British Shipping in the Orient 1935-1939: a missed opportunity to compete with Japanese shipping?

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This research addresses a question that remains unanswered: in the late 1930s, how did the British shipping companies respond to the Japanese shipping companies’ challenge and what were the British Government’s policies for the Anglo-Japanese shipping rivalries in the Far East? Previously, the Japanese business had benefited from the Anglo-Japanese Alliance and it could be argued that the British Government had promoted a rival for the British businessmen in the Far East at the same time. The self-determination movement had weakened the British influence over India since 1919. The overseas expansion of Japanese business that had penetrated the British markets also made the rivalries more severe, all of which formed the background that made the British shipping industry find difficulty in restoring the prosperity of their heydays. In 1939, the British Government published ‘British Shipping in the Orient’, where it was claimed that the closed interconnection between various Japanese industries increased the advantages of the Japanese aggressive overseas shipping activities. Also, there were some arguments about the unfair competition that followed the protectionism imposed by the Japanese Government. The contemporary opinions were insufficient after the report published for 65 years and the details might deserve further investigation. This research shall consult the business records of shipping companies and the official archives. It should throw some light on this issue.
The British shipping, in various trade routes worldwide, suffered from the slump and foreign competition since the 1920s. In 1932, during the World Economic Conference, the British shipowners began to propose the implementation of official protectionism against foreign competition. In the British shipowners’ opinion, the foreign companies were able to compete with the British due to the generous subsidies that they received from their governments.¹ The British Government paid some subsidies to the shipping companies from the early 1930s. The shipbuilding of Cunard Line is an example and in fact, the Cunard Line received generous loans from the British Government. However, it seems likely that the case of the Cunard Line was an exception.² Later on, the shipping pressure groups successfully persuaded the Board of Trade and the other cabinet members to adopt their proposal to subsidise the tramp shipping.³ As for the liner shipping, Runciman argued that they should rationalise themselves, though it is a fact that some liner companies also received tramp subsidies.⁴

Despite the official opinion regarding the shipping rationalisation, many eminent British liner shipping companies, including Cunard Line, Blue Funnel Line, China Navigation Co., opposed the proposal of the Preliminary International Conference in London in January 1935 for international shipping rationalisation, following the international slump. In those British shipowners’ opinion, this proposal was not cautious and would not benefit the UK marine industry.⁵ At the same time, P&O, which had become the most influential British shipping company in the eastern waters especially after the takeover of British India Steam Navigation Co.

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¹ The British National Archives MT9/2170.
² The British National Archives T161/834/S39611.
⁴ In 1935, British India Steam Navigation Co. received 3031 Pounds 14s; China Navigation Co. received 238 Pounds 15s and Blue Funnel Line received 2132 Pounds 6s. See ‘Statement of the Distribution of Tramp Shipping Subsidy Under Part I of the Act in Respect of the Year 1935’ (BPP 1936 Cmd 5129). In 1936, British India Steam Navigation Co. received 2246 Pounds 15s and China Navigation Co. received 973 Pounds 12s. See ‘Statement of the Distribution of Tramp Shipping Subsidy Under Part I of the Act in Respect of the Year 1936’ (BPP 1937 Cmd 5420).
in 1914, argued that the British Government should impose an efficient policy to support the liner companies.\(^6\)

In this paper, the situation of the British shipping in the Far East during 1935-1939 shall be discussed as a case study of British shipping strategies to respond to the crisis and the implications of shipping policy change.

Since the 1890s, the Japanese shipping industry began to penetrate the trade to India. After the First World War, the Japanese shipping became more competitive as they controlled the cargo of raw cotton from Bombay to Shanghai and a trade association ‘the Association of Indian Cotton Importers’ was formed in December 1925, led by the Japanese, to secure the business by giving the shippers rebates.\(^7\) Then P&O claimed that they were actually excluded from the business from Bombay to Shanghai.\(^8\) Moreover, in the early 1930s, P&O found the Japanese shipping companies had maximised their sailings. In 1933, the British shipping companies tried to persuade the Japanese shipping to rationalise their sailings but the latter refused. Therefore, during 1934-5, for example, P&O had to sail with lots of unoccupied spaces.\(^9\)

Since 1933, as the Japanese foreign trade expanded again, two of the Shagaisen, Mitsui Bussan and Yamashita Kisen began their liner service to India and the Middle East for carrying raw cotton, with lower freight rates.\(^10\) This business strategy challenged British India Steam Navigation Co.’s

\(^6\) Notes on subsidised liner competition, 13 December 1934, enclosed in the Chamber of Shipping Archives Mss 367/COS/3/7/32 & ‘British Shipping: Mr. A. Shaw on the outlook, menace of state-fed competition’ in The Times, 14 September 1935, p.7.

\(^7\) The North China Herald, 5 December 1925, p.436.

\(^8\) Joint letter from Indo-China Steam Navigation Co. and P&O to the Commerce Department, the Government of India, 11 July 1936, enclosed in the Chamber of Shipping Archives Mss 367/COS/3/7/40. However, according to the records of British India Steam Navigation Co. BIS 4/26, P&O, NYK and OSK reached a pooling agreement in January 1925 for the trade between India to Hong Kong, Shanghai and Japan. Ellerman Line, Lloyd Triestino and Kawasaki Kisen joined this pooling agreement later the same year. The newspaper article cited above also confirms the shippers contracted NYK, OSK and P&O to carry raw cotton.

\(^9\) On the Anglo-Japanese shipping competition in both Japan-Bombay/Calcutta Conferences up to the 1920s, see ‘British Shipping in the Orient’ (London: HMSO, 1939), paragraph 250-274.

\(^10\) As for the concept and origins of Shagaisen see Tomohei Chida and Peter N. Davies, The Japanese Shipping and Shipbuilding Industries (The Athlone Press, 1990), pp.10-11; a brief discussion on the operations of the Shagaisen during the inter-war period see op. cit. pp.38-42. Yamashita Kisen began to call at Bombay in 1933 and extended to Persia waters in 1934; Mitsui Bussan called at Madras and extended to Persian waters in 1936. See Mitsui Senpaku Kabushiki Gaisha Sogyou Hachujounen
monopoly to carry cargoes from the Straits Settlements to Madras. The Far East Shipping Conference felt the threat from both the Japanese shipping companies within the conference and the *Shagaisen*. P&O reached an unsuccessful joint venture service with the Japanese companies. Blue Funnel Line tried to fight back: in 1935, Blue Funnel Line bought up Glen Line and therefore made it possible to load cargoes to the British east coast, which made NYK, the biggest Japanese shipping company, worry about their business there. Later, Blue Funnel found the Shipping Conference had lost their business in north Japan to the local *Shagaisen*. The British Embassy in Tokyo warned that the Shipping Conference would not get their business back unless they reduced the freight rates. It might be suggested that Blue Funnel Line used Glen Line to compete with NYK and the local *Shagaisen* as Glen Line had operated outside the Shipping Conference since 1937.

After the First World War, the Indian national industries rose in number and competed against the British firms in India. In the Indian Fiscal Commission of 1921, Scindia, a new Indian company, proposed to reserve the Indian coastal trade for Indian shipowners. Later Lord Inchcape tried to buy up Scindia but failed. In March 1923, British India Steam Navigation Co. successfully prevented the expansion of Scindia through a ten-year agreement. However, the Indian Mercantile Marine Committee of 1924 tried to impose the Indian autonomy and recommended the reservation of the coastal trade of India to Indian national ships. This principle was accepted, by a majority of 25, by the Indian Legislature in 1928. The Viceroy failed to find a solution between the British and Indian shipping

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11 The *Lloyds List*, 16 July 1937, p.8. Before this, the Conference ships transited their cargoes to British India Steam Navigation Co. in the Straits Settlements. Later, NYK also began its direct service.
12 From 1935 to 1937, P&O had a joint venture agreement with NYK, OSK and Yamashita Kisen in the Indian and Persian waters. However, Yamashita Kisen left in 1937. see *Shashi* (1980), pp.452-3.
interests at a conference in New Delhi in 1930. British India Steam Navigation Co., Scindia and Asiatic made a tripartite agreement in 1933. According to the agreements, Scindia could operate a limited service to India, Burma and Ceylon. In addition to prevent the expansion of the Indian national shipping interests, the Government of India tried to use diplomacy to prevent Japanese competition in India. In 1934, Sawada, the Japanese representative in the trade negotiations with India, promised to pay attention to this issue as Sir Joseph Bhore, the member of the Commerce Department in the Government of India, thought the British and Indian shipping industries had suffered losses due to the Japanese competition in the Indian coastal trade. P&O misjudged the situation and thought the Japanese would cease their involvement in the Indian coastal trade. The British shipping interests in India were greatly disadvantaged later in January 1935 as Joseph Bhore decided that the existing Indian small companies on the west coast could secure 85% of the trade in that area.

At that time, P&O suffered losses due to the Japanese rivalry in their famous routes from the UK to the Far East. Professor Napier has proved that P&O transferred the reserves from their subsidiary company in New Zealand to support P&O when they made losses during the inter-war periods. The mail contracts were another source of net revenue for P&O

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15 G. D. Khanolkar *Walchand Hirachand* (Bombay: Walchand & Company, 1969), pp.181-2. M. A. Master *So I Rest on My Oars* (Bombay: M. A. Master Memorial Trust, 1981), Vol. II pp.2-7. Until 1933, Scindia could not increase the tonnage to more than 64,000 tons and was unable to operate a passenger service. In the agreement of 1933, the maximum tonnage to be handled by Scindia was fixed to 100,000 tons.

16 Letter from Joseph Bhore (the Department of Commerce, the Government of India) to Miyake (the Consul-General for Japan at Calcutta) 30 March 1933; and Miyake’s reply, 3 April 1933, in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.

17 Letter from Department of Commerce, the Government of India to Consul General for Japan in New Delhi, 30 March 1937, enclosed in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-1. The P&O, as well as the Chamber of Commerce at Calcutta, claimed Sawada and Bhore reached a ‘Gentlemen’s agreement’, which seems a mystery. See *Amrita Bazar Patrika* 12 February 1937, p.6. According to the letter from Sir Findlater Stewart (the India Office) to A. Shaw (P&O) 19 March 1937 in the British National Archives FO371/21032/F1787/63/23, in March 1937, the Government of India claimed that what they had obtained in the negotiation of March 1934, was a promise from the Japanese Government to appreciate the situation and the Japanese Government promised that they would consider the necessary action.


and the British India Steam Navigation Co. However, this long-established means of financing the company was also in crisis in the early 1930s - a period when India was trying to rid itself of British economic and political rule.

In 1933, the Government of India had suggested terminating the mail contract of P&O, which had been renewed many times since 1907. In the opinion of the Government of India, the mail service of P&O took a longer time to reach India since they changed the calling port from Italy to Marseille during the First World War. Also, the Government of India thought their expenditures were too high under the current division of payment. Therefore, they asked the British Government to terminate the mail contract with P&O in 1936, which meant they had to inform P&O in January 1934, and try to call for a new tender later. Meanwhile, the Government of India asked the British Government to arrange a new division for payment, which might reduce the expenditures of all the colonies in the Far East and the Orient. The British Post Office claimed that they wished to investigate the economic effect of the mail contract with P&O. Moreover, they claimed that they would be unable to terminate the mail contract until January because the statistics data for up to 1934 would not be available until 1935.

It could be argued that the British Post Office imposed a policy to favour P&O at that period. The British Post Office did not share the Indian opinion. They had previously realised that the mail contract with P&O benefited Britain. Moreover, the British Post Office thought that the Government of India wished to obtain, in addition to reducing their


21 Letter from the Government of India to the India Office, 26 September 1933. The British Post Office received the copy on 17 November 1933, enclosed in the Archives of the Royal Mail POST33/4635 (P18301/1934) file 44.

22 Memo to the Postmaster General, 3 January 1934 and letter to the India Office, 25 January 1934 in the Archives of the Royal Mail POST33/4635 (P18301/1934) file 44.

23 Memo to the Postmaster General, 7 January 1933, in the Archives of the Royal Mail POST33/4984 (P8343/1936) file XXI.
and as well as a more independent political status, the position of partner in the mail contract, rather than a contributor. The British Post Office decided to stand as a strong opposition against the Indian proposal. They decided to inform the Indian Office that the Government of India might have to contribute more payments if the division was re-arranged by the postal union rates. Also, they claimed the Government of India should contact P&O if they desired faster mail delivery, which might increase the costs. The British Post Office also reminded the India Office that the subsidies to P&O under the current mail contract were not expensive, in comparison to the subsidies given to Cunard/White Star Line since 1927. 24 Actually, after the Post Office’s advice, the Treasury agreed the mail contract with P&O would not be terminated until January 1939. 25 P&O had secured a fixed net revenue during the crisis period.

In the Far East Shipping Conference, in July 1935, the British shipping companies again proposed to rationalise the sailings. According to this proposal, on the Japan-Bombay line, P&O, Indo-China Steam Navigation Co., which was under the control of Jardine, Matheson & Co. and NYK could get 27% each and OSK, the second biggest Japanese shipping company, would get the remaining 19%. The Japanese refused this proposal and claimed that they had carried much more cargo than the proportion in this proposal. The British shipping companies conceded to a 25% share each for the four companies. However, NYK and OSK claimed the proportions that they would accept were 32.5% for NYK and 28.5% for OSK respectively. The British shipping companies were unable to accept the mere 39% share and the negotiations went into deadlock. 26 In November 1936, Mitsui Bussan, one Shagaisen, began to call at Bombay as well. 27

24 Memo by D. O. Lumley (the private secretary of General Secretary Sir Evelyn Murray) 10 July 1934 in the Archives of the Royal Mail POST33/4635 (P18301/1934) file 46. Letter to the Indian Office, 28 December 1934 in the file 49.
25 Letter from the Treasury to the Post Office, 15 February 1935 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file XXIII and letter from P&O to the Post Office, 27 January 1936 in the file XXV.
26 Joint letter from Indo-China Steam Navigation Co. and P&O to the Commerce Department, the Government of India, 11 July 1936 enclosed in the Chamber of Shipping Archives Mss 367/COS/3/7/40. See also ‘British Shipping in the Orient’ para. 256.
Up to 1936, the Japanese shipping had obtained 73% cargo in the Japan-India sailings.\(^{28}\) P&O and Indo-China Steam Navigation had decided that the Government of India possessed a strong bargaining power in the trade negotiations with the Japanese Government due to there being much more Japanese exports to India than the Indian exports to Japan. Therefore, they requested the Government of India to intervene in defense of the British shipping interests. P&O and Indo-China Steam Navigation Co. argued the British shipping companies should get at least 50% share in the shipping conferences. They also suggested that the Government of India should reserve the rights of coastal navigation to the British vessels to retaliate for the Japanese protectionism in the coastal trade.\(^{29}\)

However, the Government of India declined to assist as the Indian shipping companies were not allowed to participate in the overseas trade.\(^{30}\) The British companies turned to the India Office for assistance. There Lord Zetland informed them that India wished to sell more raw cotton to Japanese companies at that moment, therefore, the Government of India had little bargaining power during the trade negotiations.\(^{31}\) In India, the Indian Merchant’s Chambers in Calcutta and Bombay claimed that the use of Indian bargaining power in favour of British shipping companies might harm Indian economic interests, especially the growing Indian shipping business. They urged the Government of India to impose protectionism for the sake of the Indian shipping companies.\(^{32}\) In April, a bill to control the Indian coastal trade was introduced to the Council of State.\(^{33}\) Later, the Japanese consul at Simla learned that the Government of India might pass the act if the political negotiations failed, to protect the Indian shipping industry and exclude the Japanese and even British shipping involved in

\(^{28}\) The speech of Alexander Shaw, the Chairman of P&O, in the annual meeting cited from *The Times*, 10 December 1936.

\(^{29}\) Joint letter from Indo-China Steam Navigation Co. and P&O to the Commerce Department, the Government of India, 11 July 1936 enclosed in the Chamber of Shipping Archives Mss 367/COS/3/7/40.

\(^{30}\) Joint letter from Indo-China Steam Navigation Co., British India Steam Navigation Co. and P&O to the Commerce Department, the Government of India, 1 October 1936 enclosed in the Chamber of Shipping Archives Mss 367/COS/3/7/40.

\(^{31}\) Minutes of meeting, 22 December 1936, in the India Office in the Chamber of Shipping Archives Mss 367/COS/3/7/40. A similar memo is enclosed in the Jardine Matheson Co. Archives J 8/1.

\(^{32}\) The correspondence between the Japanese diplomats in Calcutta, Bombay and Delhi to the Ministry of Foreign Affairs in Tokyo January-February 1937 enclosed in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.

\(^{33}\) *The Gazette of India*, 10 April 1937; A brief history of this bill, up to 1935, see V. B. Singh *Economic History of India* (Bombay: Allied Publishers, 1965) pp.352-3.
the Indian coastal trade. The Government of India also declared this policy was independent from the Anglo-Japanese shipping conference dispute about the Indian routes.\textsuperscript{34} However, the governments of India, the UK and Japan all realised that the Indian Coasting Trade Act of 1850 entitled the British vessels to the Indian coastal trade. Before the repeal of this old act, the new act was impossible to enforce. Meanwhile, Alexander Shaw, the chairman of P&O warned that the Japanese shipping was threatening the British mercantile marine.\textsuperscript{35} This immediately became a topic for public discussion and debate in the British Parliament. In January 1937, in defence of the Japanese shipping business and policy, Saito, the head of NYK in London wrote to \textit{The Times} and \textit{The Lloyd List}. In the letters, Saito argued that the Japanese vessels carried more cargoes than its own national trade due to the boom during the European War of 1914-1918. Saito also claimed that the Japanese had to reply on many vessels to carry raw material because of the island economy with scarce natural resources. In reply, Lord Lloyd emphasised the importance of the Japanese official subsidies to the Japanese shipping business.\textsuperscript{36}

In the Foreign Office, in a memo entitled ‘Japanese Shipping Competition’, as well as the conclusion that ‘British Shipping in the Orient’ later came to, it was observed that the main advantages of the Japanese shipping industry were the low wages, the closer inter-connection of Japanese industrial organisations and the reserved Japanese coastal trade, as well as the subsidies and devaluation of Yen. In their opinion, the closer co-operation between British businesses was difficult due to the traditional individualism. Therefore, in this memo, the author suggested that the British Government impose a policy of protectionism in the British coastal trade exclusively for the British vessels.\textsuperscript{37}

\textsuperscript{34} Correspondence with the Ministry of Foreign Affairs, May 1937 and letter from the Department of Commerce, the Government of India to Yonesawa, the Consul General for Japan at Simla, 25 May and 7 June1937, both enclosed in the Japanese Foreign Ministry Archives F. I. 6. 0. 7-2.
\textsuperscript{35} His speech in the annual meeting of P&O, cited from \textit{The Times}, 10 December 1936.
\textsuperscript{37} Memo ‘British Shipping Competition’ signed by Scott Fox, 15 February 1937 in the British National Archives FO371/21032/22824. In academic research, Nakagawa Keiichiro, an eminent economic historian, suggested that those contemporary opinions remain opinions. Nakagawa agreed that the cheaper Yen after 1931 was helpful in promoting the export trade. However, he pointed out that there was little connection between the shipping companies and Zaibatsu in the 1930s. He also argued that the British shipping companies received more subsidies than the Japanese companies at that time. Finally, there were more crews working in one vessel in Japan than a British
At the same time, in the British Government, the Foreign Office learned that the Imperial Shipping Committee would not be ready to impose a remedy for the current difficult situation and the Board of Trade would not impose any action immediately to protect the British interests. Therefore, two departments decided to use diplomacy and the British Ambassador at Tokyo was instructed to communicate with the Japanese Government and hope for official Japanese intervention to restrain the Japanese shipping activities in the Japan-India trade.\(^{38}\) The Japanese diplomats in India recollected NYK’s penetration into the Bombay trade with the Tata Co. in the 1890s and claimed that the Japanese shipping industry broke the monopoly of P&O and benefited the Indians.\(^{39}\)

In February 1937, the Board of Trade decided to leave the issue of the Indian coastal trade, which should be the responsibility of the Government of India.\(^{40}\) In March, the Government of India wrote to the Japanese Consul at New Delhi to request him to urge the Japanese Government to intervene in the Japanese shipping activities in the Indian coastal trade. Also, the Government of India wished that the Japanese Government would push the Japanese shipping companies to meet the British shipping companies’ demands for the Conference agreement.\(^{41}\) The British Ambassador also wrote to the Ministry of Foreign Affairs to support the action of the Government of India.\(^{42}\) Later however, the Japanese Government claimed that they would not force the Japanese shipping companies to concede in the negotiations. According to the Japanese vessel due to the older equipment on the Japanese side. His opinion deserved some further research. See Nakagawa Keichi ‘Ryotaisenkan no nihon kaiungyo’ in Ryotaisenkan no nihon kaiji sangyo (Tokyo: Chuo University Press, 1985), pp.1-26. His book with the same title Ryotaisenkan no nihon kaiungyo (Tokyo: Nihon Keizai Shinbunsha, 1980) remains the best research on the Japanese shipping industry during the inter-war period.

\(^{38}\) Letter from D. Carter in the Mercantile Marine Department, the Board of Trade to C. W. Orde at Tokyo, 1 February 1937, Memo, 10 February 1937 in the British National Archives FO371/21032/22824.

\(^{39}\) Memo ‘On the Indian Shipping’ (in Japanese) written by Ishikawa (the Japanese Consul at Bombay) to the Ministry of Foreign Affairs, 20 February 1937, enclosed in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.

\(^{40}\) Memo 18 February 1937 and the Board of Trade wrote to the India Office to inquiry the situation later, see the letter 25 February 1937, both in the British National Archives FO37121032/22824.

\(^{41}\) Letter from the Department of Commerce, the Government of India to the Consul General of Japan at New Delhi, 30 March 1937, enclosed in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.

\(^{42}\) Aide-Memoire by the British Embassy at Tokyo, 1 April 1937, enclosed in both the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2 and the British National Archives FO371/21032/22824.
official reply, the Japanese shipping companies claimed that the British shipping companies were irresponsible to the reasonable proposal by the Japanese side, causing the negotiations to be unsatisfactory. In India, the official negotiations, regarding the Japanese shipping penetration in the Indian coastal trade, between the Japanese Government and the Government of India also broke up on 21 May 1937. In the negotiations, the Japanese representative argued that the Indian proposal, the policy to exclude the Japanese vessels involved in the coastal trade, would cause unfair competition. On the other hand, the Indian representative claimed this would be necessary as the National Congress gave their support toward this policy to protect the Indian shipping business.

P&O/British India Steam Navigation Co. did not gain more from the official assistance toward the Japanese competition. Another crisis came as the introduction of airmail challenged the advantages of P&O over mail contracts. More and more mail to the Far East was carried by aviation. In the summer of 1935, the Post Office began to re-consider the Indian proposal regarding the new division of payment. The Post Office realised that the introduction of regular airmail required Indian contribution and that they might have to compromise with India. In February 1936, the Post Office informed P&O that the subsidies in the future might be reduced. After the introduction of the Empire Airmail Scheme, which wished that all the overseas First Class mail could be carried by aviation. The Post Office decided to arrange another mail contract with fewer payments to P&O due to smaller amount of mail to be carried by P&O in the future.

P&O realised they might lose revenues from the mail contract and they decided to lobby the Post Office through private channels about

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43 In the Japanese archives, see telegraph from the Ministry of Foreign Affairs to the Japanese Consul at Calcutta no. 101, 102 & 107 on 28 April & 6 May 1937 in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2; in the UK archives, see telegraph from Sir R Clive in Tokyo to the Foreign Office, 7 May 1937 and enclosed Aide-Memoire by the Ministry of Foreign Affairs in the British National Archives FO371/21032/22824.
44 Letter from the Consul at Calcutta to the Ministry of Foreign Affairs, 25 May 1937 in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.
45 Memo, 28 August 1935 in the Archives of the Royal Mail POST33/4635 (P18301/1934) file 50.
46 Letter from the Post Office to the Treasury (F. P. Robinson), 17 December 1936 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file 29.
47 Memo, 28 August 1936 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file XXVII.
maintaining the current contract. Even the Post Office realised the cost would be reduced for P&O service after the introduction of a regular airmail service. The Post Office still considered the uncertain effect of the Empire Airmail Scheme over the whole mail service and decided to maintain the current contract with P&O. Meanwhile, in February 1936, British India Steam Navigation Co. successfully secured the mail and Indian immigration contracts with the Straits Settlement Government for an annual subsidy of 200,000 Rs. Furthermore, in October 1938, British India Steam Navigation Co. extended their ten-year mail contract with the Government of India for an annual subsidy of 1,138,931 Rs.

After the Shagaisen penetrated into the Indian trade, in 1937, the Japanese shipping occupied 80% of the cargoes from Bombay to Japan; and 89% of the cargoes from Japan to Bombay. British India Steam Navigation Co. was probably aware that the Japanese tonnage was insufficient for carrying raw material, particularly the pig iron taken from India to Japan. In July 1937, they began the liner service from Madras to Kobe to compete with the Japanese companies, i.e. Mitsui Busan Kaisha and NYK. The next day, 16 July 1937, the Japanese companies, including NYK, OSK, Mitsui Busan Kaisha, Yamashita Kisen and the others met in Tokyo and decided to invite all the British rivals to a private conference, without official intervention, to solve the rivalries on the Persian, Australian and Indian waters.

According to the documents of China Navigation Co. this operation of British India Steam Navigation Co. was not a profitable business. In

48 Letter 7 December 1936 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file 29.
49 Memo, 26 January 1937 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file 33.
50 Letter to the India Office, 14 October 1938 in the Archives of the Royal Mail POST33/4984 (P8343/1936) file 35.
51 The records of British India Steam Navigation Co. BIS 1/21, 4/24, 4/25, 4/26 and 7/115.
53 The Lloyds List, 19 July 1937, p.8. This article was cited from an earlier correspondence in Japan.
54 Telegram from Consul at Calcutta to the Ministry of Foreign Affairs, 17 July 1937 in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2. See also The Statesman (India), 18 July 1937, p.9 & The Japan Weekly Chronicle, 15 July 1937, p.98
55 The Japan Weekly Chronicle, 22 July 1937, p.137.
56 Correspondence from Hong Kong to London, 4 April 1939 in John Swire & Sons Papers Add. 17.
addition, the Japanese Government began giving subsidies to Yamashita Kisen for the service to the Persian Gulf via Bombay.\(^\text{57}\) In August 1938, the operation of the two *Shagaisen* stabilised further when they reached a pooling agreement.\(^\text{58}\)

As the Japanese military expanded their invasion of China after July 1937, the Japanese Government increased the acquisition of the Japanese vessels and the tonnage to Japan immediately became insufficient.\(^\text{59}\) Japanese shipping companies ceased infiltrating the Indian coastal trade. Therefore, the Government of India postponed the implementation of the policy to reserve the right of coastal trade for Indian shipping.\(^\text{60}\) The proposed meeting between the British and Japanese shipowners in London did not come to pass as the Japanese representatives were absent from the commercial mission to the UK in September.\(^\text{61}\) Later, the proposed negotiations of the shipping interests were called off because British shipowners did not want to travel to Tokyo, where the Japanese insisted that the meeting being held, due to the military conflicts in the Far East.\(^\text{62}\)

In 1939, *British Shipping in the Orient*, as the 38\(^{\text{th}}\) Report of the Imperial Shipping Committee, was published. In the Committee, many British shipowners and merchants in the Far East, including P\&O, Jardine Matheson \& Co., John Swire \& Sons Ltd., which controlled China Navigation Co. were witnesses in the Committee for the inquiry. In the Report, the Committee suggested some actions to improve the British


\(^{59}\) In August 1937, the Japanese Government announced that the foreign vessels could operate between the Japanese coasts. See *The Japan Weekly Chronicle*, 5 August 1937, p.197.

\(^{60}\) Telegraph from the Japanese Consul at Bombay to the Ministry of Foreign Affairs, 19 August 1937 in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.; in the debate, some members of the Indian National Congress opposed this act. Meanwhile, according to the Japanese Consul at Calcutta, the rationalisation of the local Indian shipping might be a problem that should be solved. See his report to the Ministry of Foreign Affairs, 3 September 1937 in the Japanese Foreign Ministry Archives F. 1. 6. 0. 7-2.

\(^{61}\) According to Murata, the President of OSK, the proposal to hold the meeting was because of the British shipowners’ desire to get more subsidies from the British Government. In this situation, the Japanese shipping companies would not concede and the Japanese opinion might enrage the British public. Therefore, it might be better for the Japanese shipping representatives to leave the mission. See ‘Shipping Spokeman Explains’ in *The Japan Weekly Chronicle*, 22 April 1937, p.489.

shipping situation in the Far East, including new vessels, more co-operation between various companies, business localisation and more official support.63 According to the contemporary sources available, the British shipping companies disagreed with the suggestions. In the case of P&O, in addition to their view of the impossibility of new shipbuilding owing to the high cost, they doubted the current localisation or co-operation were insufficient; they also expected more official support including subsidies, coastal trade reservation and the securing of the division of shipping traffic.64

In the case of Indo-China Steam Navigation Co., they were also unhappy about the operations of the Imperial Shipping Committee.65 Actually, W J Keswick had urged the British Government to impose a stronger policy to assist the British firms in China in 1935.66 They had not paid dividends since 1930, despite profitable business in Hong Kong in 1937/8,67 the Calcutta-Japan Line was in crisis because the Indian merchants used the Japanese ships to carry jute to Japan for lower freight rates. However, in Keswick’s opinion, P&O and British India Steam Navigation Co. were not active enough to secure more business and Indo-China Steam Navigation had to work alone, even in their bid to keep pressing the Government of India.68

The dilemma, for Keswick, was that his company had to build new vessels, for replacing old vessels and also for the high demand from the pilgrims but the building cost was high at that time.69 The passenger business was

65 Correspondence no.1924, 30 June 1937 in the Jardine Matheson & Co. Archives JM J 24/4.
67 Correspondence between Bombay and Hong Kong February 1939 in the Jardine Matheson & Co. Archives JM J 18/53.
one of their main revenues, therefore they tried to persuade the British Government to subsidise the passenger vessels, which were excluded from the policy to subsidise the tramp vessels. Meanwhile, Jardine Matheson & Co. found that they were not qualified to apply for the subsidies because the British Government would only subsidise the vessels that were registered in the UK. The registration of vessels of Indo-China Steam Navigation Co. had been transferred to Hong Kong in 1915 for due to the lower income tax and in order to avoid the strict regulations imposed by the Board of Trade. The situation had changed after twenty years and Jardine Matheson & Co. began to consider whether they would benefit by registering their vessels in Hong Kong, where the regulations had become stricter by the 1930s. Also, Jardine Matheson & Co. expected that the Chamber of Shipping could advise the Board of Trade to grant more generous subsidies. For this, they would apply for the membership of the Chamber of Shipping for Indo-China Steam Navigation Co.

The official response was not satisfactory, the British Government informed Indo-China Steam Navigation Co. that the total subsidies would be quite limited in comparison to what the shipping companies had asked for. Some evidence reveals that Jardine Matheson & Co. tried to persuade the Admiralty to give subventions, which was one critical British naval policy before 1914 but Jardine Matheson & Co. did not ever benefit from this policy. Jardine Matheson & Co. believed that they had lost in the competition with the Japanese due to their tonnage shortage during the First World War in the service to India and the Japanese began to take advantage. Therefore, Jardine Matheson & Co. decided to strengthen the tonnage capacity and contribute to the Admiralty requirement if the war broke out. In the spring of 1937, the Admiralty did consider a scheme to

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70 Correspondence no. 2385 19 September 1938 in the Jardine Matheson Co. Archives JM J 25/10.
72 Correspondence no. 1779, 28 January 1937 in the Jardine Matheson & Co. Archives J 25/9; Correspondence no. 2749, 6 July 1939 in the Jardine Matheson & Co. Archives J 25/11.
73 Keswick asked for 5,000,000 pounds as a special funding from the British Government for the British shipping companies’ foreign competition in the Orient. See correspondence no. 2071, 16 June 1939 in the Jardine Matheson & Co. Archives J 37/5. Later he learned it was impossible; see correspondence no.665, 24 August 1939 in the Jardine Matheson & Co. Archives J 9/8.
control the whole merchant shipping and the trade routes during wartime.\textsuperscript{75} In January 1939, Jardine Matheson & Co. told the Admiralty that they could meet the demand of armament vessels for the wartime requisition. Under these conditions, the vessels in this route might be maintained even if the Admiralty took over the tonnage. Jardine Matheson & Co. asked for subventions for their proposed new ships of up to 6 or 7. In reply, the Admiralty claimed they would require one additional vessel in the Far East at this moment and it would be a financial policy for the Treasury.\textsuperscript{76}

The freight market in China became worse after July 1937 as the Japanese troops occupied more areas in China. The British shipping companies benefited from the high charter rates in late 1937 and early 1938 as they could carry some emergent cargo or refugees, but the Yangtze trade was blocked in May 1938, where only the vessels under the Japanese flag were allowed to sail.\textsuperscript{77} Indo-China Steam Navigation Co. and China Navigation Co, two most eminent British shipping companies, tried by all means to secure as much revenue as they could. First of all, they contacted the Chinese Post Office to ask for more payment for the mail contracts, on account of the exchange rate depreciation.\textsuperscript{78} As a consequence of trade restrictions, the tonnage rationalisation might have been a business strategy. In July 1938, from Hong Kong and Shanghai, the local staff of China Navigation Co. advised Warren Swire to re-establish a two-party pooling system with Indo-China Steam Navigation Co. In their opinion, an agreement with the other British firm would be easily settled in comparison to the previous pooling agreements with the Chinese and Japanese firms. Adversely, they did not believe another definition of the

\textsuperscript{75} Minutes of the first meeting of the shipping control advisory board in Hong Kong, 27 April 1937 in John Swire & Sons Papers JSS III 1/17. This is the only minutes available.

\textsuperscript{76} Memo of conversations with G. S. Arbuthnot (the 4\textsuperscript{th} Sea Lord) and E. C. Jubb (the Director of Navy Contracts) on 3 January 1939 on the Calcutta-Japan Line, in the Jardine Matheson & Co. Archives J 24/5.

\textsuperscript{77} In the case of China Navigation Co., the earnings from the cargo and passenger carrying in 1937 was 151.35\%, in 1938 it was 274.59\% in comparison to 100\% in 1936 (author’s own calculation). They also made huge profits through arutrage. See the figures from the General Meeting of 1937, 1938 and 1939 in Minutes Book no.2, John Swire and Sons Papers JSS Add. 28. See also E. M. Gull, \textit{British Economic Interests in the Far East} (London: Oxford University Press, 1943) pp.187-190 and Irving S. Friedman, \textit{British relations with China 1931-9} (New York: Institute of Pacific Relations, 1940), pp.123-5.

\textsuperscript{78} Letter from Shanghai to London, 16 September 1938 in John Swire & Sons Papers JSS III 2/18. The Chinese Post Office agreed to raise the total payment by 25\%. Unfortunately, there is very little information available in both the English and Chinese language on the mail contract with the British shipping companies in China.
spheres of interest that was used in the 1870s and 1880s would be helpful.\textsuperscript{79}

As the report of *British Shipping in the Orient* reveals, there was not closer co-operation between the British shipping companies in the Far East. Warren Swire was wondering whether they could reach an agreement with Indo-China Steam Navigation Co. quickly.\textsuperscript{80} The private negotiations with John Keswick and William Johnstone Keswick went on and China Navigation Co. stood in a stronger position as Indo-China Steam Navigation Co. considered selling out their vessels due to worse business in the early 1939.\textsuperscript{81}

In April 1939, China Navigation Co. approached the Keswick brothers again. China Navigation Co. claimed Butterfield & Swire Ltd. could manage the vessels of Indo-China Steam Navigation Co. and reach a pooling agreement on the annual division of loss or profit. Jardine Matheson & Co. could continue to finance their vessels as Butterfield & Swire Ltd. could be the managing agency. This was the relationship between the vessels of Blue Funnel Line in the Far East and Butterfield & Swire Ltd. for many years. China Navigation Co. Claimed that this amalgamation might attract the British Government’s attention more because the combine would operate a greater business including inland Chinese waters and the spheres from India to Japan via China. This combined business implied an international shipping business rather than two British shipping companies’ rivalry in a foreign river. In Swire’s opinion, the British Government might be more interested in subsidising the international business.\textsuperscript{82}

Actually, in 1909, China Navigation Co. had an agreement with NYK and

\textsuperscript{79} Correspondence from Shanghai to Hong Kong, 23 June 1938 in John Swire & Sons Papers JSS III 3/18; 13 July 1938 in John Swire & Sons Papers JSS III 2/18. For the definition of spheres of interest in the 1860s and 1870s see Liu, Kwang-ching, *Anglo-American Steamship Rivalry in China 1862-1874* (Cambridge, MA: Harvard University Press, 1962), Ch.5.

\textsuperscript{80} Correspondence from London to Hong Kong and Shanghai, 12 August 1938 in John Swire & Sons Papers JSS III 2/18.


\textsuperscript{82} Correspondence from Hong Kong to London, 4 April 1939 in John Swire & Sons Papers Add. 17.
did not operate the sailing from Shanghai to Japan. 83 Meanwhile, according to the Victoria Point Agreement in 1925, China Navigation Co., as well as Blue Funnel Line and Straits Steam Co. were not allowed to operate any service in the ‘Indian Sphere’. 84 Therefore, this merger might have been of more benefit to Swire because the company would be able to operate the business to India and Japan, both of which were excluded from their business before. During the discussions, the Keswicks brothers thought that Jardine Matheson & Co. would not wish to finance the vessels anymore if they handed the management over to China Navigation Co.. The point for this merger might be whether Jardine Matheson & Co. would abandon their identity as shipowners that they had retained for many years, as they were even in this shipping business in China earlier than the Swire firm. Moreover, if this merger went ahead, it meant China Navigation Co. with the Blue Funnel Line alliance, would become one of only two main British shipping combine, as well as P&O/British India Steam Navigation Co. combine in the Orient.

Wareen Swire might have overlooked his company’s bargaining power. After the talks, William Johnstone Keswick informed D. G. M. Bernard, his business partner in London that he disagreed with the proposal to sell out their own shipping interests. In his opinion, this combine would benefit the British shipping interests in China, i.e. the Swires’ business in China. Unless all British business interests in China, including banking, shipping, various industries, were all rationalised, Jardine Matheson & Co. would think they were not to gain from this sale. 85 Bernard completely shared Keswick’s opinion; Bernard believed it would be a heavier loss if Jardine Matheson & Co. lost their own shipping department. Many departments, including engineering and insurance, would be ‘rationalised’ following the loss of the shipping business and many agencies would be closed. The whole company would become very small. Bernard expected the business improved after they worked with the new Chinese capital. 86 It was

84 ‘Victoria Point Agreement, 21 May 1925’ in the Ocean Archives OA 259.
85 Correspondence no. 2022, 13 April 1939 in the Jardine Matheson & Co. archives J 37/5. Sir Dallas Bernard (1888-1975) joined Jardine Matheson & Co. in 1911 as his mother was a sister of Lady Buchanan-Jardine. He was the son-in-law of Sir Charles Addis and later he became the appointee of the firm in Hong Kong and Shanghai Banking Corporation.
86 Correspondence no. 638, 9 August 1939 in the Jardine Matheson & Co. Archives J
probably the sale of their shipping department in the Rathbone House in 1876 and subscription to the capital of China Navigation Co. that Jardine Matheson & Co. worried about in 1939. After 1876, the Rathbone House gave up the management of shipping.\textsuperscript{87} The Blue Funnel Line case is slightly different because they still managed their fleets in some other areas and China Navigation Co. was not always able to persuade Alfred Holt about their different management policy.\textsuperscript{88}

It is not clear whether China Navigation Co. tried to merge with Indo-China Steam Navigation Co. again. But the share price of Indo-China Steam Navigation Co. turned up from 30 to 160 shillings in late 1939 meant the purchase of this company would be costly, China Navigation Co. probably found it difficult to make this deal during this irregular trade period.\textsuperscript{89} At the same time, the undeclared war between China and Japan spread and it made the whole shipping business in the Far East more difficult to maintain. In September 1939, P&O ceased to operate the sailings between Bombay and Japan.\textsuperscript{90} To the end of 1940, over 60\% of the British ships withdrew from the Chinese waters.\textsuperscript{91}

Takeover management as a smokescreen for a merger might be seen as Warren Swire’s final strategy to maximise the capacity of China Navigation Co. He did not agree with the other definition of spheres of interests, because this kind of agreement, as well as the pooling agreements, might benefit the weaker companies to secure more shares in trading, whereas the stronger companies wish to maintain a stable established business. Indeed this was the case of the pooling agreement in China in the

\textsuperscript{9/8} As early as in 1925, Warren Swire had an idea about the Sino-British business co-operation to keep the British economic interests in China when the Japanese expanded their share. See Robert A. Bickers, \textit{Britain in China: community, culture and colonialism, 1900-1949} (Manchester: Manchester University Press, 1999), pp.188-191. The plans on the Sino-British commercial venture during the 1930s see Stephen Lyon Endicott \textit{Diplomacy and Enterprise} (Vancouver: University of British Columbia, 1975), ch.4-6.

\textsuperscript{87} In her classic research on the Rathbones, Sheila Marriner did not discuss this point on the negotiation between Rathbone and Swire in 1872-3, see \textit{Rathbones of Liverpool, 1845-1873} (Liverpool: Liverpool University Press, 1961), pp.47-8.


\textsuperscript{89} \textit{North China Daily}, 17 December 1939: actually there was a syndicate trying to buy the deferreds in the London market. See correspondence no. 803, 18 December 1939 in the Jardine Matheson & Co. Archive J 9/8.


\textsuperscript{91} \textit{The Economist} 22 Feb 1941 p.244.
Wray had revealed that the co-operation between NYK and OSK depended on the personalities of their leaders. The Japanese shipping companies did not always work as close as the contemporary British had thought. It was probably as the Liverpool Steamship Owners’ Association had stated, the Japanese competition was not only a shipping problem but also a problem of exporting and manufacturing with lower production costs and lower cost of living in Japan. Even if the British Government gave some subsidies to the British companies, the problem would be difficult to sort out. In comparison to P&O/British India group’s political lobby of the Japan-India route to secure subsidies, as well as Jardine Matheson & Co.’s defence policy in pursuit of obtaining subsidies, Warren Swire’s strategy might be deemed more ambitious. However, the war prevented him from proving whether he could fight the Japanese shipping companies.

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94 *Fairplay*, 3 March 1938 pp.402-3. For a more general research in this period, see Anthony Best ‘Economic Appeasement or Economic Nationalism? A political perspective on the British Empire, Japan and the rise of intra-Asian trade 1933-7’ in *Journal of Imperial and Commonwealth History*, 30:2 (May, 2002).