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American Shipper

Labor Capitalist

Jesse Calhoon invests marine engineers' pension fund in new shipping company

MEBA president Jesse M. Calhoon controls 56% of First American Bulk Carriers Corporation.

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MEBA pension fund invests $7,000,000 in First American Bulk Carrier Corp.

Levingston shipyard puts in $4,000,000 and Belgian entrepeneur adds $1,500,000 to build two combination bulk/container cargo ships for service between Europe, Australia, and U.S. Gulf Coast; contracts with Du Pont, Alusuisse, Cargill, and IMC provide basic revenues; participants anticipate adoption of UNCTAD cargo preference codes.

A long-term contract for affreightment from E.I. Du Pont de Nemours, running until 1993 and believed to be worth about $7,500,000 a year in ocean freights, is the catalyst in a new shipping company bankrolled by a maritime labor union, an American shipyard, and a Belgian shipowner who has acquired the reputation of being the "Sir Freddie Laker" of the seaways.

It is an unusual mix—all the more unusual in that most of the participants are convinced that 40-40-20 cargo reservation policies promoted by Third World nations are inevitable and will apply to bulk cargoes in addition to liner business.

Adoption of the UNCTAD Code will certainly increase profitability of the new operation, and it is structured to take advantage of that trend.

An incidental feature of the new business is that it will return part of the Du Pont business to American-flag shipping—something Du Pont officials sought to achieve when they entered into the contract for affreightment in 1975. A package was presented to the U.S. Maritime Administration; but the American finance and subsidy package could not match the deal put together by a Belgian government anxious to keep workers employed at the Cockerill Yard in Hoboken, Belgium's largest shipbuilding facility.

The new shipping company is First American Bulk Carrier Corporation, which was incorporated under the laws of the State of Delaware on June 19, and on July 11 submitted an application to MarAd for construction-differential-subsidy (CDS) funds to aid in construction of two new multipurpose bulk/container ships costing about $78,000,000 each at Levingston Shipbuilding Co. in Orange, Texas.

Jesse Calhoon's Marine Engineers' Beneficial Association (MEBA) pension trust fund will have controlling ownership in First American Bulk Carrier Corporation. The president of the new firm is Tim Colton, vice president of Levingston, which was sold to Paden Corporation, a new firm organized by Levingston president Edward Paden.

Owners and Directors. First American Bulk Carrier Corporation is capitalized at $12,500,000 with 1,000 shares fully subscribed at $12,500 each.

The MEBA pension fund put up $7,000,000 (560 shares) and is represented on the board of directors by Calhoon, president of the union, and Leon Shapiro, who serves as secretary-treasurer of the new firm.

Levingston Shipbuilding put up $4,000,000 (320 shares) and is represented on the board by Paden and Colton.

A fifth director is Jules Bingham, a senior partner of the New York firm of Bingham, Bigotte & Co., shipping agents and ship brokers for about 20 years. He does not own any stock in First American.

The remaining $1,500,000 (12%) of stock is owned by General Shipholding S.A., a firm organized under the laws of Luxembourg and controlled by Tsvi V. Rosenfeld, who is best known to American shippers as managing director of ABC Continerline N.V., which operates combination bulk/container ships from Australia to the U.S. Gulf, continuing on to Western Europe and through Suez back to Australia.

(The name ABC Containerline derives from Antwerp Bulk Carriers.)

Rosenfeld is known to his friends in Europe and Australia shipping circles as the "Sir Freddie Laker of the seaways." His competitors call him a "rapist" out to destroy the powerful Australia/New Zealand/Europe shipping conferences controlled in London—a description which Rosenfeld denies but wears with an apparent sense of pleasure.

Marriage of Bulk/Container. A unique feature of Rosenfeld's operations is the marriage of bulk cargo and container services with equipment specifically designed for that purpose. The subsidy application to MarAd said the two new ships to be built for First American will be employed in the same trade route—sharing the same contracts—as ABC Containerline.

The application describes the route as one "on which there is a known imbalance of trade within individual modes. Australia and New Zealand characteristically export more dry bulk cargoes than they import and import more containerized cargoes than they export."

The new American-flag ships are to join ABC Containerline's Belgian and (planned) Australian-flag ships to "carry containers from Europe to Australia and New Zealand, return with dry bulk cargos from Australia to the U.S. Gulf and from the U.S. Gulf to Europe.

"The service assumes loading of containers at Hamburg, Southampton, Zeebrugge and Livorno for discharge at Fremantle, Melbourne, Sydney, and Auckland."

Each ship is expected to make three round-the-world voyages a year.

With 100% utilization, it is estimated each of the $78,000,000 ships will generate $7,207,000 a year of ocean freight revenues. The application says the break-even point is $5,758,000—or 80% utilization. These figures assume approval of CDS and ODS subsidies.

Four Contracts. First American said it intends to enter into a marketing agreement with General Shipholding, which has indicated it will make available cargoes from four contracts for affreightment already held by Genral Shipholding, its affiliates and subsidiaries. These contracts are:

(1) **Du Pont de Nemours:** Long-term contract running until 1993 to transport 300,000 tons per year of mineral sands from Geraldton, Australia, to Gulfport, Mississippi.

(2) **Alusuisse:** A yearly-renewable contract (in place for the past 10 years) to transport 250,000 tons per year of alumina from Gove, Australia, to New Orleans.

(3) **Cargill:** Yearly-renewable contract of affreightment (in place for the past 16 years) to transport 200,000 tons per year of grain from the U.S. Gulf to Amsterdam/Rotterdam.

(4) **International Minerals & Chemicals:** Yearly-renewable contract of affreightment (in place for the past five years) to transport 250,000 tons per year of phosphate from Tampa to Antwerp and Rotterdam.

"In addition, General Shipholding will solicit container cargoes for movement between Australia/New Zealand and Europe.

The Du Pont Contract. The Du Pont contract is the longest, bankable contract, and officials of that company have been interested in seeing as much of mineral sands cargoes as possible move under American flag.

The original contract of affreightment signed with Rosenfeld in 1975 was a three-year commitment. It was renewed in 1978 for a term of 15 years.

Du Pont has a long-term contract with the mine in Australia. Officials could perceive that the cost of shipbuilding would increase and decided it would be to the company's advantage to enter into a long-term contract of affreightment. Also circumstances during the past few years support the decision, as spot market rates for lifting such cargoes as the Australian mineral sands are now hovering around $55 per ton—approximately twice what they were when the contract with Rosenfeld was signed.

The Belgian Deal. When Du Pont signed the contract in 1975, Rosenfeld decided to obtain two new ships to operate in the ABC Containerline service.

In March of 1976, Du Pont approached the Maritime Administration with the idea of building in the U.S. two self-sustaining vessels which are now part of the ABC Containerline fleet, but the proposal never got off the ground.

Due primarily to extremely low financing—1½%—offered by Belgium interests, ABC built the ships in that country.

Specifically, the Belgiums offered ABC a 17-year loan at the 1½% interest rate, with 85% financing, while 15% of the money was put up by ABC Containerline.

It is understood that other factors, such as the more restrictive ban on foreign-to-foreign trading (which has since been liberalized by MarAd) and higher U.S. construction costs, worked against the possibility of putting the ABC Containerline ships under the American flag.

Because of the extremely attractive financing package offered by the Belgiums, the proposal which was informally discussed, never reached the actual application stage, where U.S. figures would have been laid down in black and white.

A Ship for Two Jobs. The Belgian ships on which Rosenfeld will be taking delivery in 1981 and 1982 are a third generation of combined container/bulk-carriers with total container capacity of 1,717 TEUs, including 610 reefer units. Four holds reserved for reefer and/or dry cargo containers are fully cellularized.

The proposed American ships are somewhat different.

The design was developed by naval architects on the Levingston staff at Orange, Texas, utilizing design of bow and stern sections used in the currently built Falcon tanker series. The designs have been modified to add 42 feet in overall length (to 653 feet), modify the engine spaces for slow-speed diesel engines, and small refinements to stern lines. The holds are free of cellular structures, but so designed that each can accommodate 144 TEU containers with ease. Absence of cellular frames will reduce the rate of loading and discharge, but make the ships more efficient in hauling bulk cargoes. Pontoon-type hatch covers will have container fittings for carriage of containers on deck—very much the way present ABC Containerline ships carry containers on deck with bulk below.

The Levingston ships will be rated at 40,000 dwt, have service speeds of 16 knots, cruising radius of 15,000 miles, dry cargo capacity of 38,580 long tons, and estimated fuel consumption of only 40 tons per day.

Each ship will carry two 30-ton cranes.

Manning Scales. The subsidy application reveals that the MEBA-financed ships will carry a crew of 26, including 11 in the deck department, 10 in the engine department, and five in the steward's department. American First soon will request an ODS subsidy from MarAd to help defray part of the crew costs.

Anticipating UNCTAD. It is difficult to find supporters of the 40-40-20 UNCTAD cargo policy in the United States government, but participants in First American Bulk Carrier Corporation believe it is inevitable.

Rosenfeld is building a fleet of Belgian, Australian, American, and, possibly, New Zealand ships which can fit into any 40-40-20 cargo allocation scheme with ease.

U.S. maritime labor unions and shipyards actively support legislation which will permit the United States to sign more bilateral shipping agreements with major trading parties. Such agreements assure more cargo for more American ships and provide financial protection which protects investors.

If this comes about, MEBA pension funds will be quite secure.

Jesse Calhoon At 17, he was coal passing; today, he was $500 million fund to invest

By **Tony Beargie**, Washington Editor

National Marine Engineers' Beneficial Association (MEBA) president Jesse M. Calhoon, who began his maritime career at the age of 17 as a passer on a coal collier, now heads one of the most financially secure labor unions in the country.

Calhoon—the firm, no-nonsense, patriotic labor leader—wants to keep his 14,000-member union in top financial shape; but at the same time, he wants to make sure the U.S.-flag shipping industry learns to adjust to present-day realities. That, in a nutshell, is the reason the MEBA chief took the unprecedented step of agreeing to invest some $7 million from the union's pension fund into a unique combination bulk-container shipping venture linking a three-continent service between Australia, the United States, and Europe. (For details, see accompanying story.)

Calhoon is convinced that the multipurpose, energy-saving ships, which will also have noteworthy national defense features, are definitely the vessels of the future.

The MEBA president pointed out that the 40,000-ton vessels would be able to carry 12,000 to 15,000 tons of military cargo, including tanks and aircraft. Also, because plans call for the ships to be equipped with self-contained unloading facilities, they will have "over the beach" invasion capability, which should be appealing to the U.S. Department of Defense.

"Containerships are useless for an invasion force because they're not self-unloading," Calhoon said in an interview with *American Shipper*. "These will be one of the few ships built since the mid-1950s that can carry and unload military tanks and aircraft."

Protecting U.S. Carriers. Noting that pension funds are now the "largest single source of assets in the maritime industry," Calhoon is pleased that some of MEBA's money which came from the maritime industry is being invested back into that same industry.

"The money that came out of the maritime industry is going back into the industry in such a way that it will not be used to compete with any existing U.S.-flag company," the MEBA president said. "I think it would be unseemly to take a contribution from, let's say, United States Lines and to use their contribution rate to compete with them for business."

Calhoon disagreed with a suggestion that the proposed operation would be competing with Farrell Lines. "The ships will not be competing with Farrell since Farrell is not engaged in the Australian-European general cargo market. They're not in the Australia-U.S. bulk trades, and they're not in the U.S.-European bulk trades," Calhoon said.

By the end of this year, MEBA will have over $500 million in its pension fund, making it the largest in the maritime industry. Calhoon indicated he intends to keep it that way. "Literally, we are interested in any legitimate enterprise in this country that will give us a return in excess of the cost of living," the MEBA president said.

Steel and Bricks. Several years ago, Calhoon's union decided to leave the world of Wall Street, as far as investment go. Stocks and bonds were not doing the trick. "When we were exclusively in stocks and bonds, the union suffered an actuary loss for about 20 years," Calhoon said. Now, of course, the situation is different.

How did MEBA turn things around?

By investing in real property. As Calhoon put it, "You have to get steel, bricks, concrete, and mortar which will appreciate along with the rest of the economy."

For starters, MEBA owns its office building only a stone's throw from the U.S. Capitol and Washington, D.C.'s historic and elaborate Union Station. The union purhased the building in November of 1976 for $30.5 million, which has been evaluated by an auditor to be worth $45 million. The big catch is

MEBA headquarters in Washington cost $30,500,000 when purchased four years ago. Calhoon has received an offer of $60,000,000 for the building. Amtrak is one of the major tenants. The building faces Capitol Hill and Washington's Union Station.

that MEBA has been offered $60 million for the building.

The union also owns regional centers throughout the U.S. which services Cummins Diesel Corporation and has a purchase/lease-back deal on telephone switching centers in California.

"Very Hard" Look at Coal. As to the future, MEBA is taking a "very hard" look at investing in coal reserves in West Virginia and Kentucky. "I am personally very bullish on coal," Calhoon said, noting that the U.S. is the number one coal exporter in the world.

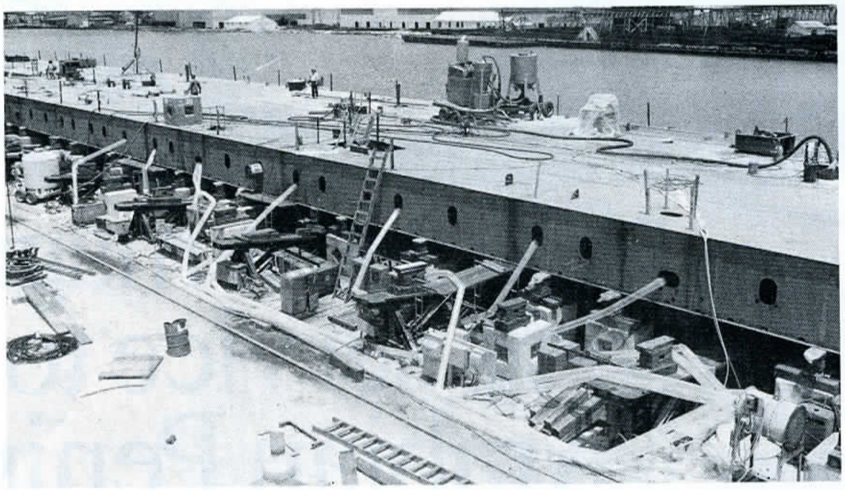
Calhoon also offered his views on the government's free trade policy and the Department of Agriculture's Public Law 480 Program.

"I never was a free trader. I am a fair trader," Calhoon said. "I think our trade policy has been a disaster for the country. I am not going to change our trade policies....I'm just trying to live with them, and I think these ships are the type of vessels for the future."

Errors of the Past. The MEBA chief said the "great disaster" of the P.L. 480 program is that the government failed to use it has a base to build a U.S. bulk fleet. Instead, Calhoon said it has remained a high-cost program. "That's not the steamship lines' fault....It's the government's fault," Calhoon said.

According to the MEBA president, vessels taking part in the program are too small and "they return to the U.S. empty." This, in turn, as Calhoon sees it, works against incentives to build vessels for the cargo preference trade.

Also working against the program, according to Calhoon, is USDA's policy of doling out one-trip charters, instead of awarding participants long-term contracts.



Paden Buys Levingston Shipyard from Ashland

Levingston Shipbuilding Company of Orange, Texas, which has a 32% interest in First American Bulk Carrier Corporation, was sold by Ashland Oil Inc. July 28 to the Paden Corporation, controlled by shipyard president Edward E. Paden.

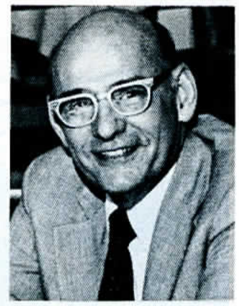
The sale included Levingston-Armadillo Corporation of Tyler, Texas, a producer of modular glass fibre buildings for remote locations.

Paden Corporation paid $26,00,000 for the two businesses, with $19,000,000 in cash and the balance handled through deferred payment arrangements, Ashland reported.

Levingston Shipbuilding is unique in American shipbuilding circles. It has stayed outside the Shipbuilders Council of America, chief lobby organization for the shipbuilding industry. It has contracts for five 36,000 dwt bulk carriers of its own design and three jack-up drilling rigs. The first of the bulkers was launched in May.

In cooperation with MarAd, Levingston contracted with a management team from Ishikawajima-Harima Heavy Industries (IHI) of Japan to bring Japanese management and production skills to the American yard. The IHI contract is to be continued.

Paden. Paden and the shipyard's vice president, Tim Colton, are both industrial engineers. Paden started with Lockheed and Litton Industries in California and was a consultant on the Navy FDL shipbuilding program. He served with Litton's Ingalls shipyard at Pascagoula, Miss., as director of marketing. Paden left Ingalls in 1974. Four years ago, Paden and Colton—who had been with the John M. McMullen firm of naval architects—joined Levingston.



The Significance of Jesse Calhoon's Action

In his concluding remarks just before adjourning the 1975 American Merchant Marine Conference & Propeller Club Convention at Fort Lauderdale, Hans Hvide, president of Hvide Shipping Corporation, said:

"I believe that a recognition by both parties of their mutuality of interests resulting in a true economic partnership of capital and labor to be the first and essential goal to be reached. After all, what is capital other than accumulated labor, increased or decreased as a result of risk-taking.

"It is my personal opinion that the profit sharing system outlined this morning by [Bert L. Mertzger, president of Profit Sharing Research Foundation] offers the soundest and most practical approach to this goal."

After recommending that conference delegates "devote some serious thought, time, and effort" to the idea, Hvide thanked those who helped make the conference a success and gaveled the meeting to a close.

I was impressed by Hvide's admonition and went back through my files to read Metzger's paper which I had missed when it was delivered. Under the title "A Non-Maritime Success Story—A Maritime Blueprint," Metzger made the following comments, each supported with carefully researched data:

"Higher pay, unrelated to productivity gains, is not the answer."

"Profit sharing is not antilabor nor antimanagement. It is pro-both."

"The greatest growth in profit sharing and employee ownership programs has taken place over the last five years. This pattern of growth shows every sign of continuing."

"Profit sharing and a stake in ownership often go hand in hand."

"There is no natural law against the majority of employees in a capitalistic society being capitalists."

And then, quoting from Sheldon Lusk, chairman of Supreme Aluminum Industries Ltd., Metzger added, "We have a choice: either socialism or capitalism. If capitalism is going to work, we've got to have a heck of a lot more capitalists in this country."

Returning to my office in Jacksonville, I filed the Hvide and Metzger papers with some material dating back to 1970 when chief steward Kenneth O. Fussell, a National Maritime Union member who sold stocks and bonds during his periods ashore, came into my office with the draft of a paper in which he had stated:

"The gigantic cost of building an armada of modern merchant ships should no longer be the sole responsibility of the federal government and the American taxpayer. This financial burden can and must be diverted to the investing public."

Discussing his paper further, Fussell suggested that the maritime labor unions invest substantial parts of their huge pension trust funds in the maritime industry to build ships for operation under the American flag. His visit came, it should be noted, just a few months before Congress passed the Merchant Marine Act of 1970 which established the investment format under which trustees of the MEBA pension trust are investing in First American Bulk Carrier Corporation.

I retained the Fussell, Metzger, and Hvide papers because they seemed to be good, useful ideas, worthy of future treatment.

Jesse Calhoon's action has taken these concepts out of the realm of ideas into the real world. I think it is a good move. Since MEBA engineers have so much to do with operating efficiency and cost of ships, it is the best guarantee other investors could have that First American Bulk Carrier vessels will be well run.

Herbert Brand, who retired as president of Transportation Institute July 31 but has been named chairman of the board of trustees, reminded me that the decision by Calhoon is not entirely without precedent. Almost 20 years ago, the membership of Seafarers International Union (SIU) voted approval for the loan of ordinary union funds to help American Banner Lines out of financial problems. The action did not save American Banner, but it demonstrated SIU members' concern for the industry which provides their employment and good pay scales.

David A. Howard, Publisher