies at this time was Theodore Fry, who in due course became Sir Theodore Fry, Bart. He was a director of Frederick Leyland and Co Ltd. and later a subscriber to the allotment issue of LLOS shares in 1901. Fry had some usefulness as an MP and may have been included in Ellerman's network. He also participated on the incorporation of at least two companies with very little paid up capital. Owen Philipps, a shipowning contemporary of Ellerman, founded King Line Ltd. Compare the difference in both nominal capitals and percentages paid up in these three companies with the two floated by Ellerman (table 3). The percentage of called up capital does not exceed, in the best case, 40 *per cent* while the worst is just 16 *per cent*. If the company failed, the liquidator would still need to call up the unpaid capital from shareholders. Usually, dependent on their own investment, the only beneficiaries from such undertakings were the directors and promoters.

Name of Company	Nominal Capital	Paid-up Capital	Percentage paid-up
Sadler & Co Ltd (1883)	£300,000	£50,000	16% (Fry)
National Liberal Land Club Ltd (1885)	£200,000	£49,317	24% (Fry)
King Line Ltd (Owen Philipps) (1893)	£ 50,000	£20,430	40% (OP)
Edinburgh United Breweries Ltd (1889)	£250,000	£250,000	100% (JRE)
Brewery and Commercial Investment Trust Ltd (1890)	£300,000	£300,000	100% (JRE)

Table 3. Comparison of nominal capital and paid up shares.

Compiled from *Burdett's Official Intelligence*, 1889-92.

Key: OP = Owen Philipps; JRE = John Reeves Ellerman,

Unfortunately bad company promoters persisted despite legislation and the warnings of financial commentators. One result was that financiers and companies with good reputations could rely on support from those investors seeking long term benefits.

¹³ *Utopia Unlimited*, (1893) by Gilbert & Sullivan:
 Some seven men form an Association
 (if possible all Peers and Baronets)
 They start off with a public declaration
 To what extent they mean to pay their debts
 That's called their Capital ...

Original in colour

Ellerman, O'Hagan (Kynaston, 1994, p.403-405) and other advisers like them had an interest in the long term prospects of a company, either to support their professional practices, or to provide continuing income and future growth, which appears to have been Ellerman's underlying motive in his business transactions.

Not Rags to Riches

Joining Quilter-Ball began a period of professional interaction with colleagues and acquaintances in Ellerman's career which culminated in 1886 when he started his own business as an accountant. Ellerman had been born into a comfortable professional family, and after leaving Grammar School at sixteen was articled to an accountant. It is likely that Ellerman became aware of the possible uses of capital when he lent money to his principal and exacted certain un-Victorian conditions of employment from him (Rubinstein, 1984, p.250). The time spent as an articled apprentice included experience with company promotion in addition to auditing, accountancy and bankruptcies. His two years with William Quilter probably included company flotations and broking.

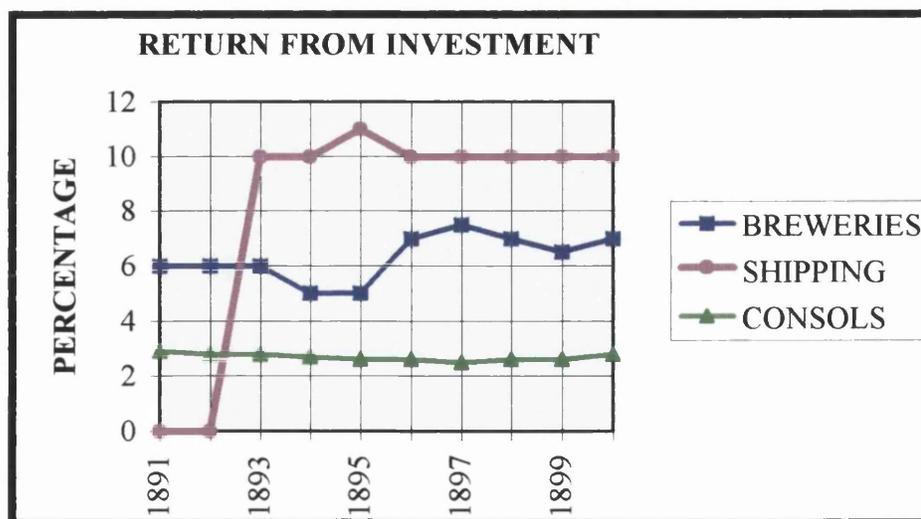


Figure 2. Return from investment. Sources: *Burnett's Official Intelligence; Fairplay; Mitchell and Deane (1962).*

During the period shown (figure 2), John Reeves Ellerman was chairman of both Leyland and Brewery and Commercial. The breweries dividends shown are for Brewery and Commercial deferred ordinary shares, which in eight out of ten years triggered the bonus for Founders' shares. The shipping dividends shown are for Leyland ordinary

shares, the preference shares bearing cumulative interest at 5 *per cent*. Consols (government securities) returned a more modest income but were considered 'safe'. Brewery shares returned more than consols but shipping could be even more lucrative.

Ellerman was very much a man of ideas and of action, so it is easy to understand why he started his own firm, and never became a chartered accountant. The latter would have circumscribed the environment required to develop his wide-ranging talents and exploit some of the contacts he had already built up.

Ellerman's first recorded incorporation was Johnson, Cole, Brier and Cordrey, Manufacturers, in 1886. It is probably around this time that Ellerman met Mattinson, as in 1889 the first two financial trusts were formed, United Discount and Securities Ltd (£360,000) and London General Investment Trust (£210,000). Financial companies and investment trust were associated with Ellerman's early business ventures (see table 4).

Name of Company	Issued Capital
London General Investment Trust Ltd (1889)	£210,000
United Discount and Securities Corporation Ltd (1889)	£360,000
Brewery and Commercial Investment Trust Ltd (1890)	£350,000
Total Capital	£920,000

Table 4. Companies with JRE as chairman. Sources: *Burdett's Intelligence; Breweries Manual Vol I; Directory of Directors Volumes 1886-1891*.

In the same year, T. W. Bischoff and Mattinson formed the Law Debenture Corporation, with a capital of £2,250,000. Ellerman incorporated nine breweries and Dandicolle and Gaudin, Exporters, of which B.H. van Tromp was chairman, with a total capitalisation of £1.6mn. In 1891 Ellerman floated Newcastle Chemical Works Co Ltd for the Allhusens, who were to become another integral part of the Ellerman network. W.A Allhusen was to become a director of Debenture Securities Investment Trust (£500,000) when it was formed in 1896¹⁴.

From 1895 Brewery and Commercial appears among the list of directors of various companies with which Ellerman seemed to have no public connection. Companies

¹⁴ See Appendix 3 p.156.

with shareholdings in other companies could be directors and appoint a nominee to attend board meetings and exercise the same rights as any non-corporate director.

Ellerman, at the age of twenty-eight, had found his place in a remunerative occupation and was already well known in financial circles. Through Bent's Brewery Co Ltd¹⁵ he had some connection with Walter Glynn, a Liverpool shipping agent and small scale shipowner, and possibly this link with Glynn gave rise to stories that he had an interest in shipping before joining Leyland (Morgan, 1942, p.256)¹⁶. O'Hagan mentions several breweries with which Ellerman's connection is confirmed either as an auditor or through Brewery and Commercial Investment Trust as Debenture Trustees.

Directorships indicate his influence, and his first three directorships were in financial trusts. In 1892 Ellerman added directorships in two more financial firms - Mercantile and Debenture Agency Co Ltd and G.H. Hammond and Co Ltd while the following year he added his first shipping and brewery directorships, making seven companies in all). From his paper holdings, he was certainly a millionaire and probably actually worth some £2,000,000.

COMPANY	DIRECTORS	DEBENTURE TRUSTEES
Nixey, Coleclough & Baxter Ltd	Baxter; E. Nixey; J. Coleclough	Brewery and Commercial Investment Trust
Cameron (J. W.) & Co Ltd	JRE	Brewery and Commercial Investment Trust.
Springfield Breweries	J. Jones; A.J. Ker.	Indian & General Investment Trust
Lion Brewery Co Ltd	JRE; M. Mattinson	JRE

Table 5. JRE and interests as debenture trustees 1890-1901.

It is from 1890 that Ellerman, and his companies, became involved as Trustees of Debenture Trusts (table 5). Trustees usually held possession of the collateral of the company, and had the power to realise the assets if debenture interest payments were not

¹⁵ One of the companies incorporated by Ellerman as an accountant and auditor in 1889.

¹⁶ 'It was a great moment for Ellerman when he joined the board of the Leyland Line in 1892. He had been dealing with shipping in a quiet way...'

met. It was not necessary for any of the Trustees to hold debentures, although in some cases Debenture Trustees were also directors of the company (UGD313/1/2/1)¹⁷.

The source of Ellerman's wealth has always been a matter of speculation, with suggestions by some biographers and obituary writers that he was already a millionaire by 1892. Finance and brewing were early sources of his wealth but without examining the various share registers it is not possible to know exactly how much he owned.

One method of wealth accumulation Ellerman used was the re-investment of dividends in the company, either by buying shares from other shareholders, or increasing the nominal capital and taking up the additional shares. He also invested in other companies and reliable sources for this lie in the public records of his directorships.

How much money he made is of minor significance compared with his considerable success as an auditor and company promoter against the competition of so many other and well established firms including Price Waterhouse, his ex-employers (now Quilter and Weldon), and the great Harwood Banner of Liverpool (*Fairplay* December 1892)¹⁸. In less than ten years from being an employee, Ellerman was employing established firms to carry out audits on his own companies. Investing in shipping through Leyland Line was another opportunity for a competent manager and good cost accountant. One industry was no different from any other in the disciplines required for profitability and rationalisation of operations. After all, the companies he had audited and incorporated for paying clients included both industrial and commercial firms. Ellerman had the rare and valuable faculty of being able to determine what was worth his time and money, and what was not. When, therefore, he was invited to participate in the Leyland flotation, he was already in possession of enough capital to buy the whole company if necessary. With a purchase price openly disclosed as £770,000 and a proposed capital issue of £800,000 - less than the companies he already controlled - Ellerman had access to sources of finance sufficient to buy it for himself. This, in effect, is what he did, although not immediately.

Entering into shipping - or even becoming a shipowner - did not mean relinquishing his other activities. When he became chairman of Leyland Line in 1893, he was already a director of six other companies. When he formed his own fleet in 1901, and for the first time described himself as shipowner, he was a director of ten companies in five of which

¹⁷ City Line Debenture Deed shows that two of the three trustees were directors of City Line Limited and also partners in George Smith and Sons, managers of City Line Ltd.

¹⁸ Harwood Banner and Co were 'at the top of their profession' as auditors to many reputable shipping companies; they also participated in the incorporation of Leyland Line.

Original in colour

he was chairman (figure 3). For a short period in 1901 Ellerman controlled not only the fleets he had purchased, but was still Chairman of Leylands, giving a total of almost 500,000 grt under his control¹⁹.

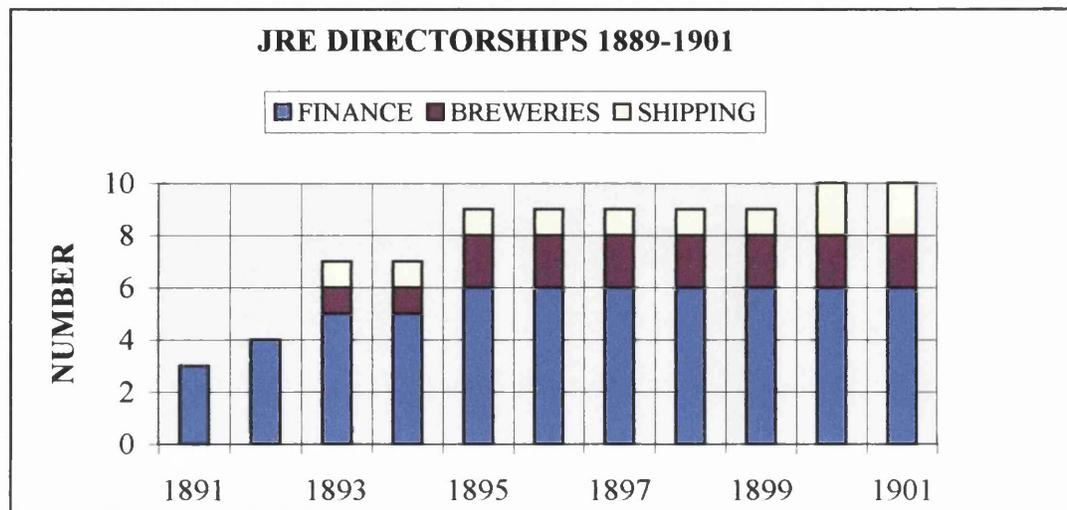


Figure 3. JRE directorships 1899-1901. Compiled from *Directory of Directors*, 1887-1902.

This period is the most crucial of Ellerman's career, as it set the pattern for his business behaviour in the following years. Some of those he met during the first years of company flotation joined the boards of his companies, and later supported his flotation of Ellerman Lines Ltd. It is significant that he concentrated first on the financial sector, and quickly gained confidence in operating what was, in essence, a fund management and venture capital business. Here Mattinson must have encouraged him and guided him to influential personalities in the financial world and the City of London. In the 1880s Mattinson gained a reputation among a small well-informed circle as the doyen of investment trusts, and Cottrell (1994) refers to his having been director of thirteen investment trusts in 1933.

Ellerman and Mattinson were joint holders of many Ellerman company shares, in addition to their personal holdings. Their relationship probably lasted for forty-five years, ending only at Ellerman's death in 1933. Ellerman also extended his investments in the

¹⁹ JRE's fleet now seventh in UK. While chairman of Leyland controls more tonnage than any other British company. *Fairplay*, 31st October 1901.

United States and it is possible that, through his American interests, such as the Peabody Trust, he came into contact with the Morgans during these years, building up a relationship before the sale of Leyland.

Ships and Shares.

In 1891, news of the projected flotation of the shipping firm Frederick Leyland & Co Ltd, produced scathing comment about the business credentials and ethics of Christopher Furness, Walter Glynn and O'Hagan, who were to be the first directors. O'Hagan was described as the nominal promoter acting for an un-named financier. The unscrupulous company promoter was never far from *Fairplay's* thoughts and its correspondent suggested that underwriting costs would be 15 *per cent* - which would go straight into the pockets of the promoters. With a nominal capital of £800,000, underwriting costs could be half as much as the ships were worth. The Lookout Man²⁰ was not constrained by thoughts of libel action. In the event his misgivings were unfounded - even although it was a company whose ships were described, in *Fairplay*, (9th December 1891) as 'a lot of old crocks' not worth £250,000. The capital of £800,000, in units of £10, would consist of £200,000 ordinary shares, £250,000 in 7 *per cent* cumulative preference shares, and 5 *per cent* debentures for £350,000 secured by registered mortgages on the ships. The price paid to the owners, effectively the estate of the late Frederick Leyland, was £770,000. Walter Glynn, described by *Fairplay* (9th December 1891) as 'not worth £6,000 a year', stayed as managing director for the whole of Ellerman's tenure.

By 1893 O'Hagan had gone and the new board included Theodore Fry, MP, and J.R.Ellerman. Val Prinsep, Royal Academician, and F.E.Speed, sons-in-law of Frederick Leyland, also joined the board and their chief recommendation would seem to be that their wives had inherited the Leyland legacies. By 1894 Ellerman was chairman, with Glynn, sole survivor of the original trio, still Managing Director (Taylor, 1976, p12)²¹. M. W. Mattinson, who was already established as a close colleague of Ellerman also became a director and this newly-formed board, three of whose members were to be Ellerman's close colleagues, remained unchanged until the sale to J.P. Morgan.

²⁰ The regular columnist in *Fairplay* who retailed rumours and facts of topical events.
²¹ Taylor refers to Ellerman as 'Chairman and Managing Director'. Other sources (including *Fairplay*, *Burdett's Official Intelligence* and the *Stock Exchange Official Intelligence*) show that W. Glynn was Managing Director of Leyland Line from 1892-1904.

In the following years the critics were confounded as Frederick Leyland and Co Ltd consistently paid ordinary dividends averaging 10 *per cent*. Under Ellerman, the fleet was modernised and a number of new ships were commissioned for the North Atlantic trade. In a joint venture with two other shipowners the Wilson-Furness-Leyland Line (WFL) was registered, in November 1896, with a capital of £350,000. The purpose was to run a passenger-cargo service between London and New York. The Directors were all shipowners: C.H.Wilson, MP, J.R.Ellerman, Sir C. Furness and A. Wilson, with ships being supplied from their existing fleets. Ellerman's newly formed Debenture Investment Securities Trust were Trustees for £200,000 of 4.5 *per cent* Debenture Stock. This board that Ellerman shared with the Wilsons was the beginning of a professional relationship which developed over the next two decades.

There had been speculation for some time, strengthened by a circular to Leyland shareholders, about the creation by Leyland (or Ellerman) of a shipping group valued at over £4,000,000 (*Fairplay*, 1st March 1900; 26th April, 1900). Atlantic Transport Co and even City Line of Glasgow were mentioned as possible targets for the new concern (*Fairplay*, 7th June 1900)²². These speculations were followed by rumours about a projected purchase of West India & Pacific Steam Ship Co Ltd (WIPS) which was eventually confirmed by Ellerman in a circular to shareholders on 30th May 1900. Other companies trading in the South Atlantic, including Harrison's of Liverpool, were concerned about the loss of a congenial competitor (WIPS) to a rival of unknown intentions (Hyde, 1967, p.31.). However, there was hardly time to determine the Leyland strategy as, in the event, it was J.P. Morgan who put together the International Mercantile Marine (IMM), a multi-million dollar shipping group, and Ellerman who sold him the re-incorporated Leyland (Frederick) & Co (1900) Ltd. This now included the former WIPS and a majority shareholding in Wilson and Furness-Leyland Line (WFL).

The values of the three companies before the merger (£1,853,500) may be compared with the prices paid at the merger (£3,501,500). Leyland Line original £200,000 ordinary shares remained unchanged, but the original £250,000 7 *per cent* preference shares were augmented by £200,000 5 *per cent* cumulative preference shares, and the debenture issue was increased from £350,000 to £500,000. This new issue of shares made the new nominal capital of the company £1,229,500, so the sale price shows 177 *per cent*

²²

Frederick Leyland & Co Circular to shareholders, 30th May 1900.

capital gain. West India and Pacific Steamships did even better, with a capital gain of 315 *per cent*.

One question frequently asked is how Ellerman - or Leyland - could have afforded these purchases of West India and Pacific SS Co Ltd and Wilson and Leyland-Furness in 1900. It has been suggested that buying WIPS over-extended Ellerman, and was a reason for the sale to IMM (Green and Moss, 1982, p.79). The purchase money for Leyland was £2,179,000 and for WIPS. £1,008,000, while WFL. was sold for only £10,000 above the capital value (see table 6).

Company	Value of cash, shares and debentures of vendors				Purchasers'	
	Cash	Shares		Debenture	Total	Sums paid
		Ordinary	Preference			
WIPS	n/a	£320,000	n/a	n/a	£320,000	£1,008,000
Leyland	£79,500	£200,000	£450,000	£500,000	£1,229,500	£2,179,500
W & F-L	n/a	£150,000	£150,000	£4,000	£304,000	£314,000
TOTAL					£1,853,500	£3,501,500

Table 6. Frederick Leyland and Co. Ltd mergers 1900.

Key: WIPS = West India and Pacific Shipping;

WFL = Wilson and Furness-Leyland.

The nominal capital of the new company, Frederick Leyland (1900) Ltd, was £2,800,000 of which £1,500,000 was issued in cumulative 5 *per cent* preference shares and £1,300,000 in ordinary shares, of £10 each. The only cash came from the sale of preference shares to the public, the rest of the 'added value' was obtained by bonus issues of shares to those remaining with the new Leyland Line and who had an option for shares and/or cash. 15,032 of the preference shares were reserved for exchange with preference shares of Wilsons-Furness-Leyland Line whose shareholders had no options but to swap the preference shares, and sell the ordinary shares to Frederick Leyland (1900) Ltd. Since the directors held most of the shares, this did not affect the public.

The holders of Leyland 4.5 *per cent* cumulative preference shares were offered one new 5 *per cent* cumulative preference share plus 11s 3d in cash, or £10.11s 3d in cash. For other Leyland shareholders the most attractive part of the deal was the offer of seven new 5 *per cent* preference shares and 17s 6d in cash, or £14 a share in cash, for five of the old 7 *per cent* cumulative preference shares, while six new ordinary shares would be exchanged for one old ordinary share, which was effectively a 600 *per cent* bonus in addition to the continued high dividends paid by Leyland since Ellerman became chairman.

There were £85,000 unissued preference shares, and the majority of Leyland shareholders exchanged their existing shares for the new issue at the appropriate rate. The majority of WIPS shareholders took £893,320 between them in cash, with only £114,680 converting to new shares. Comparing the capital of £300,000 with the price of £1,150,000, this is not surprising. Ellerman and the other directors of Frederick Leyland (1900) owned most of the ordinary shares between them, and none was offered to the public. The Public subscription (restricted to preference shares) of £750,000 covered more than two-thirds of the cash price called for by existing share-holders - most from West India and Pacific SS. Co Ltd (table 7). Little cash passed from Ellerman in the transaction and it is hardly surprising that IMM later lost out in the Leyland deal.

	Cash transactions		Exchanges for shares	
	Paid out.	For Preference	Preference	Ordinary
Leyland	£79,000		£450,320	£1,150,000
WIPS	£893,320		£64,680	£50,000
WFL			£150,000	
Public		£750,000		
Totals	£972,320	£750,000	£665,000	£1,200,000
Total paid up shares.			£1,415,000	£1,200,000
Balances	-£222,320	Unissued shares	£85,000	Nil

Table 7. Frederick Leyland and Co. Ltd cash and shares 1900. Key:
WIPS = West India and Pacific Shipping;
WFL = Wilson and Furness-Leyland.

After eight years of consistently good dividends, Ellerman had turned one company (Frederick Leyland & Co Ltd) with an ageing fleet and a capital of £800,000 - including debentures - into another company (Frederick Leyland (1900) Co Ltd), with a capital of £2,800,000 and a reasonably modern fleet of 70 ships. Whence came the added value? Some came from WIPS which appears to have been grossly undervalued at the time of acquisition, while Ellerman's additional capital for the original Leyland was in the form of an extra £200,000 preference shares, and £150,000 extra debentures which increased the gearing to something like 4:1 (ratio of preference and debentures to ordinary shares), although this was counterbalanced by an increase in fleet values. Ellerman had transformed

the inherited fleet by a combination of retro-fitting some with modern engines and boilers, building new tonnage, and getting rid of the ‘incorrigibles’ to produce a book value for Leyland of £1,800,000. The net assets of the new company, including steamers building, now amounted to £3,000,000. Preference shares and debentures totalled £1,915,000 and ordinary shares £1,200,000, so the gearing was now only 1.6:1 compared with 4:1 for the old Frederick Leyland and Co Ltd.

The timing of the expansion is interesting, as it coincided with a growing demand, in the United States, to restore its own merchant fleet to what it had been in the days of sail. Rumours of a large combine had been rife for some time, and Ellerman had been cast in the rôle of predator. Certainly, the concern he had created from the original Leyland Line was now a major force on the Atlantic, in addition to having an established presence in the Mediterranean.

	Shares			
Original shareholders:	Ordinary	5% Cumulative Preference	Un-called Preference	4% Debenture
WIPS	£50,000	£64,600	n/a	
Leyland	£1,150,000	£343,680	n/a	
WFL	n/a	£150,320	n/a	
Public	n/a	£750,000	n/a	
Total	£1,200,000	£1,415,000	£85,000	£500,000

Table 8. Frederick Leyland and Co. Ltd share distribution 1900.

- Notes: 1. The majority (95.8 per cent) of the ordinary shares went to existing Leyland ordinary share-holders - effectively JRE and fellow directors or descendants of Frederick Leyland.
2. The uncalled preference shares were acquired by Ellerman at the time of the sale to IMM.
3. In order to vary the Articles of Association, Ellerman obtained a private Act of Parliament.

Source for tables 6, 7, 8 and associated text: *Stock Exchange Official Intelligence, Volume XIX, 1901*, p.1782.

Original in colour.

Incorporation of the new company enabled Ellerman to restrict the ordinary shares to existing ordinary shareholders and offer the public *5 per cent* Cumulative Preference shares. The distribution of shares in Frederick Leyland (1900) Co Ltd and the structure of the new company illustrates Ellerman's ability to retain both control of a company and the confidence of shareholders by stressing the guarantees provided for preference and debenture holders compared with the ordinary shares (*Fairplay*, May 10th 1901)²³ which were more of a speculation.

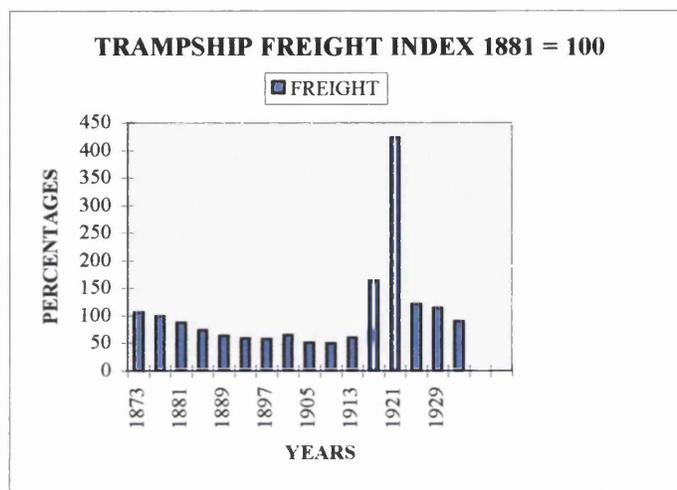


Figure 4. Tramp freight index 1873-1933 (1881=100). Compiled from Mitchell and Dean, (1962), p.224-226.

To a certain extent luck was on Ellerman's side. The Spanish-American war of 1898 and the South African War of 1899-1902 led to an increased demand for transports and stores ships. The tramp rates reflect the absence of liners from their established trades with a consequent demand for tramp tonnage (figure 4). Ellerman built up Leyland Line in a period of rising freights, disposed of it to Morgan when rates were beginning to slide, and acquired his new companies at a time of falling rates. A good judge of the market.

Sale of The Century.

On the 29 April 1901 two circulars were sent to shareholders in Frederick Leyland (1900) and Co Ltd. - one from the chairman, John Reeves Ellerman, the other from the company secretary, George Goldsworthy. Both contained the same information - the proposed sale of Leyland to J.P. Morgan, as part of the International Mercantile Marine Corporation he

²³

Report of Ellerman's speech to shareholders at Extra-ordinary General Meeting of Frederick Leyland (1900) Co Ltd.

was forming, and the proposed sale to Ellerman of the firm's Mediterranean and Antwerp ships with agencies and management, all subject to approval by the shareholders.

The first annual general meeting of the new company on 3rd May 1900 heard the chairman announce that the half-year to December 31st 1900 had been one of great prosperity, particularly from government work associated with the Boer War²⁴. Dividends of 5 *per cent* would be paid on the preference shares, while the ordinary shareholders would receive 6 *per cent* - the maximum allowed until a Reserve Fund of £750,000 had been accumulated. £370,000 was transferred to the Reserve Fund, and £454 17s 5d carried forward to the next year. The balance sheet (*Fairplay*) shows that there were no liquid assets except £6,217 cash in hand. Dividends as shown in the profit and loss account include current dividends payable in addition to dividends accrued.

The next business was to discuss and approve the sale of shares to J. P. Morgan, and to approve the sale of the Mediterranean and Antwerp ships from Frederick Leyland (1900) and Co Ltd to J. R. Ellerman as an individual. Ellerman briefly explained that his sale of shares to Morgan was contingent on his agreement to stay out of the Atlantic trades for fourteen years.

Subject to this agreement Ellerman undertook not to participate in the North Atlantic trade for 14 years; would resign as chairman of Leyland on 31st December 1901 and would cease all reference to Leyland in his shipping business within one year of purchasing the Mediterranean steamers.

(*Fairplay*. 10th May 1901)

As this would be a restriction on JRE's use of capital should he remain in shipping, the sale was made dependent upon the transfer of the ships and trades described above. The price agreed was £320,000 to be paid direct to Leyland, not Morgan or IMM. Reasons given by Ellerman for the sale of Frederick Leyland (1900) & Co Ltd were: the future of the North Atlantic trade, which was almost entirely in an East-bound direction; the proposed introduction by the United States of subsidies to American shipping lines²⁵ and 'the influence of Messrs Morgan to [*sic*] the great railway systems of the United States' (*Fairplay* Vol 36, May 9th 1901, p.734)²⁶.

²⁴ The South African War meant an increased demand for tonnage - particularly as troop- and horse- transports.

²⁵ These subsidies were never introduced and IMM suffered for having made a false assumption.

²⁶ Report of JRE's speech to at the Leyland EGM.

The Mediterranean ships, on the other hand, did not fit with the other IMM acquisitions, current or proposed, and so offered Ellerman an opportunity to develop his own markets in trading from the UK with an existing network of agents and shippers (*Stock Exchange Official Intelligence 1902, Volume XIX*, p.1765).

John Reeves Ellerman announced (*Journal of Commerce* 1st May 1901) that he had sold the whole of his 71,000 ordinary shares in Leyland to J.P. Morgan for cash, and had arranged similar terms for all other ordinary shareholders if they so wished. Since the price of the offer was some £14.5 for each £10 share in Leyland (1900), and at the 1900 re-incorporation original shareholders of the 1892 company had received six new ordinary shares for each old share, this provided a capital gain of some 600 *per cent*. New shareholders showed a profit of 45 *per cent* on each £10 share bought in 1900. All accepted the offer, and IMM had added another British company to its portfolio. Ellerman then announced that he was retaining his £180,000 of preference shares in Leyland Lines (not affected by the Morgan offer) and his co-directors would retain their £120,000. He therefore offered to buy up all the remaining Preference shares (*Stock Exchange Intelligence 1902* p.1765) at par plus accrued interest, payment to be made before 27th July 1902, on one month's notice by the purchaser. Ellerman, together with Mattinson and Speed, eventually owned most of the 141,500 Preference shares issued. Ellerman then announced a commission of 2shillings/share on the IMM deal, to be paid by the purchasers, which he would match with an equivalent sum. The total (£24,000) to be disbursed [by Ellerman] at his discretion for various purposes connected with the arrangement with Morgan (Rubinstein, 1984, p.250). At the incorporation of Frederick Leyland and Company (1900) Limited, Ellerman had structured the shareholding in such a way that the votes of ordinary shares, of which he held the major proportion, were worth five times as much for each share as the votes of preference shares). Ellerman pointed out to the other shareholders that he had enough personal votes to carry the motion for sale to Morgan (*Fairplay*, 9th May 1901)²⁷.

With 34 per cent of the issued capital, Ellerman retained over 50 per cent of the voting power in his own hands. If the other directors' shares are added to his, the control of voting power was even greater. Not only did Ellerman hold a significant number of preference shares, he could rely on the holdings of Mattinson which would have been used to support his plans, if necessary.

²⁷ Report of chairman's address to Leyland Line shareholders.

Approval of the sale was a foregone conclusion and the genesis of the Ellerman Lines Limited was assured (see table 9).

Shareholder	Class of Share		Voting rights	
	Ordinary	Preference	Ordinary 1 for 1	Preference 1 for 5
Ellerman	71,000	18,000	71,000	3,600
Directors	17,668	12,000	17,668	2,400
Others	31,332	115,000	31,320	22,300
Totals	120,000	141,500	120,000	28,300
Ellerman's percentage of votes			59.16 per cent	12.7 per cent

Table 9. Frederick Leyland and Co. Ltd shares and votes 1901.

It is time now to look at Ellerman's financial situation to see if he had become a multi-millionaire by 1901. Starting with the re-incorporated Frederick Leyland (1900) Ltd, his ordinary shares were worth £710,00 at par, while his preference shares were probably worth about £180,000. The sale to Morgan of Ellerman's ordinary shares produced £1,029,500 in cash, which plus his preference shares amounted to almost £1.25 million pounds. To this must be added probably another million from his financial trusts, and another £1,000,000 from his brewery interests. This is based on records in the public domain, so does not include any colliery interests he may have acquired, or investments in other companies of which he was not a director. By 1901 Ellerman's investment trusts were acting for 25 companies with £3,000,000 total capital. His colleague Mattinson, with the Law Debenture Corporation, was also prominent in investment trusts, and was acting for seven companies with a total capital issue of £900,000. In addition, Ellerman, Mattinson and Eves held directorships in six UK and six US breweries between them, while Brewery and Commercial Investment Trust was director of another four. Ellerman's direct involvement amounted to a total capital of £3,000,000, of which he probably owned at least a third, giving a conservative estimate of £1,000,000. In 1901, before leaving Leyland Line, he was probably worth some £4,000,000 in cash and paper from ten companies.

E Tenebris

It would stretch credulity to regard Ellerman's sale of Leyland to Morgan and subsequent rapid acquisition of five fleets as spur of the moment decisions. The new company was incorporated in September, 1900, and the sale to Morgan completed in April 1901. Legally the shareholders had to approve, but as Ellerman pointed out, he held the majority of shares anyway. As the negotiations included the acquisition of the Mediterranean traders, it is likely that he had been considering other purchases for some months. In May 1901, the month in which the sale to Morgan was announced, he bought Papayanni Line's eight ships with their trades on his own account for £136,350 including goodwill. He intended to operate them with the ex-Leyland vessels, now known as Ellerman Line, from Liverpool. Being barred from entering the North Atlantic, his eyes turned East, and City Line was an obvious candidate for takeover. Death of the the major shareholder and chairman, George Smith, had left most of the capital of the company with two sons, one of whom had no interest in shipping. In addition, City Line had been mentioned, a year earlier, as a possible target for the £4 million group being considered by Ellerman. Hall Line was also known to be in financial difficulties, and to have no obvious management successor from the major shareholders and original founders, the Alexander family. Ellerman incorporated London, Liverpool and Ocean Steamships in June, and in August added City Line of Glasgow to his personal fleet. Hall Line of Liverpool was next, and Wescott and Lawrence followed, completing the first wave of fleet-building .

The speed of acquisition was commented on by the shipping press:

Vessels bought by John Reeves Ellerman in the last six months amount to 207,767 grt, making this the seventh largest fleet in the United Kingdom. At this time Mr Ellerman is still Chairman of Leyland Line with 227,409 grt, so that he controls altogether 480,000 grt, more than any other company or firm in the United Kingdom. The ships are to be incorporated into London Liverpool and Ocean SS Ltd, later to be changed to Ellerman Lines Ltd (*Fairplay*, Vol. 31, 31st October 1901).

The agreement with IMM called for Ellerman's resignation as Chairman of Leyland on 31st December 1901, that board now included William Pirrie, of Harland and Wolff, (who had been advising IMM) while M. W. Mattinson and F.E. Speed were elected to represent the Preference shareholders (*Stock Exchange Intelligence 1902*, p.1765).

Ellerman's progress within the business world can be traced by the changing descriptions of his rank or occupation in the *Directory of Directors* from 1888 onwards. He appears as *J.R. Ellerman and Company, Accountants* until 1890, after which the entry is simply *J.R. Ellerman and Company*. From 1892, however, we see *J.R. Ellerman, gentleman*, and from 1902 as *J.R. Ellerman, Shipowner*. From 1905 he is *Sir John Ellerman, Bart*, but clearly still regarded shipowning as his primary interest. No account is taken of the Debenture Trusts where one or other of his financial undertakings acted as Trustees, nor of the interests in publishing and mining which he is reputed to have built up over the years between 1890 and 1913. The companies' issued capital is used as the criterion for comparison, and it is reasonable to assume that, as chairman, he had a controlling interest in those companies. He also retained a majority of preference shares in Leyland Line with two nominees appointed as directors to safeguard his interests²⁸. Even so, were he to have owned only thirty *per cent* of the shares in the companies represented in this chapter it was still a sizeable fortune.

At his death in 1933 (the trough of the depression) his estate was valued at almost £40 million - so his public investments represented slightly more than 25 *per cent* of his total wealth. There was growth of his financial, brewing and shipping interests from 1888-1914. This chapter shows the extent of his shipping interests, and, with the exception of SSA, only those companies of which he was publicly recognised as a director. Bucknalls is omitted, since he was not a director and between 1906 and 1913 he controlled the company as Manager, with his nominees as directors. Ellerman resigned from the board of Wilson Furness Leyland Line, in accordance with his agreement with J.P. Morgan, and Mattinson replaced him.

After the formation of Ellerman Lines Ltd there is much more detail about the scope and breadth of Ellerman's activities. As the minute book of London, Liverpool and Ocean Steamship Co Ltd shows, he effectively exercised his investment and underwriting skills for the mutual benefit of the Company, its shareholders and himself. His shipping companies benefited from the strict control over assets shown in his commercial undertakings and also from his access to capital.

²⁸

It was not expressed so blatantly - M.W. Mattinson and F.C. Speed were fellow directors of Ellerman Lines Ltd and were appointed to the board of Leyland Line 'representing the shareholders of preference shares'. *Stock Exchange Intelligence 1902*, p. 1705.

In all the shipping companies Ellerman acquired, the inherited debenture debt was reduced and eventually retired. Not surprisingly he preferred to receive interest rather than pay it and so no debentures were issued by Ellerman Lines Ltd. Even before LLOS was incorporated, Ellerman had lost no time in arranging banking facilities for discounting bills and providing overdrafts for the new company. He also embarked on an investment programme, buying UK and foreign quoted shares and Government bonds. There was underwriting of new issues, and loans made to various companies, the latter well secured by deposited shares or legally binding guarantees from a third party. There is little mention of shipping apart from the trading in Leyland Line Preference shares, which Ellerman was buying from the original shareholders and selling on to the Company.

All the ex-Leyland ships were registered in his name (*Lloyd's Registers, 1902 and 1903*). and continued to wear Leyland colours. Under the agreement with Morgan, Ellerman had to discontinue any reference to the Leyland Line after one year, and soon operated the ships under the name of Ellerman Line. In his speech to the Leyland shareholders Ellerman had stressed that the North Atlantic embargo referred to him personally, and anyone else from the Leyland company was free to trade on his own behalf in the North Atlantic. On the 5th June, 1901, Ellerman formed the LLOS with a nominal capital of £1,400,000; he was chairman, Mattinson, and Prinsep joined him as directors, and F.G. Burt became secretary. By the time the company changed its name to Ellerman Lines Ltd, in January 1902, Ellerman had created a powerful shipping group and was rapidly being recognised as an important figure in shipping.

With his wide personal circle of informants among political, financial, commercial and industrial circles his fellow directors would supplement his intelligence with their own contributions. He was also as much at home on the Continent of Europe, France in particular, as in Britain. Unlike many of his fellow ship-owners, Ellerman evinced no overt interest in politics, but maintained contacts with MPs through his directorships. Certainly, he made no secret of his opposition to regulation of any sort, and probably supported the Parliamentary Shipping Group, a lobby of MPs and shipowners. His view of current affairs and future movements in trade and business drew on wider sources than his peers.

Ellerman's continuing involvement with Leyland Line and IMM shows how commercial advantage may be blended with network expansion. Having decided that the North Atlantic was not the market of the future, he nevertheless remained the major Leyland preference shareholder. He had his own nominees on the board of the company and in 1909 Debenture Securities and Investment Trust became the Trustees for the debenture holders.

At the reorganisation of Leyland Line in 1908, when large sums were written off, the security of the debenture and preference shareholders was strengthened by floating charges in their favour. He also had some connection with IMM and its subsidiaries through his Shaw Savill and Albion holdings - SSA had four ships of its own, and thirteen owned jointly with Oceanic Steam Navigation Company (Green and Moss, 1982, p.79; p.134; p.144). Ellerman's continuing involvement with Leyland Line and International Mercantile Marine formed part of his overall strategy for maintaining relationships with peripheral adjuncts to his networks. Because of the financial constraints he could exercise as an outsider, he was assured of co-operation from the insiders.

As detailed above, it is difficult to believe that all this just happened, despite what contemporary journalists may have said. There was a smoothness about the whole operation which suggests a great deal of homework to select companies which would meld into one unit - which is what Ellerman succeeded in doing. Earlier in this chapter reference was made to Ellerman's ability to select and keep loyal and competent employees. Most of those joining him from the various companies taken over stayed with him until death or retirement, with very few exceptions. His other interests were not ignored, and although they were not brought into Ellerman Lines Ltd, there was a mutual self-interest which proved useful. In 1901, therefore, Ellerman had directorships in companies worth, in aggregate, over £6mn, (this excludes other interests such as collieries which are not publicly recorded). The next decade was to prove the most active of his career, and his fiftieth anniversary saw the culmination of his genesis as a shipowner - after that milestone of maturity he was faced with unforeseen problems engendered first by war, and then by peace.

Original in colour.

CHAPTER 3 - FINANCES AND FLEETS

Strategy and Tactics

The directors' minute book of London, Liverpool and Ocean Steamships, gives a clear indication of the direction of the new company from its early days, and shows how Ellerman successfully combined his private interests with those of the shareholders for mutual benefit. The first meetings were taken up with the statutory procedures inherent in the formation of a company, but at the fourth meeting, on 4th July 1901, after share allocations had been agreed, the chairman announced various financial transactions on behalf of the company. Bank accounts were to be opened with the Bank of Liverpool, Ltd, London City and Midland Bank Ltd and Lloyd's Bank Ltd (UGD131/2/1/1 p.3). The board resolved to borrow from Lloyd's Bank and London City and Midland Bank 'sums not exceeding £25,000 each, temporarily' (UGD131/2/1/1 p.6). Ellerman also announced arrangements for an overdraft up to £80,000 with the North and South Wales Bank Ltd (UGD131/2/1/1 p.25).

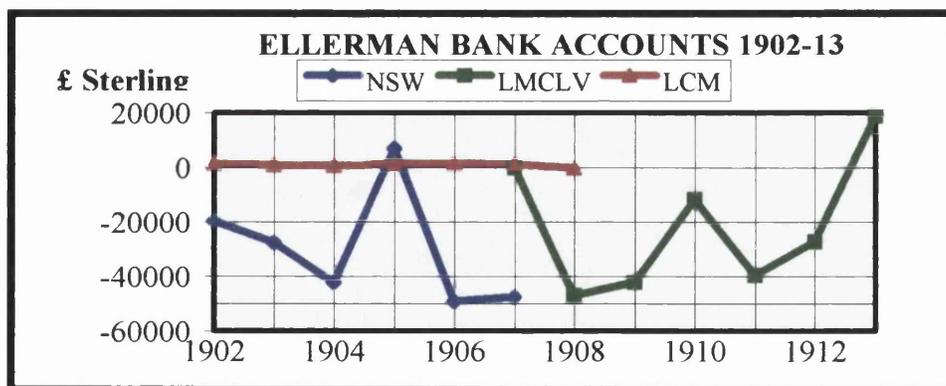


Figure 5. Ellerman bank accounts 1902-13.

Key: NSW = North and South Wales Bank; LMCLV = London Midland and Counties Bank (Liverpool); LCM = London City and Midland Bank.

Compiled from UGD131/2/1/1.

Notes. The London City and Midland Bank and the North and South Wales Bank provided funds for shipowners, with rates varying according to the reputation of the company (Boyce, 1995, p.240-241; 328-329). In 1908 the Banks merged but Ellerman retained separate accounts with the new branches and maintained his overdraft with the London Midland and Counties Bank (Liverpool) successor to the North and South Wales Bank (Pressnell and Orbell, 1985, p.81).

Original in colour.

These financial transactions included underwriting new issues of shares and debentures: £30,000 with the United Discount and Security Company²⁹ and £20,000 to City of London Contract Corporation and the London and Chicago Contract Corporation. The loan was secured by Debenture stock of the Associated Portland Cement Manufacturers (1900) Ltd (UGD131/2/11, p.5-6)³⁰. On 15th July 1901 the securities purchased by the Company totalled £80,800. In addition to Consols and foreign railway stock, they included shares in Debenture Securities Investment Trust, New Investment Company Ltd, and breweries in which Ellerman had an interest. On 21st September 1901 another tranche of investments brought the total to £468,477.

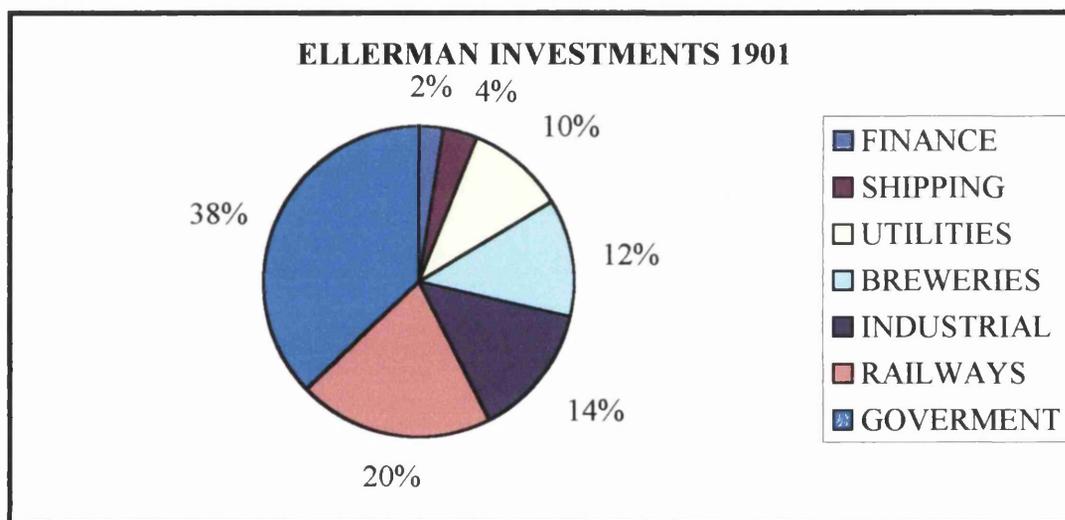


Figure 6. ELL investments 1901.

The next meeting, on 8th July 1901 (UGD131/2/1/1 p.8), dealt briefly with the proposed agreement between Ellerman and the Company, confirming:

1. Ellerman's position as chairman and remuneration.
2. Guarantee of Preference shares' dividends by J.R. Ellerman.
3. Business of the Company 'to be conducted so as not to create a breach of John Reeves Ellerman's Agreement with Messrs Morgan'³¹.

²⁹ This was a vehicle of Earl St Davids, a brother of Owen Phillipps (Lord Kysant).

³⁰ .O'Hagen was a director of both companies to which loans were being made, and also involved in an attempt to amalgamate firms in the cement industry.

³¹ Ellerman undertook not to participate in the North Atlantic trades for fourteen years; would resign as chairman of Leyland Lines (1900) Ltd on 31st December 1901, and would cease all reference to Leyland in his shipping business within one year of purchasing the Mediterranean steamers.

Three directors and one secretary controlled this company. Frequently only two directors were present, and on occasions when two were absent the Company secretary, F. G. Burt³² was appointed temporary director so that he and the remaining director could comprise a quorum and take decisions on Company business.

The ex-Leyland ships and the Papayanni business were bought before the ink was dry on the agreement with Morgan, and the cost was minimal. Together, in cash for Papayanni and International Mercantile Marine shares for the other, Ellerman paid £300,000 for 28 ships with associated agencies and managers. City Line of Glasgow is reputed to have cost £1,000,000, and included Ship Managers George Smith and Sons, Glasgow, and the associated firm of Montgomerie and Workman, Agents and Brokers, London. The price of Hall Line was the redemption of debentures and about £400,000 for shares which included Robert Alexander's management business.

All these deals were made by Ellerman on his own account before London, Liverpool and Ocean Steamships was incorporated on 28th June 1901 (UGD131/2/1/1, p.2). The Minute Book shows how these companies were passed on to the new Company, and how Ellerman minimised cash payments. Ellerman Line (ex-Leyland ships) and Papayanni were not limited companies, had no boards of directors and were simply shipowning and management firms. All City Line shares were transferred to Ellerman in August 1901; with the exception of the nominee directors, the only shareholders were Ellerman, Mattinson and Ellerman Lines Ltd(UGD131/1/3/4). Hall Line was a limited company and the majority of shares belonged to Ellerman until August 1902 when they were transferred to Ellerman Lines Ltd (UGD131/6/1/2)³³.

The first mention of shipping in the directors' minute book (UGD131/2/1/1) was on 3rd September 1901, when a 'proposal for purchase from Mr John Reeves Ellerman of the Mediterranean steamers and business³⁴, Papayanni steamers and business, and his interest in City Line was fully discussed'(UGD131/2/1/1 p.12). The Chairman disclosed that he had purchased the second-hand steamers *Maplemore* and *Pinemore* for £71,000 each. Both ships had been delivered and £72,000 paid on account, with his personal bills on behalf of the company for the balance. The Chairman pointed out that, as he had entered into the contract before incorporation of the Company, it could be rejected. The proposal,

³² F.G.Burt had joined Ellerman when he opened his own company in 1886..

³³ Nominee directors held qualifying shares. Solicitors Hill Norton also held some shares.

³⁴ Later Ellerman Line - not to be confused with Ellerman Lines Limited, the parent company.

however, was approved, and 'it was agreed to indemnify Mr Ellerman in respect of the said bills' (UGD131/2/1/1 p.12-13).

The Chairman next reported that he had made an agreement with Messrs F. Leyland and Co Ltd to run *Maplemore* and *Pinemore* in Leyland Line; *Maplemore* was currently on charter to HMG with horses for the South African campaign. He then added that he had bought all the shares in City Line Ltd together with the ships and the business of George Smith and Sons. This purchase was:

originally made entirely on his own account but in the course of the negotiations he arranged with Mr Mattinson who was the only director of the Company available that as to one half of the shares in the City Line the purchase should be on behalf of this Company on the terms set out in an agreement signed by Mr Ellerman'. After consideration (Mr Ellerman not voting as being an interested party and possibly receiving a profit) the proposal was agreed.

The new City Line directors were Messrs Mattinson, Prinsep, Mollet and Burt (UGD131/1/1/2 10th August 190)³⁵. In connection with the purchase of City Line Ellerman had ordered a new steamer for which certain securities of his own and the Company had been deposited with an unnamed Bank. Three foolscap pages in the Directors' Minute Book and Ellerman had disposed of City Line, bought and chartered out two other ships, and had proposed that all his shipping interests be taken over by the Company. On the sixth September 1901 further investments totalling £468,477 were announced, with a report on underwriting business and loans to various companies, including £40,000 to the brewers J.H. Cameron and Co Ltd.

The companies acquired were based on the West coast - Glasgow and Liverpool. In order to extend his operations to the other side of the United Kingdom Ellerman purchased the nine steamers of Westcott and Laurence. These cost £67,000 and the agency of Westcott and Flint (Antwerp) was added for a further £17,000. The insurance risk of these steamers would be borne by Ellerman, who would run them as single ship limited companies, each with a capital of £2,000 in £1 shares. He then proposed that a new company called Westcott and Lawrence Limited be formed to acquire the businesses of Westcott and Lawrence and Westcott and Flint (Antwerp). The capital would be £10,000 in £1 shares and completion date was arranged for the 22nd January 1902.

³⁵ Meeting held at 10, Moorgate Street, London.

After the excitement of acquisition, financial reporting drifted into a pattern of bank statements, dividends and investments. Unfortunately final figures only are given, and the minute books of City Line and Hall Line give very little detail. In August 1902 Ellerman offered to the Company 'such sums as may be required not exceeding £250,000 at any one time at 5 *per cent* interest for two years from this date'. Also, £259,000 was to be transferred from the Ellerman Lines Ltd's Purchase Account to the debit of City Line in respect of the half share of the Line included in the sale to Mr Ellerman. It appears that the purchase price for City Line would be paid from the earnings of the shipping company. In the City Line Balance Sheet for 1908 an entry shows 'interest of £789:18s:4d paid on Sir John Ellerman's Loan'. W.S. Workman refers to repayments made to Ellerman, and the amount outstanding (UGD131/1/13/3; 15 May 1915)³⁶.

There were also advances to Ellerman for purchase of Leyland Line preference shares of 5,460 from Mrs Speed and 6,796 from Mrs Prinsep. All shares were to be held in Ellerman's name in trust. Ellerman had also sold to the Company 3,000 Leyland preference shares with accrued interest for £30,235, and £70,000 had been deposited with him at bank rate in connection with the sale of City Line. Finally, details of a loan arranged with the London City and Midland Bank of £90,000 at Bank Rate + 0.25 *per cent* on six months notice, and then the proposed agreement for taking over Ellerman's shipping interests was considered. The chairman did not vote, as he was an interested party, and the draft was sent to the Company's solicitors for preparation of the formal agreement.

On 19th September 1901, after a report on transactions in securities, the Chairman announced that he had bought Hall Line and its management business Robert Alexander. Five days later London, Liverpool and Ocean Steamships shares were transferred to the Workmans³⁷ and William Service Workman was appointed General Manager of City Line Ltd. In addition to shares for W.S. Workman and his wife, shares were also transferred to Robert and George Smith, Montgomerie and Workman, and Workman Clark - all ex-shareholders in City Line - so the London Liverpool and Ocean Steamship shares may be

³⁶ Letter dated 15th May 1913 from W.S. Workman, Manager of City Line, to Sir John Ellerman: '... £15,500 redeemed 1st May 1913. £62,000 outstanding to be paid off by May 1916'.

³⁷ The Workman family were among the original shareholders in City Line Ltd.

Original in colour

seen as a 'share swap' which is an example of Ellerman's reluctance to use cash when paying for anything. (UGD131/2/1/1 p.21).

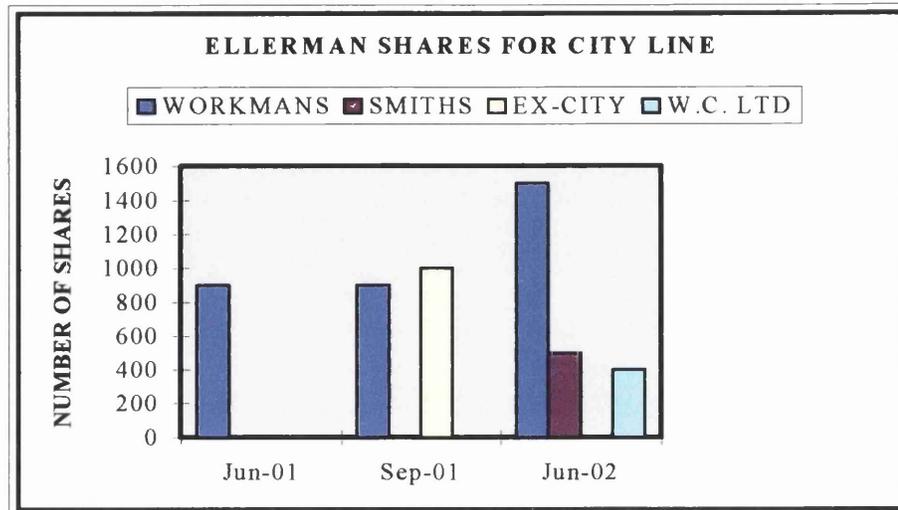


Figure 7. Ellerman Lines Lld shares for City Line shareholders.

Key: Workmans = W.S. Workman, R.A. Workman and E. Montgomerie;

Smiths = George Smith IV, Robert Smith;

W.C.Ltd = Workman Clark and Co. Ltd.

Ellerman purchased Hall Line himself, and committed the Company to a half-share, with the proviso that 'should the agreement for the Company to take over all his shipping interests go through, they would include Hall Line'. He then detailed arrangements made with the North and South Wales Bank for a bill of £100,000 and an overdraft of £80,000. As security for the bill and the overdraft, 10,000 preference and 9,000 ordinary Hall Line shares of £10 in the joint names of Dickson and Hill, solicitors, were to be deposited with the Bank, one-half of the shares to be transferred back to the Company on payment of the bill. Ellerman had also given personal guarantees for £125,000 advanced from Lloyds Bank on security of the Bevan Mortgage of £20,000 on Messrs Bevans' cement works at Northfleet (UGD131/2/1/1/1 p. 20).

The purchase of Ellerman's shipping interests was then agreed. The point was raised that the Chairman would make a profit from these sales; after consultation 'certain of the largest shareholders' (excluding Ellerman) agreed to the profit on the grounds that the deal was beneficial to the Company. In December 1901 Ellerman's offer to the Company of the steamer *Assiout*, a recent personal purchase, was accepted. Ellerman then detailed the

state of payments for City Line: another £50,000 paid and £78,000 to be paid on 13th December 1901.

On 22nd December 1901 and 8th January 1902, two Extra-ordinary General Meetings were held which marked the end of the first stage in Ellerman's progress towards becoming one of the largest shipowners in Britain, and 'the wealthiest man in England'. At the December meeting the issued capital of the Company was raised to the nominal £1,470,000 by the creation of 16,990 ordinary shares of £10 each and 100 management shares of £1 each. No special voting rights were attached to the management shares (UGD131/2/1/1, p.34), but they conferred:

the right to Ten *per cent* of the net profits of the Company in any and every year in which a dividend of not less than Six *per cent* per annum is paid on the Ordinary Shares of the Company.

All the additional ordinary shares were taken up by Ellerman; the management shares were allotted by the directors to Ellerman in accordance with an agreement on 4th October 1901 and the Articles of Association of the Company were altered (UGD131/2/1/1 p.33-34):

- (a) to prohibit the transfer of any management shares except with the consent of the Company or the directors;
- (b) to appoint a Deputy-Chairman at £300 per annum.;
- (c) to substitute for Article 93 a new Article ensuring that John Reeves Ellerman would be paid all office rent, salaries, wages and other expenses concerned with the business of the Company so long as he acted as Chairman of Directors of the Company, to be re-named Ellerman Lines Ltd 31 December 1901.

Mattinson was appointed Deputy Chairman and the Company was re-named Ellerman Lines Limited on 31st December 1901³⁸. On the 16th January 1902 the resolutions of the Extra-ordinary General Meetings of 23rd December 1901 and 8th January 1902 were confirmed; the resulting structure was to remain unchanged until 1913. Ellerman also gave a personal guarantee for payment of the preference share dividend (UGD131/2/1/1). Simple ordinary shares had no guaranteed return but had full voting rights. Ellerman's management shares had no extra voting rights; apart from their

³⁸ Due to the lethargy of the bureaucratic system, the actual date was 26th January 1902.

Original in colour

incentive-based dividend, they were treated as ordinary shares. Ellerman had created founder's shares in the Brewery and Commercial Investment Trust, and now introduced manager's shares into Ellerman Lines Ltd. The next major change took place in 1913, when the share capital was increased to £3,500,000 to accommodate the acquisition of Bucknall Line Ltd. In the intervening years, City Line and Hall Line had become private limited companies, and Ellerman had expanded his shipping interests with a directorship in Shaw Savill and Albion (SSA); the first purchase of SSA shares had been made in 1902. At the first annual general meeting of the Ellerman Lines Lines Ltd on 30 June 1902, Ellerman announced a dividend of 4.5 *per cent*, derived mainly from investments. He also made the following statement:

At the time of forming the Company there was no intention to invest the bulk of the capital in shipping. As there was no outlet in shipping seen by the Board the greater part of the capital was invested in more or less permanent Stock Exchange stocks and shares. Now the Ellerman Lines control seventy-five vessels with a gross tonnage of 240,000 and is the seventh largest fleet in the United Kingdom.

The meeting agreed to all his shipping interests being acquired as from 1st January 1902

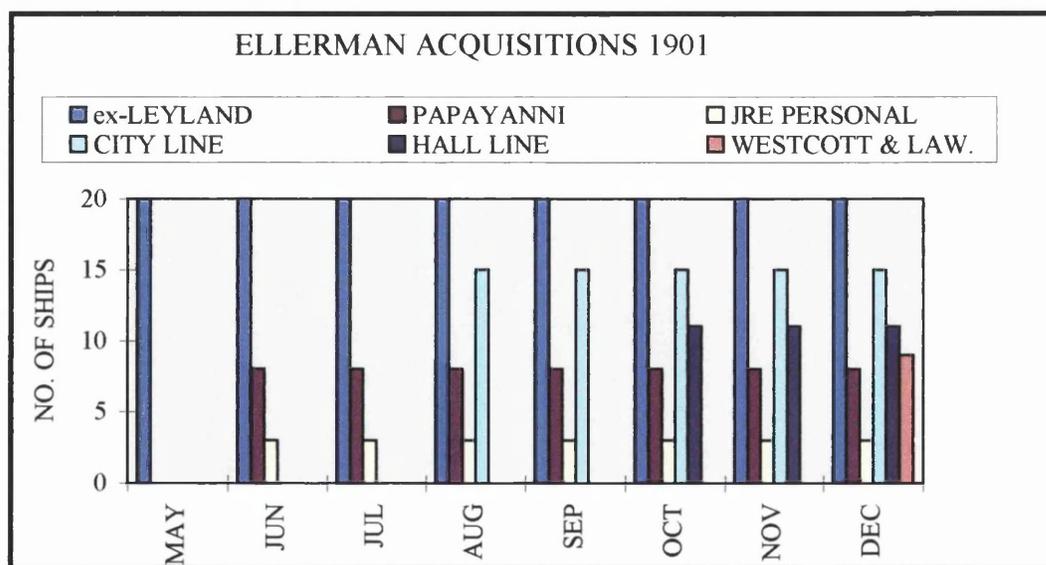


Figure 8. J.R.E.'s acquisitions 1901.

Ellerman's strategy appeared to be for developing areas where there was potential growth; his tactics included buying into conferences through established shipping lines and maintaining existing structures of management and agencies which minimised disruption caused by a change of ownership. Now he owned five fleets comprising different shapes

and sizes of ship, and a collection of trades being conducted almost everywhere except the North Atlantic.

His options were to leave the companies alone, under their existing managements, and treat them as investments; or operate them as one fleet, under a new shipping company. Ellerman Lines Ltd was formed as a shipping company which neither owned nor operated ships, yet effectively controlled all the shares in five shipping companies and their management subsidiaries. Ellerman himself managed the ships and drew every penny in commission or fees which could be derived from management in its widest possible sense. This personal involvement manifested itself in all areas of operations and was the factor which differentiated Ellerman Lines Ltd from other companies. All the ships he owned were liners, on regular schedules to specific ports, and while the active participation of the owner was common among tramp companies, it was less so with liners.

Several companies, including non-shipping interests, were now associated with the name 'Ellerman' which led to its recognition as a major English 'combination' (*The Economic Journal Vol XII*, June 1902, p.159)³⁹.

The only common connection with his other interests was his name on the board of directors and his capital investment. This recognition showed how influential Ellerman had become only fourteen years after starting his own firm. Among the investments made through Ellerman Lines Ltd were shares and debentures in the Royal Mail Steam Packet Company - the latter associated with Owen Philipps - later Lord Kylsant. Owen Philipps and his brothers were, like Ellerman, financiers first. In response to the challenge to British shipping by J.P. Morgan and the International Mercantile Marine, Philipps projected himself as the saviour of the British maritime heritage, and acquired a miscellaneous group of companies. Due to the cross-funding between them, there was no financial stability when debts eventually had to be paid with cash, and the whole edifice collapsed (Green and Moss, 1982). If comparison is made between Ellerman and Philipps the most striking difference must be that Ellerman was not a speculator and believed that the bulwark of solvency is low gearing and a firm base of liquidity.

An agreement was made to sell back five ships to Frederick Leyland & Co (1900) Ltd, plus two new ships under construction - ordered for Ellerman's personal interest. Dividends of 4.5 *per cent* for preference shares, and a dividend and bonus of 10 *per cent*

³⁹ In June 1902 an article under the heading "American 'Trusts' and English 'Combinations'" shows Ellerman among the ten largest 'Combinations' in the United Kingdom.

on the ordinary shares calculated to 31st January 1902 (*Fairplay* July 24th, 1902)⁴⁰ were announced. Because Ellerman's management shares were ordinary shares, dividends of six *per cent* or more triggered his bonus of ten *per cent* of the net profits. In a widening of interests the Engine Works (*sic*) belonging to the former West India and Pacific SS Co had been bought for £2,100 so providing maintenance facilities in Liverpool.

Hall Line declared a dividend on ordinary shares of 6 *per cent* for eight months ending 31st December 1901, and 20.5 *per cent* for the whole year. Half the amount had been credited to Ellerman's account, and he was charged interest at 5 *per cent* on one-half the purchase money⁴¹ to 31st December 1901. This dividend derived from the immediate transfer, by Ellerman, of the depreciation funds to the profit and loss account, and then distributing the profits as dividend (UGD131/6/1/1 Hall Line DMB)⁴². Ellerman was the only shareholder, and so the only beneficiary. Ellerman's practice of dispensing with depreciation funds was continued with all the subsidiary shipping companies, and depreciation was allowed for in a single entry shared with 'steamers, shares and businesses etc' in the Ellerman Lines balance sheets⁴³.

Ellerman had already paid to the Company £30,000 in respect of City Line profits to 31st December 1901. There are frequent references to payments for dividends 'before tax' in an attempt to leave the tax burden with the Company. This was behind his decision that the Company should take over the accounts of the Papayanni and Ellerman Line businesses from the date he had acquired them. Ellerman would pay an annual fee of £50 for this, and the Company would deal with the income tax officials. Ellerman reported that a sum of £50,000 had been included in the Ellerman Lines Limited accounts as the estimated profit with which he had been credited, less tax, and debited with £28,000 which he had received on account from the respective businesses. Although all his transactions are recorded, the cavalier manner in which he indiscriminately used funds from his own account and the Company's account is not easy to follow. The proposed sale to F. Leyland and Co (1900) of the Antwerp trade, including five steamers plus new-buildings 353 and 354 at Harland

⁴⁰ The five months profits to 31st December 1901 provided the six months dividend to 31st January 1902 as the most convenient date for applying to the Stock Exchange for a quotation - which had been granted.

⁴¹ Hall Line was 'purchased' by Ellerman on the strength of loans and in the knowledge that the Company would buy once the formalities of proposal and acceptance had been concluded'. He made a profit from each transaction, so the interest paid on the loan for his half-share was doubtless balanced in his favour by the profit.

⁴² See Appendix 11, p.177 for details.

⁴³ See Appendix 10, p.171 for copies of Ellerman Lines Ltd balance sheets for 1901, 1905, 1913, 1914, 1915 and 1916.

and Wolff would be concluded after 25th July 1902 and Ellerman Lines Limited paid John Reeves Ellerman £4,500 for his personal interest in the new buildings.

Whatever the intention on incorporation, Ellerman Lines Ltd was effectively a holding company with shipping subsidiaries. Ellerman, as chairman, established a command centre where he settled in as Master⁴⁴ of all he surveyed. Supporting him were three tried and trusted colleagues: Mattinson, the doyen of investment trusts; Val Prinsep, and Frederick George Burt. These three men were to work with John Reeves Ellerman until death parted them; the strength of his original organisation such that the machine kept running even after the last of the original quartet died in 1948⁴⁵.

The Directors' Minute Book of Ellerman Lines Ltd may be compared with a Captain's Night Order Book in that the decisions that were taken were actually operational instructions or logistic summaries, so that all members of the team knew exactly what had been done and what was to be done. Why and how Ellerman reached his decisions is not recorded, but at each meeting he presented a report on the Company's systems and progress. The inclusion of systems was an innovation at that time, and while there may have been discussions among the directors no details are given. Many items were dealt with personally by Ellerman - the sale and purchase of ships; approval of new-buildings; Conference agreements; agency and bunkering arrangements. These were all areas in which commissions and rebates were common, and when added together formed a significant percentage of total costs. Ex-Leyland shareholders had been given the option of taking up shares in London, Liverpool and Ocean Steamships, and the majority did so at allotment.

The names in the share register (UGD131/2/2/1) show the extent of the network Ellerman had built up since 1886. From his company promotions and auditing came such families as the Allhusens, Bischoffs, and Schwanns, Stockbrokers. From his involvement with Leyland came Pirrie and Wolff of shipbuilders Harland and Wolff. Absent from the register were Christopher Furness and Henry O'Hagan, although O'Hagan still had connections with Ellerman through loans and underwriting. In addition to these outside investors, many of the new employees from the original companies also bought shares at allotment in 1901 ranging in worth from £400 to £3000. There was also an influx of investment from the network of families associated with City Line.

⁴⁴ Master in this context draws an analogy with the Captain of a merchant ship.

⁴⁵ Sir John Reeves Ellerman died in 1933; Sir Miles W. Mattinson, MP, KC, died in 1943 and Frederick G. Burt in 1948.

Unsurprisingly, in view of the consistently high dividends paid by Leyland Line, and the capital gains from its sale to Morgan, those who followed Ellerman to the new company did not object to his management shares. An added attraction to the cautious investor was Ellerman's personal guarantee of preference dividends. Even at the Extraordinary General Meeting in October 1913 announcing recapitalisation of the Company, when ordinary shares as such metamorphosed into preferred and deferred ordinary shares with special voting rights, there were only five dissenting voices (UGD131/2/1/1 p.198). In addition to a popular mandate, Ellerman also controlled most of the shares, so his decisions were practically unassailable. There was a direct link between the board of directors and the general managers of each subsidiary. Moorgate Street contained no Head Office departments dealing with an equivalent department in the individual companies. Communication was immediate as there were no layers of intermediate management to delay or distort information from the operators of the ships. When Ellerman was abroad, the company secretary F.G.Burt dealt direct with the general managers of City Line, Hall Line and the Mediterranean steamers. Considering the size and complexity of the initial undertaking - assorted companies, agents, ships, the structure developed proved efficient and economic. The secret lay in the control exercised by the command team and their knowledge of the overall situation of the Company, augmented by individual and personal access to information in areas not confined to shipping. This was relevant in the light of social changes taking place in widely separated parts of the world from the Far East to the Americas.

Ellerman and his management team of Mattinson and Burt had backgrounds in finance dating back almost twenty years. Val Prinsep, a son-in-law of the late Frederick Leyland, owed his connection with shipping to his marriage and subsequent service as a director of Leyland Line. F.E. Speed was married to another daughter of Frederick Leyland and became a director of Ellerman Lines Ltd on the death of Val Prinsep in 1908. This family link was maintained when Thoby Prinsep, Speed's nephew, replaced Speed as a director. Ellerman Lines Ltd was a holding company only so far as the shipping companies were concerned. The Financial companies of which Ellerman was Chairman were self-standing and invested in the shipping companies as part of their normal business, drawing dividends as shareholders. In addition, the nominee shareholders, including Ellerman himself, had all dividends and profits paid either to Ellerman Lines Limited or to one or other of the financial institutions such as Breweries and Commercial Investment Trust. In

1910 the Moorgate Trust was formed as a vehicle for the Ellerman family and increasingly took up shares in Ellerman Lines Ltd by direct transfers from Ellerman's holdings.

Ellerman was an accountant, the profession considered by some to be responsible for Britain's entrepreneurial failures in the twentieth century (Payne, 1985, p.43). Pertinent to the secret of Ellerman's success in wealth creation is the structure of his undertakings. There was no apparent vertical integration around shipping, although ownership of the management firms, some agencies and a repair shop could be considered minimal lateral integration. Certainly, by 1910 Ellerman Lines Ltd was openly a shipping company, recorded in Lloyds Register as the owner of *75 per cent* of the ships operated by the subsidiary companies. Had Ellerman adopted American business ideas, created a 'managerial hierarchy' and centralised administration in his shipping empire? Or had he followed:

a form of organization ... which permitted the perpetuation of family firms, albeit now loosely grouped into a federation" (Payne, 1984), p.35).

These questions will be addressed in the following pages and may explain Ellerman's success in his own day, and why he has been described as the first company doctor in Britain.

In 1901, British mastery of the seas was being challenged by other nations such as Germany and Japan. Now appeared the threat of United States merchant ships backed by state subsidies on one side and big business as epitomised by J.P. Morgan and his trusts on the other. Those who sold out to International Mercantile Marine, like Ellerman and Oceanic, were castigated in press and Parliament for betraying a sacred trust and exposing the United Kingdom to control of its lifeblood - the sea - by foreigners. On the back of this nationalist emotion, Philipps was able to assume the role of a saviour of the country, while Ellerman was hardly the flavour of the month until his shipping enterprises were well under way. Philipps collected a knighthood and a peerage, and a short spell in jail for fraud. The damage he did was forgotten in the efforts of the gentlemen in the City of London to save something from the wreckage of the Royal Mail Group and the dependent jobs and trades. Ellerman, on the other hand, made a lasting contribution to the United Kingdom's merchant fleet.

The years from 1900 to 1914 also saw increasing industrial strife between employers and workers, particularly in Europe. There were revolutions and counter-revolutions from Mexico to Moscow and demands for independence from the disparate nationalities

contained by conquest in the old empires. These changes created dislocation of trade patterns at the same time that increasing global industrialisation created new suppliers of goods and services. This increased competition for the established industrial nations, particularly Britain. Additionally, growing demands for social justice led to greater controls over wages and working conditions, particularly in the West. In 1902 the end of the South African War heralded a slump in shipping, and economic crises in the United States reduced the viability of the North Atlantic trades. Simultaneously, growing nationalism encouraged the Germans and the Japanese to build up their merchant fleets and introduce a degree of flag discrimination. An extended franchise in the United Kingdom saw a radical government which increased taxes and regulated working conditions. In the Far East the Boxer Rising and the Russo-Japanese War shook the foundations of the accepted superiority of the Europeans, while in the Balkans the Ottoman Empire was breaking up into nation states whose existence had been denied for centuries. To counteract these political and economic difficulties required a determined effort on the part of all businessmen to accept radical changes in response to radical challenges. While Britain bravely nailed the colours of Free Trade to the mast, other nations raised their tariff walls. In certain fields the United Kingdom still reigned supreme: merchant shipping, shipbuilding, coal and textiles. In other fields the lead was lost to the United States and Germany, but this must be seen in the context of an increasing world population and the growth in production of new entries to the industrialised club.

There is a continuing discussion about the reasons for Britain's economic decline after 1870 - or even earlier. There is no consensus of opinion on the nature of the decline - if any - let alone the causes of it. Was it British culture - positively acting against business efficiency? Was it a deficiency in the character of the British businessman who saw his product or service as an end in itself? Shipping - the carriage of goods around the world by sea - was an indigenous industry exposed to international competition and expanded in absolute terms while its percentage share of world trade decreased. Among British shipowners Ellerman stands out as an example of probity and personal application to problems as they arose. By 1914 he had welded his fleets into an entity which preserved individual strengths while removing individual weaknesses. A characteristic of British liner trades was the Conference system, which, its exponents claimed, was neither a cartel nor a monopoly, but a service to shippers. In essence it required agreement between companies running on similar routes to set freight rates in return for guaranteed sailings arranged

between the participants. A system of rebates gave a loyalty bonus to customers who did not ship with non-Conference lines. In certain areas such as the United States and the Mediterranean, Conferences did not operate freely either because of political restrictions, as in the USA, or because of the multiplicity of small independent operators, as in the Mediterranean. In the British Empire it operated to a fine degree, with outsiders being frightened off by short-term Conference reductions in freight rates overall, so reducing margins for would-be intruders. Ellerman was able to join the South African Conference in 1902 because his ships had been running there on government charters during the South African War.

In 1907 Ellerman was elected President of the Chamber of British Shipping, a public recognition of his standing among his peers and his inaugural speech was described as 'the best ever made' (*Fairplay*, 25th February 1907, p. 269). In the same year he was summoned to give evidence to the Royal Commission on Shipping Conferences. With the growth of Ellerman Lines Limited, economies of scale were now possible, and insurance-broking (Ellerman started an Insurance company in 1905) and bunkering - Ellerman owned several collieries and shipped coal out to his own bunker stations when outward cargoes were light in his own ships (Sturmev, 1962, p.13) - were among the first to be adopted. In 1907 Allan Line was taken over by Canadian Pacific Ltd. Allan Line had been agents for George Smith and until they lost their independence continued this relationship with Ellerman. On opening his own Agency of Ellerman City Line Steamers on 25th March 1907 he made a payment of £2,000 to Allans on condition that for five years they would not act as agents for any company sailing to India. In the same year James and Robert Allan each received fifty shares in Ellerman Lines Limited (UGD131/2/2/2 folios 15 and 16). In 1910 Ellerman took direct control of the agency and appointed a new manager.

The Watch Leaders

With foresight and wisdom he left most of the original employees in their existing appointments. The Mediterranean steamers operated with Fred Swift from Leylands as General Manager and Graham Smith, originally General Manager of Papayanni Line, as Assistant Manager. The other General Managers were William S. Workman, ex-director of City Line Ltd, and George J.C. Gill, ex-director of Hall Line Ltd. As employees they lost the commissions and fees that had formerly been their perquisites. Each company retained its original offices in Glasgow and Liverpool respectively and the original management

companies of George Smith and Sons and Robert Alexander were now under the direct control of Ellerman. These were the most visible of his acquisitions, and so attracted attention from other shipowners, the public, and the press.

City Line occupied a special role among the companies he had taken over, having served the Indian subcontinent with sail and steam since 1840. Managed by George Smith and Sons as a 64th family partnership, the name City Line came into use on incorporation in 1892. William Service Workman was one of the partners of George Smith and Son and an original subscriber to City Line Ltd in 1892. His continuing employment was one of the conditions of sale of City Line Ltd to Ellerman ((UGD131/1/2/9/1)⁴⁶. After thirty years as an employee he was given 100 shares in 1930 and re-appointed to the Board of City Line Ltd as a director, at the age of 73! He died in 1937 leaving £50,049 (*Confirmations and Inventories 1937 M-Z*). Certainly William Workman appeared to enjoy a special relationship with Ellerman. From 1911 there is a record of correspondence between Ellerman and Workman on an almost daily basis until 1932, and Sir John Ellerman's Notebooks, four volumes covering the same period are an additional personal record (UGD131/1/4/1-4). From these documents it is possible to see the depth of Ellerman's involvement with the ships, and the extent to which Workman was consulted about new-buildings, crew wages, coal sources and conferences.

The senior staff of the different companies had their salaries fixed by the holding Company. On 30th May 1904 it was announced that 'Wm Service Workman's agreement to be renewed on same terms as present for three years from 31st May 1904' (UGD131/2/1/1, p.84), but there are no details of the terms of the agreement or the salary. Workman was General Manager of City Line Ltd. and some indication of Workman's salary may be gathered from a meeting of 11th June 1906 when the Management Agreements of the Ellerman Fleets were detailed - with the exception of Workman. Exceptionally for an employee, he was also given discretion in dealing with the City Line Debentures, being authorised by Ellerman to renew them in the early years of the new ownership, and remained a Trustee of the Debenture Trust until it was wound up in 1912. This period of extending the debenture debt, contrary to Ellerman's instincts, coincides with the years during which earnings were low and bank borrowings high in Ellerman Lines Ltd.

The management structure in the subsidiary companies may be seen as a replication of Moorgate Street. The General Manager was responsible for running the company and

⁴⁶ Letter dated 11th August 1969 from G.J. Weir of City Line writing to E.R. Newman of Hall Line.

directly accountable to the directors in Moorgate Street, and in his absence the Assistant Manager stepped into his shoes. Each of the separate companies charged for services rendered to the others - and these transactions were made in cash transfers, not in ledgers. This ensured that at the end of each month or conclusion of a voyage account, a negotiable instrument was forwarded to Ellerman so that he could see immediately if there was any pauchling going on among his trusted employees. In 1904 there was one case in Hall Line where a cashier left suddenly and attempts were made to recover sums amounting to £2,000 from him. In his methods Ellerman showed a keen appreciation of human knowledge, believing that temptation was less attractive when most of the opportunities for it were removed.

At a local level managements were allowed autonomy over wages and costs within certain budgetary constraints. From the letters between Ellerman and the managers it is possible to discern a certain rivalry, particularly between City Line and Hall Line. Comparisons made by Ellerman on fuel and other running costs introduced an element of competition. By 1908, when Ellerman had opened bunker stations to the Indian sub-continent, there were fixed instructions to the managers regarding quality and quantity of bunkers to be loaded in specific ports. Ellerman's remarks about coal consumption and passage times leave no room for doubt about his competence as a ship-manager - querying the cost of coaling his yacht *Semiramis* for a Mediterranean cruise he reminded Workman that Ellerman's was not a charity (UGD131/4/13/2)⁴⁷. The importance Ellerman attached to accounting methods is shown by a constant correspondence between the different companies for payment of expenses incurred by, for example, City Line Ltd on behalf of Hall Line Ltd or *vice versa*. On 23rd October 1912 a letter was sent to Ellerman's City Line Agency, Liverpool, enclosing a draft of £5,000 for disbursements made by Hall Line on behalf of City Line Ltd ships in Liverpool during September and October. There is also a letter from City Line to Hall Line Ltd stating that there is a debit in the General Account of £2:16s:4d which has been collected on behalf of Glasgow freight in S.S. *Trafford Hall*. Other letters detail accounts and remittances transmitted between the companies, including Ellerman's London agency of Montgomerie and Workman. It is noticeable that paper transactions were not acceptable to Ellerman - he required to know at any given time the true cash structure of his holdings.

⁴⁷ JRE was usually as up-to-date with his knowledge of ship movements, cargoes and voyage costs as the respective managers.

Technical matters were dealt with in Liverpool, by the Engineer Superintendent, Mr Dalrymple. The workshop acquired from West India and Pacific was based in Liverpool, and by 1913 Dalrymple was Chief Superintendent for all engineering support, with assistants in the different companies and the workshop. In the early days of Ellerman Lines Ltd ships remained with their original companies and managers, but by 1913 *Lloyds Register* shows an increasing diversification. One of the reasons was that Ellerman decided, sometimes at short notice, to replace one ship with another for a particular voyage or to institute additional sailings. There were no records kept of these changes, although on occasion Wm S. Workman would query the decisions. How effective Ellerman was in his forecasts of the optimum placing of ships at short notice may be seen by the system adopted in November 1938 - five years after his death (UGD131/7/9/6.)⁴⁸. This was more expensive and less flexible because none of the individual managers wielded Ellerman's authority or shouldered his responsibility.

The General Managers dealt with routine correspondence from agents such as Gladstone Wylie in Calcutta and Aiken Spence and Co in Colombo, but any questions involving changes in freight rates or competition were passed on to Ellerman. In some cases, as with Strick's sailings to Karachi, Ellerman would then take over. In other cases such as shortages of cargo due to natural disasters, it would be left to the local managers. When labour disputes became more prevalent and showed themselves in longer turn-rounds in port, or shortages of bunker coal, Ellerman would override his managers (and often his fellow-shipowners) by resisting the workers' demands until the last possible moment. With bunker stocks he was usually able to arrange deliveries of coal from specific collieries not affected, and advise on the transport arrangements. There is more detail of his dealings with Workman than with the other managers, because of the voluminous correspondence. The subjects discussed in these go beyond City Line Ltd and Glasgow, and increasingly become more general as the years pass. The next major change took place in 1913, when the share capital was increased to £3,500,000 to accommodate the acquisition of Bucknall Line Ltd. City Line and Hall Line became Private Limited Companies in 1908.

⁴⁸ An agreement between the companies to formalise arrangements between different managers and record 'Movements of Steamers' in a published Ship List..

Original in colour**Baling out Bucknalls.**

Bucknalls had been in financial difficulties for some years, due to lack of liquidity caused by over-optimistic building of new ships and loss of earnings due to a government boycott on their ships during the South African War. In 1906 Ellerman had provided £180,000 by an injection of capital and re-organised the company, despite opposition from some of the Bucknall directors who wanted his money but not his company. By Court Order dated 5th December 1906 (UGD131/3/2 p.24-25), the nominal capital was first reduced from £1,650,000 to £855,000, leaving a subscribed capital of £485,000, less than one-third of the original nominal capital! On 14 December 1908 another Special Resolution approved by Court Order dated 6th March 1909 (UGD131/3/2, p. 26-29) reduced the nominal capital of £885,000 to £101,950. 1,000 Management shares of £1 each were created and taken up by Ellerman.

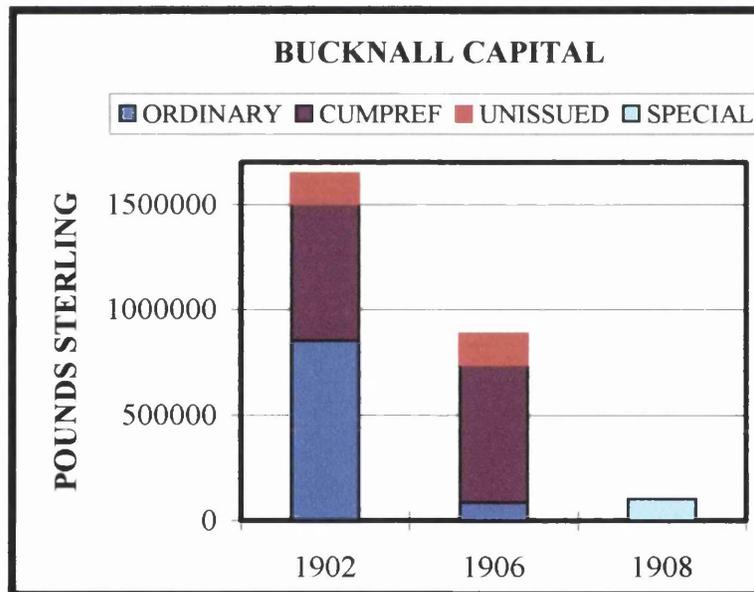


Figure 9. Bucknall's recapitalisation. Key:

CUMPREF1 = Cumulative preference shares;

After re-organisation Special comprises:

First preference shares: £80000

Second preference shares: £21250

Management shares: £1000

Ellerman had effectively reduced the value of Bucknalls from £1,650,000 to £102,250 in six years and was now left with a viable unit.

In addition to the balance of profits after guaranteed dividends had been paid on First and Second preference shares, Management shares each had 400 votes at all shareholders meetings (UGD131/3/2 p. 27). Dividends on both classes of preference shares would be non-cumulative for five years from 31st December 1907. Ellerman then had the Memorandum of Agreement changed to remove the share-holding qualification for directors. The existing directors, with the exception of P.E. Bucknall, resigned and Ellerman then appointed James Westcott, F.G. Burt and Edward Lloyd. In November 1908 Ellerman personally took over management of the company, and after some argument with the Bucknalls procured an agreement that the management could be transferred at any time to Ellerman Lines Ltd. Ellerman then advanced to Bucknalls:

such sums as he may see fit to provide up to £180,000 secured by mortgages on four (4) of the new ships and an equity of redemption on two (2) steamers mortgaged to the bank (UGD131/3/2/2; *Stock Exchange Official Intelligence* 1909, p.1604-5)⁴⁹.

Debentures now had to be dealt with. Ellerman had taken up at least £100,000 of the original 4.5 *per cent* First Debenture Stock, secured on specific ships. In 1908 £300,000 5 *per cent* 2nd Debenture Stock was authorised, issued to certain creditors, and on 30th November 1909 a Sinking Fund of 5 *per cent per annum* was opened. By 1st February 1912 most of the debentures had been redeemed, and Ellerman first postponed, then cancelled, £100,000 of his own First Debenture Stock. The remaining debenture holders later converted to Ellerman Lines Ltd preference shares and the remaining Bucknall debentures were retired completely in December 1913.

One More Step

On 7th August 1913 an Extra-ordinary General Meeting of Ellerman Lines Ltd was called to vote on a Resolution to increase the capital to £3,500,000. At this first reconstruction of capital since 1902 all existing shares were exchanged for new shares, and four classes of shares were created: 100,000 4.5 *per cent* Guaranteed preference with 5 shares for one vote; 120,000 5.5 *per cent* Guaranteed preference with 10 shares for each vote; 120,000 preferred ordinary shares, with 5 shares for one vote, and 5,000 deferred ordinary shares with 5 votes for each share (UGD131/2/1/1, p/186). There were no ordinary shares as such, the old ones being replaced by preferred ordinary shares. All the deferred ordinary

⁴⁹ The scheme provided that in the event of the company being wound up, Ellerman had a prior lien in front of the First Debentures to cover maritime liens and debts incurred on his credit.

shares were allotted to Ellerman on 30th September 1913 (UGD131/2/2/2) in exchange for his interest in Bucknalls. These 5,000 deferred ordinary shares carried 30.8 *per cent* of total votes. As the special dividend attached to these shares also returned 10 *per cent* of net profits when the ordinary dividend was over 6 *per cent*, they were similar to the 1902 Management shares. There was, however, a proviso that deferred ordinary shares would not qualify for any dividend until the Reserve Fund had reached £750,000 and normal depreciation of 4 *per cent* each year on the ships had been applied or a combination of both. In addition there was to be a Guarantee Fund ((UGD131/2/1/1 p.188) as security for the 4.5 *per cent* Guaranteed preference shares. These shares were as secure as any form of investment could be secure (Cottrell, 1980, p.182).

In April 1902 Ellerman owned personally 18,547 preference and 27,043 ordinary shares in the new company of Ellerman Lines Ltd, worth £455,900 at par. He also owned Leyland preference shares worth another £1,400,000 and finance company shares worth possibly £1,000,000. This does not include the brewery and colliery shares he had also acquired since 1890.

He was almost certainly a multi-millionaire at this stage (Rubinstein, 1984, p.250), and also, by virtue of his capital, had access to sources of credit denied less prudent or fortunate owners. In twelve years the company had made tremendous advances, and built up the fleets without incurring massive interest payments on debentures which so debilitated many companies. There was also no hidden burden of un-called capital cross-fertilizing the separate units of the group, as happened with Kysant and Royal Mail (Green and Moss, 1982, p.21-40).

At allotment there was a large public subscription, including shares to employees and previous shareholders of the constituent companies and one third of the shares were held by outsiders. JRE interests are expanded to include the holdings of the other directors as well as the Ellerman investment financial trusts. From 1902 to 1910 was a period during which there were loans from banks and ordinary shares did not pay dividends of more than 6 *per cent*.

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From 1910 there was an increase in the purchase of shares by Ellerman's private trusts such as the Moorgate Trust. Of the total Ellerman Lines 147,000 shares issued in 1902 26,519 or 18 *per cent* moved into Ellerman's control between 1902 and 1913. His personal holding increased by almost 14,000 and his financial institutions by 13,000, while his colleagues direct holdings decreased by 3,000 and outside investors by almost 24,000 (see figures 10 and 11).

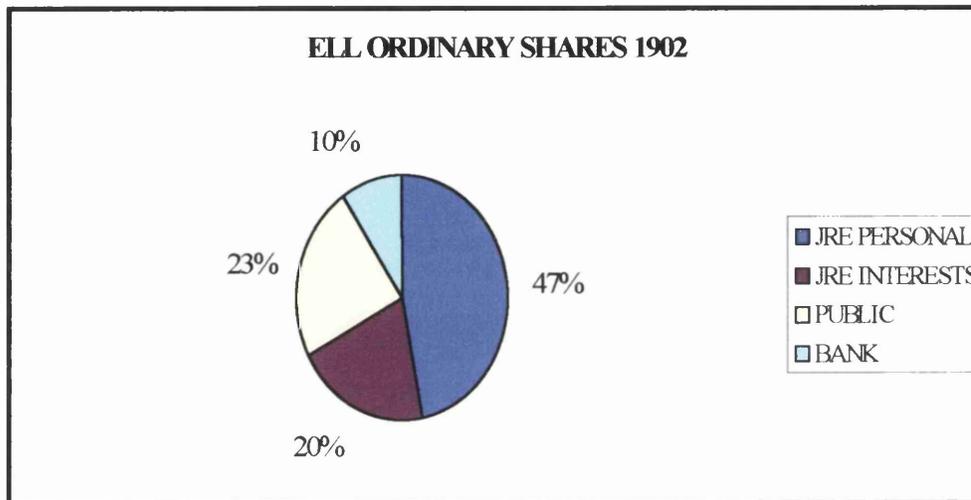


Figure 10. ELL ordinary shares 1902.

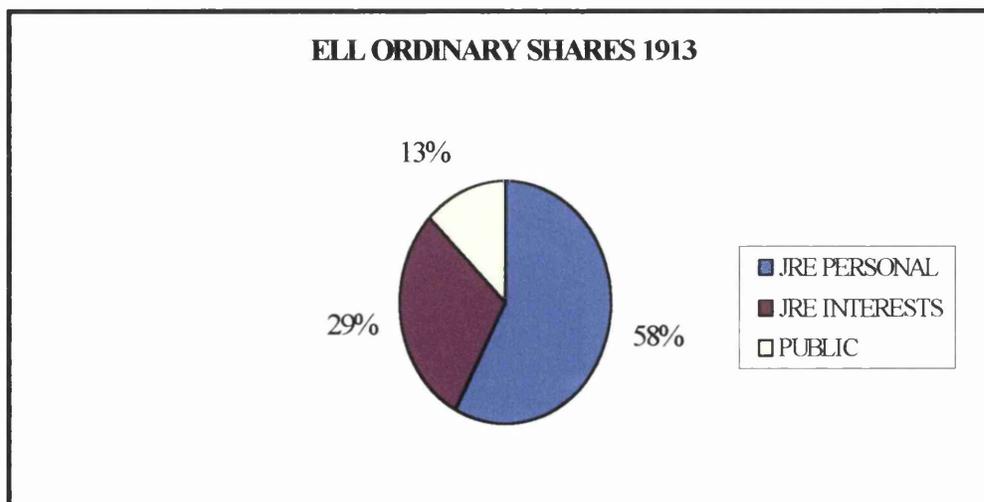


Figure 11. Ellerman Lines Ltd ordinary shares 1913.

The London, City and Midland Bank had made a loan of £90,000 in 1901 and held 3000 preference shares and 6150 ordinary shares from August 1902 to February 1912 (UGD131/2/2/2 folio 345). The bank shares were returned to Ellerman's personal holding which increased by 11 *per cent* (UGD131/2/2/2 folio 219). Public holdings decreased by 10

Original in colour.

per cent, while Ellerman's interests, which included the holdings of his colleagues in addition to his financial institutions, rose by *9 per cent*. Unlike the shares held by the public the bank holding was in the ratio of 2:1 in ordinary shares (see figures 12 and 13).

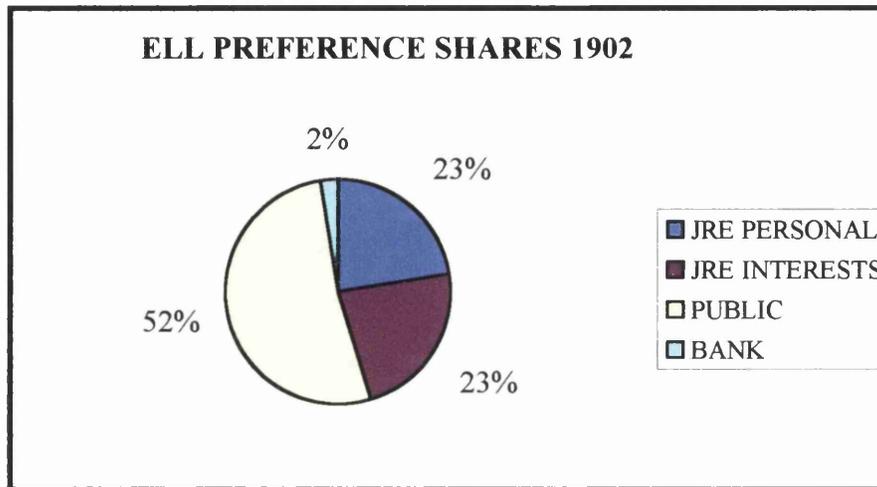


Figure 12. Ellerman Lines Ltd preference shares 1902

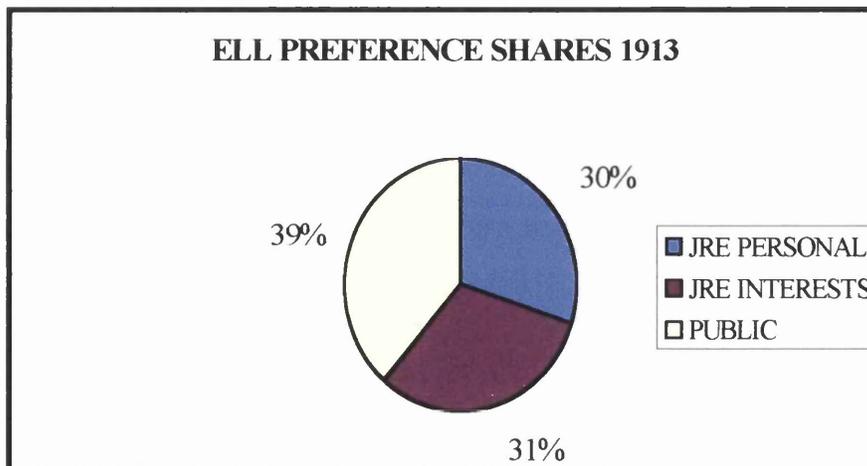


Figure 13. Ellerman Lines Ltd preference shares 1913.

Examination of the structure and composition of the different companies acquired shows a diversity that was disciplined into a holistic harmony. The early acquisitions, the Leyland ships and Papyanni remained private organisations without boards of directors. They were wholly owned by Ellerman Lines Ltd, and paid all profits to the parent Company. The only staff costs were salaries or wages; all commissions and fees went to Ellerman. With the exception of nominal shareholdings for the appointed directors, whose dividends and profits were paid to Ellerman Lines Ltd, the whole capital belonged to either Ellerman or one of his companies.

City Line had been a viable concern, albeit highly geared with short-term debentures of £300,000 and just over 50 *per cent* of the nominal capital subscribed. On the death of the principal shareholder in 1899 his sons decided to sell rather than stay in a business with an uncertain future and increasing liabilities as shareholders' holdings were divided among heritors. Hall Line was slightly different, as there was no obvious heir to the family tradition, just a burden of debt and debentures. The similarities between the two companies allowed the same kind of internal organisation. The directors of Hall Line were appointed by Ellerman, and again their shareholdings were purely nominal. As with City Line, one of the previous directors was appointed General Manager. Westcott and Laurence, however, was an exception to the rule, as the directors not only remained in their own company, but were placed on the boards of other subsidiary companies by Ellerman, although not on the board of Ellerman Lines Ltd.

The London agency of Montgomerie and Workman was inherited from City Line; in 1902 Ellerman announced an 'arrangement with these gentlemen' (UGD131/2/1/1). This lasted until March 1913 when Montgomerie and Workman was incorporated as Montgomerie & Workman Ltd. William E.E. Montgomerie and Robert A. Workman were retained as managers on £1100 p.a. for three years and £1200 p.a. for a further four. Both resigned their positions on 8th August 1914.

The Bucknall take-over exemplifies Ellerman's deployment of the skills attributed to the complete entrepreneur, with the exception of an extrovert personality. He negotiated with the Bucknall gentry for five years before the deal was completed and Bucknall Steam Ship Co. Ltd disappeared. In addition to his time and patience, the transaction was expensive in the short term. At the age of 52 he had probably reached his peak, with only one more major shipping acquisition: Wilsons of Hull in 1916. Looking at the structure of his undertaking shows that it was apparently designed to remove the public from the actual business of shipowning.

The only public shipping company was Ellerman Lines Ltd, all others being wholly owned by Ellerman and his other interests. In the main company Ellerman held a considerable number of preference shares as well as most of the *soi-disant* ordinary shares. Like the investors he attracted, he wanted reasonable returns on his capital with the maximum security. Unlike them, he also wanted to exercise his skills of policy-making and management, reaping the appropriate rewards. His record of providing returns ensured

that the limited issues he made available, in Leyland in 1900 and LLOS in 1901, needed no pushing.

Ellerman's fleets now had access to East, West and the Africas, building on the established trades and agents he acquired. Despite the increase in the number of ships, he continued to personally oversee operations. Certainly all ship sales and purchases went through him, as did general instructions on bunkering and vessel deployment. The managers dealt with local matters, crews and cargos, superintendance and stevedoring, and strove for the economic efficiency Ellerman required.

When we come to the operation of the ships and companies, a greater demonstration of his attention to detail will be given. As it is, even trying to keep up with his methods from reading the minute book is far from easy. How Ellerman managed to carry out all these complicated financial schemes over what was a comparatively short time, is the most baffling of all the questions. It is clear that his own interests were foremost in all his financial dealings, even though the trappings of consultation were assumed. Ellerman Lines Ltd was Ellerman, and the other directors were there to rubber stamp his decisions.

Uniformity

In 1904 company funnel markings and an Ellerman pennant, to be worn with the house flag of the individual company, were introduced. Other changes to affect the subsidiary companies was the moving of ships between lines and the increasing use of the *City*-prefix for the Indian and South African trades. This practice began in 1903 with the *Locksley Hall* while under construction by Workman Clark in Belfast. She was re-named *City of Agra* on the stocks, and operated with that name by Hall Line Ltd until 1932 when she was sold (Taylor, 1976, p.268). From 1903 only fourteen ships were built and operated with the *Hall* suffix, the others either being built with the *City* prefix or adopting it before entering service. Over the years, the *City*- prefix supplanted the *Hall* suffix completely, and made its way into the other fleets. At the same time, Hall Line grew faster and greater than City Line, and Liverpool was acknowledged as the operational hub of the Ellerman ships. This was inevitable given the logistics of trade and the proximity of a variety of industries to Liverpool, compared with the comparative remoteness of Glasgow from all but Scotland's indigenous industry.

As it happened, Ellerman was right to adopt the *City* prefix because sixty years later advertisements proclaimed 'Ellerman's City Line' (*Times of Ceylon Annual 1956*)⁵⁰ and few people knew - or cared - that the ships might be operated by Hall Line, Bucknall or even City Line. Ellerman was ahead of his contemporaries in defining markets, and his experience with passenger ships in Leyland Line was of help in realising that there was a regular traffic to the Imperial possessions not served by the large passenger fleets such as P&O. Hall Line was primarily a cargo company, while City Line had built a reputation for cheap and efficient transport for those who travelled to India. Ellerman decided to build bigger and better passenger ships which, while not competing with other established services such as P&O were able to exploit a niche in an expanding market. The name and flag of City Line was associated with India and a clientele had developed over the years. In 1912 George and Robert Smith, great-grandsons of the founder, attempted to stop Ellerman from using the George Smith and Sons flag, but lost the case⁵¹.

From the beginning Ellerman imposed his own disciplines on all sectors of the operation, yet without destroying the independence of the managers or their loyalty. The only debentures were for City Line and Bucknalls and all were retired by 1913. This enabled profits to be used for re- investment rather than paying interest. At the restructuring of Ellerman Lines Limited in 1913, provision was made for issuing debentures - if necessary - to finance the new-building programme. Ellerman continued to deploy his inherent professional skills of accountancy and negotiation, and wrapped his own environment around himself. Of his colleagues it should be remembered that Mattinson's financial skills were recognised before he joined Ellerman in 1889 and his political and legal contacts were not unimportant. This was a period when United Kingdom shipowners were being bound by regulations from which their foreign competitors were immune, and much resistance from the Shipowners Parliamentary Committee was made to each new measure introduced by the Board of Trade which was intended to improve safety at sea. Those MPs who were shipowners were well aware that a united voice in Parliament was desirable if not necessary (*Fairplay*; 10th August 1899)⁵².

From the date of its sale to International Mercantile Marine the fortunes of Leyland Line (and J.P. Morgan's other collected companies) had been diametrically opposite from those of Ellerman and his companies. Ellerman's forecasts in 1901 about the decline in the

⁵⁰ See Appendix 2, p.155.

⁵¹ The original City Line flag, retained by Ellerman, comprised the letters GSS in white on a red field.

⁵² JRE's letters to Workman.

Original in colour

North Atlantic trade were justified (*Fairplay*, May 10th 1901) and Morgan and others had rashly relied on the United States Congress bringing in subsidies for United States merchant ships. Unfortunately for Morgan and his associates, there were no subsidies and a developing recession led to a reduction in freight rates and little profitability on the North Atlantic. In 1909 Leyland Lines had to write down capital and re-organise its shareholding. No ordinary dividends had been paid since 1902 (see figure 14), and the preference dividends had been paid up at 31st May 1903 and passed since that date (*Fairplay*, 18th April 1907).

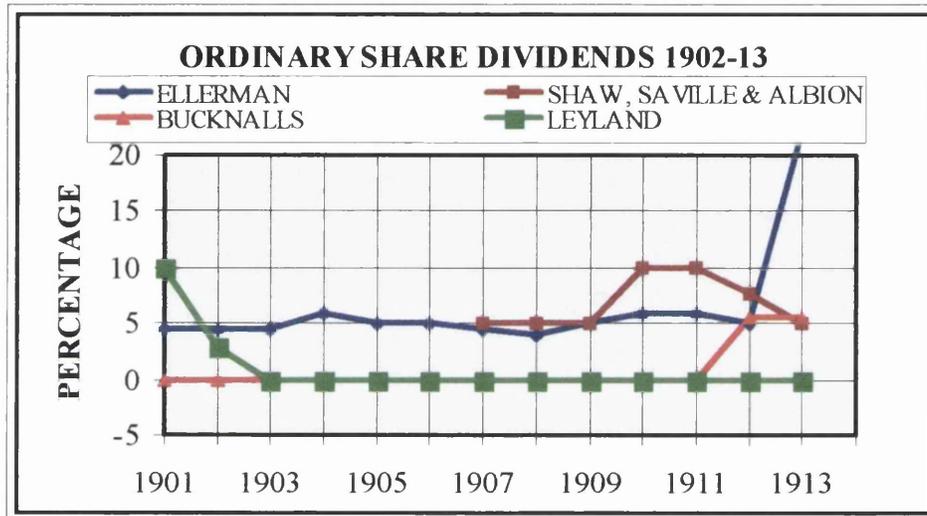


Figure 14. Comparison of shipping lines' dividends.

Notes: the chart shows that Leyland and IMM were unable to match Ellerman's profitable performance from 1903 - 1911. Bucknalls was also in dire straits until 1912, while Shaw Savill and Albion, of which Ellerman became a director in 1909, was seen to be a profitable investment.

In 1909 Debenture Securities Investment Trust, an Ellerman Company, became Debenture Trustees for Leyland Line and IMM had to pledge all remaining shares as security for the debentures. Ellerman, however, not only retained his preference shares but imposed strong measures for protecting his assets in the event of liquidation of the company.

The effects of Ellerman's influence can be seen in the results of the various companies, and the balance sheets of Ellerman Lines Limited, published annually in *Fairplay*, contain very little in the way of details of the viability or otherwise of the

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different parts of the enterprise as one single item in the accounts covers new-buildings, shares in shipping companies, shipping businesses etc, less depreciation. The affairs of Papayanni and Ellerman Line are shrouded from public view. Westcott and Laurence was a collection of single ship limited companies, while City Line and Hall Line had no shareholders other than nominees, Ellerman and Ellerman Lines Ltd.

The graph for Hall Line (see figure 15) displays an astounding volatility and some high returns. The ships ran to Africa as well as India and the Persian Gulf, but there are no detailed accounts to explain the figures. The accounts available show that there was no depreciation allowance made and after the preference shares interest had been paid, the rest went to the ordinary shareholders - Ellerman or Ellerman Lines Ltd. Remaining balances carried forward to the profit and loss account ranged from £96 in 1903 to £17 in 1911 (UGD131/6/)⁵³.

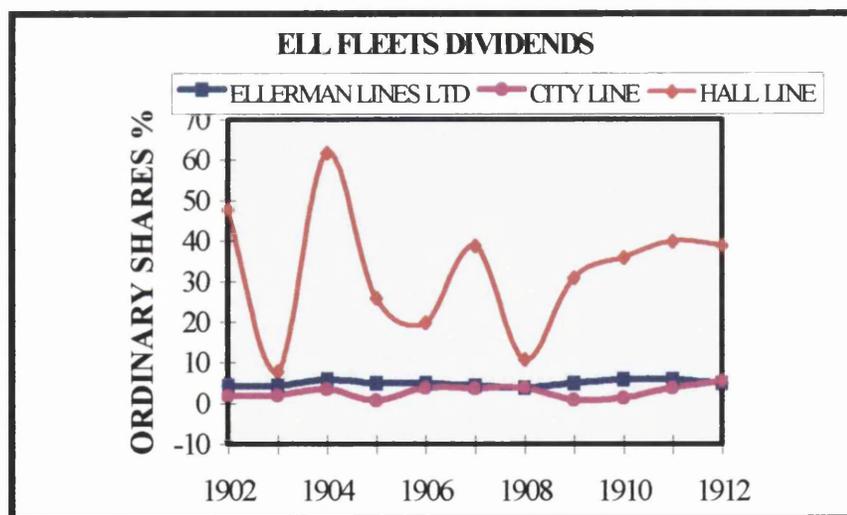


Figure 15. Comparison of ELL, City Line and Hall Line dividends, 1902-1912.

Ellerman's methods could be used for a practical text-book to illustrate the development of the complete company from the early days of limited liability to the corporate economy. Every one of his practices was perfectly legal - he certainly published his own version of consolidated accounts for the shipping companies - and much of his success was based on an exceptional memory and meticulous attention to detail. In addition he was a good leader and assembled a reliable team around himself. The Bucknall's re-construction was a marvel of clear thinking, and one wonders what Ellerman

⁵³ In 1901 and 1902 while the takeover was in progress, £197,000 suddenly appeared as a balance. See Appendix 11, p.177.

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might have achieved with the wreckage of the Kysant Group, had he been invited to deal with it. There would have been no sacred cows, and the Establishment would have been at the mercy of an attitude which paid no attention to the opinions of any-one else. Ellerman may have been a man of his time, but he was also the shape of the future.

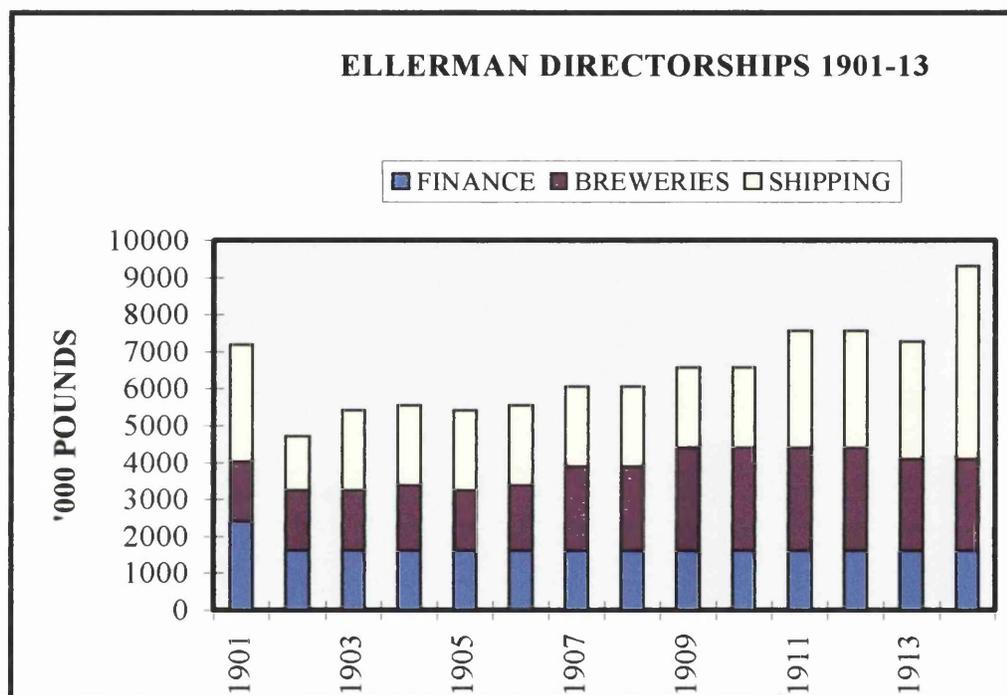


Figure 16. JRE's directorships 1901-1914. (The Directory of Directors, 1889-1914)

His brewery and shipping interests continued to expand, while the financial businesses appeared static (see figure 16). In fact, Ellerman became more discriminating about the directorships he accepted, and had plenty of willing nominees to act on his behalf. An idea of the scale and scope of his interests may be gathered from Figure 16. Between 1892 and 1901 Ellerman is shown as chairman or director of foreign investment trusts such as American Breweries and General Securities Trust, or companies such as Milwaukee and Chicago Breweries Ltd⁵⁴. When JRE stepped down, one or other of his associates, such as Mattinson, Burt or Eves remained on these boards.

His personal assets amounted to several million pounds, he was chairman of a dozen companies and could look back on a quarter-century of success in an occupation which was

⁵⁴ See Appendix 4, p.157.

an art, a science, and a game. Sir John Reeves Ellerman appears to have reached his peak with the Bucknall deal. He had a large fleet and was placing orders for new ships extending over the next three years. Although he continued to acquire shipping companies, and indulged in the doubtful benefits of buying his own shipyards, the spark of his genius was fading. Had there not been the Great War it might have been different.

Contrary to the views of his early biographers, it is clear that Ellerman did not buy the five shipping companies, which included City Line and Hall Line, on impulse. There had been suggestions in *Fairplay* in 1900, before the take-over of West India and Pacific Steam Navigation Company, that Ellerman was putting together a shipping conglomerate which would include City Line. As he was bound by the agreement with Leyland to stay out of the North Atlantic apart from the Antwerp trade, he concentrated on areas where there was the opportunity for expansion, particularly the Middle East, India and South Africa. Ellerman was insulated from short term cash flow problems, as can be seen by his guarantee for preference share dividends, and his occasional cash injections. It is undeniable that his reputation enabled him to borrow money freely where less substantial shipowners would have been driven to issuing debentures or extending their equity base.

He engaged in some less successful ventures - among them a complicated scheme for selling two ships to an insurance company, then chartering them back and participating in a joint venture with Glen Line in the South American trade. With the addition of Bucknalls, Ellerman Lines Limited now had access to all corners of the globe, as the sanctions imposed by J.P. Morgan's International Mercantile Marine had expired. The smaller companies such as Papayanni and Westcott and Laurence benefited from ships being passed down from the companies for which the new ships were being built - frequently without changing the name. In addition to shipping, finance and brewing Ellerman was also taking an interest in publishing, buying shares in newspapers and periodicals.

During the 1914-18 War, shipowners were among the business-men frequently attacked in the media because of the high profits they were perceived to be making. Suggestions were made that Ellerman escaped criticism because of his publishing interests and influence with publishers and editors rather than because he was not exploiting the markets.

In 1913 Ellerman was at the peak of his success; after 1922 it was downhill all the way, with even his wealth decreasing. Later chapters will deal with Ellerman's involvement in the technical, as distinct from the purely financial, side of his operations, and also with the effects of war and the peace which followed it.

CHAPTER 4 - SHIPS AND SHIPYARDS

The Ships.

Ellerman's financial manipulations have been discussed in Chapter 3; this section will deal with his re-organisation of the different fleets, and strategy for the long-term future of the eponymous company. Records show that Ellerman purchased and operated the ex-Leyland vessels in his own name before acquiring any of the other companies (*Lloyds Registers of Shipping 1902 - 1903*). With Leyland there had initially been one company, with established personnel and trades; Ellerman now had a collection of companies. The ships ranged widely in age and tonnage, from the 40 year old ex-Leyland *Egyptian* of 2047 grt, to the brand new *City of Athens* of 5594 grt. The financial states of the different companies varied; City Line, for example, owed £350,000 in debentures, with ownership of specified vessels vested in the debenture trustees (UGD131/1/3/2). In 1902 Ellerman owned sixty-two ships with an average age of sixteen years ranging from the average eight years of Hall Line to the average of twenty-three years for Papayanni and Westcott and Lawrence. The ships in the fleet had an average of 2,878 grt, and although there were some compound engines, most ships were fitted with triple expansion engines. The ex-Leyland, and the Papayanni Line, together with the Westcott and Laurence vessels were short-sea ships, trading to the near-continent and the Mediterranean as far as the Black Sea. City Line and Hall Line were ocean-going steamers trading principally to the Indian sub-continent. The Persian Gulf and South Africa were also included, as was the possibility of trading further East. Ellerman had bought into established Conference Lines and their agreements. All the companies he acquired had existing infrastructures and links with agents and shippers, and the diversity of ships and services provided opportunities for rationalisation. This process began with the sale back to Leyland of the Antwerp-Canada trade and five ships. In addition to the fleets bought outright, Ellerman had also bought individual vessels on government charter to South Africa. The existing tonnage was redistributed among the fleets and a programme of sales, purchases and new-buildings was implemented.

Restructuring the Fleets.

Between 1902 and 1913 fifty of the original vessels disappeared from the fleet. Thirteen - about twenty *per cent* - were lost by marine peril; this percentage was not unusual considering the lack of navigational aids and faults in ship construction at the time. Two ships were lost simultaneously in Oporto when the river suddenly rose, swamping the harbour. The remaining thirty-seven ships were sold, the majority for scrap, but a few found new owners.

	Sold	Lost or Wrecked	New-buildings	Bought in.
Ellerman	22	2	13	12
City	4	1	12	1
Hall	7	5	39	2
Papayanni	5	1	0	2
Westcott	2	4	0	4
Totals	40	13	64	21

Table 10. JRE's fleet gains and losses, 1901-13.

Ellerman acted as his own broker, and some of the sales were paper transactions between J. R. Ellerman and Ellerman Lines Ltd; while two were the sale of 4/64ths in two ships to the English and Scottish Insurance Co Ltd in exchange for shares in Glen Line. This was an unsuccessful attempt by Ellerman to enter the West Indies trade and the ships were returned to Hall Line. In 1907 Ellerman and Moss Lines bought the Asia Minor Steam Ship Company, giving Ellerman the opportunity to sell this company some of the older ships of which the *City of Amsterdam* and the *Alsatian*, both built in 1877, were examples.

From the beginning Ellerman moved ships around between the various fleets, and gradually disposed of the older tonnage. He inherited a number of antiquies with compound engines which were relegated to the short-sea services until a buyer could be found. Similarly he was always on the look-out for a bargain, and according to *Fairplay* had an uncanny knack of picking ships up at bargain-basement prices. In the first three years of operation he had sold the North Atlantic steamers back to Leyland, built new steamers and bought in second-hand tonnage from other companies. By 1913 a pattern of 'Ellerman types' had emerged, with new-buildings fitting the trading pattern of the individual companies, while retaining a flexibility which gave the capability of entering other trades at

short notice. Another change was the introduction of the *City* prefix for ships in the other fleets. This was first used for a Hall Line new-building in 1903 when the *Rufford Hall* was renamed *City of Madras* in Palmers Tyneside shipyard. After 1914 all new ships for Hall Line were built with the *City* prefix and the practice gradually spread to ships operated by other companies in the group.

The pattern of reconstruction began with the purchase of second-hand vessels for Ellerman Line's Mediterranean fleets, and the disposal of older tonnage; this accounted for about three-quarters of all second-hand sales and purchases. In 1902 Ellerman started with new construction for the deep-sea trades. Over the next ten years, Hall Line initially gained most from new-buildings while City Line had only 18 *per cent* of the total numbers, but this included passenger ships which were larger and more expensive than the cargo vessels. From 1912 onwards new vessels for the Mediterranean trade of the Ellerman Line began to appear.

Passenger Ships.

The first City Line passenger steamers were the *City of Venice*, built in 1875 by Barclay Curle of Glasgow to carry 38 passengers and the sister ship *City of Khios* delivered in 1878. Starting with the *City of Cambridge* in 1882, Workman Clark of Belfast built six ships with speeds of 13 and 14 knots, each carrying 80 passengers. These were all cargo ships with passenger accommodation, and lacked certain amenities of P&O or BISN. In accordance with the strict temperance principles of the owners, there was no alcohol carried even for passengers, while deckchairs were not provided but had to be purchased and transported by the individual passenger. Passengers who wanted transport to India without the formality and social intercourse of the large passenger ships found them cheap and reliable, so that a regular clientele built up among the less prosperous voyagers to India such as missionaries and junior civil servants. This reputation for cheap and efficient passenger transport for voyages to and from India developed over the years, despite the lack of both entertainment and alcohol.

In 1897 George Smith III decided to remove the passenger accommodation from his new-buildings (UGD131/1/1, 25th April 1900)⁵⁵. This was possibly due to the new passenger ship construction regulations which stated that to carry more than 12 passengers a vessel had to be constructed in accordance with stringent regulations requiring additional

⁵⁵ Dispensing with passengers increases cargo capacity and reduces UK and Suez tonnage measurements.

bulkheads. In service more certificated officers were required than for cargo ships and there was an increase in the minimum number of life-saving appliances to be carried. Despite this stricter regulatory regime Ellerman changed the policy he inherited and began to build passenger ships. In 1904 he broke with the George Smith and City Line tradition of prohibiting alcohol in City Line ships when the first bar was fitted in the *City of York*.

Another innovation was an Indian Service which included a boat train from London to Liverpool. In October 1904 the first of Ellerman's new passenger ships, the *City of York* left Birkenhead on her maiden voyage to Calcutta (*Journal of Commerce*, 14th October 1904)⁵⁶. An express train brought passengers from Paddington, and the voyage time was scheduled as 24 days, 6 hours and 40 minutes. This was the birth of an Indian passenger service from London through Liverpool to Calcutta. As vessels were used from both Hall Line and City Line each company issued separate tickets for their respective ships, hence the exchanges about freights and passenger supplements. With the gradual introduction of the *City* prefix for all ships, from 1914 all passages were booked by City Line. These new vessels were not intended to match P&O First Class in speed and luxury, but still provided a good and reasonably cheap passage to India. As it happened, Ellerman was right in his decision to build passenger ships, because sixty years later advertisements proclaimed “*A Century of Service - 1839-1956 by the Cities of Ellerman Lines*” (*Times of Ceylon Annual 1956*)⁵⁷.

Workman Clark built the *City of London* for £132,570 in 1907. With a gross registered tonnage of 8917, she had a length of 491' and a draught of 32'. Designed to carry 240 first and 60 second class passengers, she consistently averaged less than twenty days from Liverpool to Bombay. Barclay Curle built a sister ship, the *City of Paris*, for £131,500 the same year. By 1905 Ellerman had ordered bigger and better passenger ships which were intended to exploit his niche in an expanding market. Hall Line developed the South African trade and supplemented City Line services to India.

⁵⁶ *City of York*, 7705grt at 14kts was built by Workman Clark and managed by George Smith and Sons.

⁵⁷ See Appendix 2, p.155.

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There was a steady increase in the size of passenger ships (figure 17) and the numbers carried (figure 18). With passenger cargo ships, in all companies, the cargo space was calculated to recover voyage costs when no passengers were carried. Passenger liners, on the other hand, carried little cargo apart from passengers' baggage, and such commercial cargo as there was required to be necessarily low-volume and preferably high value.

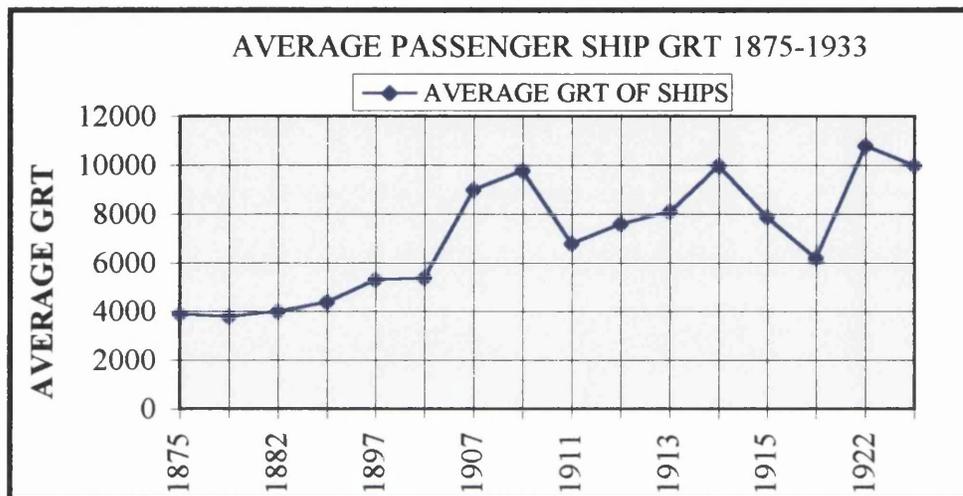


Figure 17. PAX tonnages for City Line and ELL 1875-1922.

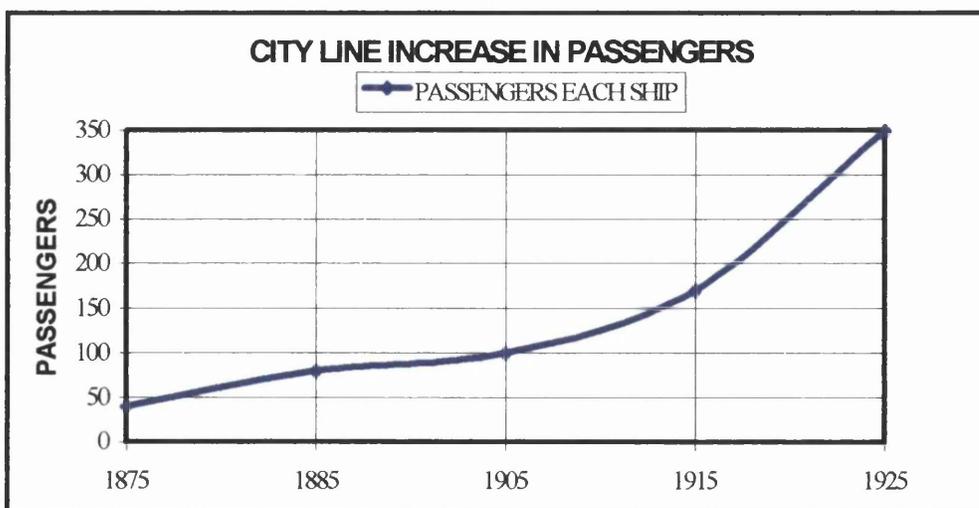


Figure 18. PAX numbers for City Line and ELL 1875-1925.

In 1913, when a Parliamentary Paper reported on United Kingdom passenger ships, Ellerman Lines Ltd is shown as operating six ships falling into that category. The increase in new ships for Hall Line at the expense of the other companies was determined by a programme of using more modern and efficient ships to meet the increasing competition

from other countries, particularly Germany which, backed by subsidies and other forms of government aid, was moving into traditional British markets in colonial possessions and the Dominions.

The new Hall Line cargo ships fell into two general categories: one of around 4000 grt averaging about £40,000 and a second group of around 5000 grt costing around £70,000. The Ellerman Line⁵⁸ cargo ships were designed for the Mediterranean trades and again fell into two distinct categories, the *Lisbon* class of around 1500 grt at prices between £16,000-£20,000, and the *Flaminian* class of around 3500 grt and a price of £20,000 - £25,000. Ellerman ordered the ships and negotiated prices, purpose and dimensions. Sometimes he would tell a shipyard to 'build like the *Lisbon*', in other cases he would specify the trade. Most of these decisions are recorded in Ellerman Lines Directors' Minute Book, as are most of the sales and purchases of second-hand ships. It is apparent that Ellerman frequently ordered ships on his own behalf, and then sold them to the Company. Similarly, he would buy older ships from the subsidiary lines and sell them on to outside interests. Over the first five years of Ellerman Lines Limited, City Line and Hall Line absorbed the new ships and passed the older ones to other fleets in the group, while Ellerman disposed of the more ancient vessels⁵⁹.

Line	Ships in 1901			Ships in 1913		
	Number	GRT	Age	Number	GRT	Age
Ellerman	20	46975	18	22	50003	16
City	14	59250	10	19	112340	13
Hall	11	41726	10	37	185797	9
Papayanni	8	21815	23	3	8474	29
W & L.	9	14855	20	5	11468	28
Total	62	184621	16.2	86	368082	19

Table 11. JRE fleets 1901 and 1913.

Hall Line expanded considerably more than City Line (table 11), and Liverpool became the operational hub of the Ellerman ships. This was inevitable given the logistics of trade and the proximity of a variety of industries to Liverpool, compared with the comparative remoteness of Glasgow from all but Scotland's indigenous industry. City Line

⁵⁸ Ex-Leyland Mediterranean steamers - not to be confused with Ellerman Lines Ltd - the 'holding' company.

⁵⁹ See Appendix 9, p.166-167.

Original in colour

had 18 *per cent* of the new ships, but this included passenger ships which were larger and more expensive than the cargo vessels.

It will be seen that while the Ellerman, Papayanni and Westcott and Laurence fleets show comparatively little change, City Line almost doubled its tonnage with a 40 *per cent* increase in numbers, and Hall Line trebled both the number of ships and their combined tonnage. In figure 20 below, Bucknalls is shown as acquiring fourteen new ships between 1906 and 1910. Sir John Ellerman was effectively the manager of Bucknalls during this period, and he implemented the new buildings.

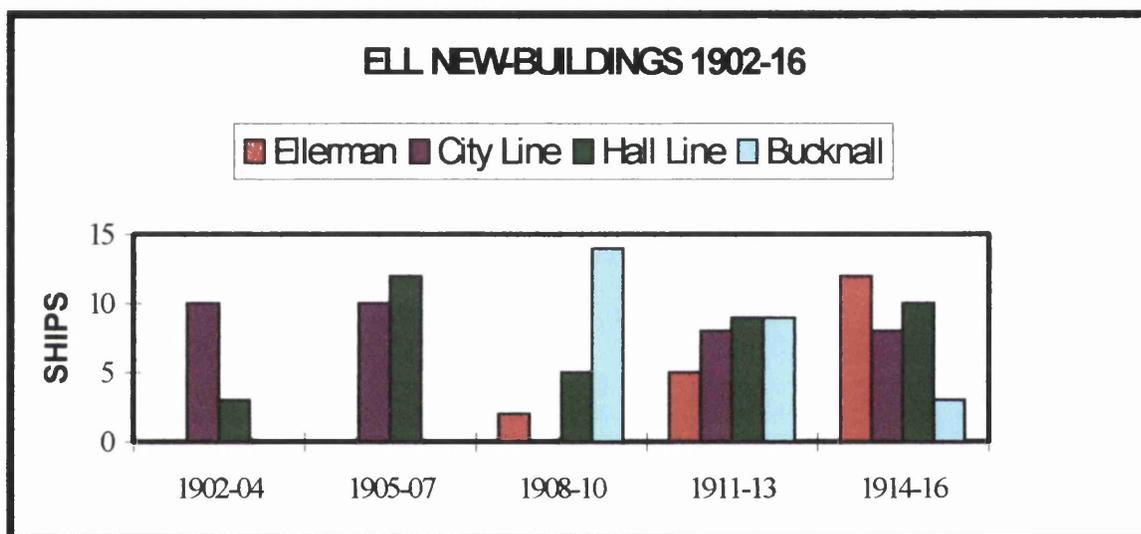


Figure 19. ELL newbuildings by companies 1902-16.

The degree of standardisation meant that ships fell into roughly similar categories which meant that crews could be moved from one ship in a class to any other without their experience being wasted or their efficiency decreased. It also meant that stocks of spare gear could be rationalised, and that greater savings were possible on bulk buying of stores and accurate comparisons could be made on consumptions by different ships in the same class.

Gross registered tons (grt) is commonly used to denote the size of a ship and may vary according to the flag state. It is essentially a measure of the cubic capacity of a ship, while the net registered tons (nrt) is roughly the grt less deductions for 'non-earning' spaces. Gross registered tons, in British flag ships, is frequently used for calculating the

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number of crew; of wages and of the type and quantity of safety equipment required by the national maritime authority. Net registered tons is used for calculating port dues, light dues and other imposts dreamed up by authorities such as port and harbour boards and the various canal companies.

To define ships by gross registered tonnage (grt) is not as important to the shipowner as the deadweight tonnage (dwt). This is a direct measurement of the weight of the ship as built plus the cargo, fuel and stores a ship can carry without sinking below the load-line. There is no empirical formula for comparing grt and dwt, but for a standard general cargo ship grt is roughly two-thirds of the dwt. Passenger ships have a larger grt than cargo ships with the same dimensions as there are fewer deductible spaces - every space concerned with passengers is treated as an earning space.

Ship Types

Flush decker.

The standard ship had a continuous flush main deck, which was also the strength deck, below which cargo would be stowed. The number of holds varied, as did the intermediate or 'tween' decks. Dues were based on the enclosed volume of the vessel, less deductions.

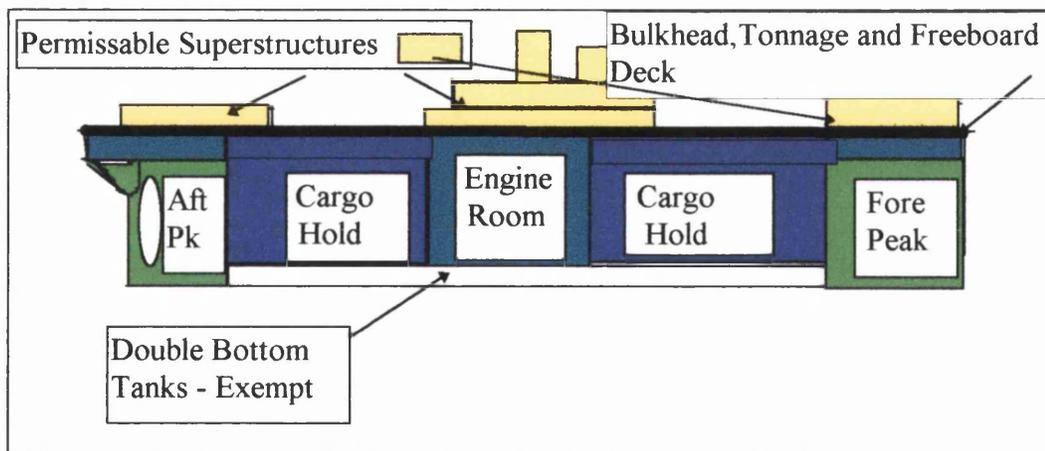


Figure 20. Flushdeck cargo ship

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Shelterdecker.

The shelterdecker was designed to reduce the tonnages on which dues were paid without decreasing the weight of cargo carried. This is achieved by leaving the shelter deck open to the elements. In practice a tonnage opening is made in the main deck, of equal width to the main hatches but very much shorter - the size being governed by regulations. This tonnage opening is covered with normal hatch covers and tarpaulins with the proviso that they must not be permanently secured. From this concept the 'paragraph ship' developed - a vessel designed to have a small gross registered tonnage and a large deadweight⁶⁰.

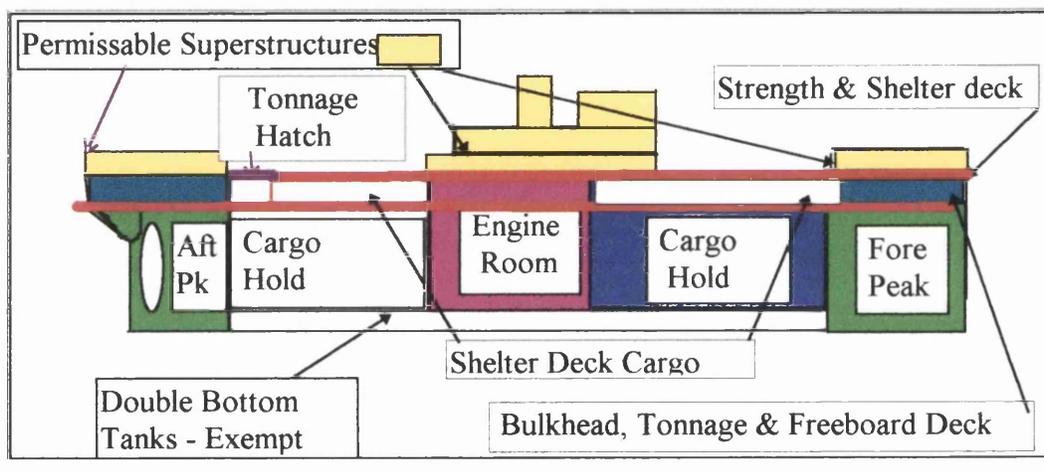


Figure 21. Shelter deck cargo ship.

In 1913 ten of the Hall Line ships carried *City* names, while Papayanni Line had received three older City Line ships which retained their original names. Gradually the *Hall* suffix disappeared, and the term City Line became synonymous with Ellerman and his passenger ships to India and South Africa.

There was an increase in the size of the cargo ships; those built since 1901 ranged between 4,443 and 6,498 with an average of 4,868grt. So far as falling into classes is concerned, cargo ships built between 1900-1903 were in the 4,000grt range, those built between 1904-1913 were between 5,000 to 6,000grt. The machinery was the typical triple expansion double-acting reciprocating steam engine with coal-fired Scotch boilers;

⁶⁰ An example is a ship of 1499.99 grt lifting 3000 tons of cargo. There is a considerable difference between the statutory requirements for vessels under 1500 grt and the next band. It should be noted that most modern 'Ro-Ro' ships are shelterdeckers, with the main ramp at main deck level and a consequent reduction in freeboard - the spaces above this deck are theoretically open to wind and water.

electricity was supplied at 110 volts Direct Current by steam-driven dynamos for lighting and the wireless installation. This type of machinery installation was still being fitted until after the Second World War, while other flags and companies were moving towards diesel engines and oil fuel.

The pattern of building shows that Ellerman chose ships for a future of expansion in trade and had confidence that cargo would be forthcoming to fill them. This building was also taking place during a time of low freight rates. References are made in the Directors' Minute Book to poor trading conditions, which precluded payment of a six *per cent* dividend on ordinary shares from 1904 until 1910 (UGD131/2/1/1).

By 1913 the Ellerman fleets had grown to 84 ships aggregating 350,000 grt from 68 ships totalling 205,000 grt in 1902. Overall, savings were made on building, registration, insurance, crews (including linen and victualling), port dues, fuel costs and maintenance. Bucknalls added another 32 ships and 152,485 grt to the combined fleets making a total of 116 ships of 409,524 grt. *The Stock Exchange Official Intelligence* for 1914 shows Ellerman Lines Limited owning 132 ships aggregating 604,432 grt, including vessels 'building or contracted for'. This is an increase of some forty *per cent* for numbers and tonnage in less than a year! However, the inclusion of a substantial number of 'vessels building or contracted for' explains the provision in Ellerman Lines Ltd amended Articles of Agreement of 1913 that would allow Debentures to be issued in 1916 'to pay for vessels now building or on order' (UGD131/2/1/1 p.186).

This is another example of Ellerman's foresight - he had, after all, acquired Bucknalls because of their over-enthusiastic and under-financed acquisition of new tonnage at the time of the South African War. Ellerman was continuing with his long term objective of building up a modern purpose-built fleet. It is unlikely, however, that his prescience in planning new tonnage extended to the ability to replace future war-time losses.

The enlistment of Prinsep for social occasions shows the retiring nature of Ellerman, which persisted throughout his professional life. Whether this was encouraged by the fact that he was not yet married to the mother of his child, or whether there was a more deeply rooted cause, it is striking that he avoided public gatherings, belonged to no clubs and few photographs of him exist.

From the time he took over City Line and Hall Line, rival shipowners like Clan Line (Cayzer Irvine) watched him carefully. Their London manager commented on the launch of the *City of Oxford* in 1902:

I should think Ellerman will do the Thing really well as he really smells of money. I believe there are to be about forty or fifty people aboard. Mr Val Prinsep, RA, and his wife are to act as Host and Hostess. He is said to be the next largest shareholder in the Ellerman Line, and is, I believe, a son-in-law of Leyland (Muir and Mair, 1978, p.229). The total expenditure on new-buildings over this period was £3,526,744, including two vessels ordered for Bucknall in 1913 - before the take-over! He had also bought second-hand ships from Bucknall in 1906, which may have been his introduction to their problems. Certainly the total of £3,700,000 spent on buildings and purchases was off-set by almost £1,000,000 from sales and insurance claims for losses - unfortunately there is little detail about either, which are probably under-stated (table 12). The balance sheets of the Ellerman Lines Ltd, as published in *Fairplay* reveal little apart from an entry showing 'instalments paid on new-buildings, completed or under construction'.

The pattern of reconstruction shows a concentration on building for the 'prestige' companies of City Line and Hall Line, while simultaneously modernising his own company - Ellerman Line - with reasonably new second-hand tonnage.

	Sales	Insurance claimed	To Newbuildings	To Purchases
Ships	40	13	64	21
Paid or received	n/a	£27750	£3526744	£311995

Table 12. Fleet sales, purchasing and building costs 1902-1913

Compiled from Ellerman Lines Ltd Directors' Minute Book.

The bread-and butter of the fleets was in cargo; even in the passenger ships the cargoes earned the money. George Smith and Sons are recognised as instigating other Glasgow shipowners, in 1874, to sign the first Conference agreement for the Glasgow - Calcutta trade. Ellerman acquired all existing conference rights belonging to the companies taken over, and thereafter frequently signed Conference Agreements on behalf of all the ships (Montgomerie and Workman Ltd Agreements E - Z)⁶¹.

At the same time he insisted on separate berths in each port for Hall Line and City Line as individual Conference members. With his interests in collieries he also made sure that bunkering arrangements followed the same pattern. In common with other shipowners

⁶¹ An exception was the 1899 Colombo Conference of which City Line (George Smith and Sons) was a founder member. Hall Line was admitted to the Conference in 1906.

Original in colour

Ellerman used bunker coal for ballast on outward voyages (Sturmey, 1962, p.13), but was averse to cargo space being lost to bunkers on homeward voyages. In order to maximize revenue-earning freight tonnages, ships frequently bunkered in Malta to complete the homeward leg. Ellerman made use of his London Agents Montgomerie and Workman as the channel for agreements on Conferences and bunkering in addition to the normal business of agency work.

In 1896 a 5 years Conference agreement with tea shippers was made; although the City Line ships, from the days of George Smith and Son, had been renowned for their expertise with tea - the king of cargoes. There was a division of tea cargoes among the major lines - this amounted to around ninety *per cent* of the total shipped by all lines - and City Line consistently carried forty to fifty *per cent* of this (see figure 22).

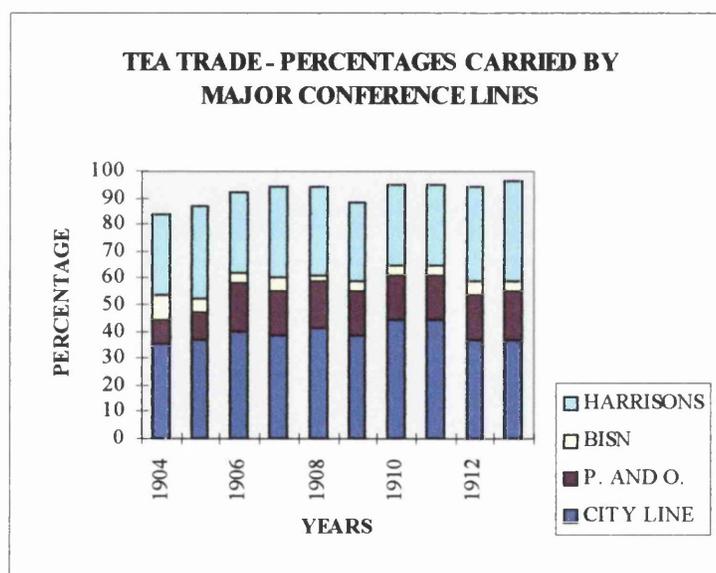


Figure 22. Tea cargoes from Ceylon 1904-1916.

Not only did City Line ships make fast passages, but the tea was always in good condition on arrival. This required more skill in stowage and attention to cargo than some ship-owners - or their crews - were either willing or able to provide.

With the opening of the Suez Canal in 1869 steamships began to take over from sail, and offered a regular and rapid passage from India to Europe. However, tea shippers were reluctant at first to entrust their fragrant and valuable cargoes to steamships with their belching funnels and a mixture of coal dust and oil which permeated the atmosphere. George Smith and Sons persuaded some shippers to try their new steamers, which proved

such a success that City Line held its lead in the tea trade until the First World war, when cargoes were allocated by the Ministry of Shipping.

The first Conference Minute for the Calcutta and Colombo tea trade was signed in 1885, with nine companies participating. George Smith and Sons had twenty-five *percent* of the cargoes, with P&O and BISN next with twelve and one-half *per cent* each (UGD131/1/9/1). Under Ellerman's direction his ships entered into further conference agreements including one for South Africa.

Taking upon himself the decisions affecting the group as a whole - salaries, bunkers, freight agreements among others, the economies of scale were immediately apparent⁶². Ships could be built with basic features in common, engine type, hull form, tonnages for particular ports and so on. This meant an increased ability for substitution between fleets, which by 1913 had been extended to personnel. The size of his enterprises also gave greater weight in financial markets and the respective shipping-related industries. In 1907 Ellerman was elected President of the British Chamber of Shipping, and also gave evidence to the Inquiry into Conferences, a long-running but gentlemanly battle with the government of the day. His inaugural speech to the Chamber of Shipping was concerned with over-regulation by the Department of Trade - particularly the unilateral demands on UK shipowners to comply with safety regulations not generally recognised by most other shipping nations. This speech met with great approval from his fellow shipowners, and *Fairplay* reported that it was the most relevant and intelligible speech that august body had ever heard.

Ellerman not only acted as ship-broker, director of human resources, overall manager but also was effectively the technical director. He negotiated personally with shipyards for new-building and agreed the contracts. He also examined plans for modifications and even monitored the provision and siting of the Wireless rooms required by newly introduced Board of Trade Regulations (UGD131/1/13/1)⁶³. This does not mean that he lacked professional advisers among his employees, or that he was not prepared to accept technical advice from other shipowners.⁶⁴

He commented on the proposals of Superintendents while never losing sight of the viability of the ships. Common coaling contracts, uniform wages and transfer of officers between any ships in the Group were all introduced by him in the early years. There was

⁶² Ordering stores and ship-chandlery for a large fleet produced discounts - sometimes as high as 50%. Similarly with Insurance.

⁶³ Letter to W. S. Workman 'Unreasonable attitude of BOT towards W/T'.

⁶⁴ An example is the introduction of the cruiser stern from Wilson Line of Hull.

also a common form of voyage account which made it possible to draw comparisons of performance between different ships and companies. Above all, he was in constant touch with his businesses, particularly the ships, even writing personally to Workman from his bungalow at Worthing or his hotel in Paris. The letters and notebooks referred to above provide a daily commentary on his ability to remember and decide a multitude of issues. These were personal interventions, whether from his bungalow in Worthing, an hotel in Paris or his yacht, he communicated direct with his managers in Glasgow, Liverpool and London. At the same time he allowed sufficient autonomy to his subordinates to act against his advice in some cases; when they were wrong, he minced no words in pointing this out. This facility to see the wood through the trees suggests that he would have succeeded in many other fields had he limited himself to any one of them.

Ellerman was an exceptional man with simple tastes (no large estate, no racehorses, no social aspirations). In addition there was no extended family with parasitical demands which hindered wealth accumulation and, most important, Ellerman was virtually the sole owner and so had absolute authority. Ellerman as a shipowner took a detailed interest in the operations of his ships. There is no record of such interest in the mechanics of brewing or collieries apart from their finances. There are suggestions that he played some part in the editorial decisions of *The Financial Times*, although one obituary suggests otherwise (*Financial Times* July 18th 1933)⁶⁵. Compared with the returns from investments in other areas such as property, shipping was not a cow which gave perpetual milk (Green and Moss, 1982).

Ellerman's daughter (Bryher, 1973) suggested that her father had little interest in money as such - accumulating a fortune was a game for which he had an instinct. He enjoyed travelling in his own vessels or sailing his yacht among the Western Isles of Scotland or in the Mediterranean. There was, however, no sentimentality about his attitude to operating the ships or to the men sailing in them, despite his reputation as a good employer. There is a common factor in his shipping acquisitions - apart from Westcott and Laurence, the other companies had dissipated their capital among extended family shareholdings. For Ellerman, the lack of family connections may be seen as an advantage! Another constant in his operation of these companies was the retention of salaried managers at the expense of most of the original directors. Again, with Papayanni, City Line, Hall and the ex-Leyland vessels, the companies were wholly owned by Ellerman or Ellerman Lines

⁶⁵ Obituary of Sir John Reeves Ellerman, Bart, CH "only part played in publishing was to check the printers' bills".

Ltd; as the majority shareholder in the latter it amounted to the same thing. Complete control of an undertaking is one of the characteristics of the successful entrepreneur, and to this must be added his skill in negotiations and his solid assets which were accepted - without being specified - as security for all his enterprises.

Different Ships - Same Cap-tallies⁶⁶

Immediately after the take-over of the other companies the original managers looked after their 'own' ships, and until 1912, when the last debentures were retired, some City Line ships were wholly owned by the debenture trustees of City Line Ltd. However, within a few years Lloyd's Register showed a diverse ownership among all the companies, including Ellerman Line and Papayanni Line. The parent company Ellerman Lines Ltd was shown as owner of 29 ships, George Smith and Sons owned 9, City Line 5 while Sir John Reeves Ellerman owned the *City of Edinburgh*, built in 1899. A possible explanation of the last is that the ship was in the process of being sold and that Ellerman had 'bought' the ship from City Line⁶⁷. It has already been pointed out that he personally dealt with all sales and purchases - which is where the real money is made in shipping! It must be noted that, according to *Lloyds Register*, Hall Line owned no ships.

The Ellerman funnel colours and an Ellerman pennant to be worn in conjunction with the house flag of the original company were introduced in 1904 (UGD131/2 /13/2). Standard wages for ships' officers and crews were not introduced until 1912, when Hall Line complained that they were losing personnel to outside companies paying higher wages. In addition, a certain amount of 'horse-trading' went on when officers were transferred, with their ship, to another fleet. If the transfer were treated as a bare-boat charter, then the receiving company would pay the wages, whereas a voyage charter would be confined to payment for the ship alone. When different rates applied to different fleets there was unavoidably some friction due to some officers receiving higher pay than usual, which they found acceptable, while others received less, which was unacceptable. Eventually Ellerman decided upon the rates to be paid throughout the fleet, and told Workman (City Line) and MacAllister (Hall Line) to implement them (UGD131/1/13/2).

⁶⁶ A cap-tally refers to the band round the cap of a seaman, with the name of the ship printed on it. Different ships naturally had different cap-tallies. The original saying is: 'different ships, different cap-tallies' which means 'forget what you did in your last ship and start again in this one'. Ellerman, with his desire for uniformity, made each ship adopt the same routines.

⁶⁷ As the *Maplemore* she was one of Ellerman's first purchases - before London and Ocean SS was formed.

Overall the ships were run as one fleet, and insurance, depreciation and capital for expansion all passed through Ellerman's control. The astonishing loyalty which he commanded, not only from his shore staff but from his crews is something which was remembered even after his death. The ships had good accommodation for the officers, and fed well, while there was some continuity of employment with paid leave - which was not common in the pre-First War Merchant Navy. It was not common in the Second World War either, when most shipping companies stopped pay for all officers and ratings as soon as the ship was sunk by enemy action. This changed only in 1942, when an Established Service scheme was introduced.

Management was even more interestingly diversified. In 1910 Robert Alexander managed one ship, *City of Agra*, owned by Ellerman Lines Ltd. Wm S. Workman personally managed three ships, including one owned by City Line Ltd but shown in the Papayanni fleet list. Hall Line Ltd managed thirteen ships, while George Smith and Sons managed eighteen. These were the nominal managers; in fact Ellerman personally was the *de facto* manager. *Lloyds Register* is notoriously inaccurate with up-to-date information about masters, owners and managers as changes may not be recorded for over a year, depending on the actual date of publication of amendments. Ellerman was a typical shipowner in that any ship was for sale at the right price and time.

The Shipyards

It was not unusual for shipowners to have interests in fields allied to shipping - collieries, steelworks - and shipyards. Furness bought the Withy shipyard a year after he started operating his own fleet, and later acquired interests in other forms of heavy industry. Workman Clark of Belfast was founded by a shipowning family and expanded with the offspring of others - Allans, Clarks and Smiths among them. This family connection probably led George Smith and Sons to build most of their new vessels in Belfast, and George Smith III was a major shareholder in Workman Clark from its incorporation.

Ellerman continued to build new tonnage with Workman Clark, but also used other yards including Barclay Curle on the Clyde and Palmers on the Tyne. Workman Clark shared passenger ship construction with these other yards, and there was little difference in the prices (UGD131/2/1/1). He did not, however, use Harland and Wolff who were pioneers of the motorship and deeply involved with Royal Mail Lines and Owen Philipps⁶⁸.

⁶⁸ Pirrie, chairman of Harland and Wolff, joined Leyland Line as a director when Ellerman resigned as chairman.

Original in colour

By 1913 he was using some smaller yards, particularly for the Mediterranean steamers, including yards in which Thomas Wilson of Hull, the largest private shipowner in the United Kingdom, had an interest.

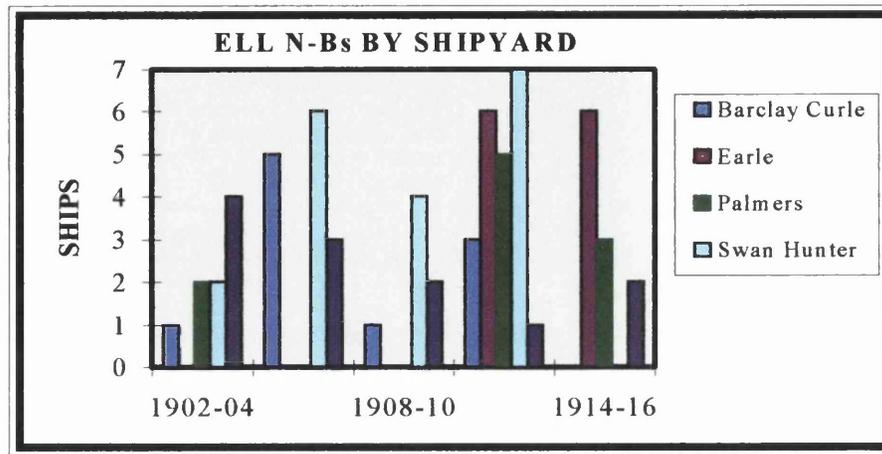


Figure 23. Ellerman newbuildings by shipyards.

At this time Ellerman showed no interest in acquiring his own shipbuilding facility, but changed his policy after acquiring Thomas Wilson of Hull in 1916. Ellerman had now added a fleet which gave him an additional 66 ships of about 200,000 grt with world-wide trading facilities. Also included in the transaction were other interests and part-ownership of Earles shipyard which he had been using since 1914.

In concert with Sir William Gray and others, the Egis shipyard was opened on the Tees in 1917 to prepare for the post-war demand for ships. So far as the Egis yard is concerned, Inchcape and Strick stopped short of ownership of the yard, but did undertake to build ships there (Taylor, 1976; Rubinstein, 1984; Boyce, 1995)⁶⁹. Ellerman also bought the whole of the shares in Ramage and Ferguson of Leith, another shipyard he had favoured, particularly for cruiser sterns. During the war he had been keeping his own tally of shipping losses, and production of merchant ships from British shipyards, and in 1918 expressed his views forcibly that the whole British war-time ship-building output was insufficient to cover losses by marine causes, let alone losses due to enemy action to provide for this shortfall in building capacity (*Fairplay* 1917 p.263). From 1917 Ellerman also contracted with several shipyards to provide building berths to be available from the end of controls on shipping and shipbuilding for the following ten years (UGD131/2/1/1).

⁶⁹ UGD131/1/1 makes it clear the the Egis shipyard was started by Gray, Ellerman and Wilson; Inchcape and Strick dropped out of the negotiations at an early stage.

The increase in tonnage in 1914 was due primarily to the acquisition of Bucknall, and was followed by a new- building programme covering the next four years. Ellerman ordered ships from different yards and specified each individual order with descriptions such as 'same as 232' - an earlier order, or 'similar to *Roumelia* and for the Mediterranean trade'.

Cruiser Sterns

In the last four decades of the nineteenth century development of more efficient steam engines, the use of electricity at sea and the opening of the Suez Canal revolutionised the operation of shipping. The steam turbine, the internal combustion engine and the use of oil as a fuel further changed the pattern of shipping in the years leading up to 1914. The first operational turbines were fitted to naval vessels, where economic restraints were secondary to speed, fighting efficiency and firepower. The development of hydraulics allowed the application of servo-systems which gave remote control and flexibility in siting machinery in less exposed and more accessible parts of the ship.

Greater speeds and greater displacements required more powerful steering mechanisms, which required the application of steam engines. Steam steering engines, like the old hand-steering wheel, were placed on the after deck above the rudder and consequently were exposed to wind and weather. With the existing counter sterns, retained from sailing ships, there was no room for the steering engine below the main deck. Warships were also exposed to enemy shells, so new cruisers were built with the steering gear in a compartment below the main deck, which effectively formed the cruiser stern. Not only was there reduced maintenance on the equipment which was now protected from the elements, but the surrounding space could be used for stores and spare gear. In addition, the new form extended the waterline at loaded drafts giving greater buoyancy and better sea-keeping qualities and in the early 1900s the construction was adapted to merchant ships.

Cruiser sterns first appear among the details of ships in the Lloyd's Register for 1914-15. Although a French cross-channel ferry, the *Seine* circa 1890, is reputed to be the first merchant vessel fitted with a cruiser stern, no details of the name or ship have been found in *Lloyds Registers*.

William Gray built the first of a recognisable Ellerman type, with cruiser stern and weldeck abaft the midships structure housing accommodation and galley.

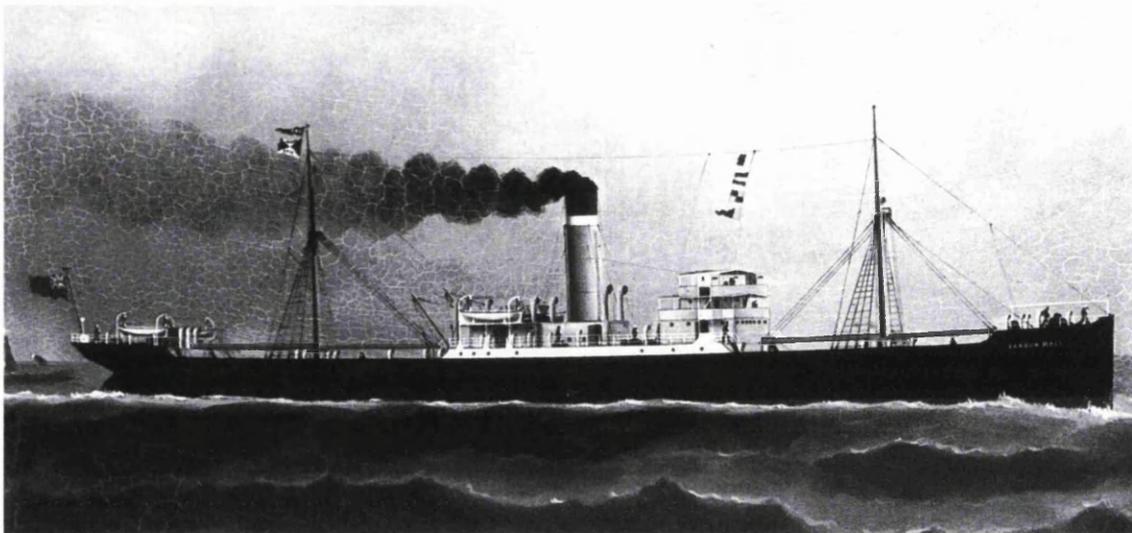


Figure 24. Counter stern, *Sandon Hall*, 1906, Barclay Curles, Glasgow. Painting by A. Khan, Hong Kong, (published by Shipwrecked Mariners Society).

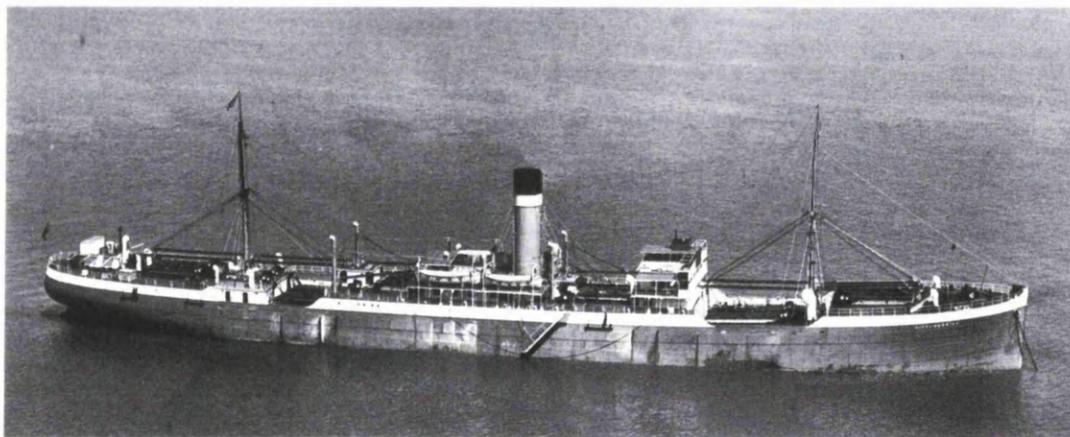


Figure 25. Cruiser stern, Hall Line *City of Norwich*, William Gray, 1913. Reproduced from *The Golden Age of Shipping* (1995), p.38.

Compare *Sandon Hall*, with the counter or ‘duckbill’ stern as it was known, built in 1906 by Barclay Curle of Glasgow (figure 24) and *City of Norwich*, with the cruiser stern, built in 1913 by William Gray (figure 25).

Thomas Wilson of Hull appear to have been the first United Kingdom shipowner to adopt it, in the *Borodino* of 1987 grt, delivered from Earle’s shipyard in 1911. After this the design spread, and was adopted by Ellerman with the *City of Norwich* from William Gray’s yard in 1913..

Although other companies gradually moved towards its use, some, such as Alfred Holt and Hamburg-Amerika Line, retained counter sterns until the 1930s. Ellerman and Wilson built most of their subsequent tonnage to this design, and also spread their orders wider as more shipyards adopted the technique. Table 26 below shows the companies and vessels with cruiser sterns as reported in Lloyd's Register for 1916-17.

Date	Company	Ship	Yard	GRT
1911	Thos Wilson	<i>Borodino</i>	Earles	1987
1913	Ellerman	<i>C/Norwich</i>	Wm Gray	6382
1913	Allan Line	<i>Alsatian</i>	Beardmore	18481
1914	Cayzer Irvine	<i>Clan Campbell</i>	Napier	5897
1915	Federal Nav.	<i>Devon</i>	A. & C de France	9661
1915	Red Star	<i>Bergenland</i>	Harland & Wolffe	26500
1915	Chatham & SE Rly	<i>Biarritz</i>	Denny	2495

Table 13. Cruiser sterns by owners and builders.

The Pinnacle of Power

With the acquisition of Bucknalls Ellerman crowned his shipping empire and entered into the second half-century of his life. Like his contemporaries, Ellerman appeared unaware of the clouds on the horizon - indeed, his orders for newbuildings suggest that he looked forward to a bright future. In any event he was a significant figure in shipping with a large work force comprised of different nationalities. Ellerman, whatever his feelings about trade unions and socialism, was an enlightened employer. Does this hold the key to his success, this ability to get the best out of his available resources, whether material or human? Perhaps he was completely devoid of emotion, as his daughter suggested, and whatever the task to which he applied himself, it was treated as a game of skill with the objective of optimizing his talents - which meant making a profit. The element of personal control must be the lynch-pin of his organizations, and whether he would be equally successful today is open to question. Certainly he was a man ahead of his time - but that time was still the Victorian age. In the application of new technology he was behind other shipowners in using turbines or building motorships. In favour of his staying with tried and tested equipment, it must be said that both turbines and diesel engines had high capital costs and required a higher standard both of personnel and maintenance. In addition, it was easier to

sell a 25 year-old simple coal-fired three-legged up-and-downer⁷⁰ to Greeks or Chinese buyers than it was to sell more sophisticated ships. Here again is an explanation of Ellerman's success in shipping - as with other fields of investment. By building ships to a standard design which served for over twenty years, and also looking at the eventual disposal of the assets for a satisfactory price (serviceable second-hand tonnage is worth more than the scrap value), his operation made the maximum use of all resources. He was without question a manager *par excellence* who owned most of the ships he managed. In this context it is no coincidence that while the number of shipping companies has decreased dramatically since 1980 the number of ships operated by Management Companies has increased. Ellerman was the active manager of all the ships - this meant that all commissions, fees and rebates went to him. Better still, his office and staff were provided free while he not only received a salary but also collected a substantial performance bonus through his Management shares (UGD131/2/1 p.34). It should be a salutary lesson to all businessmen that profits are more hardily earned than commissions and fees. These are, however, well worth the extra work involved in active management. Unfortunately, few of us have the memory or the aptitude for balance sheets possessed by Ellerman, who appeared capable of remembering and reducing any collection of facts and figures into an evaluation of profitability.

⁷⁰

The colloquial description of a triple expansion reciprocating engine.

CHAPTER FIVE - WAR-TIME MILLIONS.

The First Shock

In 1914 Sir John Reeves Ellerman controlled 139 ships (including 13 building) of 756,077 gross tons in Ellerman Lines Ltd, in addition to a 55 *per cent* holding in Shaw Savill and Albion (UGD131/2/1/1) and a continuing interest in Leyland Lines with his large preference share-holding. With the acquisition of Bucknalls he had access to properties and agencies in South Africa, and because his agreement with J.P. Morgan and IMM had expired, was able to trade again to North and South America. From 1912 he had engaged in a massive building programme on behalf of Ellerman Lines Ltd, personally negotiating for each ship, and spreading his orders around many shipyards. To prepare for unforeseen cash flow problems, he had prudently made provision for debentures to be raised if necessary and so cover the cost of the newbuildings. It is not surprising that the outbreak of war between the 'Triple Entente' or Allied Powers⁷¹, and the 'Triple Alliance' or Central Powers⁷², came as a shock.

The immediate effect of the prospect of war followed by the actual outbreak administered a rude shock to the delicate mechanism so essential to the operation of financial markets and associated world trade. For the City of London there was a week of vacillation and timidity because the magnitude of the possible effects, assuming they had been foreseen, had been underestimated and miscalculated. There was the shadow of impending insolvency and a lowering of share prices, which meant that where shares formed all or part of the collateral for loans, the lending banks, to reduce their exposure to a reduction in their own solvency, started calling in some loans and forcing unfortunate customers into bankruptcy. With some success this effect was minimised in the United Kingdom by closing the Stock Exchange on 31st July 1914, and keeping it closed until September, which prevented any movement of share prices other than by private traders.

⁷¹ In 1914, Britain, France, Russia, Serbia and Belgium,

⁷² In August 1914 the Empires of Germany and Austro-Hungary and the Kingdom of Italy. Italy stayed out of the initial hostilities, and joined the Allies in 1915. Although not a member of either grouping, the Ottoman Empire joined the Central Powers in October, 1914.

Simultaneously there was an immediate problem caused by a shortage of change which made it difficult to cash larger notes; on 6th August 1914 the Treasury issued Treasury⁷³ notes of £1 and 10 shillings which were advanced to the Joint Stock Banks against a floating charge on the Treasury (Keynes, 1914). Bank Rate rose from 3 *per cent* on 22nd July to 10 *per cent* on 1st August, before dropping back to 6 *per cent* on 7th August. Foreign trade dried up as foreign clients failed to meet their obligations on a scale which left £350,000 outstanding in London.

For over a decade it had become increasingly obvious that Germany was in active competition with the United Kingdom, and was building up maritime forces to challenge her mastery of the seas⁷⁴. Subsidised shipping led to low freight rates with little prospect of improvement in the short term (*Lloyd's Weekly*, 29 February 1914, pp 120-1)⁷⁵; *Fairplay*, August 1914, p.345)⁷⁶. Novelists like Erskine Childers in *The Riddle of the Sands*⁷⁷, and Rudyard Kipling, forecast a conflict between the two 'Teutonic cousins' (Nicholson, 1930, p.391). After all, was not the King of England of good German stock, and was not the family name Saxe-Coburg? The ceding of Heligoland to Germany in 1890 was seen by some of the more wider-thinking British politicians and military leaders as opening a gap in the defence of the United Kingdom. The Liberal Government under Asquith was pledged to Free Trade and social intervention⁷⁸ and was openly pacifist. When war, after days of procrastination, was eventually declared on 4th August 1914, the first shocks reverberated around an unprepared international shipping industry.

Russell Smith (1919, p.26) points out that the war fell on a world oversupplied with shipping. Shipowners, like everyone else, were stunned by the explosion and the war itself; their industry had a paralysis - a quadruple paralysis (*Lloyd's Weekly*, February 29th 1914 pp. 120-1)⁷⁹; *Fairplay*, August 1914, p.345)⁸⁰.

⁷³ So called in order to distinguish them from bank notes which were the normal currency.

⁷⁴ In 1896 the German Admiral von Tirpitz announced his naval programme - to surpass England(*sic*) in numbers of both warships and merchant ships. This latter introduced a world-wide surplus of tonnage and low rates.

⁷⁵ "Depression in the shipping trade has followed so closely on the heels of a remarkable ... freights have touched an unprofitable level. Steamers are being laid up at certain ports in steadily increasing numbers".

⁷⁶ "In July shipowners were preparing for a long depression, and the question was, how long would it last".

⁷⁷ An adventure tale about German military pretensions in the North Sea.

⁷⁸ A minimum wage and reform of legislation curbing trade unions.

⁷⁹ 'Depression in the shipping trade has followed so closely on the heels of a remarkable ... freights have touched an unprofitable level. Steamers are being laid up at certain ports in steadily increasing numbers'.

The first effect was the drying up of credit, due to the disturbances in the financial markets, which lasted for two months (*Lloyd's Weekly*, October 2nd, 1914, p.627)⁸¹. The strength of German land forces was underlined by their invasion of Belgium and France. At sea, immediately war was declared, German commerce raiders started their attacks in the South Pacific, South Atlantic and the Indian Ocean, and reaped a harvest among unsuspecting British merchant ships. Submarines and mines made their appearance in the waters round the British Isles and the North Sea, taking a slow but steady toll of shipping. As early as the 6th August 1914 the British ship charter market was reported 'absolutely' dead (*Fairplay*, 6th August 1914) and later that month it was declared:

Chartering has come to a complete standstill in all the trades of the world (*Syren and Shipping*, 12th August, 1914).

Simultaneously, underwriters went 'on strike' as the presence of raiders made it impossible to calculate risks and so insure either hulls or cargoes. In the Mediterranean and nearby waters where the Royal Navy offered some protection, trade continued, although at a reduced level. Within three weeks, however, the governments of the leading maritime nations had entered into the insurance market by providing finance for War Risk premiums (Russel Smith, 1919, p.28) either directly or through subsidies to private insurance companies.

Shipping business began to move again, but freight rates continued their decline from the already unprofitable levels of July 1914. Traders were waiting for stability in the money markets, while shippers remained loath to commit themselves to sending goods across uncertain seas to destinations which might no longer be accessible (*Lloyd's Weekly*, August 28th, 1914)⁸². This initial stage of the war ended with the German retreat from the Marne, and by October 1914 the opposing armies were dug in along the line of the Aisne, beginning four years of virtual stalemate and bloody trench warfare. By this time freight rates were rising and neutral shipowners were advertising sailings (Russell Smith, 1919 p.29). Among those publicly less confident of the future, however, were shipowners like

⁸⁰ 'In July shipowners were preparing for a long depression, and the question was, how long would it last?'

⁸¹ 'Ships here [New York] cannot obtain cargoes for the reason that American shippers are not convinced they can get quick payment ... Until the state of the financial market is improved there will continue to be hundreds of vessels lying idly at the docks.'

⁸² '... St Petersburg, Gothenburg, Copenhagen, Danzig, Hamburg, Stettin, Emden, Antwerp, Rotterdam and Trieste, are practically closed to trade. These are all large receiving ports, and the fact that they are all shut down means that some of the largest markets in the world are closed to shipowners.'

Ropner and Co., Royal Mail Steam Packet Company, and J. P. Morgan's International Mercantile Marine, all of which notified shareholders of a 'deplorable position' for earnings due to the high cost of insurance offsetting increases in freight rates.

These fears were unfounded, because by the end of November it had been realised that the loss of Eastern European supplies to Western Europe meant a demand for more ships, as the alternative sources were more distant. Requisitioning of British tramp ships began in October 1914, with the publication of Blue Book rates of eleven shillings/grt (6 shillings and 6 pence/dwt) for a 7,000 dwt steamship compared with 45 shillings/dwt for neutral vessels. An estimated 10 *per cent* of British tonnage was requisitioned in the first weeks of the war, rising to 25 *per cent* by the end of 1915. Requisitioned ships carried government cargoes, and as sixty per cent of British sugar supplies came from enemy territories, on August 20th 1914 a Royal Commission was set up to buy, sell and distribute sugar from other sources. Transport from the producing countries provided a bulk cargo for requisitioned ships (Taylor, 1990, pp 5-6), which were predominately from the trampship companies.

As the war continued, so the scarcity of ships became more acute and ship prices rose in response. Requisitioning was a factor in higher freight rates for free tonnage, which by January 1915 were rising daily. The submarine and the mine were proving more lethal than the surface raider, most of which had been removed from the seas by the Battle of the Falklands in December 1914. Despite these war-time perils, the commerce of Britain was not seriously affected, and in April 1915 insurance rates were down to 1 per cent. The Allied blockade was working, and:

The whole of the enemy trade had been swept off the outer seas, and all avenues of victualment and reinforcement were held for the sole use of the Allies (Churchill, 1947).

Freight rates rocketed, and shipping companies were able to pay dividends reckoned in the millions - pounds, dollars or kronor. So far as the United Kingdom was concerned, the requisition of passenger liners for conversion into Armed Merchant Cruisers or troopships was one of the first acts of government. Many passenger liners had been earmarked for these rôles from the time they had been built, with an appropriate government subsidy for strengthened frames in the way of proposed gun mountings, and Ellerman Lines Ltd was affected immediately.

Despite his international connections, Ellerman was no better prepared for the war than anyone else, and now found that some of the ships he had ordered in 1913 and 1914 would be much delayed. However, he continued to commission new tonnage, discovering in 1915 that shipyards would in future only accept orders on a cost-plus basis (UGD/131/2/1/1). From the outbreak of war, his fleet had been decreasing both in numbers and in tonnage. Ellerman Lines Ltd had passenger ships taken up by the Admiralty as Armed Merchant Cruisers, troopships or hospital ships; other vessels were lost to raiders or interned in German or Turkish ports. The remaining ships continued trading on the owner's behalf, and it was not until 1917 that cargo liners were brought into the net of requisitions, to a chorus of complaints by Ellerman and his fellow liner owners. There is little detail in the Directors' Minute Book of Ellerman Lines Ltd about ship movements, other than 'lost by enemy action'; but a great deal about the profits being made, and complaints of the iniquitous taxes the government was now levying on shipowners.

Convoys or Capitulation.

If shipowners were unprepared for war, the Admiralty and senior officers of the Royal Navy were even more so. On 4th August, 1914, the German minelayer *Königen Louise* was sunk by British destroyers in the Thames Estuary, having laid about 180 mines. The following morning the cruiser *Amphion* struck one of these mines, and sank within minutes. There was no provision in the fleet for minesweepers, so trawlers were requisitioned and pressed into service. On 22nd September 1914 three ageing cruisers were sunk by U-9 on their way back from patrol off Harwich. Admiralty had made no provision to provide any naval base anywhere on the East Coast of England. Rosyth, on the Firth of Forth, was under construction, and Scapa Flow, the 'haven' for the Home Fleet, had no anti-submarine defences, mine-sweeping facilities or any form of defence other than the guns of the battleships lying there. On 18th October 1914 Jellicoe moved the Grand Fleet to the safety of Lough Swilly in Northern Ireland - hardly the best vantage point for rapid response to enemy action in the North Sea. The success of the U-boat should not have come as such a surprise. Admiral 'Jackie' Fisher, when First Sea Lord, had been aware of the potential of the submarine as an offensive weapon, and in 1901, at the Institute of Mechanical Engineers, a lecturer had pointed out that submarines would be capable of inflicting incalculable destruction against unsuspecting and defenceless merchant ships (Watts, 1994,

p.117). These pearls were cast before swine, falling on stony ground at the same time, and the Royal Navy was completely unprepared for the new war at sea.

The U-boat war can be divided into four phases: the initial campaign from August 1914 to January 1915 when U-boats stopped merchant ships and ordered the crews into boats before sinking the vessel; then from January 1915 to March 1916 when 'sink at sight' applied to all merchant ships. March 1916 to January 1917 saw the return to 'controlled' sinkings by U-boats and finally from January 1917 to November 1918 there was unrestricted U-boat warfare. The German Navy had entered the war with a fleet of 29 submarines, with only two or three in service at any one time, a limited range and a maximum of 4 torpedoes. By 1916 the number had grown to over 100, and the newer submarines had a greater range, more torpedoes, and an increased striking capability. The policy of unrestricted sinkings included neutrals and passenger ships, one of the latter was the Cunard liner *Lusitania* carrying a number of American passengers and torpedoed in May 1915. In March 1916 the *Sussex*, another passenger ship with Americans on board was torpedoed and the Germans then stopped unrestricted sinkings in order to avoid a possible severance of diplomatic relations with the USA (Callender, 1940). When the United States was seen to be entering the war on the side of the Allies, unrestricted U-boat warfare began again in February 1917 (Kemp, 1969, p.147). The first three phases of U-boat warfare had not affected the commerce of the United Kingdom to any great extent, although the threat to neutrals from unrestricted warfare reduced the number trading to Britain. The total losses for 1914 -1915 amounted to 800,000 tons, mostly British ships. In 1916 over 1.25 million tons was lost, far exceeding the output of British shipyards. The last phase, of total unrestricted under-sea warfare, began on 1st February 1917 (Kemp, 1969, p.147), and in that month alone 520,000 tons was lost, rising to 860,000 tons in April.

Most merchant ships voyaged alone and unarmed, and within three months one and a half million tons of British shipping had been destroyed. Despite historical evidence for the advantages of the convoy system (Callender, 1940, p. 94-5)⁸³, this was not re-introduced until May 1917. That this long delayed measure was justified was shown by the fact that in September 1917 losses from submarines were declining, although still greater than the rate of replacement. However the introduction of convoys with their delays and detours increased voyage times, which meant even more ships were required.

⁸³ To combat Prince Rupert's privateers. the Commonwealth instituted a system of convoys.

Original in colour

Governments also needed shipping space to transport troops and materials to the various battlefields, and munitions manufacture demanded increased imports of raw materials. As the scarcity of ships increased, so the demands of the fighting navies reduced the berths available for new merchant tonnage. For the first two years of the war there was no co-ordinated policy by government on shipping or shipbuilding, nor any thought of introducing rationing for the population.

Whose Risk?

The chaos in the financial markets extended to underwriters and governments had to intervene to guarantee premiums for the additional risks posed by war. In the United Kingdom shipowners and underwriters had prepared a provisional measure which was implemented within the first month after the outbreak of war in August 1914.

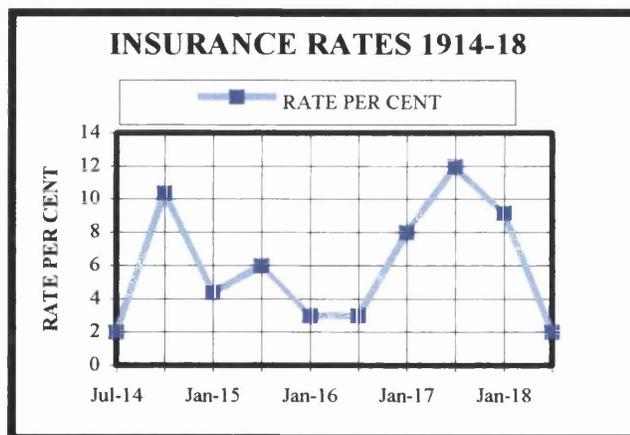


Figure 26. Insurance rates 1914-18 (Russell Smith, 1919, p.49-73).

There was no open trading in insurance, and rates varied widely between different underwriters and the trades of the insured vessels. When records were made available in 1918, it was seen that the underwriters had a more realistic approach to German naval activity than Asquith's government, particularly in the months of the 'sink at sight' U-boat campaign which began in late 1916 (Russell Smith, 1919, p. 49-73).

Original in colour

Losses to U-boats decreased dramatically with the introduction of convoys and the defensive arming of all merchant ships. Scale of total losses represents millions of tons and includes neutral and Allied shipping. It was a near thing, and had it not been for the United States and its massive shipbuilding programme, which handled the supplies of men and materiel for the US armies in France, the shortage of shipping would have increased during 1918.

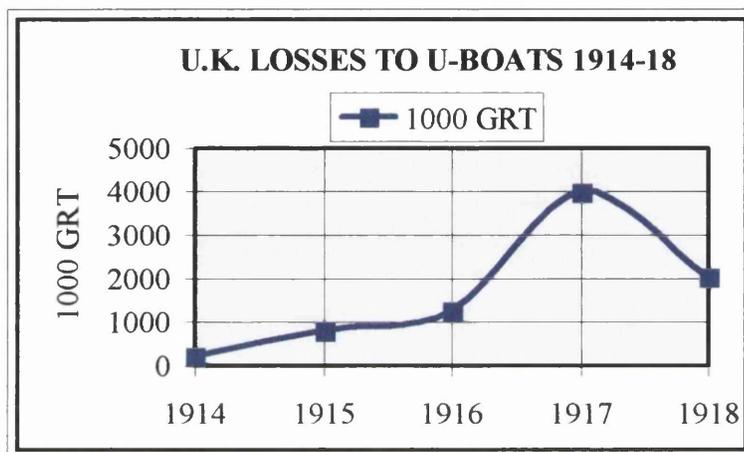


Figure 27. U.K. merchant ship losses to U-boats 1914-18. Compiled from a variety of sources including Winston Churchill's published personal memoirs and naval histories referred to in references.

Asquith, as Prime Minister and an ardent apostle of Free Trade, refused to take formal control of shipping, choosing to leave it to existing departments. For the first two years of the war, therefore, control of shipping was vested in two departments, the Admiralty and the Board of Trade; and three special committees: Shipping Control Committee, Ships Licensing Committee and Port and Transit Executive Committee (Russell Smith, 1919, p 159).

This multiplicity of authorities meant cargo ships were requisitioned on a rather haphazard basis until December 1916, when a Ministry of Shipping was created. Joseph Paton Maclay, owner of the Glasgow tramp company Maclay and MacIntyre, was appointed Controller of Shipping and for the first time one man had 'practically the whole shipping of the country under control and regulation' (*Lloyd's Weekly Review*, 16th May 1917, p.7). Until that time, most liner companies had been immune from requisitions,

leaving tramps to carry cargoes at Blue Book rates⁸⁴. Maclay requisitioned all ships and employed the owners as managers. The liner companies were invited to sign Heads of Agreement which made use of the Conferences already in existence. Alfred Holt of Blue Funnel Line challenged Maclay in the courts, on the grounds that the system was *ultra vires*, as requisitioning applied only to ships and not services (Taylor, 1990, Pp. 77-9). Although Holt was upheld by the court, Maclay ignored the ruling. In addition to direct controls on vessels' movements and their cargoes, a system of licensing shipments before they could go overseas was introduced (Russell Smith, 1919, p.43). Similar controls were imposed on manufacturing industry to determine production and prices. In 1917, therefore, complete control of all British ships covering building, purchase, cargoes and ports was introduced.

The combination of losses by enemy action and longer voyages meant that the need for merchant tonnage expanded beyond the capacity of British shipyards. Losses due to perils of the sea were also higher during the war, because lights around coasts were extinguished, and ships were running for longer periods before being refitted or scrapped. Some ships were supplied by neutral countries, building in hurriedly constructed ship-yards, but currency controls meant that British shipowners depended on indigenous shipyards. Quite apart from the expansion of the Royal Navy, which was met from yards normally building merchant ships, vessels which had been damaged in action increased the amount of repair work for hull damage. A large percentage of skilled workers had been lost to the fighting services, while materials were also in short supply, so inevitably both costs and delivery times rose rapidly.

Merchant shipbuilding was now down to one-third the pre-war level and although the Admiralty controlled all shipyards, it was not concerned with building merchant ships. In December 1916 Lloyd George appointed Eric Geddes, an industrialist, as Controller of the Navy, and in May 1917 he also became controller of shipyards when Maclay saddled Admiralty with the responsibility for all shipbuilding. Designs for standard cargo ships were introduced in 1917 and enabled a form of mass production which was speedier and cheaper than the individual vessels hitherto produced. Unfortunately these changes were too late to be effective as the Armistice was signed when only a handful of these vessels

⁸⁴ This contained standard rates for cargoes and voyages which were appreciably lower than those available to neutrals and others on the open market.

Original in colour

had been built. Like shipowners, in the first two years of war shipbuilders had benefited from the higher prices for their products, but were soon constrained by controls on materials and the sale of their ships. No building was carried on for neutral flags, and the transfer of ships, even from one British owner to another, was strictly regulated.

Total tonnage registered includes both ships built in the United States and prizes, but the graphs speak for themselves. Many merchant ships, started before the war, were not completed for three or four years so that some ships ordered in 1914 were not delivered until 1918. British shipyards never again attained the tonnage achieved in 1913, despite the frenzy of shipbuilding orders following the Armistice in 1919 (Russell Smith, 1919 p.219).

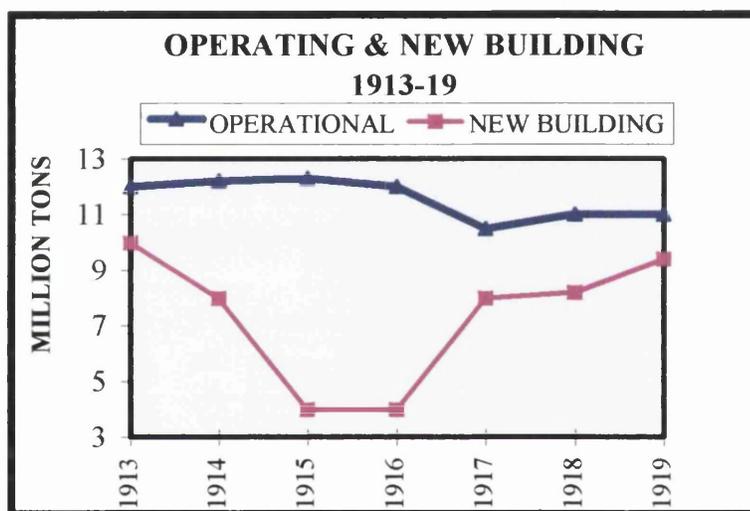


Figure 28. Operational and newbuilding merchant ship tonnage 1913-1919.

The Open Market

In August 1914 the total UK fleet of vessels over 500 grt amounted to 12,000,000 tons net, or about 24,000,000 deadweight (Mitchell and Deane, 1962, p.219-223). Ten per cent, was immediately requisitioned at Blue Book rates, with the effect of leaving fewer ships to meet market requirements. However, those ships - predominately liners - were for the first three years allowed to trade freely. In 1917, therefore, complete control was introduced for all British ships covering building, purchase, cargoes and destination ports. There was such a crisis in shipping that at one point food supplies were as low as six weeks rations for the civilian population of the United Kingdom.

Original in colour.

The first two years of the war produced a backlash against profiteers, particularly shipowners, who were seen as forcing domestic prices - particularly staples - ever higher. As an example, The International Mercantile Marine Company had passed dividends and had been unable to pay interest on debentures from 1902. Then in 1916 its earnings rose to £20 million, declining to £11.5 million in 1917 (Russell Smith, 1919, p.176-7). High freight rates were reflected in the price of bread in the shops, so it is hardly surprising that shipowners had a poor public reputation. It seems incredible that the United Kingdom took so long to take any action about requisitioning all ships at reasonable rates.

An open market continued, therefore, during the first two years of the war for the 75 per cent of British shipowners whose ships were not requisitioned. After the South African war freight rates for grain varied between nine shillings/ton and eighteen shillings until 1911. From 1912 to 1916 the rates varied between a low of five shillings/ton in 1914 to a high of one hundred and eighty shillings/ton in 1916 (figure 29).

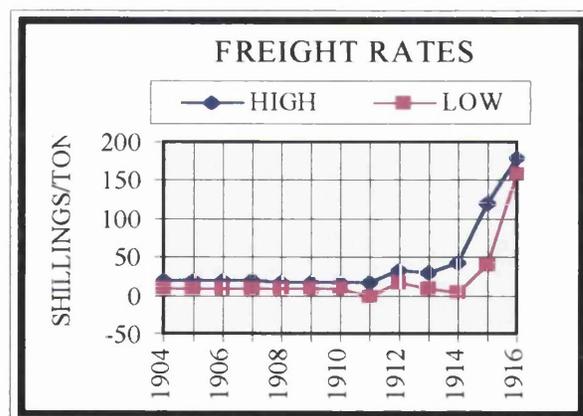


Figure 29. Freight rates 1904-1916.

The post-South African war low prices over ten years were over-compensated by the excessive prices obtained in the first years of the 1914-18 war. With the bulk purchase of grain in 1917 Blue Book rates were applied and the large profits for shipowners ended.

Although the U-boat campaign gathered momentum in 1916, it was a year before active counter-measures were introduced. The high freight rates of 1916 declined sharply when government purchase of cereals started. Until Sir Joseph Maclay was established as Controller of Shipping, many liners were making use of triangular voyages. This meant calling at a neutral port during both outward and inward voyages to the United Kingdom, gaining the opportunity for high freight rates and evading control on the type of cargo.

This window of opportunity was shuttered when all voyages required prior approval for each stage and a detailed log of the voyage.

Controls were also brought in by licensing all cargoes, both inward and outward. Earlier attempts at controlling cargoes and sailings had been shared by three different bodies, composed of professional civil servants and retired academics, with disastrous results. By the end of 1917, Britain was a strictly regulated economy, with controls on every commodity and on every individual of working age. Profits were still being made, however, and the thoughts of some industrialists were now turning to peace and the huge markets that rebuilding war-time destruction would offer. Certainly Britain was going to need all its old markets, let alone new ones. The Japanese and the Americans in particular had filled the vacuum caused by the Allies war effort, and neither was prepared to relinquish these new markets which they had been supplying since 1914.

In 1915, wishing to expand into the Burmese trading area, Ellerman acquired the German-owned Dickman Mills from the Receiver of Enemy Property and leased, with an option to purchase, the Rangoon Rice Mills. These two companies were amalgamated as the Ellerman Rice Mills (Burma) Ltd. Four months later, in June 1915, Ellerman bought a majority shareholding in the Arracan Company which included rice mills and the Arracan Flotilla Company. John Halliday, chairman of the Arracan Co Ltd died in March 1915, and in July Ellerman became chairman and a new board was elected which included F.G. Burt as one of the directors (UGD131/5 *et seq*). Although subscribing to the Burma Conference, Ellerman restricted cargoes from his own mills to his own ships at his own rates. In March 1920 the Arracan and Ellerman Rice Mills (Burma) were merged to become Ellerman's Rice and Trading Company Ltd, and immediately sold on to Ellerman Lines Ltd. The next two years saw more acquisitions and greater diversification.

In September 1916 Ellerman took the opportunity to buy Thomas Wilson, of Hull, which expanded his fleet by 65 ships and 300,000 gross tons. In addition, he now had a majority interest in a railway and Earles shipyard, wholly owned by Wilson, which Ellerman had been using for some years. In concert with Sir William Gray and others, the new Egis shipyard was opened on the Tees in 1917 to prepare for the post-war demand for ships.

Ellerman also bought the whole shareholding in Ramage and Ferguson of Leith, another shipyard he had favoured, particularly for cruiser sterns. He had been keeping his own tally of shipping losses, and production of merchant ships from British shipyards, and in 1918 expressed his views forcibly that the whole British war-time ship-building output

was insufficient to cover losses by marine causes, let alone losses due to enemy action. Ellerman-Wilson Line remained a separate company, with its own livery and staff, although ships were at the disposal of Ellerman, who included them in the general post of the other lines so far as new-buildings and transfers were concerned. Among the original lines, fifty ships had been lost by enemy action, including internment; twelve lost by marine peril; four taken up as Armed Merchant Cruisers, and another twelve as troopers, hospital ships or transports. Between 1914 and 1918, therefore, Ellerman Lines Ltd had lost over sixty ships completely, which would require replacement, and suffered restricted income from another sixteen, which would require extensive refitting before being able to resume their peacetime work. Thirty new ships were built during the war, but in Ellerman's case many of the orders had been placed in 1913.

Ellerman was fortunate in having most of his liners left to continue their normal trades, subject to the constraints of enemy action. In 1915 freight rates soared, and all the companies in the Ellerman group returned substantial profits. By 1916, however, the glaring discrepancy between the treatment of tramps and liners was so obvious that the whole system was changed. Profits dropped, but were still substantial.

Shipowners were suffering mixed fortunes, depending upon their trades and their assets. For those whose fleets had been accumulated before shipyard prices rocketed, and who already had arranged payment for new tonnage at reasonable rates of interest, there were large profits. For those who were late in building up their fleets, at inflated prices, the increased operating costs⁸⁵ could bring insolvency. Some owners, therefore, decided to leave the industry altogether - providing a buyer could be found.

At the Annual General Meeting of Ellerman Lines Ltd in September, 1916, Ellerman announced a final dividend on deferred ordinary shares of £950,000, and the purchase of Thomas Wilson of Hull: 49 *per cent* for Ellerman Lines Ltd, the remaining 51 *per cent* on his own account.(UGD131/2/1/1).

One company in which Ellerman had an interest was Leyland Line, part of the IMM. Formed by J.P.Morgan in 1902 it included British companies such as Leyland Line and Oceanic, which were now primarily financed with American capital. These concerns operated under the British flag on the United Kingdom register in order to take advantage

⁸⁵ High insurance premiums were one factor, higher crew wages another.

Original in colour

of a cheaper maritime regime. A typical example was a 6,000 dwt British tramp with a crew of 26 which had a total running cost calculated at \$.16/ton, while an equivalent United States registered vessel needed a crew of 34 and cost \$.65/ton. No allowance in this calculation is made for depreciation or insurance, but the attractions of the British flag are apparent. When war began, however, these US owned vessels came under the control of the United Kingdom government, and were therefore subject to controls and requisitioning.

Dividends declared on the Ellerman Lines Ltd deferred ordinary shares from 1915 to 1918 totalled almost £5,000,000 before tax of three shillings in the pound. There was also a charge of £3,000,000 for excess profits duty, of which £2,500,000 had been paid (UGD131/2/1/1). Ellerman owned all the deferred ordinary shares, which received 50 *per cent* of the surplus of net profits after the preference shares' dividends had been paid. Ellerman's personal wartime income from shipping was therefore about £5,000,000 before tax. The dividend was not to exceed 50 *per cent* of surplus profits after payment of preferential dividends.

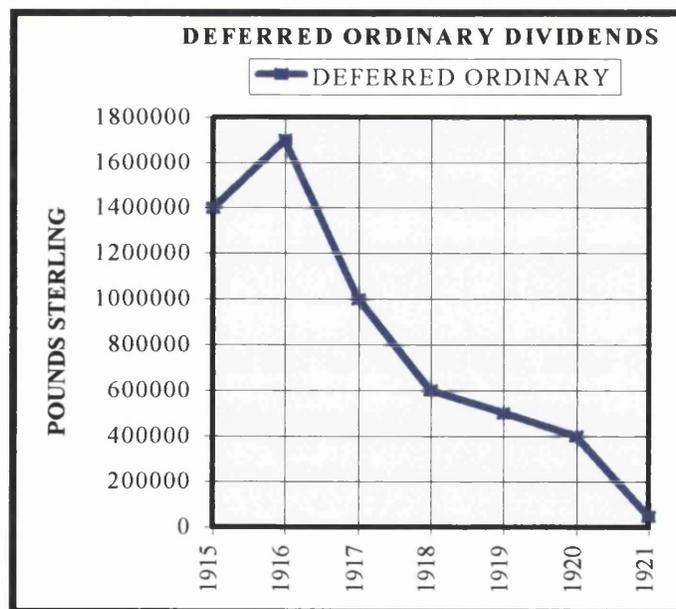


Figure 30. ELL deferred ordinary dividends 1915-21.

Ellerman Lines Ltd must have had wartime gross earnings from shipping interests alone in the region of £10,000,000, and Ellerman's personal profit was half of that. Not wishing to add to his personal tax bill, Ellerman arranged for sums from company deposits in the USA to be transferred to a personal account he had opened in New York. He also

arranged for Bucknalls to transfer funds from Australia to his personal account in the USA and in November 1917, £325,000 was transferred in this fashion (UGD131/2/1/1). There was a purchase of 1929/47 War Loan in January 1917, a patriotic duty for the company, which bought £1,750,000 worth, and also for Ellerman, who bought £550,000.

When controls were extended to all types of ship, the government was virtually the manager and charterer of first instance. However, almost two years of mismanagement by civil servants and academics had proved the impracticability of operating merchant ships without the knowledge and expertise of those whose fortunes and futures depended on shipping. The shipping controller, therefore, passed the management of the ships to the owners, and rather than deal directly with each vessel, used the existing Conferences to organise the cargoes (Russell Smith 1919). The system worked well, and was a justification of the owners' claims that Conferences were the most effective way of providing a degree of stability in freight markets, even under wartime conditions. In the case of City Line, there is a sudden shift of tea exports from Calcutta to Brocklebanks in 1917, explained as a wartime measure only.

Ellerman, through his existing companies, was a member of several Conferences and in 1915 joined the Far East Conference and also the Rangoon Homeward Conference. As already stated, Ellerman reserved cargoes of rice from his own mills for his own ships. Ellerman and Bucknall was also used to join with White Star Line and Lamport and Holt in a Manchester - USA service, taking Ellerman back into the Atlantic. He extended his Mediterranean operations by joining with Cunard to buy Watsons, complete with ships and trades.

The Eastern Mediterranean and the Adriatic were under the control of the Austro-Hungarians, who occupied the Balkan states from Trieste to Ragusa, and the Turks, who were fighting to retain the rest of the Balkans and the Aegean. From Gibraltar to Port Said was in the hands of the Allies, and the Germans were eventually driven from their African colonies. The Far East, however, was in the friendly hands of the Japanese. Ellerman extended his services to the Pacific and Australia, both of which trades he developed further after the war, including the acquisition of an agency in Shanghai.

In 1913 Ellerman had formed the City of Oran Steamship Co. Ltd, a single ship company, and had toyed with the idea of converting all the vessels into single ship limited companies. This idea was scrapped (UGD131/2/1/1), but in 1915 he proposed forming companies in neutral countries such as Spain, in order to avoid requisitioning and Blue

Book rates. However the practical difficulties were equalled by the political problems that would have ensued, particularly when it became clear that the British Government was prepared to use controls and undisclosed sanctions to prevent evasion of patriotic duty.

Apart from shipping he was expanding his interests in publishing with the acquisition of a number of illustrated weeklies and trade magazines. He also bought an estate in Scotland, which he soon sold, and the company offices in London. It was during this period of high profits that he acquired the Egis shipyard in co-operation with William Gray, Thomas Wilson, Strick and Inchcape. The shipowners agreed to take a certain number of new-buildings each - after the war - to build up their attenuated fleets. When the time arrived to confirm these orders, Ellerman and Gray found themselves left with the yard and its building programme.

Profit and Loss.

The First World War ended with an Armistice; brought about not by a massive military defeat of the enemy powers, but by social unrest and mutiny in their towns and their forces. The Allied naval blockade had made a large contribution to this break-down and a growing dis-enchantment of the European masses with their rulers. At sea, however, Allied ships were being sunk by submarines until 11th November 1918, and by mines for some years later, even after a determined post-war effort to sweep the fields that had been sown by both sides. Normal or pre-war trade took longer to recover than had been expected by those engaged in industry and commerce. One of the factors inimical to normal trade resumption was the demand on the enemy powers to pay reparations for the material destruction caused in France and Belgium. Another was the re-drawing of national boundaries and the disposal of real estate belonging to Germany, Austro-Hungary and the Ottoman Empire.

The European nations were impoverished and had depended upon the United States for food and material during the last days of the war, and had also lost a large part of their male populations, particularly in the most economically and socially important age groups. The United State's dollar had supplanted the Pound sterling as the trading currency of the world, and much of Britain's overseas investments had passed into the hands of the Americans in payment for war supplies. At the same time, the German merchant fleet was non-existent as their shipping operations were suspended while reparations - including the transfer of vessels to the Allied merchant fleets as prizes - were demanded.

However, trade did start, and freight rates remained high, as did ship-building prices for the immediate post-war years. Ellerman entered into a spurt of new-buildings, and also expanded his trading areas into those where *lacunae* had developed with the disappearance of German competition. The Ellerman fleets acquired a number of prize vessels from Germany, which entered into service in 1920. Prizes were considered by most British shipowners to be second-rate, compared with purpose built new-buildings. Inchcape was charged with the task of disposing of these vessels, and eventually had to offer them to foreign owners who were not so fastidious. In addition to building in his own yards, Ellerman also leased berths in other shipyards as far ahead as 1926(UGD 131/2/1/1).

In 1919 the Bucknall America and Indian Line started services again, between New York and India, although the service was seasonal and slightly irregular. Britain's trade in goods had been heavier in imports than in exports; coal for export including a high percentage for bunkers to supply overseas coaling depots, such as Port Said and Aden. Another staple export had been textiles, and during the war overseas customers had turned to other suppliers, such as the Japanese, while India expanded its manufacturies to become a net exporter in competition with the Home Country.

A balance sheet for the United Kingdom would show little to encourage optimism in the future post-war world. Four years of total war had resulted in the loss of over a million men, and the exploitation of indigenous raw materials with no heed to the costs. Munitions plants had displaced factories for domestic manufactures, and the working population had been swollen by the large scale employment of women. Wages had risen at the same time, with an increase in the money supply allied to a decrease in the goods and services available for private consumption. Export markets and overseas investments had been lost, yet the need for imports of food and raw materials to return to a pre-war standard of living remained. The Liberal governments of Asquith and Lloyd George had encouraged the working classes to expect a better standard of life which was unfortunately delayed by the war. Now there was no reason to expect that the pre-war promises would not be kept. On the debit side there was a potential demand for continual spending by the state to improve the welfare of the people. On the profit side there was the experience gained during the war of centralised control of all the factors of production, which also meant the control - or restriction - of prices. However, industrialists had made it clear that such controls were a temporary expedient, to be removed as soon as peace returned. Britain, therefore, ended the war having lost its pre-eminence in shipping, ship-building and

textiles, while its stock in the form of plant and machinery was older and, in many cases, worn out and inefficient. The immediate future looked bright - women could return to their homes, and men could find work, but this was to last for a very short time.

Ellerman continued to make profits for the first years after the war, and rebuilt his fleets, yet some of the fire disappeared from his activities. He took an even greater interest in his ships, but was averse to moving far from the traditional and tried models of his earlier days. Having adopted the cruiser stern in 1914, his ships remained predominately coal-fired and reciprocating engined. All he had gained from the war was a period of high profits, while increased taxation restricted the large gains in personal fortunes known in the last century. If there was a public face of Ellerman, it was recognised as one of a man who shunned publicity. Both during his lifetime and in his obituaries there was speculation about his political affiliations, and apart from the self-evident fact that he was opposed to socialism in any form, there is no evidence that he supported any political party. He was a believer in free trade - which included the Conference system - and objected to unnecessary controls imposed by the state. Yet he was in favour of most Companies' legislation, particularly as the statutory appointment of auditors, in 1901, and the 1907/8 Companies' Acts legitimizing private limited companies accorded well with his own interests.

Despite his vast wealth and his high-profile shipping interests, Ellerman attracted little public attention as one of the coterie of war-time profiteers. There was one article, in *The Daily Chronicle* in 1917 which drew attention to his publishing interests, and suggested that was the reason newspapers had left him alone. There may have been truth in this; he was certainly a close friend of Northcliffe, and a major shareholder in *The Times* and *The Daily Mail* - two newspapers which led the move to oust Asquith as Prime Minister in December, 1916. The critical factor in deciding Asquith's fate was the government attitude towards controls in general, and shipping in particular. By the end of 1916 it was becoming obvious that unless merchant shipping losses were curtailed, Britain would be unable to continue fighting, and would require to make peace with Germany. Lloyd George became Prime Minister in December 1916, and immediately the changes referred to above - a Shipping Controller, institution of convoys, Controller of Shipbuilding among them, were actively pursued and implemented. There is circumstantial evidence that Northcliffe exerted pressure on Bonar Law, the Conservative leader, to support Lloyd George as Prime Minister of the new coalition government and it is possible that Ellerman

was privy to these manoeuvres. He was a patriot if for no other reason than that the bulk of his fortunes were bound up with the emergence of a victorious United Kingdom.

After the war, Ellerman now took stock of his fleet, and re-arranged the fleets according to his ideas of the most profitable trades (UGD131/2/1/1; *Lloyds Registers of Shipping*). This saw an extension of services to the Antipodes, China and Japan in addition to the Americas. The United Kingdom fleet in 1919 was slightly more than 88 *per cent* of its tonnage in 1914, thanks to the increase in shipbuilding in 1918 and the decline in losses at sea to enemy action. Before adding the prizes taken as replacements, some of which were not in commission before 1920, the Ellerman fleet in 1919 had 80 *per cent* of the tonnage in 1914. Among the prizes were three passenger ships built between 1907 and 1920, some small replacement for the five passenger ships lost during the war. In addition those ships taken up by the government as armed merchant cruisers or hospital ships would not be fit for civilian service until 1920. New buildings were now costing £25/ton compared with less than £10/ton in 1914, and the first flush of peace brought with it a boom in trade of all sorts, domestically and internationally. This lasted less than two years, however, and the winter of 1920-21 saw a massive increase in unemployment in Britain, which rose to over two million in Spring 1921. Freight rates collapsed, and new ships were now worth less than the contracted price. The ex-enemy prizes which Inchcape had been unable to sell to British owners now went to Greeks and Chinese, even Germans, at knock-down prices, so increasing competition in international shipping.

Ellerman Lines Ltd continued to show a profit until 1922, and the re-naming of existing ships with the *City*- prefix continued, spreading to Bucknalls and Ellerman Line itself. Shareholders were happy as Ellerman had personally guaranteed the dividends on fixed interest shares, and held the only ordinary shares with dividends dependent on profits. Passenger services started again, with Bucknalls operating a service between New York and India, and even moving into the Far East and Japan. The years of the Depression show how Ellerman used the profits accumulated during the war, and how the different lines kept running as long as possible, before ships had to be laid up.

From 1919 Ellerman gradually disposed of his publishing interests, starting with the periodicals and disposing of *The Times* in 1922 and *Financial Times* in 1923. Simultaneously he was expanding his property interests, which began with his office building in Fenchurch Street in 1915. In 1920 the Ellerman Property Trust was formed to purchase part of the Covent Garden Estate and continued with the purchase of several

London West End estates including 82 acres in Kensington from Lord Iveagh in 1929. He certainly enabled the impecunious offspring of some noble families to continue passing their time in the manner they should have been used to doing.

Ellerman wrote a personal letter to Sir Percy Bates dated 31st January 1929 in which Ellerman agreed that the two companies could work well together. The Wall Street crash of 1929 was regarded by Ellerman as the prelude to a deeper and longer lasting depression. A confidential memorandum from Sir Percy Bates, chairman of Cunard, dated 27th November 1929, expresses his disagreement with Ellerman's opinion that the financial trouble in New York was deep and would seriously reduce America's imports (Davies, 1999, private collection). Ellerman died in 1933 and the depression he predicted lasted well into the end of the decade. Despite belated re-armament with its consequent increased demand for labour, together with the expansion of the Armed Forces, unemployment in the United Kingdom was still above 12 *per cent* in 1939.

Shipping continued to be an unprofitable business, despite government schemes to aid shipowners, until after the start of the Second World War, and only in 1941 did Ellerman Lines Ltd show a profit for the first time since 1922. Although the Naval Control of Shipping organisation was activated before the 3rd September 1939, there was a lack of resources, just as in 1914. In September 1939 not only were there insufficient escorts, but the use of aircraft as an offensive maritime weapon had been discounted.

Ellerman left almost £40 million, yet it is possible that his fortune had diminished since 1920. He continued taking a strong interest in his shipping empire until his health started to decline from 1930, and even built a new ship, *City of Sydney*, in 1928 at Workman Clarks of Belfast - one of the last ships to be built there before it closed (UGD131/7/2/9/60)⁸⁶.

If Ellerman had wanted to build up an empire in shipping for his sons and grandsons, he was sorely disappointed. The second (and last) baronet is remembered more for his collection of beetles than for any talent derived from his father. What was the driving force behind Ellerman's success, and was he really an entrepreneur? From his early

⁸⁶ From *Syren* 11th August 1955: Letter from Wm Strachan of Workman Clark & Co (1928) Ltd: 'Ellerman personally negotiated with Sir George Clark for the design and price of the *City of Karachi* in 1905. Once the basic design and price were agreed, JRE then started bargaining for modifications to design and costs. He used this as a model for all future new-buildings starting with the *City of Karachi* of 1905, and negotiating from there. JRE returned to Workman and Clark after the Mackay-Edgar Sperling tragedy, and ordered the *City of Sydney* in 1928, for delivery in 1930. Again he started with a repeat of the *City of Karachi* and negotiated from that design and price'.

days it appears that his risks were calculated and his investments were supported by cash or other securities he may have acquired. Certainly he was an accomplished negotiator and he was able to gain advice from those with experience. Whether the advice was acted on is a different matter, for in some ways he appeared extremely conservative. He was one of the first shipowners to adopt the cruiser stern, but tried only one motorship - in 1923 - which was soon brushed out of the picture. Oil as a fuel was used for some of the passenger ships, while the cargo ships remained coal-burners. In this Ellerman followed the example of most other shipowners of his period, and it is possible that the ownership of collieries (common among shipowners) contributed to continuing with this practice. Yet in 1923 Ellerman had signed a Fuel Oil Agreement with the Asiatic Petroleum Company for between 25,000 and 49,000 tons of fuel oil annually at forty-eight shillings and sixpence/ton to be supplied at specified ports worldwide, including the United Kingdom, to all Ellerman vessels including any others owned or operated by him.

Sir John Reeves Ellerman brought to shipping inborn talents which had already been successful in his financial enterprises, and the particular network he had built up. The shipping network he acquired was fitted into his existing one, and the retention of senior employees and managers from the companies acquired brought the professional expertise he needed.

CHAPTER 6 - FROM UNDERTAKERS TO ENTREPRENEURS

The Undertakers⁸⁷

In the Nineteenth Century the population of the United Kingdom grew from 16 million in 1801 to 42 million in 1901; the merchant fleet required to serve this growing population's demands for food, and its industries demand for raw materials and markets, grew in size from 16,500 vessels of 1.8 million tons to 20,000 totalling almost 11 million tons (Mitchell and Deane 1962, p. 217-9).

The greatest changes in shipping were the development of the steamship and the opening of the Suez Canal. In 1801 all ships depended on sail or oars and their voyage times depended, literally, on weather and the will of God. In 1869 the opening of the Suez Canal reduced voyage times between East and West from months to weeks. By 1901, under the British flag, although there were still 10,500 sailing ships the tonnage was almost unchanged at 1.9 million. Steamships now numbered 9,500 with a total tonnage of 7.6 million (Mitchell and Deane, 1962), p.217-9).

George Smith and Sons of Glasgow, also known as the City Line, was one of the family firms which played its part in this metamorphosis of Britain into an industrial and commercial power which, for most of the Nineteenth Century, dominated the world. The story of George Smith, born in 1777 in Ayrshire is not just the story of one family, but also of the interlinking relationships of many families, all sharing a common origin among Scots Protestants who accepted the challenge of moving to Northern Ireland and building up businesses, rising in the social scale, and contributing to the backbone of Britain's supremacy through manufacturing, shipbuilding and shipping.

These men, and many others like them, did not think of themselves as '*entrepreneurs*' - the term was not even known in the English language at that time - but they fulfilled functions now attributed to the *entrepreneur* (Mathias, 1969, p.151-6). They were *undertakers* who created businesses by raising capital, first from their own resources and then from family and friends. They manufactured or processed raw materials such as textiles, selling the finished products to merchants. They acted as intermediaries by

⁸⁷ Undertaker in this context refers to those individuals and their associates who undertook the assembly of resources for profitable application. The term is still used in public utilities.

buying goods in bulk; storing them for future use by those who needed smaller quantities and did not wish - or could not afford - to tie up capital.

They also bought or built and owned ships, sometimes sailing in them as master, but increasingly staying ashore and arranging cargoes, agents and freight rates; continually building up their businesses. The demand for capital to invest in manufacturing and merchandising was growing, not only in the UK but in both North and South America, and the Indian sub-continent (Gregg, 1950, p.309-310).

George Smith married Margaret Workman, whose brothers went with the Smiths to Ireland in 1810, where they started in the textile trade. Smith had two sons with whom he returned to Scotland in 1820 to start a warehousing business. In 1840 he bought his own ship, a step which led to his sons eventually taking separate paths: George II concentrating on shipping, while Robert became a warehouseman. When George Smith II took over the shipping company at his father's death in 1867 the City Line, as it was then known, owned 26 sailing ships, totalling 25,259 tons.

In 1870 George Smith and Sons built their first three steamships, two in Barclay Curles and one in Charles Connells, both Glasgow shipyards. By 1880 the fleet numbered twenty-five sailing ships and twelve steamers, all fairly new. In 1881-2 there was an extensive re-organisation of the fleet, with the sale of fourteen sailing ships and two steamers. In 1882 the first of seven steamers was ordered from Workman Clark of Belfast and by 1892 the fleet contained twelve steamers and nine sailing ships.

After the death of his father in 1879, George Smith III was joined by Robert S. Allan and Wm S. Workman as partners in George Smith and Sons, sharing profits - and losses (UGD131/1/5/1). Income was derived from management fees for each ship, plus commission on anything and everything passing through the managers' hands. Profits came from the sum remaining after all expenses, which included crew costs, insurance and repairs, had been deducted. The management partnership did not benefit directly from the earnings of the ships. These were distributed to the owners of the '64th' shares among whom were the partners. In 1879 the Allans and Smiths each owned 40 *per cent* of the sailing ships' shares, the remainder belonged to other family connections. With the steamships the situation was different: George Smith III owning 60 *per cent*, the Allans 25 *per cent* and Workman 12.5 *per cent*. In addition to their shares in profits from George Smith and Sons, George Smith III and Wm S. Workman drew annual salaries of £300 each until 1883; when the accounts from 1884 show that their salaries had ceased, and profits

only were drawn. From 1879 investments were also made on behalf of the firm in such diverse stocks as the Suez Canal Company, whose 100 shares cost £8,587, and the Glasgow Coffee House Company with 200 shares at 5 shillings each.

Since forming the partnership in 1879, the composition of the fleet had changed: from twenty-five sailing ships totalling 22,880 tons to six of 10,226 tons; and from eleven steamers totalling 27,364 tons to fourteen totalling 50,406 tons (*Lloyd's Registers*, 1850-1905). There was no requirement to publish accounts or to hold formal meetings. The only record of business dealings is George Smith and Sons's Private Account Book (UGD131/1/5/1), which is tantalizing with constant references to The Large Ledger, in which all details of transactions were entered, apart from an annual casting up of the shares in profits due to the partners. In 1880 a total net profit of £4,000 was distributed among the partners; over the next few years it averaged around £9,000; none derived from ships' earnings.

To the outsider, in 1890 the City Line and George Smith and Sons appeared a prosperous business, despite the effects of periodic recessions which had resulted in financial failure for other established companies. There appeared to be no particular reason for George Smith and Sons to incorporate their firm unless funds were required for expansion. Surviving records of George Smith and Sons show the fluctuations in returns, the changes in management, and the names of those who had 64th shares in the ships which were converted into shares in City Line Ltd. What it does not show is why Robert S. Allan withdrew as a partner from George Smith and Sons before incorporation, nor why he did not take up shares in City Line Ltd. Similarly, the records: account books, share registers and Minute Books do not explain why William S. Workman worked from 1879 to 1901 for so little to show for his years of service.

In all respects Workman was the junior partner, and Folio 41 of the Private Account Book shows that in 1879, when the partnership was formed, Workman started with a debit balance of -£25,456 to George Smith and Sons, while R.S. Allan had a credit of £2,102 and George Smith III £66,225. It must be remembered that this money had nothing to do with the ships, but was capital for the agency firm; Workman was following the custom which allowed likely aspirants for professional partnerships to buy themselves in by being allotted profits which were then credited to the firm, so building up initial capital; this practice was common among all professions.

Original in colour

The statement of Equity Balances (see figure 30) held by the partners is illuminating as it shows the outstanding amounts due to each member after successive twelve months of trading. Workman was always in the red; reducing his debit balance until 1883 when it began rising; George Smith showed a credit balance of £66,000 in 1879 which dropped to £20,000 in 1884. R.S. Allan, on the other hand, steadily increased his balance, having doubled his initial investment by 1884.

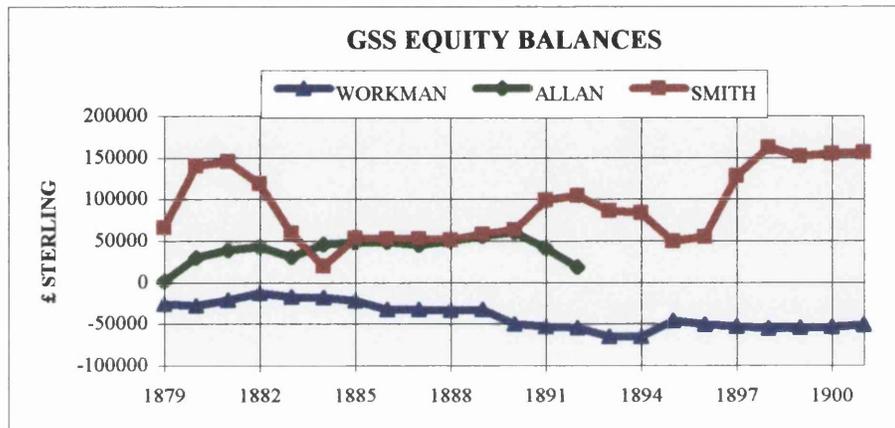


Figure 31. George Smith and Sons equity balances 1879 - 92. (Compiled from UGD131/1/5/1).

In the Private Account Book both George Smith and Workman are shown as making frequent interest payments on personal loans to George Smith and Sons, while R.S. Allan regularly receives interest on his investment. Examination of the figures available from the records will give an indication of the relative assets of each partner in the management firm. At incorporation of City Line Ltd in 1892 the value of the steamers as security for the debentures was assessed at £650,000, of which George Smith owned 60 *per cent*, or *circa* £390,000, while the Allans and W. S. Workman owned 25 *per cent* (£162,500) and 15 *per cent* (£97,500) respectively. From the Equity Balances in the George Smith and Sons' Account Book, it is seen that in November 1891 George Smith had £99,801 to his credit; R.S. Allan £41,000 while Wm. S. Workman owed £52,866.

Details of earnings from the ships were first made available in 1892, when Thomson, Jackson, Gourlay and Forsyth, Chartered Accountants of Glasgow, produced an abstract of Voyage Accounts for the four years to 30th April 1892 when Robert S. Allan was withdrawing from the partnership. This shows that the yearly average earnings for the fourteen steamers from 1888-92, exclusive of interest and re-boiling of three vessels,

totalled £76,918. Without allowing for depreciation, this amounted to a return of 11.2 *per cent* on a capital value of £650,000. All charges and commissions were deducted from the total earnings; these were paid through George Smith and Sons who also deducted their management fee. There were five new steamers commissioned between 1885 and 1890, all built at the new Belfast shipyard of Workman Clark and Co. Ltd, of which George Smith and William S. Workman were directors. Average earnings for these new vessels were £6,890 compared with £4,180 for the nine older ships.

Death brings the Bankers

Two unconnected deaths in the year 1892 led to changes in British shipping which were to have far reaching effects. The death of Frederick Leyland, one of the country's leading shipowners, at Blackfriars Station in London, from a heart attack on 4th January; led to John Reeves Ellerman entering shipping. Less directly the death of Jane Allan or Smith, at home in Glasgow on 28th February, led to a close-knit family enterprise breaking apart so that individuals could pursue their own disparate interests. The effects of the two deaths culminated in 1901, when John Reeves Ellerman acquired a highly respected family firm, gaining entry to a network of agents, shipowners, shipbuilders and merchants which had developed over four generations.

There are no records of meetings of the partners of George Smith and Sons over the years, nor of any decisions taken: only un-connected pages of raw data, which is more easily capable of mis-interpretation than providing reliable information. There is no indication that there were serious financial problems; average earnings of the steamers appears to be £80 for each 64th share after deductions apart from interest. No records, unless comprising private papers not presently available, give any warning of the meeting in Edinburgh of a Special Committee of the National Bank of Scotland to discuss the future of City Line and the Smith family firm. The single recent event which could require dissolution would have been brought about by the death of Jane Allan leaving her shares in the City line ships to her sons. They had their own interests which required money, not shares in ships. Robert Allan, unlike George Smith III and William S. Workman, did not receive any wages from the partnership. He does not appear to have been a working partner in George Smith and Sons, concentrating instead on Allan line interests. His brother, Charles Allan, was an engineer who had joined Workman Clark and Company in Belfast, and had started an engine works there. With the development of exciting new

means of marine propulsion such as steam turbines and diesel engines the Allans had other fields ready for investment.

In 1892 George Smith III, according to records in the Royal Bank of Scotland archives, appears to have been forced into either incorporation of the steamships of George Smith and Sons into City Line Ltd, or seeing the partnership break up with subsequent piecemeal disposal of the assets. The earliest reference to a pressing need for financial accommodation is a Minute dated 27th May 1892 of the Special Committee of the National Bank of Scotland held in Edinburgh to consider a proposal put forward by the manager of the Argyll Street Branch, Glasgow (National Bank of Scotland Minute Book No 33, Royal Bank of Scotland Archives, Edinburgh):

The Manager stated that the Argyll Street Agent had come to Head Office for the purpose of putting forward a proposal which might involve advances reaching £250,000 to Messrs George Smith and Sons, Shipowners, Glasgow, in connection with the dissolution of their firm. It was agreed to entertain this business when a definite proposal was submitted.

In this Minute there is nothing to suggest possible incorporation of George Smith and Sons; simply a request for £250,000 in connection with the dissolution of their firm. A reasonable estimate of the value of the business including the partners' shares in the sailing ships and the steamers would be £750,000. There was no limited liability for partnerships, and the distinction between partnership and private assets was frequently blurred. George Smith is asking for a loan equivalent to a third of the notional assets the partnership owned, jointly and severally. One of the partners wishing to cash in his investment is the most likely explanation for this request.

No references are made in the available papers of George Smith and Sons to any dealings with the Bank or requests for a loan; the next reference is found in the National Bank of Scotland Minute Book of a Directors' Meeting on 28th July, 1892:

With reference to Minute of Special Committee of 27th May last, when a proposal for an advance to George Smith and Sons of Glasgow, which might extend to £250,000 was considered, the Manager reported that he had now received a definite proposal from Mr Clark⁸⁸ for a loan of £250,000 to a 'Limited' company about to be formed, the partners of which would be Mr Smith and his family connections on the security of Debentures for a like amount to be issued by the 'Limited' company, carrying the fleet of steamers belonging to it. It was agreed to grant the Credit against the Debentures of the company for that amount, provided these are secured by a Deed to be approved by the Bank's Law Agent, conveying to Trustees for the Debenture Holders the steamers belonging to the company, the loan to go for two years, and the rate 4.25 per cent if 4.5 per cent cannot be obtained ((National Bank of Scotland Minute Book No 33, Royal Bank of Scotland Archives, Edinburgh).

Two months after George Smith is recorded as having approached the National Bank of Scotland for a loan in connection with the dissolution of their firm, there is now a firm proposal for £250,000 to be lent to a Limited company about to be formed. In addition, the partners or shareholders for this limited company are to be Mr Smith and his family connections. Incorporation as a vehicle for raising additional capital for expansion pre-supposes that all existing part-owners are prepared to take equivalent shares in the new limited company, leaving the £250,000 for investment.

Making nonsense of that hypothesis the Bank states, unequivocally, that the loan is to be secured against the existing steamships by Debentures against Bills of Sale, effectively transferring the ownership of the vessels to the Debenture Trustees (UGD/131/1/3/2). The value of the steamers is quoted at £650,000, of which £250,000 is to be hypothecated against debentures, leaving £400,000 to be divided among the owners of the 64th shares, effectively reducing their worth.

⁸⁸ Clark was the agent of the National Bank of Scotland in Glasgow - the equivalent of a branch manager.

Original in colour

The steamers shown in the Schedule were transferred three times on the 29th December 1892: first from the 64th owners to George Smith and Sons; second from George Smith and Sons to the newly incorporated City Line Ltd, and finally from City Line Ltd to the Debenture Trustees (Mitchell Library, Glasgow, Register 18, Folio 216 *inter alia*).

The Allans and other family members who did not take up shares in City Line Ltd required a cash payment, calculated on 64th shares in the steamers, of over £200,000. Cash had to be raised; this was met by an issue of debentures, of which the National Bank of Scotland took up £210,000 worth of bonds for two years, representing 30 *per cent* of the value of the fleet, against the 60 per cent represented by the share issue. Outside subscribers took up most of the remaining debentures; only £4000 being taken up by members of the family.

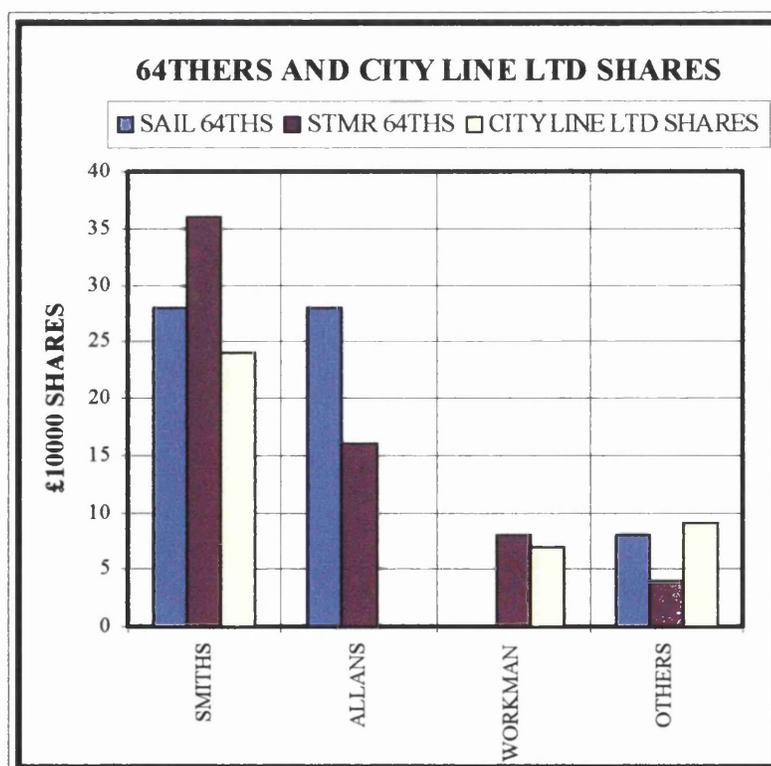


Figure 32. 64th shares in steamships and distribution as shares in City Line Ltd.

The 64ths in the steamers do not translate exactly into equivalent shares in City Line's subscribed capital. For example, George Smith with 36/64ths receives 22,830 shares at flotation equivalent to $36/64 \times £400,000 = £225,000$; Wm. S. Workman owned $8/64 \times £400,000 = £50,000$ and receives a shareholding of 7,000 shares or £70,000.

George Smith and W.S. Workman were able to convert their ownership shares into only £310,000 worth of shares in City Line Ltd at a fleet valuation of £650,000. The authorised share issue was for 75,000 shares at £10 each, amounting to £750,000; the equivalent of the total value of the 64th shares held by Smith, Workman and family or friends in the steamers was £400,000 in 40,000 paid up City Line Ltd shares.

The newly elected board of directors continued to reflect family alliances developed over the preceding decades among the subscribers to the share issue. The price for the ships was £650,000, to be settled by an allotment to the Vendors or their nominees of 40,000 shares of £10 each, in such proportions as the said George Smith may direct or appoint. The balance was to be met by an issue of debentures secured over steamships belonging to the Company bearing interest at 4.5 per cent per annum and repayable 7 years after 1st November 1892 unless extended by mutual consent.

City Line was incorporated on 7th December 1892 (UGD131/4/3/1). but the steamships remained under the management of the partnership. The Minute of Agreement for management of the steamers was drawn up on 1st November 1892 and was to last for ten years. Geo Smith Jnr then became a partner in the management firm which continued to trade with three partners⁸⁹.

The partners in George Smith and Sons sometimes had to write to themselves as directors of City Line Ltd, the following is an example:

To: The Secretary City Line Ltd;

With reference to the issue of Debenture Bonds for £210,000 sterling by your company to the National Bank of Scotland Limited Edinburgh for the period of two years from 1st November 1892, we hereby guarantee the renewal of these on their maturity at the same rate of interest during a further period of three years.

(Signed) Geo. Smith, W.S. Workman, George Smith and Sons.

⁸⁹ George Smith III and Wm S. Workman were Debenture Trustees, Directors of City Line Ltd and partners in George Smith and Sons.

The Minute Book (UGD/131/1/1) has a marginal note 'issue of Debenture Bonds'; the main text includes the following:

With reference to the Bonds for £210,000 granted to the National Bank of Scotland Ltd Edinburgh for two years, Mr Geo Smith and Mr W.S. Workman guaranteed their renewal at maturity.

It seems unlikely that George Smith and Wm Workman were guaranteeing renewal of the Bonds by the National Bank of Scotland although some gentleman's agreement may have been reached. Less than one year after incorporation the company had liabilities of £700,000 to shareholders and debenture holders, against an asset value of something under £650,000 for the steamships. It was probably a wise move for the Managers to suggest, at the Board meeting of 15th August 1894 that the Bonds would require to be renewed in November 1894. The directors were also told that City Line showed a loss of £39,336 in addition to a depreciation allowance of £35,394 after the first full year of trading.

In 1893 a further £50,000 of Debentures was issued and Mr Smith reported that the brokers advised of the difficulty in placing Debentures above par ex-expenses, and any further period should be not less than 5 years nor more than 7 years. In 1894 both directors' fees and shareholders' dividends were suspended, indefinitely, by family agreement and in 1898 a Reserve Account was opened, with the *City of Lucknow* transferring to the Debenture Trust. The South African War, and government contracts, provided a demand for shipping that provided sufficient profits for dividends in 1899 and 1900.

Records provide a framework of fact, but the interpretation of underlying motives and reasons behind these facts must be speculation - informed perhaps; but without personal evidence from those involved it can be nothing more than a structured speculation from which assumptions may be drawn. Starting with financial figures from Account Books; moving to records of ships and comments from the Minutes it is clear that family relationships were an integral part of the saga of the Smiths' ships from 1879-1901, when a new breed of *entrepreneur* appeared on the scene of British shipping.

Despite attempts to maintain their share of existing trade, the Balance Sheet produced at 17th May 1895 showed a credit of only £4,500, transferred to the Profit and Loss Account. For the second year there were no dividends, and the Directors agreed to forgo their fees. At this meeting the Managers announced that although they had been

given permission by the Board in 1893 to open a bank account in the name of City line Ltd, George Smith and Sons had decided not to use these powers but instead had opened a Debit and Credit account for City Line Ltd with the Managers.

City Line Ltd had carried their own insurance, but the Debenture Trustees decided to insure half the value of each of their steamers with outside underwriters. The Minute Book shows losses or negligible profits over successive years, and changes in the fleet due to losses by marine peril and replacements from new-buildings. The managers, George Smith and Sons, received the insurance payments recovered against the casualties, and arranged finance for building replacements. There was also a continuing concern about Debentures, with difficulties in renewals, even through brokers.

In the National Bank of Scotland Minute Book No 34, dated 27th August 1896 the following appears:

With reference to Messrs George Smith and Sons advance of £87,100 against £105,000 City Line Debentures, a proposal is submitted that advances in future should be at local Bill rates from November next, with a minimum of 3.5 per cent - agreed.

No reference is found to this transaction in the City Line Ltd Minutes as the Managers were agents and bankers for City Line Ltd (UGD131/1/2/1, 17th May 1895). In this capacity they settled all liabilities, received all payments, arranged repairs and ordered new-buildings - all as George Smith and Sons, charging commission at every turn. The advance referred to above appears to be dear money - discounted by almost 20 per cent, not counting the interest payable.

International tensions overshadowed domestic affairs when on 2nd December 1898 it was announced that:

due to the serious position of affairs between this Country and France it had been decided to take out cover against War Risk on a fleet value of £650,000 for six months at 5 per cent at a total of £1,543.

There is no further mention of War Risk Insurance, but on 25th January 1899 the balance sheet for the year ending 1st November 1898 is announced as showing a credit of £86,175. The debit balance of the previous year was written off, and a Reserve Account opened with the remaining £14,579. This improvement in trade was possibly due to the start of the

South African War. For the first time since incorporation, City Line Ltd was able to pay a dividend of 4 *per cent* to the shareholders on 2nd February 1900, having made a net profit of £97,232. How long this state of affairs would have continued is unknown, for with the death of the chairman the pattern of ownership of George Smith and Sons, and of City Line Ltd, changed.

Workman's Worries.

On 14th November 1899 George Smith III died aged fifty-one years, resulting in even greater upheaval for the surviving partners than the departure of Robert Allan. He left an estate of £314,944 (*Calendar of Confirmation and Inventories*, 1900, M-Z) which included £260,000 worth (at par) of shares in City Line Ltd, and his 50 *per cent* share of George Smith and Sons at whatever the buildings, office equipment and goodwill might be worth. The first of the two firms to be affected was George Smith and Sons; the father's shares being distributed between the sons, with George increasing his share to 37.5 per cent and Robert acquiring the same amount, Wm S. Workman retaining his original 25 per cent. Robert Smith, the younger son, had been admitted to the English Bar and appeared to have no interest in shipping, never having owned even a nominal shareholding in either City Line Ltd or George Smith and Sons. William Service Workman had not only lost a brother-in-law, but also found himself junior partner in the management company; the Private Account Book shows that he was unlikely to be in a position to buy a substantial shareholding in City Line Ltd or Geo. Smith and Sons should the heritors, or even one of them, decide to go for cash and sell the shares. With over twenty years experience, however, he should have been able to provide the steadying influence the younger Smiths might require had they continued to run the company. The requirement for valuation of the assets of George Smith and Sons meant that for the first time records appear showing the financial structure supporting the earnings of the Management firm.

Certain formalities, such as electing George Smith IV as Chairman of City Line Ltd, and appointing him to succeed his father as a Trustee of the Debenture Trust with consequent changes to the Registers of the ships involved were almost automatic and completed by 28th March 1900. Charles E. Allan, of Workman Clark, was then elected a Director of City Line Ltd, having received 100 shares from the estate of the late George Smith, while Wm S. Workman was appointed Secretary of the Company in place of George Smith IV, who was now chairman.

As noted in the Minute Book on 17th May 1895, George Smith and Sons were effectively bankers for City Line, holding its cash in their own account. This cash formed part of the estate of George Smith, so:

The Managers agreed to take over 15,000 shares of City Line Ltd as security against the sums that may from time to time be lying in the hands of George Smith and Sons.

The shares were to be held by Andrew Laughland and Robert Clark, nominees appointed by the Executors of the estate of George Smith; this security from the Managers, George Smith and Sons, was registered on 11th April 1900. The brothers, therefore, had neither opportunity nor temptation to liquidate any of the assets of George Smith and Sons which may have belonged to City Line Ltd.

When all the steamships were transferred to City Line Ltd, the sailing ships remained with the original owners of the 64th shares under the management of George Smith and Sons. In 1895 the Allans and George Smith III sold their shares to William Workman. He operated them as single ship limited companies, and a loan for their purchase was arranged with the National Bank of Scotland using the sailing ships as security. In 1901 they were sold off to private buyers, and, with the sale of all the assets of George Smith to Ellerman, the outstanding loan was repaid from Workman's share of the assets distributed to the remaining partners of George Smith and Sons.

William Workman was the person most affected by the death of George Smith III, particularly as the Account Book for George Smith and Sons shows that he had become increasingly indebted, despite, or perhaps because of, having taken over the sailing ships. It was in Workman's interest to see that the Company was sold as a going concern, preferably to someone who would appreciate his knowledge and ability and make use of it. It is no coincidence that his son Robert A. Workman (Armitage, 1992, p.114-115)⁹⁰ introduced Ellerman to City Line and acted as the intermediary. Ellerman knew the Allans - his purchase of Leyland Line in 1892 brought him in touch with other Liverpool shipowners - and he would probably have known Montgomerie and Workman through shipping circles in London.

With the sale of City Line Ltd, Workman as manager had a position at least equal to his old one as a director; possibly with more authority and autonomy than under the

⁹⁰ Robert Workman later joined with Clarence Hatry and others in the Sperling Combine, an attempt to create a large shipbuilding and steelmaking combine which ended in disaster.

Smiths and no personal financial risk other than his shareholding. He now had an investment in an growinging company with the knowledge that other Workmans were also likely to benefit from links with Ellerman and his expanding shipping interests. These details about Workman are relevant to the research since he continued with City Line as Manager until 1930 when Ellerman gave him a nominal shareholding of £100 and appointed him a director of City Line Ltd. He left £50,049 at his death in 1937 (*Confirmations and Inventories 1938 M-Z*).

Tidying Up

City Line after November 1899 continued to operate and even made profits, paying dividends of 4 *per cent* in 1900 and 8 *per cent* in 1901. This was to be the last full year's dividend received by the remaining shareholders, all connections of the Smith family. On the 12th July 1900 the Managers reported that cash not immediately required was to be invested in short term loans and on the 27th July the Managers were asked to obtain information regarding what terms and conditions would be given for a Stock Exchange quotation for the Debentures of City Line Ltd. The Bond for £50,000 held by the National Bank of Scotland had been redeemed and debentures to the value of £26,000 had been re-issued to new holders for 5 years at 4 *per cent*; the balance to be re-issued as opportunity offered.

A Special Meeting of City Line Directors was called on 9th August 1901:

... to consider an offer by J. R. Ellerman of Leyland Line for purchase of the fleet and entire business of the Company. The Chairman (Mr George Smith) said that he had been in treaty with Mr Ellerman for some days ... believed that with the Directors' approval he could bring the matter to a successful conclusion. The auditors were asked for a statement as at 1st August 1901, and on 20th August 1901 the shareholders agreed (with the exception of Dr C. Workman who was abroad) to sell their holdings to Mr John Reeves Ellerman as from 1st June last.

Ten days later, on 30th August 1901 a meeting of the Directors of City Line was held at 12 Moorgate Street, London, those present being George Smith as Chairman, W.S. Workman as Secretary and C.E. Allan. A letter of authority to Messrs Andrew

Original in colour.

Laughland and Robert Clark to sign a transfer of 15,000 shares to Mr Ellerman was produced. These were the shares registered as security for cash held by the Managers and represented 37.5 *per cent* of the total shareholding. Further transfers of 100 shares each were made to Miles W. Mattinson, F.G.Burt and W.H. Mollett all of whom were elected directors of the company, while the previous directors resigned.

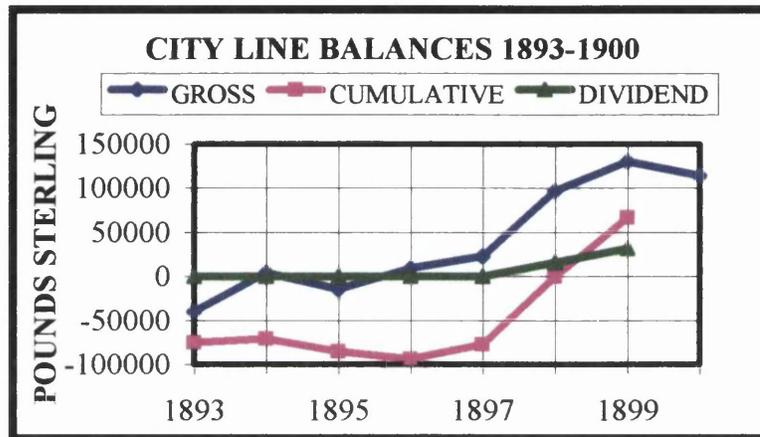


Figure 33 City Line Ltd balances 1893-1900

		Sailing ships		Steam ships	
		Number	Tons	Number	Tons
1840	Constellation	1	334	0	0
1867	At death of George Smith I	25	23,380	0	0
1877	At death of George Smith II	27	26,145	9	25,938
1879	Partnership	25	22,880	11	27,364
1892	Incorporation	6	10,226	14	50,406
1899	Death of George Smith III	0	0	15	62,466
1901	Sale to Ellerman	0	0	14	59,171

Table 14. George Smith I to John Reeves Ellerman, 1840-1901.

So ended the sixty years of traditional shipowning which was started by George Smith I with a sailing ship of 334 tons, and ended with the sale of a family company owning fourteen steamships totalling 60,000 tons to a new breed of shipowner.

On 22nd October 1901 the first Board meeting of City Line under the new ownership took place with Miles Mattinson as chairman, Burt being the only other director present. The final balance sheet of City Line Ltd under the control of the Smith family was

issued at 1st August 1901, and shows £293,000 outstanding in Debentures, plus £3,000 in accrued debenture interest⁹¹.

The Entrepreneurs

A condition of the sale of City Line was that Wm S. Workman should be retained as General Manager which guaranteed him a job for the next three years (UGD131/1/2) In addition he received shares from London Liverpool and Ocean Steamships, later converted to Ellerman Line Limited shares. Other members of the Smith and Workman families also received Ellerman Lines Ltd shares.

Those who have written about George Smith and Sons, City Line, and Ellerman have expressed surprise that such a desirable company should have passed so suddenly from the family, even at a price estimated to be in the region of £1,000,000. Some of the ships were owned by the trustees, and the debentures were not retired until 1910. The real value of City Line Ltd for Ellerman lay in its goodwill, represented by the network he bought into which gave him access to agencies, shippers and shipyards.

George Smith IV remained as a trustee of the debenture holders until replaced by Ellerman in 1905. He died in France in 1915 as a Captain in the Gordon Highlanders. In 1902 he and his brother received, in joint names, 200 preference shares and 100 ordinary shares in Ellerman Lines Ltd (UGD131/ 2/ 2/2). The ordinary shares were sold to The Moorgate Trust (Ellerman) in 1913; the preference shares were shown as still held by Robert W. Smith in 1916.

George Smith and Sons had been typical of the family firms which developed from merchants who took a financial interest in a ship, buying one of their own, and eventually becoming shipowners. The extended family in its widest sense provided labour, as shipmasters, agents, brokers and merchants; sometimes as manufacturers supplying cargoes. The capital required in the early days, with sailing ships and later with simple steamships, limited by fuel consumption and loss of cargo capacity at the expense of bunkers, could be met by the family and its connections. With the development of the compound engine and steel hulls capital requirements increased at the same time as family ties were being stretched. Ellerman represented a new breed of shipowning entrepreneur; a man whose expertise lay in the employment of capital and the allocation of resources, including labour of all degrees of skill and specialisation. By 1910 another old family firm

⁹¹ See Appendix 8 facing p.163.

connected with the Smiths and Workmans - the Allan Line - had also gone to a larger competitor, and in the liner trades few family firms were to survive the First World War.

By the end of the Nineteenth Century the age of the amateur and polymath was almost over, and in his place came the specialist and the expert, whether as a worker or an employer; an accountant or an engineer. Ellerman recognised this early in his life, and was almost unique among the shipping giants of his age in not coming from a shipping or merchanting background - he was an accountant, pure and simple. Despite what may have seemed a disadvantage, he built a company whose reputation long outlived him, particularly among his sea-going staff.

Ellerman was not alone in his collection of interests which were to include newspapers as well as breweries and collieries, all of which were completely separate from his shipping operations. Unlike Lord Kylsant (Green and Moss, 1982, p.95), he did not succumb to the excesses of moving the same notional resources around different areas of his own establishment, achieving temporary totals greater than the sum of the parts. Ellerman's strength appeared to lie in his homework before buying any of his new companies and in building for long term growth. His personal assets meant that he did not require to go to the Stock Market with slightly dubious proposals. With City Line he acquired access to trades on which some of his other acquisitions were already employed, and when a new route proved unsuccessful, it was abandoned, like the River Plate trade with Allan Line.

From the composition of the fleets it is possible to see how some shipowners accumulated so much wealth in the first seven decades of the Nineteenth Century. The *Constellation* cost about £4,000 in 1840; the value of the fleet at sale to Ellerman was recorded as £803,809 (City Line Balance Sheet, 1st August 1901); unlike previous generations of the family, George Smith's sons appeared to want money rather than ships. Ellerman appears to have hovered around the death-beds or sick-beds of other shipowners whose companies he acquired.

CHAPTER SEVEN - CONCLUSION

Hypothesis.

The hypothesis to be tested is :

Sir John Reeves Ellerman's success as a shipowner was due to specific entrepreneurial qualities which he transferred to shipping and distinguished him from his contemporaries.

Ellerman had financial and management skills which enabled him to identify companies with sound core structures and a potential not being realized under the existing regimes.

Retaining existing managers and re-organising capital he produced profitable enterprises which inherited the characteristics and loyalties of the original family firms. Was Ellerman an entrepreneur or an opportunist? The bare facts of John Reeves Ellerman's life are well known and documented in biographies and obituaries. In many cases he is referred to as an entrepreneur; one biographer going so far as to suggest that Ellerman's success was partly due to having entered both brewing and shipping at a particular stage of entrepreneurial decline in particular companies. In shipping this decline was frequently due to the demise of the senior member of the family, and the reluctance of the heirs to continue with the business. In brewing there was frequently failure to adapt to new conditions. As an example, Ellerman gained control of Hoare & Co in 1902 and within one year produced the largest profits for 435 years.

Before judging whether or not he was an *entrepreneur* it is necessary to define the term - both as it is generally understood, and as it may be interpreted. The dictionary definition is fairly straight-forward: the literal translation is *undertaker*, but even this is qualified by the association of the word's root with enterprise. The expression was not commonly used, in the United Kingdom, until the 1870s, when the director of a musical entertainment advertised himself as an *entrepreneur*, stating that he was personally responsible for putting the whole operation together, including providing the capital. There developed an understanding of the term as one who personally assembled and utilised resources for a specific undertaking, whether it be banks, breweries, railways or shipping. The individual may or may not have had technical knowledge; he certainly would have had access to information and a communications network which provided it. In the case of Ellerman his *forte* initially lay in company promotion and the provision of capital from

either external sources, including the public, or internal sources such as unrealised assets, including plant and stocks. The entrepreneur could, therefore, be seen as one who by the ‘fructifying use of capital’ made possible the expansion of existing industries, enabled the generation of new ones and gave employment. The nineteenth century *entrepreneurs*, in the United Kingdom at any rate, were often perceived as capitalists who, starting from humble backgrounds, finished up with fortunes. In fact, most of those involved in starting industrial and commercial enterprises were from families with some claims to wealth and influence and very few first generation *entrepreneurs* sprang from labouring groups - the humblest levels of society without savings or schooling (Mathias, 1969, p.156-7).

It is in the Twentieth Century that the noun and its derivatives have obtained a certain mystique at the expense of meaning. There are references to ‘political entrepreneurs’, ‘salaried entrepreneurs’ and even ‘revolutionary entrepreneurs’ (Casson, 1982). This was inevitable with the growth of corporate business and professional managers. Detailed definition was now required to identify the counterparts of those individuals who had put together organisations, and made profits from them. The entrepreneur at one period appeared in the factors of production (Lobley, 1983, pp. 84, 96-98). ‘It was once common practice to regard the entrepreneur as a separate factor of production. He provided the capital...took all the decisions and risk and reaped all the profits’.

Large limited companies are owned by their shareholders and the entrepreneurial function is divided among many different groups. The individual *entrepreneur* could raise capital from his own resources, he could also manage his own business, and he might also deploy specific technical skills in his practical application to production. The growth of large industrial and commercial organisations and the growth of management structures may be seen as splitting entrepreneurial activity into separate components, capital provision, marketing and production among them. Schumpeter (1883-1950) saw the *entrepreneur* (Ger. *Unternehmer*) as the central figure of his system who ‘aided by bank credit, challenges the established equilibrium with a new product, a new process or a new type of productive organisation’. He also perceived the *entrepreneur* as ‘one of the somber (sic) company of laborers, white-collar workers, solemn executives and assorted corporate bureaucrats’ not carrying the burden of guilt of the capitalist (Galbraith, 1987, p181). Casson stresses that Schumpeter ‘is very explicit about the economic function of the *entrepreneur* ... prime mover in economic development ... function is to innovate’ (Casson,

1982, pp.173-6).’ Having stated at the beginning of his book that there may be little demand for a theory of the entrepreneur, Casson then goes on to say that this is the very opposite of the truth. ‘... existing theories are demonstrably inadequate ... the need for a theory of the entrepreneur’ (Casson, 1982, p.10-11).

From discussing alternative theories of the entrepreneur; one draws the conclusion that an entrepreneur needs to be skilled in many business attributes!

Certainly, there are individuals who can galvanize tired companies into life by providing enterprise that had been lacking before their arrival on the scene. Similarly, some individuals can seize opportunity and introduce innovation. These individuals are frequently described as *entrepreneurs*, and fit the dictionary definition of the term. Attempts to discover the magic quality possessed by those individuals who took advantage of opportunity has led to a mountain of learned discourse on what *entrepreneur* and *entrepreneurial* really mean. This spirit - or lack of it - is postulated as a cause for economic decline in countries/companies/industries or success in others. One fact on which most economists reach a guarded consensus is that the entrepreneur exists ‘even in the closing decade of the Twentieth Century’ and may be recognised as an individual who exercises personal control of his undertaking - even though he might not own the majority of the capital. He (or she) makes decisions, allocates resources and reaps profits. Casson (1982) provides a table of entrepreneurial qualities (Casson, 1982, p 36). Just as there is an acceptance among economists of the existence of the entrepreneur, so there is a general agreement of the qualities required. Boyce (1996) sums up the activities of an entrepreneur in the title of his book. These words comprise networks, negotiation, capital deployment and marketing, while the second part of the title includes 'enterprise'. Boyce is dealing with a case study of one shipowner and places great importance on social mobility, but the general thrust of his discussion supports the interpretations of those authors already quoted. This is the entrepreneur with whom Ellerman and others of his period must be identified. Attempts to examine their structures against a background of present-day business practice and its jargon simply confuse the issue.

The business environment of the last decades of the nineteenth century saw the growth of the limited liability company and an increase in *rentiers* who drew dividends from businesses managed increasingly by professionals. The conversion of family firms into limited companies had the effect of divorcing ownership from management. The question arises, if entrepreneurial skills are individual, can they be applied to a company or an

industry? When it is suggested that brewing was on the downward slope of the entrepreneurial cycle, what exactly is the meaning of this statement? Does it mean that there were no longer opportunities for expansion or enterprise? Has the prospect of technical innovation disappeared? The reverse is true of the British brewing industry when Ellerman first became involved - one of the reasons, in the 1880s, that breweries required more capital was to finance expansion of their market by acquiring additional licenced premises and also to modernise existing plants (Gourvish and Wilson, 1994, p 263). Ellerman (and others) are described as 'newcomers to the industry who displayed entrepreneurial skills equal to those established families' (Gourvish and Wilson, 1994, p. 234) already in brewing. This suggests existing brewers already had entrepreneurial expertise, and that Ellerman and others' knowledge lay in the field of exploiting capital. Certainly, there is no evidence that the company promoters had any particular knowledge of the mechanics of brewing, or of any other industry to which their talents were applied⁹².

When Ellerman first bought shares in Frederick Leyland and Co Ltd. there is no evidence that he had any expertise in shipping. However, there were opportunities presenting themselves in new trades, technical developments in shipbuilding, and the expansion of the British merchant fleet. Some companies were no longer capable of meeting the challenge - and Ellerman acquired some of these firms. The chief factor in his success was his ability to find cash, not paper, for his acquisitions. This ability led to rumours about his plans for expansion even before Leyland Line bought the West India and Pacific Steamship Company. *Fairplay* reported on 1st March 1900 that Atlantic Transport Line and its interest in American National Line had been sold to Leyland Line, and further acquisitions would follow. The Leyland Company would control a huge company with a capital of £4,000,000. This was before the advent of IMM, and appeared to be simply rumour, but does demonstrate that even then Ellerman was seen as a powerful figure in shipping and finance⁹³. In June 1900 the sale of West India and Pacific S.S. Company was announced and intimation was given of a restructuring of the company. By the end of 1901, Ellerman had sold his own and most of his fellow shareholders ordinary shares to J.P. Morgan of IMM for cash, formed London Liverpool and Ocean Shipping Co Ltd and acquired four major shipping companies⁹⁴.

⁹² See chapter 2, p.30-31.

⁹³ See chapter 2, p.34; 36-40; Chapter 3, p.63.

⁹⁴ See chapter 2, p.44-47.

From his early days Ellerman showed an interest in using money to serve his own interests. This did not necessarily mean making profits; as an apprentice he lent money to his master in order to specify his own hours of work, and also to take long holidays mountaineering. There is no question about his organising ability, aided by his astonishing memory, so what *entrepreneurial* qualities did he possess, and how much did they contribute to his success as a shipowner?

He certainly possessed the qualities outlined above - a consensus from a selection of authors, but was there any specific ability which he transferred to shipping and distinguished him from his contemporaries? The two men with whom he was compared in Chapter 1 were both directors of much larger organisations, yet they both failed in producing real growth in the worth of their companies. In his shipping companies there is no question about Ellerman's managerial rôle - one of - if not the - most important rôle of the true *entrepreneur*. Both Owen Philipps and James Mackay succeeded in raising money from shareholders, but their influence on their fleets was limited because the day to day running was left to subordinates, while they concerned themselves with finance and the images of their companies.

If management is an *entrepreneurial* quality, then Ellerman was an *entrepreneur*. Ellerman was a successful manager in all his many enterprises, as is shown by his successes. The attribute which is central to his whole method of operation must be his phenomenal memory, and his ability to assess facts and figures with lightning speed. These talents fortified his skill with negotiations - a pre-requisite for the successful *entrepreneur*.

Ellerman was effectively a managing owner, backed by his professional knowledge and experience in solving problems and defining his objectives - and transmitting them to his colleagues and subordinates. He also either owned outright or had a majority shareholding in his shipping companies - so he fulfilled another function of the *entrepreneur* - owning or controlling resources and capital. Both contemporaries with whom he is compared relied on shareholders or financial institutions to provide their capital, and Owen Philipps left nothing to his wife at his death, while James Mackay died as a comparatively poor man. Certainly, the need to find money is a brake on enterprise, and to some extent inhibits decision-making. Ellerman had none of these problems, and was able to guarantee the dividends of his preference shareholders - paying from his own resources if necessary.

There is no doubt that Ellerman was possessed of a good memory and an ability to sum up situations with speed and ease. He also had his finger on the pulse of his shipping

interests to a degree that is not suggested in his other enterprises. One commentator has suggested that Ellerman was the first 'company doctor' and may also be seen as a form of *entrepreneur*. In no instance did Ellerman institute original practices - with the possible exception of his periodic briefings to his fellow directors outlining the systems he was developing. It can be said that he brought into shipping the practices and skills developed in other fields which were personal and so distinguished him from contemporaries and certain of these qualities are generally recognised as *entrepreneurial*. So far as empire-building is concerned, he built up a large undertaking that included, at different times, publishing, collieries, a shipping fleet, breweries and financial institutions, ranging from insurance companies to mortgage trustees, but it is doubtful if he regarded it as an empire. On a different theme, did his ships, and City Line in particular, contribute to the growth of the British Empire? If they did, it was not because of Ellerman. When the sub-continent was grudgingly granted Independence one of the early changes saw British shipping companies displaced by newly formed national fleets and the 'Kipling Companies'⁹⁵ gradually disappeared. The arguments above lead to the conclusion that Ellerman was an entrepreneur in the best possible sense - he was successful, and he added to shipping skills that were not matched by his peers.

⁹⁵ Rudyard Kipling, *The Crab that Played with the Sea*:
'China-going P. & O.s pass Pau Amma's playground close,
And his Pusak Tasesk lies Near the track of most B.I.s ...
Orient, Anchor, Bibby, Hall, Never go that way at all'.

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Appendix 1. Copy of original prospectus for incorporation of Edinburgh United
Breweries showing Ellerman's participation.

The List of Applications will open on Thursday, the 19th day of December, 1889, and will close on or before
Saturday, the 21st day of December, 1889

THE
Edinburgh United Breweries,
LIMITED.

Incorporated under the Companies Acts, 1862 to 1886.

SHARE CAPITAL £250,000,

12,500 Six per Cent. Cumulative Preference Shares of £10 each	- - - - -	£125,000
12,500 Ordinary Shares of £10 each	- - - - -	£125,000
		<u>£250,000</u>

Five per Cent. First Mortgage Debentures - £200,000.
(Redeemable at the end of Ten Years, at the option of the Company, at 10 per cent. premium.)

The whole of the Heritable Property of the Company will be conveyed to the Trustees on behalf
of the Debenture Holders.

Present issue £110,000 in Preference Shares; £110,000 in Ordinary Shares; and £200,000 in Debentures.
The remaining Shares will be held in reserve for future issue should the Company require further Capital to
extend its business.

The Shares are payable as follows:—viz., 10s. per Share on Application; £4 10s. per Share on Allotment,
and the balance by two instalments of £2 10s. each per Share, at two and four months thereafter respectively, or the
whole may be paid up on Allotment, the Shares ranking for dividend from the date of payment.

The First Mortgage Debentures, which will be issued in multiples of £10, are payable 5 per cent. on
Application, and 95 per cent. on Allotment.

The Dividends on the Preference Shares and the Interest on the Debentures will be payable half-yearly on
the 1st of January and the 1st of July in each year.

The Dividends on the Ordinary Shares will be payable yearly, but the Articles of Association provide for the
payment of interim dividends.

TRUSTEES FOR THE DEBENTURES.

The Commercial Union Brewery Investment Corporation, Limited.

DIRECTORS.

Sir W. HAMILTON DALRYMPLE, Bart., of North Berwick.
C. PAGE WOOD, Esq., } Directors of Parker's Burslem Brewery, Limited.
F. M. HAIG, Esq., }
PERCY REID, Esq., of Messrs. Prior and Reid, Brewers, Hatfield.
*DUNCAN STEWART, Esq., Edinburgh and Leith Brewing Company.
*ARCHIBALD SMITH, Esq., Summerhall Brewery, Edinburgh.

MANAGING DIRECTOR.

*Mr. WILLIAM STEWART, late Managing Partner of the Edinburgh & Leith Brewing Company.
*Will join the Board after allotment.

BANKERS.

THE ROYAL BANK OF SCOTLAND, 123, Bishopsgate Street, London; St. Andrew's Square,
Edinburgh; and Branches.

SOLICITORS.

Messrs. NICHOLSON, GRAHAM & GRAHAM, 24, Coleman Street, London, E.C.
Messrs. PHILLIP LAING & CO., 41, Charlotte Square, Edinburgh.

BROKERS.

Messrs. PANMURE GORDON, HILL & CO., Hatton Court, Threadneedle Street, London, E.C.
Messrs. JOHN ROBERTSON & CO., 31, George Street, Edinburgh.

AUDITORS.

Messrs. J. R. ELLERMAN & CO., 12, Moorgate Street, London, E.C.
Messrs. F. J. MONCREIFF & HORSBRUGH, 46, Castle Street, Edinburgh.

SECRETARY (pro tem.)

Mr. F. G. BURT.

TEMPORARY LONDON OFFICES:—12, MOORGATE STREET, LONDON, E.C.

REGISTERED OFFICES:—BELL BREWERY, EDINBURGH.

PROSPECTUS.

THIS Company has been formed to acquire, amalgamate, and carry on four well-known and old
established Breweries in Edinburgh, viz.: (1) The Edinburgh and Leith Brewery (Robert
Disher & Co.); (2) Ritchie and Sons, Bell's Brewery; (3) Robin McMillan and Co., Summerhall
Brewery; and (4) D. Nicolson's Palace Brewery, and wholesale Wine and Spirit Business. By
amalgamation and rational economy in the expenses should be effected, both of production and
distribution.

The businesses are all old and well established and have been successfully carried on up to the present time.

Figure 34. Edinburgh United Breweries prospectus for incorporation.

A Century of Service

PIONEERS in the Eastern Trade, the City Line Clippers of a bygone age were notable examples of contemporary marine construction. Over a century ago, the City Line established regular sailings to and from the Orient and had already gained an outstanding reputation amongst Merchants for their reliability and efficiency. This association with the Eastern Trade has been constantly fostered during the past century which has seen the proud City Line Sailing Clippers eclipsed by the supremely efficient modern "Cities", but the reputation for careful handling and safe delivery achieved in a past era has been maintained and enhanced.

1839 1956

Today the City Line serve the United Kingdom, Continent and Eire with a fortnightly service whilst the Ellerman & Bucknall Line fortnightly "Cities" link Ceylon with Canada and the U.S.A. Thus the Commercial Enterprise of the past, harnessed to a progressive policy, has combined to strengthen and consolidate the "Cities" intimate association with Ceylon, its people and its trade.

ELLERMAN LINES

CITY LINE

ELLERMAN & BUCKNALL LINE

COLOMBO AGENTS: AITKEN SPENCE & CO. LTD., P.O. BOX 5

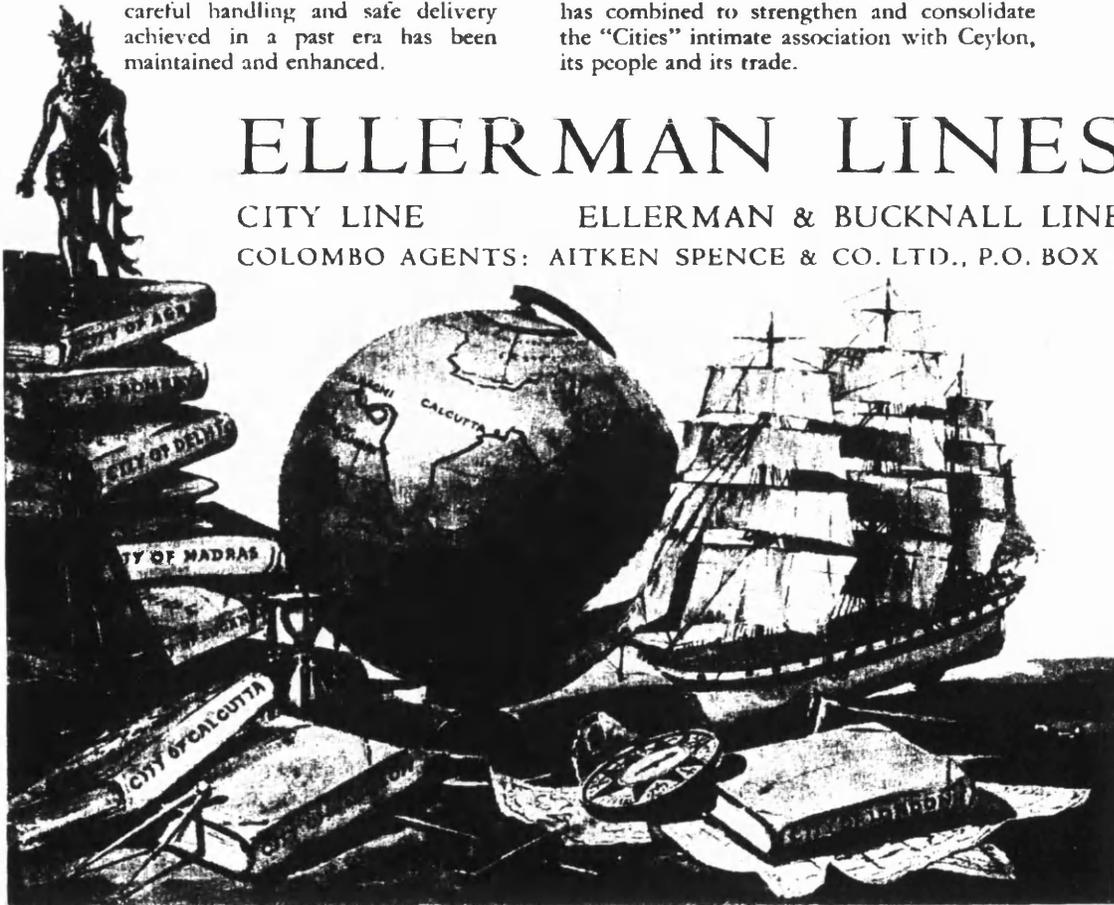


Figure 35. City Line advertisement *Times of Ceylon Annual 1956*.

Appendix 3. Examples of JRE's investment trusts (*Burdett's Official Intelligence 1898*, p.1324).

Brewery and Commercial Investment Trust Ltd.

Directors: (1890)

J.R. Ellerman, (chairman), R. Monckton, M.W. Mattinson, (vice-chairman), A.E. Dibb, H.A. Haigh, F.G. Burt (secretary).

Registered June 1890 (*Stock Exchange Official Intelligence 1902*, p.1324), object being to provide a medium for the investment of capital in brewery debentures, preference and ordinary shares, and in any other commercial undertakings. The authorised capital was £350,000, of which £90,860 was in preferred ordinary shares and included 100 Founder's shares which receive 10 *per cent* of net profits when ordinary share dividend is 6 *per cent* or more.. Ellerman as chairman owned 5,859 (£58,950) ordinary shares and 94 Founder's shares (£940). During 1899 the old 5 *per cent* debenture stock was converted into a 4 *per cent* stock. In 1900 the ordinary shares were converted into stock, *viz* 40 *per cent* cumulative preferred ordinary stock and 60 *per cent* deferred ordinary stock, the Founder's shares being extinguished by converting each share into £25 (£2,250) of ordinary stock by a Private Act of Parliament. Report and balance sheet to stockholders only.

Authorised capital (1900): £350,000 of which £90,000 as 4 *per cent* Preferred Ordinary Sock and £150,000 Deferred Ordinary Stock issued. 4 *per cent* Debenture Stock of £110,000 (1920).

Debenture Securities Investment Trust.

Registered 21st March 1896.

Directors:

J.R.E. Ellerman (chairman), M.W. Mattinson, QC, J. Aiokehead, W.H. Alhusen, A.G. Beebe, A.K. Bibb, W. Glynn, V. Princep, F.E. Steed, F. Stroud, Secretary W.H. Mollett.

Nominal capital £500,000 of which 30,000 ordinary shares and 20,000 preference shares both at £10 each. £400,000 of capital called up.

Investment in mortgages, mortgage debentures, debenture stocks or bonds. Maximum of 2.5 *per cent* in one security; maximum 20 *per cent* in one country.

Dividends: 1897 Ordinary 5*per cent*; preference 4 *per cent*.

Figure 36. Examples of JRE's investment trusts.

Appendix 4. Companies of which JRE was a director from 1889-1901. (*Directory of Directors* for relevant years).

Year	Number of directorships
1890	
London General Investment Trust Ltd	
United Discount & Securities Co Ltd	2
1891	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	3
1893	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	
G.H. Hammond & Co Ltd	
Mercantile & Debenture Agency Co Ltd	
Frederick Leyland Ltd	
Indianapolis Breweries Ltd	7
1895	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	
G.H. Hammond & Co	
Frederick Leyland Ltd	
Indianapolis Breweries Ltd	6
1896-97	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	
G.H. Hammond & Co	

Table 2-1. JRE's directorships 1887-1913.

Year	Number of directorships
1896-7 (continued)	
Frederick Leyland Ltd	
Indianapolis Breweries Ltd	
American Breweries & General Securities Trust	
Debentures Securities Investment Co Ltd	
J.W. Cameron & Co Ltd	
	9
1899	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	
G.H. Hammond & Co	
Frederick Leyland Ltd	
Indianapolis Breweries Ltd	
American Breweries & General Securities Trust	
Debentures Securities Investment Co Ltd	
JAW. Cameron & Co Ltd	
Wilson & Furness-Leyland Line Ltd	
Milwaukee & Chicago Breweries Ltd	11
1901	
Brewery & Commercial Investment Trust Ltd	
United Discount & Securities Co Ltd	
London General Investment Trust Ltd	
G.H. Hammond & Co	
Frederick Leyland (1900) Ltd	
American Breweries & General Securities Trust	
Debentures Securities Investment Co Ltd	
JAW. Cameron & Co Ltd	
Wilson & Furness-Leyland Line Ltd	
Milwaukee & Chicago Breweries Ltd	10
Table 2-1 (continued)	

Appendix 5. Ellerman Lines Limited Senior Staff and Conditions.

George J.C. Gill	General Manager of Ellerman's Hall Line and so comparable in status with W.S. Workman. 5 years at £2,100 per annum for 2.5 years and then £2,400 per annum. (Originally a partner in Sun Shipping before its incorporation as Hall Line Ltd when he was appointed a director).
Fred. Swift	5 years at £1,100 per annum. Joined Ellerman from Leylands as manager of the Mediterranean ships of Ellerman Line (ex-Leyland) and Papayanni Line.
MacAllister:	appointed Assistant Manager Hall Line for 5 years from 1st September 1907. Starting salary from 1st June 1906 £600 p.a. (Appointed director of Hall Line 1910).
Graham Smith	5 years from 21st May 1906 at £600 p.a. (Originally General Manager of Papayanni Line now Assistant Manager to Fred Swift (Appointed director Hall Line 1910).
.	
H Raeburn Mann	Assistant Manager City Line Ltd: 5 years at £550 p.a.
Dalrymple	Engineer Superintendent of Ellerman Lines Limited and responsible for all ships and workshops:5 years at £675 per annum for first 2 years then £700 per annum

Table 2-2. Ellerman Lines Limited senior staff and conditions.

From the above it will be seen that there is a great difference between the salaries of those who were 'professional managers' and G.C. Gill who had been a director of Hall Line. It is reasonable to assume that W.S. Workman was paid a salary at least equivalent to Gill.

Appendix 6. P.& O. Group Accounts 1922-31

P. & O. 'published net results' compared with Deloitte's calculation of profits which took into account depreciation at five per cent on cost, and excluded special credits and dividends and bonuses from subsidiaries. In 1931 Deloitte's presented the real picture of the P. & O. accounts throughout the 1920s (Jones, 1989, p.202) by comparing the net published results with their own figures.

Year	P. & O. as stated by James Mackay, Lord Inchcape				Deloitte
	Published Net Result	Carried over	Preference shares	Deferred Ordinary	Net result published
	£	£	<i>per cent</i>	<i>per cent</i>	£
1922	696,600	101,700	5	12	125,506
1923	1,013,200	101,800	5	12	1,017,344
1924	1,346,900	101,000	5	12	137,003
1925	1,273,000	142,100	5	10	345,141
1926	1,196,000	133,000	5	10	- 306,237
1927	1,200,000	118,000	5	10	513,591
1928	1,200,000	121,000	5	12	371,437
1929	1,200,000	120,000	5	12	- 105,847
1930	1,165,000	115,000	5	10	916,730
1931	947,800	115,000	5	6	-830,817
TOTAL	£11,309,971				£2,183,751

Figure 37. P&O accounts 1922-31. (Jones, 1989, p. 202).

Appendix 7. Royal Mail group and subsidiaries.

Principle wholly owned subsidiaries.	
10 shipping Groups	42 shipping companies
Non-shipping groups	6 engineering and shipbuilding
Investments in other companies:	
Agencies	14
Brokerage	4
Cartage and Transport	6
Coaling and oil supply	30
Collieries	3
Hotel Office and Land	9
Investment	6
Ligherage, wharfage and boating	16
Oil storage etc	5
Photographic	9
Produce	5
Shipbuilding, steel, etc	7
Shipping	8
Miscellaneous	12

Table 2-3. RSMP group and subsidiaries 1929. (Green and Moss, 1982, p.216-222)

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Appendix 8. City Line balance sheet at take-over by JRE.

The City Line Ltd Glasgow

Balance Sheet at 1st August 1901

Capital and Liabilities.

	£	s	d	£	s	d
To Share Capital						
Nominal Capital						
75,000 Ordinary Shares at £10 each						
Paid up Capital						
40,000 Ordinary Shares at £10 each						
Fully Paid				400,000	-	-
To Debenture Account						
Amount Outstanding	293,500	-	-			
Interest accrued to date	3,000	-	-	296,500	-	-
To Bills Payable				51,933	18	-
To Agents and Rebate A/cs						
Due in Sundry Accounts				6029	19	11
To Current Voyages						
Balance of Receipts & Outlays				16,259	17	5
To Current Voyages closing after date						
Balance of Receipts & Outlays				14,083	14	11
To Insurance Fund Account						
From last year	19942	3	5			
“ Do. Profit & Loss A/c	20557	16	7			
“ Voyage Accounts to date	5258	-	10			
	45758	-	10			
Less Claim per “City of Edinburgh”	247	4	7	45,510	16	3
To Income Tax Account						
Retained from Debenture Interest				26	2	3
To Reserve Account						
From last years Profit				40,000	-	-
To Profit & Loss Account				115,513	13	5
				985,858	2	7

Appendix 8. City Line Balance sheets.

Balance Sheet at 1st August 1901

Property and Assets

	£	s	d	£	s	d
By Fleet of Steamers						
Valued at	585,000	-	-			
Deduct Price of Steamers sold						
"City of Calcutta" £13,300 - -						
"City of Dublin" £32,150 1s 1d	45,450	1	1			
	539,549	18	11			
Add Cost of New Steamers						
"City of Madrid" £75,926 - -						
"City of Delhi" £70,220 10s -						
"City of Athens" £90,926 4s5d	237,072	14	5			
By Instalments paid on steamers building	27,186	15	8	803,809	9	-
By Advances in anticipation of Instalments				2,135	17	9
By Crane Account						
Cranes & Stevedoring Paid	1,145	8	4			
Less charged to Earnings A/c	35	8	4	1,110	-	-
By Insurance Account						
Unexhausted Premiums				4,995	1	5
By George Smith & Sons						
Balance of Current Account				113,726	14	9
By Cash						
Cash on Hand	1,722	2	3			
At London & Westminster Bank in a/c in George Smith & Son's name	214	4	6			
In National Bank of Scotland Ltd	930	18	9			
Do Do Do No 3 A/c	118	4	3	2,958	9	9
By Loans						
Agaist Securities Deposited				50,000	-	-
By Bills Receivable on Hand				6,659	14	6
By Rebates on Bills Discounted				435	15	-
				985,858	2	2

Figure 38. City Line accounts 1901.

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Appendix 8 (continued)

Profit and Loss Account (City Line Ltd)1st January to 31st May 1908

To Interest	£	s	d	£	s	d
Paid and accrued on Debentures	1934	16	10			
Paid on Sir John Ellerman's Loan	789	18	4			
Accrued on Bank Account	420	15	5			
Paid on Agents' Accounts	353	19	11			
Discounting Bills Receivable	145	18	4			
Commission on Country Cheques	15	15	5	3361	4	3
Received for London Cheques &c	35	3	4			
Do Discount Coal Accounts	25	4	4	60	7	8
				3600	16	7
To Debenture Stamp a/c	2	12	6			
To Office Expenses a/c	2808	-	10	2810	13	4
To Crane Working a/c				102	11	10
To Special Survey of "City of Perth" Balance				820	19	0
To Depreciation a/c				12500	0	0
To Balance to Balance Sheet				5108	19	11
				<u>24,963</u>	<u>18</u>	<u>8</u>

Appendix 8 (continued). City Line Ltd Balance Sheet on incorporation as private limited company.

Profit and Loss Account (City Line Ltd)

1st January to 31st May 1908

	£	s	d	£	s	d
By Balance of Profit per Steamers Voyage Accounts after deducting Management Allowances and General Charges against Steamers				20598	0	3
By Management Fees A/c	3475	0	0			
By Commission on Freights and Passage Money	303	11	4	3778	11	4
By Stevedoring a/c				587	7	1
				24,963	18	8

Figure 39. City Line accounts 1908.

Appendix 9. Tables.

Name of Steamship	Value £	Year Built	Tonnage
<i>City of Canterbury</i>	40,000	1875	3416
<i>City of Venice</i>	36500	1875	3372
<i>City of London</i>	27500	1876	3212
<i>City of Edinburgh</i>	33500	1876	3230
<i>City of Khios</i>	45000	1878	3246
<i>City of Agra</i>	45000	1879	3274
<i>City of Calcutta</i>	35000	1881	3836
<i>City of Oxford</i>	60000	1882	3959
<i>City of Cambridge</i>	37500	1882	3780
<i>City of Bombay</i>	60000	1885	4490
<i>City of Dublin</i>	45000	1887	3260
<i>City of Vienna</i>	85000	1889	4460
<i>City of Dundee</i>	50000	1890	3427
<i>City of Perth</i>	50000	1890	3427
Totals	650000		50389

Table 2-4. City Line steamships transferred to Debenture Trustees 1891.

SHIPYARD	1902-4	1905-7	1908-10	1911-13	1914-16	TOTAL
Barclay Curle	1	0	2	3	1	7
Craig Taylor	0	0	0	1	1	2
Earle	0	0	1	3	4	8
Wm Gray	0	0	0	1	13	14
Harkess	0	0	1	3	2	6
Palmers	1	7	2	7	4	21
Ramage Ferguson	0	0	0	2	1	3
Swan Hunter	2	3	2	3	2	12
Workman Clark	3	4	0	3	1	11
TOTAL	7	14	8	26	29	84

Table 2-5. ELL ships built 1902-16.

Note: Data for 1916 collated before the take over of Wilson Line

.Appendix 9 Tables (continued).

Name	Disposal	Year	Name	Disposal	Year
<i>Pinemore</i>	Leyland	1902	<i>City of Dundee</i>	lost	1909
<i>Albanian</i>	Leyland	1902	<i>Sardinia</i>	lost	1909
<i>Almerian</i>	Leyland	1902	<i>Ararat</i>	sold	1909
<i>Cedardene</i>	wrecked	1902	<i>Andalusian</i>	sold	1909
<i>Lesbian</i>	sold	1903	<i>Aston Hall</i>	sold JRE	1909
<i>Egyptian</i>	sold	1903	<i>Eden Hall</i>	sold JRE	1909
<i>Aga Sofia</i>	sold	1903	<i>Aston Hall</i>	lost	1909
<i>Plantain</i>	sold	1903	<i>Douro</i>	lost	1909
<i>Hardwick Hall</i>	wrecked	1904	<i>Gaston</i>	lost	1909
<i>Prome</i>	Hall Line	1904	<i>Arcadian</i>	lost	1910
<i>Tenedos</i>	sold	1904	<i>City of Calcutta</i>	City Line	1910
<i>Roumelia</i>	sold	1905	<i>City of Colombo</i>	lost	1910
<i>Athenian</i>	sold	1905	<i>Falernian</i>	sold	1911
<i>Plymothian</i>	wrecked	1906	<i>Algerian</i>	sold	1911
<i>Netherby Hall</i>	Glenairn	1905	<i>Flaminian</i>	sold	1912
<i>Branksome Hall</i>	Glenavon	1906	<i>City of Corinth</i>	sold	1912
<i>City of Cork</i>	sold	1907	<i>Minho</i>	Closed	1912
<i>Avon</i>	sold	1907	<i>Flavian</i>	sold	1912
<i>Orestes</i>	sold	1907	<i>Barcelona</i>	lost	1913
<i>Alsatian</i>	sold AM	1907	<i>Egyptian</i>	lost	1913
<i>City of Amsterdam</i>	sold AM	1907	<i>Haddon Hall</i>	lost	13
<i>Methley Hall</i>	sold	1908	<i>Italian</i>	sold	1913
<i>City of Bombay</i>	sold	1908	<i>City of Vienna</i>	sold	1913
			<i>Croxteth Hall</i>	sold	1913

Table 2-6. Ships sold or lost 1901-1913.

Appendix 9 Tables (continued)

J. R. Ellerman Personal	1902	1904	1997	1912	1913
Preference shares	18547	23111	22358	22456	23308
Ordinary shares	27048	34757	35770	35770	35875
Bank holdings as security					
Preference shares	2000	3000	3000	3000	0
Ordinary shares	5500	6150	6150	6150	0
Ellerman's colleagues					
Preference shares	13461	13300	12820	12462	12302
Ordinary shares	8550	8675	7395	7425	7373
Ellerman's institutions					
Preference shares	5282	6105	8391	7973	12169
Ordinary shares	3242	3517	3497	6618	10973
Public subscription					
Preference shares	42992	31000	31000	30000	30000
Ordinary shares	13378	10385	9619	8147	8000

Table 2-7. Shareholdings in Ellerman Lines Ltd 1902-13.

Compiled from UGD131/1/2/1 Ellerman Lines Ltd Share Register, 1901-1913.

Totals do not include Ellerman's 100 Management shares which gave a dividend of 10% of net earnings when the Ordinary dividend exceeded 6%. These shares had a nominal value of £1 each, so would have made little difference to the totals, particularly as they carried only one vote each. It could be argued that in terms of value, each represented £10 worth of votes - the price of one ordinary share!

The bank holding the shares was the London, City and Midland Bank of Threadneedle Street. The first 2000 shares were from the original allotment, and all were sold in February 1912.

.Appendix 9 Tables (continued).

Bucknall S.S. Original Capital		
Ordinary Shares (£10)		£850,000
5.5% Cum. Preference Shares (£10)		£650,000
Un-issued Ordinary Shares (£10)		£150,000
Nominal Capital		£1,650,000
Bucknall Shareholdings Dec. 1906		Changes in Share Values
5.5% Cum. Preference Shares (£10)	£650,000	Unchanged
Ordinary Shares reduced to £1	£85,000	£9 written off.
Ordinary Shares (£10)	£150,000	Unissued
Nominal Capital	£885,000	
Bucknall Shareholdings Dec. 1908		Changes in Share Values
Shares issued and paid up:	Capital	
Preference Shares (£10)		£8 written off.
Ordinary Shares (£1)		15s written off.
First Preference Shares (£2)	£80,000	Old £10 preference.
Second Preference Shares (£2)	£21,250	Eight 5s old ordinary
Management Shares (£1)	£1,000	New issue to Ellerman.
Total Capital	£102,250	

Table 2-8. Bucknall's capital re-organisation.

In 1908 the Bucknall Agreement with J.R. Ellerman was agreed because interest on Cumulative Preference shares was difficult to provide, dividends were passed and the obligations under the Trust Deed for £60,000 *per annum* for interest and amortization of Debentures could not be fulfilled. J.R. Ellerman advanced sufficient funds to meet outstanding liabilities.

The Terms of Agreement transferred management to Ellerman and also changed the Articles of Association, removing any requirement for directors to hold shares in the company.

Total liabilities exceeded £1,000,000; Ellerman paid off the debentures, bought in the Cumulative Preference shares, and acquired all the ordinary shares. When Ellerman Lines Limited increased its capital to £3,700,000 in 1913 the shareholdings were restructured and outstanding Bucknall debentures were retired in exchange for Ellerman Lines' Limited preference shares.

Appendix 9. Tables (continued). Excerpts from City Line accounts.

All transactions in £ sterling	1893	1894	1895	1896	1897	1898	1899	Totals
1. Managers' commissions	5600	5600	5600	5600	5600	6400	6400	40800
2. Commissions on freight	3730	3705	4329	5410	5716	5716	6058	34511
3. Commission on profits	0	904	0	72	1601	5058	5020	13255
4. One percent Superintending Commission	0	0	0	713	0	800	4	1517
5. Interest paid by City Line Ltd	490	0	0	0	0	0	0	490
6. Totals	9820	10209	9939	11082	13476	17471	18052	90070
7. Less interest paid to City Line	435	2321	2353	2933	1528	3680	6027	19331
8. Totals	9385	7887	7586	8149	11948	13791	12025	70739

Table 2-9. Geo. Smith and Sons commissions etc, received 1893-99.

All transactions in £ sterling	1893	1894	1895	1896	1897	1898	1899	Totals
Managers commissions on profits	0	904	0	72	1601	5058	5620	13255
Interest Account: vendors on price	490	0	0	0	0	0	0	490
George Smith & Sons' current accounts	435	2321	2353	2934	1529	3680	6027	19331
Cost accounts of steamers building	0	0	0	0	2258	1700	0	3950

Table 2-10. City Line Ltd abstract of profit and loss account 1892-99.

Appendix 10. Balance sheets reproduced from *Fairplay*

		THE ELLERMAN LINES	
		BALANCE SHEET 31 December 1901 (<i>Fairplay</i>), June, 1902	
	£	£	ASSETS
LIABILITIES			
To Nominal Capital -			By investments at cost
75,000 Preference Shares at £10	750000		Purchase price of steamers, shares in
55,000 Ordinary Shares at £10	<u>550000</u>		shipping companies and businesses
Subscribed Capital -			Loans and deposits, including interest
60,000 Preference	600000		thereon
52,500 Ordinary	<u>525000</u>		Sundry debtors
	<u>1125000</u>		Excess of disbursements over receipts in
Less calls unpaid	9492	1115507	of voyages current at 31st December 1901
		167208	Cash in bank
Loans against security			
Sundry Creditors			
Purchase money not yet payable	72377	108854	
General & money on deposit etc.	<u>36207</u>	100000	
		45688	
Bills payable			
Profit & Loss a/c Balance		1536969	
			1536969

Figure 40. ELL accounts 1901 (*Fairplay*).

ELLERMAN LINES LIMITED	
BALANCE SHEET 31st December 1905 (<i>Fairplay</i>) 24th June 1906	
LIABILITIES	£
To Nominal Capital	1470000
Capital issued and paid up	
70,000 4 <i>per cent</i> Preference Shares	700000
£ 10 each	
69,000 Ordinary Shares £10 each	609900
100 management shares £1 each	100
Reserve fund	1400000
Bank loans and deposits	35000
J.R.Ellerman -	48758
Special deposit from him at interest	250000
Interest accrued thereon	812
Sundry creditors	250812
Net balance on account with	56861
Bills payable (in payment of	54457
on new steamers built or building	
Ships' pending voyages	248867
Unclaimed dividends	17920
Sundry shareholders, for dividend	33
payable 1st March 1906	
Profit and loss account - Balance	51058
	1396
	2165166
	2165166

Figure 41. ELL accounts 1905.

THE ELLERMAN LINES LIMITED

BALANCE SHEET, 31st December 1914 (*Fairplay*, 25th June, 1915)

LIABILITIES	£	£	ASSETS	£	£
To Nominal Capital		350000	By Purchase price of steamers, shares in shipping companies, shipping businesses, engine works, etc. less depreciation		3541415
Capital issued and paid up -			<i>Less: Net balance on accounts current with subsidiary companies</i>	38199	
90,000 4.5 <i>per cent</i> guaranteed preference £10 each	900000		Payments on account of steamers building		3503216
105,000 5.5 <i>per cent</i> preference shares, £10	1050000		Cash and investments held by the trustees of the guarantee fund		189971
105,000 preferred ordinary shares, £10 each	1050000		Sundry investment at cost, less amounts written off		100000
5,000 deferred ordinary shares, £10 each	50000	3050000	Office fixtures (Liverpool)		40428
Guarantee Fund, for 4.5 <i>per cent</i> guaranteed shareholders, as <i>per contra</i>			Sundry stores		1400
Reserve fund		100000	Sundry debtors, including freights and forwarding charges outstanding, agents' balances, insurance unexpired, etc.,		10136
Deposits		250000	Cash at bankers and at hand		278090
J.R. Ellerman -		14711			142002
Amounts on deposit, and balance thereon (paid and accrued)		157505			18084
Sundry creditors (including dividends payable and accrued)		581819			
Bills payable	134690				
<i>Less: held by the Company</i>	40000				
Ships' pending voyages		94690			
Unclaimed dividends		13566			
Profit and loss account, balance thereof		15			
		2937			
		4265244			
					4265244

Figure 43. ELL accounts 1914 (*Fairplay*).

THE ELLERMAN LINES LIMITED BALANCE SHEET,
31st December 1915 (*Fairplay*, 17th September, 1916)

LIABILITIES	£	£	ASSETS	£	£
To Nominal Capital		3500000	By Purchase price of steamers, shares in shipping companies, businesses, engine works less depreciation, and including £694,000 Treasury Bills held in respect of "destroyed steamers" replacement fund"		3975181
Capital issued and paid up -			Payments on account of steamers building		106503
90,000 4.5 per cent guaranteed preference shares £10 each	900000		Cash and investments held by the trustees of guarantee fund	3050000	100000
105,000 5.5 per cent preference shares, £10 each	1050000		Sundry investment at cost, less written off	100000	483666
105,000 preferred ordinary shares, £10 each	1050000		Investments in Treasury Bills, bank bills and deposits	800000	2175351
5,000 deferred ordinary shares, £10 each	50000		Office fixtures (Liverpool)		1300
Guarantee Fund, for 4.5 per cent guaranteed preference shareholders, as per contra			Sundry stores		10211
Reserve fund			Sundry debtors, including freights and charges outstanding, agents' balances, unexpired, etc.,		908145
Deposits		21582	Cash at bankers and at hand		185715
Net balance on accounts current with subsidiary Companies		1210261			7946053
Destroyed steamers replacement fund		693300			
Bills payable		928			
Ships' pending voyages		22554			
Unclaimed dividends		59			
Sundry creditors and credit balances, including dividends payable and accrued, provision for excess profits, duty payable and profit and loss account balance		2047369			
		7946053			

Figure 44. ELL accounts 1915 (*Fairplay*).

THE ELLERMAN LINES LIMITED

BALANCE SHEET, 31st December 1916 (*Fairplay*, 21st November, 1917)

LIABILITIES	£	£	ASSETS	£	£
To Nominal Capital		3,500,000	By Purchase price of steamers, shares in shipping companies, shipping businesses, engine works less depreciation, and including £694,000		1,097,518.1
Capital issued and paid up -			Treasury Bills held in respect of destroyed steamers replacement fund		106,503
90,000 4.5 <i>per cent</i> guaranteed preference shares £ 10 each	900,000		Cash and investments held by the trustees of guarantee fund	305,000	100,000
105,000 5.5 <i>per cent</i> preference shares, £10 each	1,050,000		Sundry investment at cost, less written off	483,666	
105,000 preferred ordinary shares, £10 each	1,050,000		Investments in Treasury Bills, bank bills, and deposits	217,535.1	
5,000 deferred ordinary shares, £10 each	50,000		Office fixtures (Liverpool)	265,901.7	
Guarantee Fund, for 4.5 <i>per cent</i> guaranteed shareholders, as <i>per contra</i>		100,000	Sundry stores	1,300	
Reserve fund		1,550,000	Ships' pending voyages	11,127	
Deposits		801,073	Sundry debtors, including freights and charges outstanding, agents' balances, unexpired, etc.,	278,090	
Net balance on accounts current with subsidiary Companies		275,428.1	Cash at bankers and at hand	160,014.5	
Destroyed steamers replacement reserve as at December, 1915	693,300			185,715	
Less - Amount expended during the year or contracted for	126,765				
Amount added during the year	566,535				
Bills payable	569,324				
Unclaimed dividends		111,585.9			
Sundry creditors and credit balances, including payable and accrued, provision for excess not yet agreed, and profit and loss account		109,516.8			
Figure 45. ELL accounts 1916 (<i>Fairplay</i>).		625,171.5			
		1,565,394.9			

Appendix 11. Hall Line Papers.

Hall Line accounts 1900-1933

Date	Gross Profit	Depreciation £	Debentures	Preference £	Ordinary Div'd	Balance £	Remarks
30. 05. 1900	53788	nil	nil	nil	20000	33788	After payment of Ord. Div
22. 05. 1901	127685	10000			20000	97000	
22. 05. 1901		Cancelled			24500	551	
22. 05. 1902	27051			2000 (6%)	48000	525	
09. 06. 1903	24525			2000		96	
Nov 1904	33449			2000		30	
Dec 1905	70930			2000		20	
Dec 1906	26620			2000		32	
Apr 1907	23482			2000		79	
May 1908	Articles of Agreement amended to convert to Private Limited Company.						
Dec 1908	41379			2000		61	1908
Dec 1909	13461			2400		96	
Mar 1910	34976			2000		65	
Jul 1911	38565			2000		17	
Dec 1912	42467			2000		28	
Dec 1913	41878			2000		31	1913
Dec 1914	39631			2000	25600	43	
Dec 1915	31643			6000	200000	33	
Dec 1916	230833			6000			
Dec 1917	NO ACCOUNTS - SHIPS ON MILITARY SERVICE						
Dec 1918	711824			6000	705000	24	1917 1918

Table 2-11. Hall Line, extracts from accounts.

Appendix 11. Hall Line Papers (continued).

Extracts From Hall Line Ltd Directors' Minute Book.

11th October 1899	<p>First Meeting - Directors: Robert Alexander, Mervyn K. King, James Henry Beazley, George J. C Gill, Frederick Alexander, William Henry Nicholson.</p> <p>Balance after interest on Debenture bonds and Preference shares £53,788. Ordinary dividend of 20 <i>per cent</i> equal to 26 <i>per cent per annum</i>. Carried forward £33,788. Auditors Harwood Banner - fee 100 guineas.</p>
22nd May 1901	<p>Balance after interest on Debenture bonds and Preference shares £127,686. Ordinary dividend of 20 <i>per cent per annum</i>. £10,000 to 'special reserve fund'. Auditors Harwood Banner - fee 100 guineas.</p>
October 1901	<p>EGM Moorgate Street. Present: M.W. Mattinson. Val c. Prinsep, F. G.Burt, Arthur Norman Hill (Solicitor) J.R. Ellerman.</p> <p>M.W. Mattinson in chair. The Resolution of 22nd May 1901 transferring £10,000 to 'Special Reserve Fund' cancelled.</p> <p>Balance after deducting amount written off steamers and dividends on Preference and Ordinary shares £27,051. Preference dividend @ 6 <i>per cent</i> £2,000; Ordinary dividend @ 24.5 <i>per cent</i> £24,500.</p> <p>Final Balance £551. Robert Alexander resigned as chairman and was replaced by John Reeves Ellerman.</p>
November 1904	<i>Prome</i> bought from Ellerman Lines Limited for £25,000.
May 1908	EGM. Articles of Association Altered and Amended (Act of 1907) to form Private Limited Company.
March 1910	Harry Herbert M'Allester and Fred Swift elected Directors.
December 1918	Loss of 4 steamers - 3 Enemy action; 1 Marine Hazard.
December 1920	2 Prizes - ex-German: <i>Arensky</i> re-named <i>Knowsley Hall</i> ; <i>Santa Cruz</i> re-named <i>Merton Hall</i> .

Table 2-12. Extracts from Hall Line directors' minute book.

Appendix 11. Hall Line Papers (continued)

December 1922	<i>Worsley Hall</i> sold.
December 1923	Investment in Montgomerie and Workman (1920) Ltd.
March 1924	<i>City of Newcastle</i> purchased from City of Oran Steamship Co Ltd.
December 1925	“Pyro” Steam Float Co Ltd (T.J.May & Co).
October 1929	Writing down investments. <i>Stanley Hall</i> sold to Alloa scrapyard. <i>Knowsley Hall</i> sold to J.N. Elphinstone for £14,500 - £5000 cash and 3 years at 6 months + 6.5 <i>per cent</i> .
November 1930	<i>Crewe Hall</i> sold for £9,750.
September 1931	<i>Branksome Hall</i> and <i>City of Salford</i> laid up from September 1930 to date.
October 1933	3 steamers laid up. Death of SIR JOHN ELLERMAN.

Table 2.12 (continued). Extracts from Hall Line directors’ minute book.

Appendix 11. Hall Line Papers (continued)

Extracts from Hall Line Share Register UGD131/6/2/1

Total capital £180,000 in £10 Ordinary shares;

26,000 in Preference shares.

October 1901 Robert Alexander transferred shares to:	J.R.Ellerman	500
	M. W. Mattinson	150
	F.G. Burt	100
	V.C. Prinsep	249
	Ellerman Lines Ltd	1
	Solicitors Hill & Dickinson: Jointly J. Dickinson & A.N. Hill	2264
	Total:	3,265
August 1902	Ellerman Lines Ltd	8,998
	W.H. Mollet*	1
	* All dividends etc to Ellerman Lines Ltd.	
	Total	12,266

Note: Nominal capital £206,000 against £122,660 issued.

Table 2-13. Hall Line Ltd extracts from share register.

Appendix 12. Correspondence between Sir John Reeves Ellerman and Sir Percy Bates of Cunard.

Letter from Ellerman to Sir Percy Bates dated 31st January 1929.

1, SOUTH AUDLEY STREET,
LONDON, W.1.

31st January 1929.

Sir Percy Bates,

I thank you for your letter and what you write is so extremely pleasant that I feel I cannot adequately express my appreciation.

I have a feeling that between our companies there should be no misunderstanding and I am certainly of your opinion that there is nothing we cannot settle if we meet together.

Lady Ellerman still keeps invalid but the very dangerous illness has I think been cured by the sodium treatment.

Yours faithfully,
J. Ellerman

Figure 46. JRE's personal letter to Sir Percy Bates of Cunard January 1929.

Appendix 12 (continued)

Memorandum from Sir Percy Bates 27th November, 1929.

(Confidential and personal.)

27th November, 1929.

MEMORANDUM.

As requested by the Chairman, I called yesterday to see Sir John Ellerman. Sir John opened the conversation by referring to the unintentional breach of Conference regulations recently admitted by Messrs Thos. & Jno. Brocklebank. and explained that he had put into the waste-paper basket a very hot draft submitted by his office for his signature. I thanked him for having taken up the matter with me personally, and he said that should any similar instance recur he would have no hesitation in adopting the same course.

From that Sir John passed to the consideration of the Calcutta/ New York trade. He said that in his opinion the financial trouble in America had gone very deep indeed and would be likely to affect seriously the volume of America's general imports. In these circumstances he thought that the present would be an opportune time for considering a general reduction in sailings between Calcutta and New York, and he thought further that it might be a good opportunity to try and reduce the Roosevelt interest in the trade. I told him that while doubtless Messrs Brocklebank would be guided by common prudence as soon as any serious shortage of cargo had in fact developed, I thought they would prefer to see matters go considerably further before agreeing to any reduction in sailings. I added that there were apparently two schools of thought with regard to the American situation; one was his own and if that was correct I admitted that the position might become serious; and two, the view that this financial trouble was

Figure 47. Copy of memorandum by Sir Percy Bates 27th November, 1929.

Appendix 12 (continued)

-2-

merely a spasm which, while acute at the time, would nevertheless leave the consuming power of the American nation practically unimpaired. I explained that I had had some discussion with Mr. McKenna on the subject last week and Mr. McKenna's personal view was distinctly in favour of the latter. The subject then dropped, Sir John asking that consideration should be given to his views and added that he also would consider what I had said. From that subject Sir John passed to the consideration of the outward trade to Calcutta, in which he thought a good deal too much tonnage was employed. He thought that everybody would make more money on fewer sailings and urged with considerable force that consideration be given to this. I listened to all that Sir John had to say and promised to bring it to the notice of the Managers. I did not hold out any hope of anything, however, and told him that so far as I could see, the volume of tonnage being sent out by Brocklebanks generally bore some relation to the amount of their commitments home and that I disliked the policy of chartering more ships than could be avoided. Sir John remarked that we were too timid and added that an altered policy would make much more money.

Figure 47. (continued). .

Appendix 12 (continued)

(3)

I then got a chance to mention the real object of my visit, namely, the Bombay Agency of the Ellerman Line. I explained to Sir John that my own firm had held that agency ever since the inauguration of Hall Line, away back in the last century and that for nearly 30 years I had carried it on for him. As he knew, I had carried it on through the agency of Messrs. Killick, Nixon and Coy., my own office there having been closed since the late nineties. I then informed him that I had received a polite as possible intimation from Messrs. Killick, Nixon and Co. that they thought it was about time that Messrs. Edward Bates & Sons faded out of the picture, that my present agreement with Messrs. Killick, Nixon & Co. terminated at the end of next year, and that after considering all that Killick, Nixon & Co. had said, I had come to the conclusion that I was unable practically to combat their arguments. I then proceeded to thank Sir John for having entrusted us for over 29 years with the work of his steamers and to express my regret that the connection would in all probability come to an end with the close of 1930. Sir John expressed great concern at the prospect of such a very old link being severed and urged me to reconsider the point, even if it only meant retaining the name on the notepaper.

Sir John proceeded to talk generally about Agents and in the course of his remarks it became apparent that while at one time

Figure 47. (Continued).

(4)

he might have been willing to resume his relationship with Messrs. Graham in Calcutta, the passing of time had magnified his original grievance against that firm, and it appeared to me very improbable that any shift of the Ellerman Agency to Grahams could be effected. I think during the years that have elapsed since Sir John gave notice to Grahams in Calcutta, he has been building up in his own mind a species of justification for his action in dismissing them. At the time it would be remembered his action appeared to us to be harsh and unreasonable. I told Sir John that I had said nothing yet to Killick, Nixon & Co., feeling that I owed him the courtesy of a personal call and the intimation that was in and said that in view of his remarks I would reconsider the thing in Liverpool and advise him in due course as to what was agreed. Sir John repeated his great concern at the breaking of such a very old connection.

Before leaving, I referred to the Anchor Line and said that that Company was engaged in considering the building of new tonnage for its Bombay service. I remarked that it is not the easiest trade in the world to build for and said that I had the Chairman's authority for mentioning that the Company would not be averse to considering any suggestions which Sir John might care to make by which both his Company and the Anchor Line might make more money in that trade. Sir John expressed some concern with regard to the present state of the Bombay trade. He agreed that it was difficult and admitted he was not doing well in it. He said he would like to

Figure 47. (Continued).

Appendix 12 (continued)

(5)

turn the matter over in his mind, but I can see that his mind will run naturally to a consideration of all three trades together, and it will only be with difficulty that we shall get him to dwell on the trade we are most concerned to adjust.

I should like to add that Sir John looked considerably better in health than when I saw him last. He was a much better colour and very much more alert; part of the change is no doubt due to the improved health of Lady Ellerman, whom he described as on what he thought was a firm road to recovery.

(sgd.) Percy E. Bates.

Figure 47. (Continued).

Appendix 13. Ellerman fleets tonnage growth from 1905 to 1921. (*Fairplay*, 2,000th issue, 8th September, 1921)

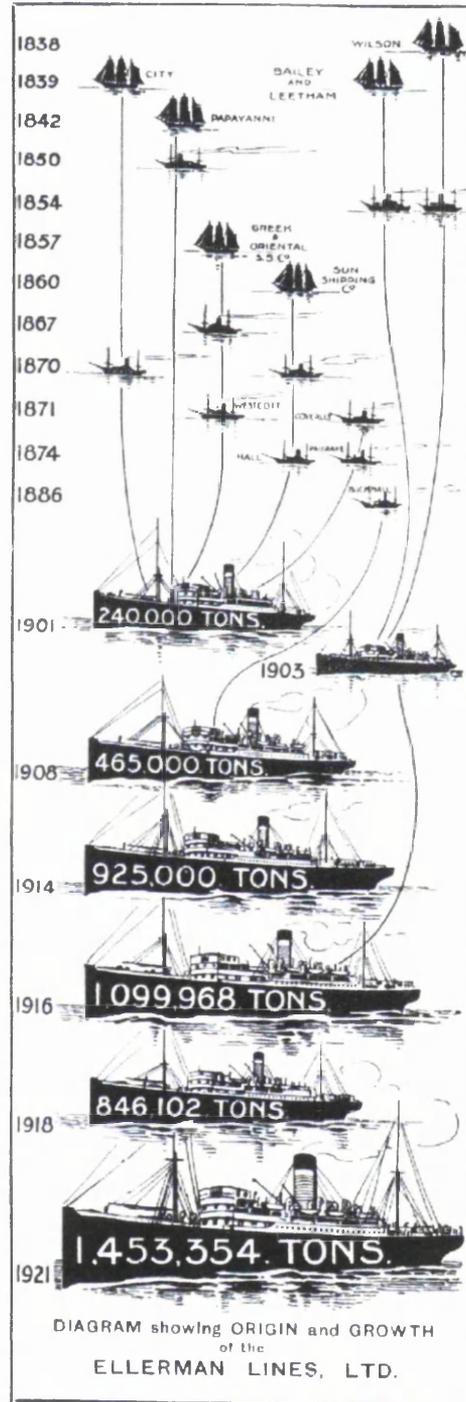


Figure 48. Illustration of ELL's development from original shipowners and companies. Measurement is in deadweight tons which corresponds to weight of cargo able to be carried after deducting weight of ship, fuel, stores and crew etc.

Appendix 14 Chronology of Sir John Reeves Ellerman, Bart, C.H
1862 - 1893

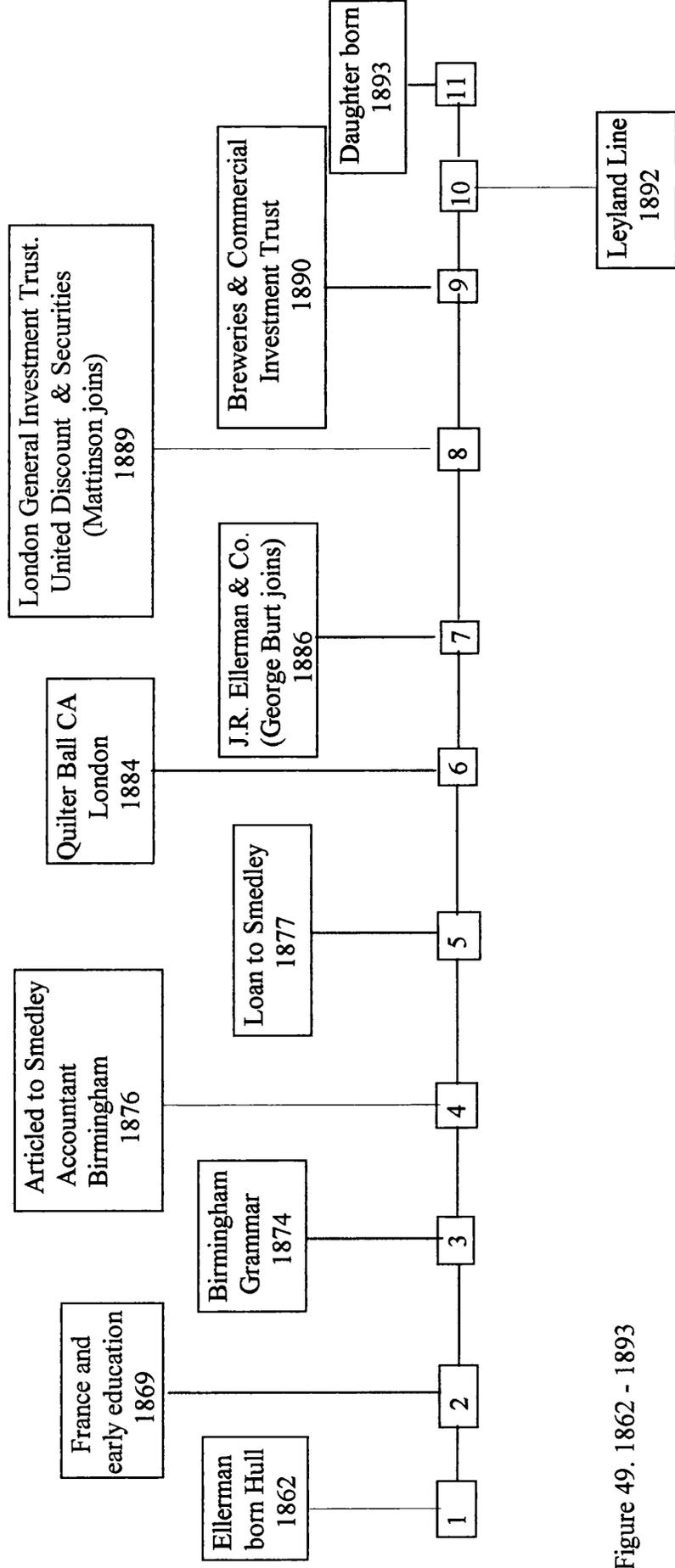


Figure 49. 1862 - 1893

Appendix 14 (continued)

1898 - 1902

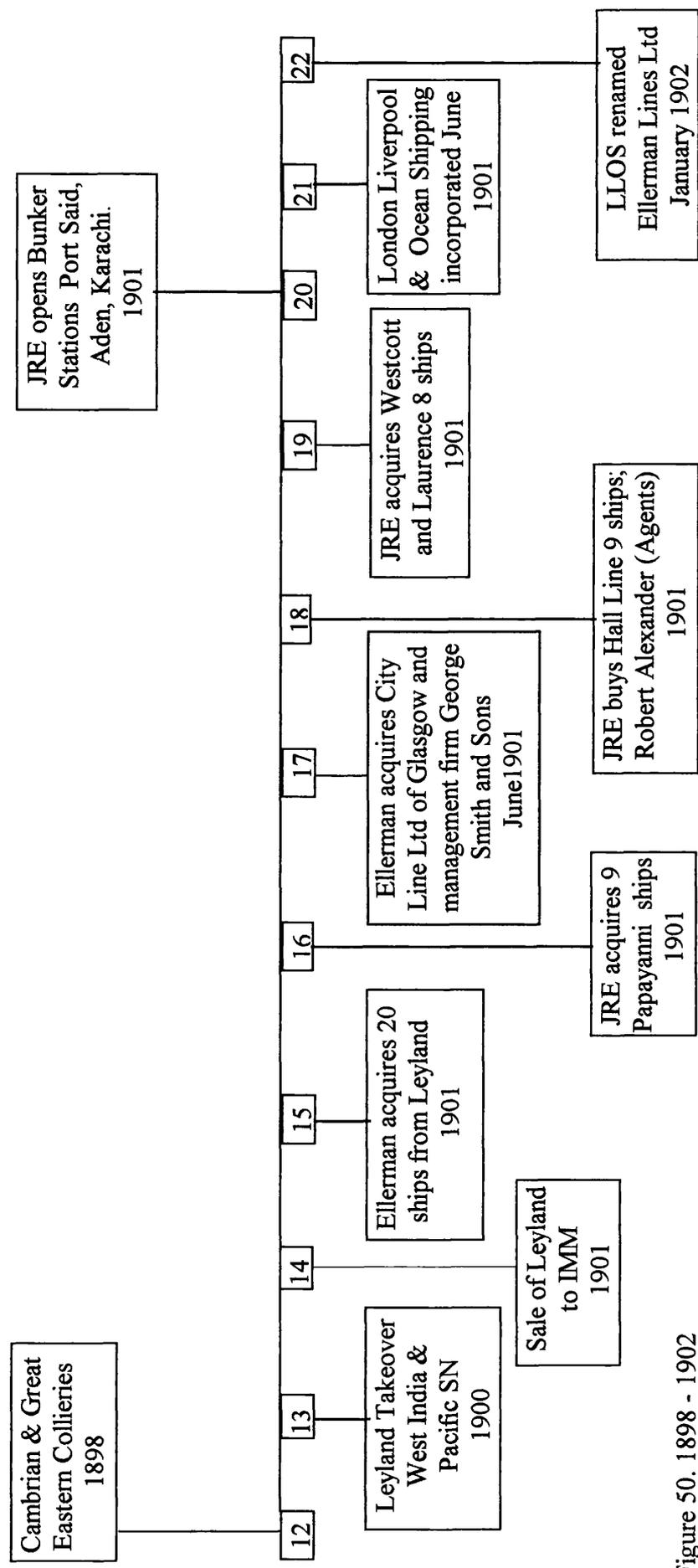


Figure 50. 1898 - 1902

Appendix 14 (continued)

1902 - 1909

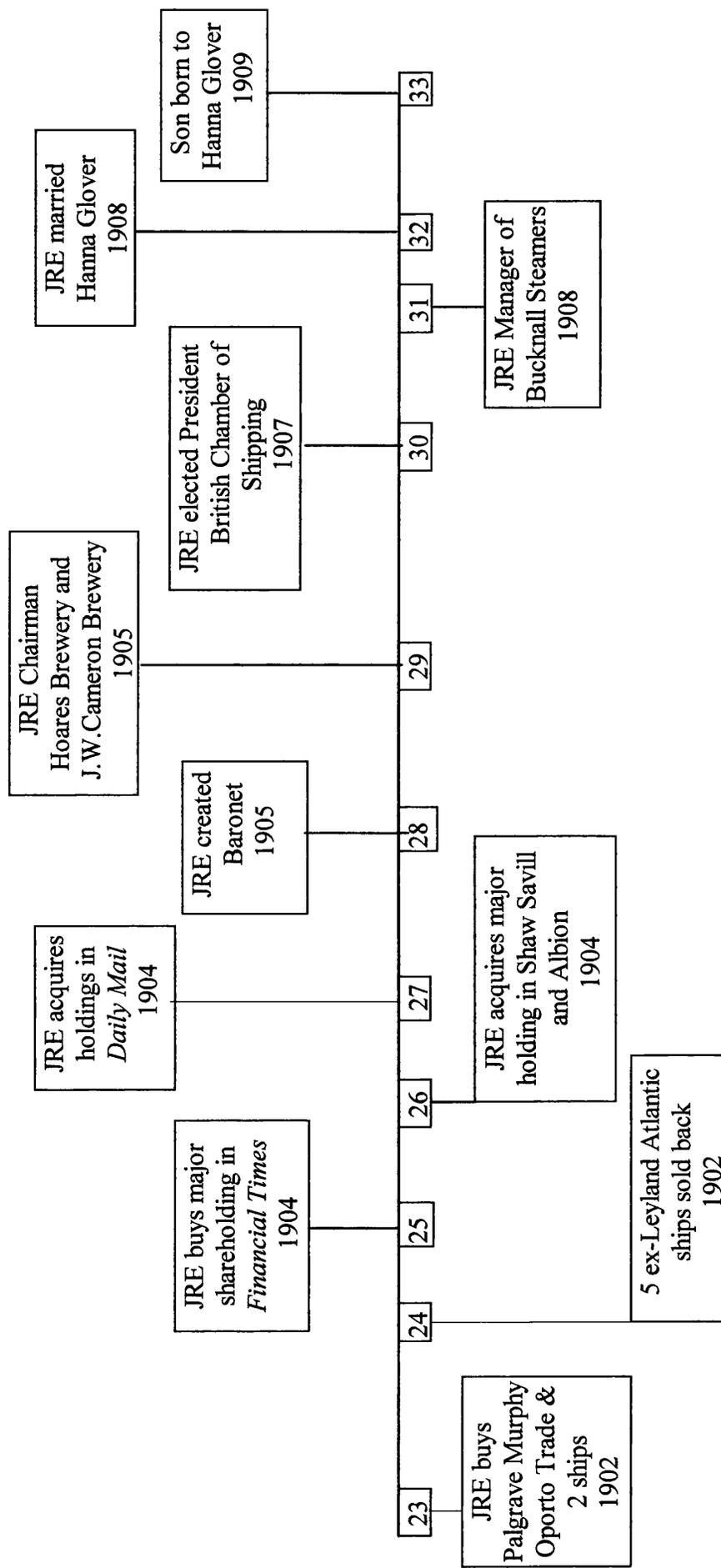


Figure 51. 1902 - 1909

Appendix 14 (continued)

1912 - 1921

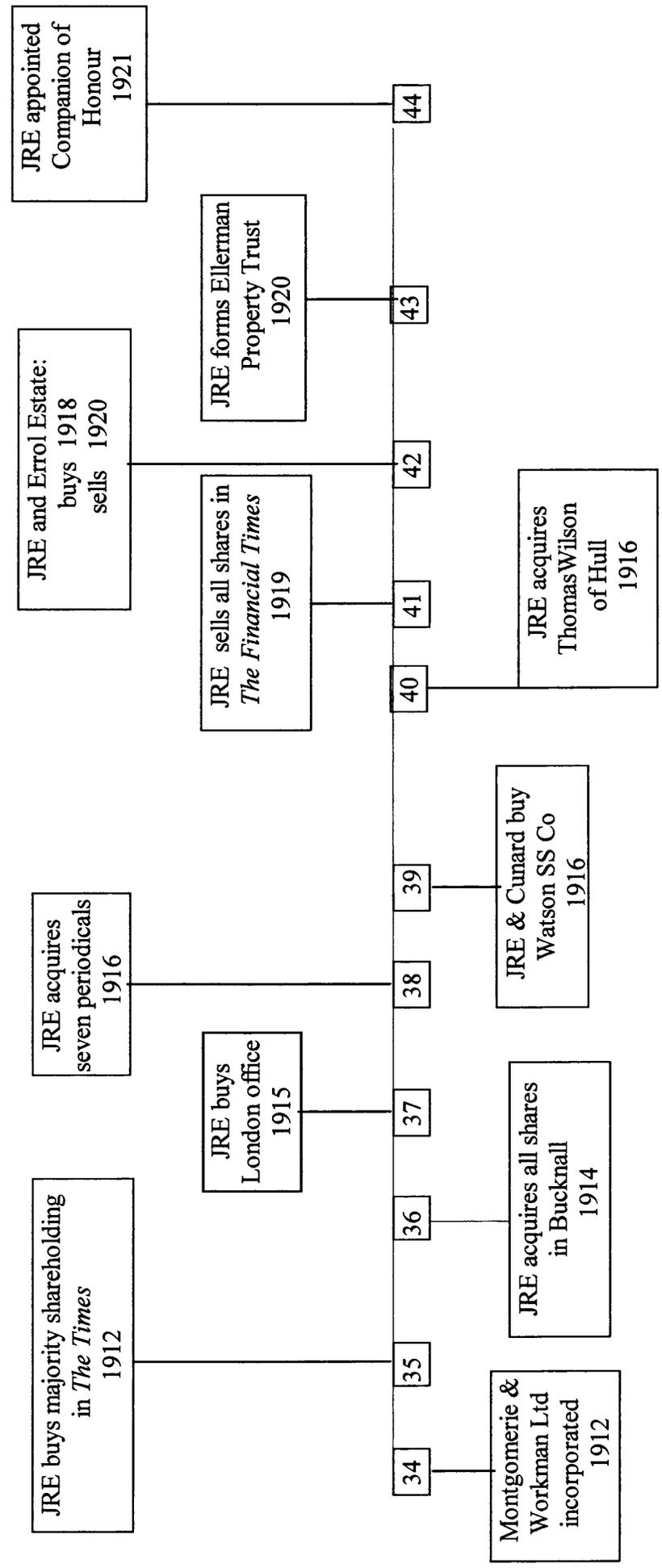


Figure 52. 1912 - 1921.

Appendix 14 (continued).

1921 - 1933

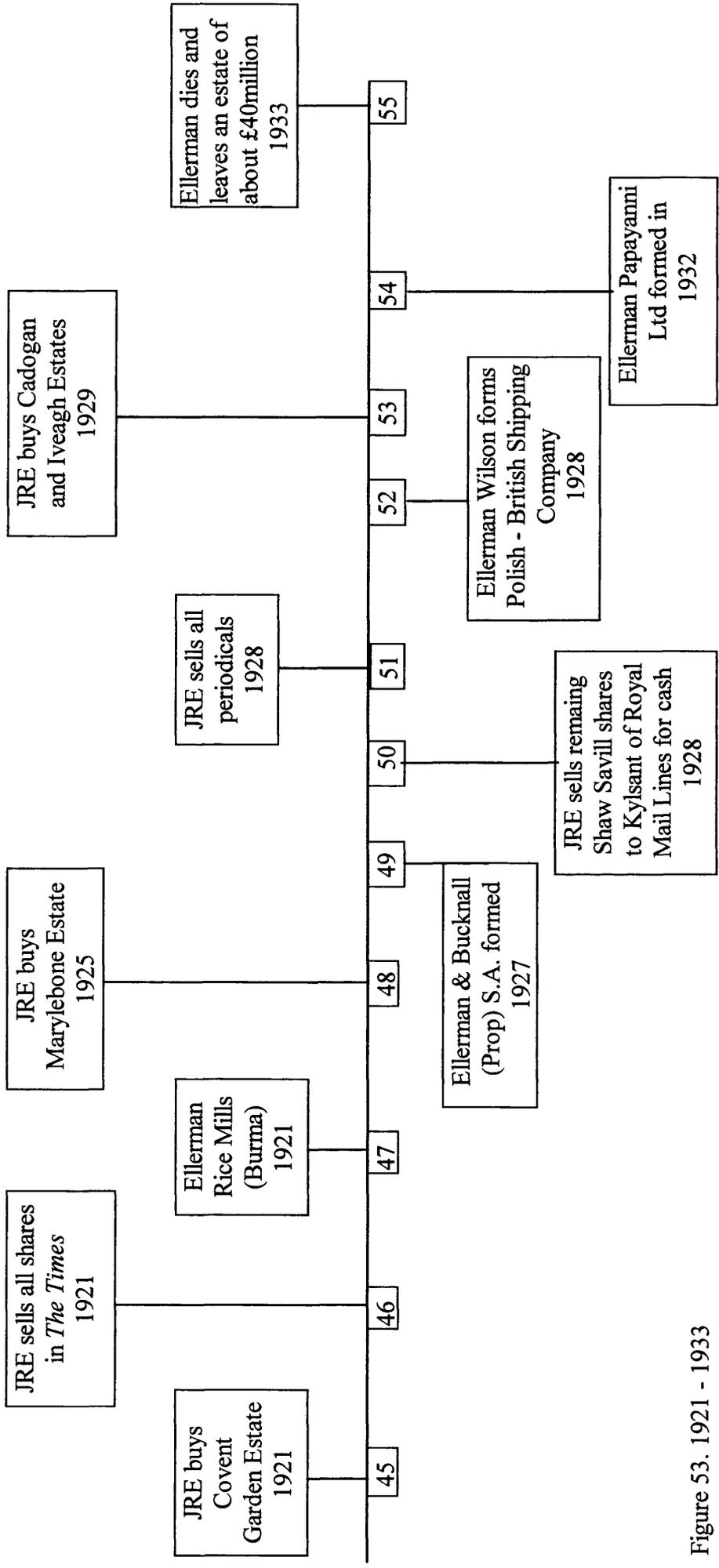


Figure 53. 1921 - 1933

Appendix 15. Smith and associated families and businesses.

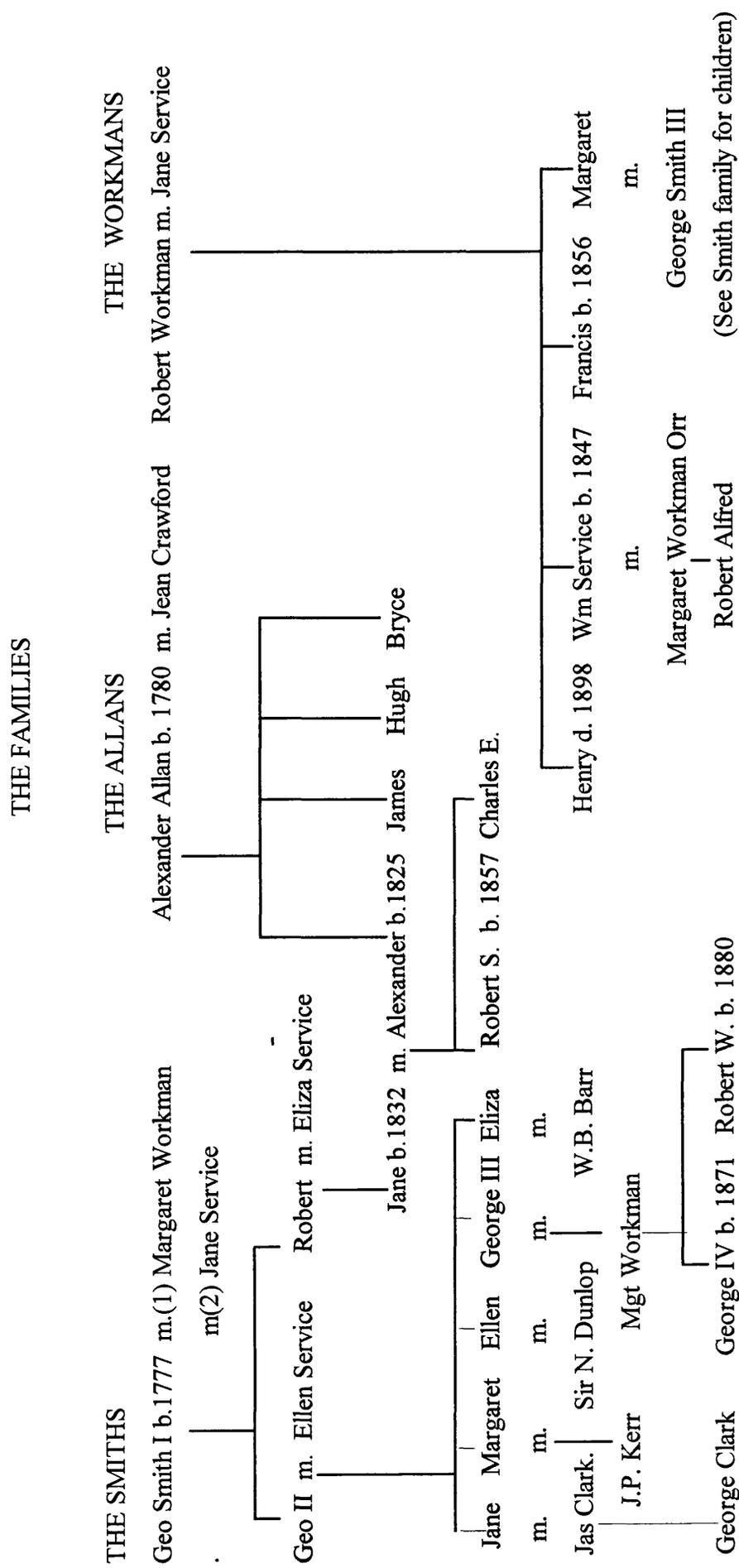


Figure 54. Smith and Workman families.

Appendix 15 (continued)

THE BUSINESSES

Smith & Service	1840 Geo Smith & Sons Merchant	1849 Montgomerie & Greenhorne London	1877 F. Workman shipbuilder
Robert Smith ←	Geo Smith I Shipowner	Edmonstone Montgomerie	Francis Workman
Wm Service	Robert Smith	Alexander Greenhorne d. 1877	Wm Campbell, Mngr
	G. Smith II		
Smith, Sons & Laughland	1877 Geo Smith & Sons	1877 Montgomerie & Workman	1880 Workman & Clark
Rbt Smith	Geo Smith III	Edmonstone Montgomerie	Francis Workman
Andrew Laughland	Robert S. Allan	Henry Workman d. 1898	George Clark
	Wm S. Workman	1897 Robert A. Workman	

Figure 55. Smith, Workman and Allan family businesses.

APPENDIX 15 (continued).

CITY LINE LTD	1892 George Smith & Sons	1913 Montgomerie & Workman Ltd	1891 Workman Clark & Co Ltd
Steamships	G.S. & S. Managers	W.E.E. Montgomerie	F. Workman
Geo Smith III	Sailing ships	R.A. Workman	G. Clark
Wm S. Workman	Geo Smith III	F G. Burt (JRE)	Geo Smith III
Geo Smith IV	Rbt S. Allan	J W. Jones(JRE)	C.E. Allan
W.B.Barr	1895 Sailing ships sold to Wm Service Workman.		
H. Workman	1900 All sailing ships sold privately.		
1901 All steamers and Management business sold to J. R. Ellerman.			
		1920 Taken over by Northumberland Shipbuilding Co.	
			Chmn: Rbt A. Workman (Sperling)

Figure 55. Smith, Workman and Allan family businesses (continued).

GLOSSARY

Agent, Agency	Individual or firm providing facilities to shipowners who do not have their own agency in the port; this includes crew changes, cash disbursements, arranging Customs entering and clearing formalities; payment for port dues, stores, provisions etc.
ballast	Materials, solid or liquid, carried solely for purposes of stability or to immerse the propellor sufficiently.
Bart; bart.	Baronet.
BISN	British India Steam Navigation Co. Ltd.
BOT	Board of Trade - originally responsible for merchant shipping.
CA	Chartered Accountant.
cap-tally	Ribbon on seaman's cap with ship's name printed on.
Certificates of Competency	Statutory BOT examinations for merchant navy deck and engineer officers.
CH	Companion of Honour.
charter market	Place where shipowners and shippers fix charters. In London the Baltic Exchange is the major market.
charterer	A person who hires a ship.
Conference	Any type of formal or informal agreement between shipowners which restricts competition.
counter stern	Also known as 'duckbill' stern; lies wholly above water.
cruiser stern	Rounded stern extending into water, lengthening waterline and improving propulsion efficiency.
deep-sea	Ocean going, Atlantic, Pacific and south or east beyond Mediterranean.
displacement	Volume of water displaced by total weight of vessel. Light displacement no cargo, stores, fuel etc..
dry ship	Vessel with no alcoholic beverages allowed on board either for passengers or crew, in port or at sea.

Glossary (continued)

dwt	Deadweight tons; weight in long tons of ship, cargo, fuel, stores etc. which a vessel is able to carry at the applicable loadline.
ELDB	Ellerman Lines directors' minute book.
ELL	Ellerman Lines Limited.
flag	Flag or ensign of country in which ship is registered; used to describe nationality of ships.
Free Trade	Removal or reduction in tariff barriers between countries.
grt	Gross registered tons; measure of ship's size based on cubic capacity of permanently enclosed spaces. 100 cubic feet to 1 long ton equals 1 gross ton.
house flag	Flag with company emblem or other markings.
IMM	International Mercantile Marine.
in-house	Goods or services produced for firm's own use.
JRE	Sir John Reeves Ellerman.
lascar	Native seaman; specifically from Indian sub-continent.
LCMB	London City and Midland Bank.
liner	Passenger or cargo vessel providing regular services on scheduled routes.
LLOS	London, Liverpool and Ocean Steamship Co. Ltd.
loadline	Permanent mark on ship's side showing the maximum depth to which vessel may be immersed.
LMCBLvB	London and Midland Counties Bank (Liverpool).
managing owner	One who manages ships in which he/she has an interest.
master	Legal term for captain of merchant ship.
MP	Member of Parliament.

Glossary (continued)

Night Order Book	Master's signed instructions each night to watchkeepers on Middle and Forenoon watches (midnight to 08.00).
nominee	Director or shareholder acting on behalf of a principal who may not wish to be known.
nr	Net registered tons denote size of vessel derived from deducting spaces for crew, propelling machinery and fuel.
NSWB	North and South Wales Bank.
OP	Owen Philipps, Lord Kysant.
P&O	Peninsular and Orient Steamship Co.
paragraph ship	A ship designed to carry the maximum deadweight compatible with not exceeding gross registered tonnage at which extra manning and safety equipment must be carried.
PAX	Passengers and all applying to them.
pennant	Triangular flag used in signalling, to denote commodore or as additional to house flag.
port dues	Charges by local administration for lights, buoyage, pilotage and other ancillary services of a port.
RMSP	Royal Mail Steam Packet Co.
Ro-Ro	Roll-on Roll-off vessel operating primarily as a vehicular ferry on which vehicles are loaded or unloaded by means of ramp.
SE	Soth Eastern
short-sea	Coastal and European trade including Baltic, Mediterranean and Black Sea.
single ship limited company	Intended to reduce tax and also to limit owner's liability to one vessel rather than the whole fleet in circumstances leading to detention of a ship.
sixty fourthers	Owners of 64th shares each representing 1/64 of value of ship. May be multiple ownership of single shares, or single ownership of multiple shares.

Glossary (continued)

SN	Steam Navigation.
SSA	Shaw Saville and Albion Co.
staggering	Buying or taking option on shares at or before issue expecting to sell at a premium once the market opens.
swap	Exchange - frequently used of shares used in takeovers instead of cash.
tramp	Dry cargo ship not used on regular service but employed on charter voyages for either a fixed cargo or a fixed period of time.
UGD	University of Glasgow Archives document.
USA	United States of America.
well deck	Portion of hull between castles or islands and about 7 feet to 8 feet lower.
W/T	Wireless Telegraphy.
WFL	Wilson and Furness-Leyland Line.
WIPS	West India and Pacific Steam Ship Co. Ltd.
WL	Westcott and Laurence Line.

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	TXIX	95	<i>City of York</i>	(1869)
	XVIII	59	<i>City of Madras</i>	(1882)
Steam ships	XVIII	76	<i>City of Calcutta</i>	(1881)
	18	18	<i>City of Oxford</i>	(1882)
	23	70	<i>City of Vienna</i>	(1890)

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