Itel: back to the beginning

When Thomas S. Tan stepped into the office of president and chief operating officer of the San Francisco-based Itel Corporation two weeks ago, Itel was being transformed back to its origins a decade ago as a transportation leasing company. In the process, the company had become one of the largest computer leasing firms in the U.S., with the largest insurance claims for broken leaseholds, had put together a multi-billion lease-underwriting operation, had dashed Japan's Hitachi Ltd. of its hopes to market its IBM-

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compatible medium and large computers, and had run up a delicious $62 million tax-creditable loss in the second quarter of 1979. And all this, in an operation run by the murky multinational American Express and its subsidiary, Fireman's Fund Insurance.

The Japanese should certainly have known better. In 1978, Hitachi, Japan's third largest industrial corporation, made a deal with Itel to market the AS-6, a computer said to be better than the new IBM 3202 machine, thereby entering the U.S. computer markethin a large way. Since the Japanese knew that the Carter administration intended to limit Japanese electronic imports to the "junk end"—games, watches, recorders and TVs, penetrating the U.S. market with serious electronics would take very careful political maneuvzring. But, Hitachi flew into the spider's parlor—and announced last wekk, after blanching at Itel's stated second quarter loss, a two-thirds cut in computer deliveries to Itel, taking losses that may run to the hundreds of millions in direct and future losses.

I repeat: The Japanese should surely have known. Itel was founded in 1967 by interests connected to the Fireman's Fund Insurance Company, whose stock ownership of Fireman's Fund passed to Amex Holding Company, a subsidiary of the American Express Co., on Nov. 1, 1978. Two of Fireman's directors, Hoyt Ammiddon and J.E. Wallace Sterling, are directly connected to the top level of British intelligence that is running the electronics war against the Japanese. Ammiddon, in addition to being a member of the New York based Council on Foreign Relations and a member of American Express's finance committee, is the president of the American Ditchley Foundation Advisory Council, a branch of the British Ditchley Foundation created in the 1950s to coordinate Anglo-American strategic policy. J.E. Wallace Sterling is a director of Shell Oil, the British-Dutch oil-intelligence consortium run by the British Admiralty.

Fireman's, after receiving at least two hundred-million-dollar-plus capital boosts from the parent American Express, took a 7 percent interest in the Red Sea Insurance Company of Hong Kong to engage in insurance operations in Saudi Arabia through the Red Sea Development Company. According to Best's Insurance Report for 1979, "extensive reinsurance arrangements exist with Lloyds of London" and the Fireman's. Lloyds Bank is the primary bank of the Shell Trading Company, Royal Dutch Shell's largest money-flow entity.

As of Dec. 31, Fireman's still holds 160,000 of Itel's Series A preferred stocks and 400,000 common. In addition to four blue chips, the only other major stock holding of Fireman's is 102,400 shares of Schlumberger, Ltd., the Rothschild/Shell world oil monitoring agency.

Itel begins to move

With such resources behind it, Itel began to move. Tan, who had worked for shipping and forwarding companies in Hong Kong, started a company in San Francisco that became Itel's first acquisition, SSI Container Corp., leasing intermodal containers. Through 1972, the company moved slowly, setting sales in that year of only $40 million. In December, Itel spun out its Investment Management Corporation to lease computers, embarking on a massive expansion that would yield revenues of $100 million within three years. In a short time the company created SSI Navigation, a highly complex ship leasing operation, founded Shasta Reinsurance in Bermuda, and, in May 1973, the SSI Rail Corp., to lease freight cars to U.S. railroads.

This latter operation, one that Itel promises to go heavily with now that it is shucking all of its computer financial operations, is a financial operation whose complexity and legal rake-off of both operating companies and the U.S. Treasury (through tax credits) rival August Belmont's turn-of-the-century Traction Trust. In order to pick up residual rights to formerly leased freight cars, Itel set up another shell, and then bought the McCloud River Railroad in California and the Ahnapee and Western in Michigan as the basis for further leasing. Although figures are hard to assemble, Itel is said to be one of the nation's largest rail car lessors.

Another Itel venture that analysts appear to know little about is the lease underwriting that Itel boasted of to a select $175 per person crowd at the Ambassador Hotel in Chicago at the end of 1975. According to

Barron's magazine, "Itel has become a major factor in lease underwriting, which involves essentially the sale of know-how." *Barron's* continues, "Such underwritings can involve leveraged lease transactions as large as $100 million, and range from financing turret lathes, to locomotives." Itel's role, which implies a highly developed sense of many markets, is to find the lessor and lessee, bring them together, and plot the maximum tax savings.

Itel concentrated on computer leasing, however. By 1976, almost three-fourths of its sales were from the computer equipment groups, with related revenues bobbing up $190,000,000. The next year computer related revenues doubled to $285,700,000!

The following year (1978) Hitachi decided to market its computers through Itel, an idea that lasted until January 1979 when IBM announced that it would crash the lease market by offering new 4300 machines and the H series as rapidly as it could produce them. On the surface it would appear that Itel would take a bath; the company did indeed post a $62 million third quarter loss and saw its stock plummet.

How real are the losses?

Hitachi can see some anomalies in the picture. This was the second time that Itel had supposedly been caught with computer leasing reverses—the first being the early seventies when IBM 370s replaced the 360s. Yet on Itel's board sits William B. McWhirter, former IBM Director of Organization and still an IBM consultant, who certainly could have forewarned Itel, which itself has extensive knowledge of markets and would have reasonably assumed that IBM was pursuing new computers. Itel director Franklin Benjamin Lincoln did a seven-year stint with Sullivan and Cromwell (the Dulles law firm) and was undersecretary of Defense during several Kennedy years, a pedigree that would have allowed him top-level business contacts and information. Peter S. Redfield, Itel founder and chairman until the purported purge two weeks ago, was a top man at McKinsey & Co., the British consultant/intelligence group, also an entree to top-level "market" talk.

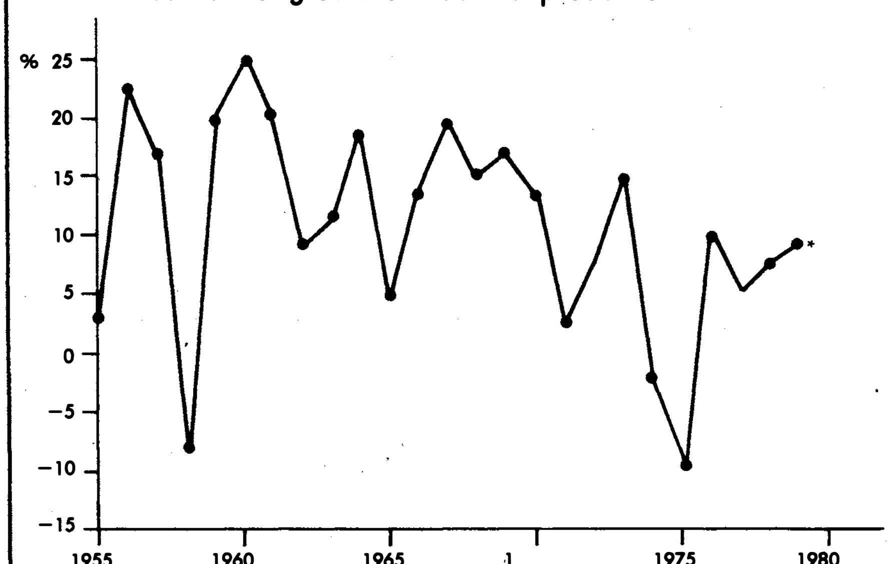
Second, Itel turns out to be the largest insured loser in the IBM caper. The major insurer, or reinsurer, is Lloyds. Although some Itel insurers have balked at paying, Lloyds appears to be willing to do so. Given Itel's close financial relation to Lloyds, it is possible that Lloyds is in fact paying itself, or at least passing money through Itel in some fashion. If Lloyds' potential $1 billion payout in insured computer leases is realized, it might well be a transfer payment from Lloyds to financially related entities in the U.S., who in turn, because they also have paper losses, will take tax write-offs, spurring another upsurge of speculative growth. Itel, meanwhile, is negotiating with National Semiconductor to rid itself of all computer-related operations and will concentrate on its air, sea, and rail leasing and insurance. There's an excellent chance that they will not buy any Hitachi computers.

—*Leif Johnson*

Japan: the model economy until 1971

Annual rate of growth of industrial production

Due to an error, the graph of Japanese industrial growth in EIR #33 was improperly flattened. The correct graph appears here.



* 1979 = Jan.-June 1979/Jan.-June 1978

From 1955 through 1971, Japan averaged a 10.7 percent annual rate of growth (including recession years). Japan averaged a 15.6 percent growth rate during 1966-1970 and was expected to average about 17-18 percent during the 1970s. Instead, the post-1971 world trade collapse lowered the 1971-1978 growth to a 4.2 percent annual average. The above graph is a corrected version of the one printed in *Executive Intelligence Review's* ECONOMIC SURVEY: "Japan Under Ohira" (Vol. VI, No. 33, p. 43).

Source: Ministry of International Trade and Industry.