

Sea-sick in Norway

ON MONDAY, Norwegian shipowner Hilmar Reksten will stand trial on the most serious charges of tax and exchange control evasion Norway has ever seen. The trial will be extremely embarrassing for the prestigious London merchant bank Hambros. The official report of the Bank of Norway to Bergen police investigators – a copy of which has been obtained by the NEW STATESMAN – claims that Hambros and five of its senior officials, including the chairman and deputy chairman, were party to the activities which have helped put Reksten in the dock. Next week the prosecution will produce correspondence between Hambros and Reksten, seized during police investigations. Another Norwegian shipowner will give evidence of Hambros' role in the companies Reksten used to conceal his overseas interests from the scrutiny of the Norwegian authorities.

The fourteen charges against Reksten allege that his illegal manipulations of his shipping fleet have netted him about £110 million. One set of charges deals with a profit of between £60 and £70 million made on the chartering of his large Norwegian tanker fleet and spirited away between 1967 and 1973. Another set of charges deals with his involvement – dating from the time when the money went missing – in the Liberian registered Palmerston Holdings. It is this company with which Hambros were most closely involved.

Palmerston was set up in 1973 to buy the Zapata Naess Fleet, which was then in financial difficulties. Its ships were chartered jointly with P&O and a deal was eventually agreed under which Palmerston and P&O would each have half of Zapata Naess. Reksten told the Norwegian authorities that Palmerston was owned by a group of international investors and that neither he nor Hambros had any 'ownership interest' but that he would like to provide security for a loan that Hambros were to make to Palmerston to finance the Zapata Naess deal. In return for guaranteeing this \$104 million loan with the security of his own fleet, he would get a management agreement with Palmerston which would give him the power to run the

fleet. The Norwegian authorities, who control the overseas investment of their native shipowners, were told the deal would 'strengthen Norwegian shipping interests and extend their earnings potential.' The Department of Trade swallowed this story and allowed the deal to go ahead, so long as any profits on the operation were sent back to Norway.

Reksten's story was a deception. In fact, Palmerston's shares were owned by Hambros and Reksten, as a letter sent by Hambros to Reksten in May 1973 shows:

Hambros Bank Limited will hold all the issued shares which are to be registered in the name of Hambros Bank (Nominees) Ltd on a nominee basis: but you will arrange for the beneficial ownership of the 67% of the total equity, Arne Naess will have 23 and the Hambro Group the remaining 10. The Directors of Palmerston Holdings will be Harry Fitzgibbons, Charles Perrin and Fergus Dymock, all of whom are employees of Hambros Bank.

Later Naess fell out with Reksten and is now a principal prosecution witness; at the time Reksten took Naess's shares. This was explained by Charles Hambro, the bank's chairman, in the text of a letter he wanted to send to P&O and which he sent first to Reksten for his approval in January 1974:

I... can confirm that the Palmerston shareholdings are unchanged from last summer when the purchase was completed. That is to say Hilmar Reksten (through family trusts) controls 90% of Palmerston Holdings and the Hambro Group the remaining 10%

Reksten's 'family trusts' were shareholders in Palmerston through another Liberian company Cornhill Shipping, run by Reksten's US lawyer Asbjørn Lunde. (The Norwegian police have unsuccessfully tried to get Lunde returned to Norway.) Reksten's interest in Palmerston was, of course, disguised from the Norwegian authorities and the Bank of Norway report gives several instances of Hambros colluding with Reksten to keep this information secret. Although a client's confidentiality is an absolute principle of banking, in this case the secrecy concealed Reksten's allegedly unlawful transactions. According to the Bank of Norway report, by transferring foreign

assets to become the beneficial owner of Palmerston Reksten had committed four offences against Norwegian tax laws.

It is not clear how far Hambros were involved in getting exchange control clearance for the (mythical) guarantee scheme in 1973 but in 1975, when Reksten's creditors were worried about his solvency, Hambros director Charles Perrin attended a meeting in Bergen where copies of Reksten's application to stand security for Hambros' loan to Palmerston were handed out. The purpose was to convince creditors that Reksten did not have any overseas assets with which to pay his debts and convince them that neither Hambros nor Reksten had any beneficial interest in Palmerston.

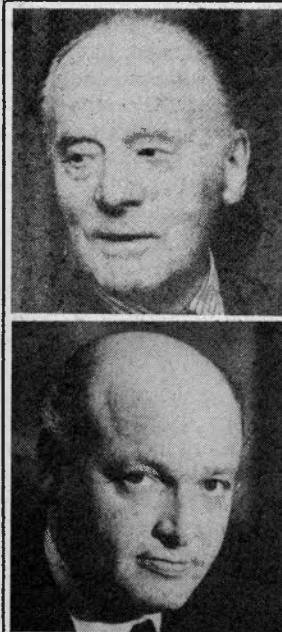
THE QUESTION REMAINS of how Reksten's purchase of Palmerston was financed. Interestingly, there was never any record of his ships being registered as security. The Norwegian police believe that the real security for the Hambros loan came from elsewhere: the profits of Reksten's 1967-73 charter operation, siphoned off by paper companies in Liberia, Bermuda and Panama and ending up as real estate investments.

Palmerston was not the only scheme which Reksten employed. The Bank of Norway report, writing of Reksten's company structure, says:

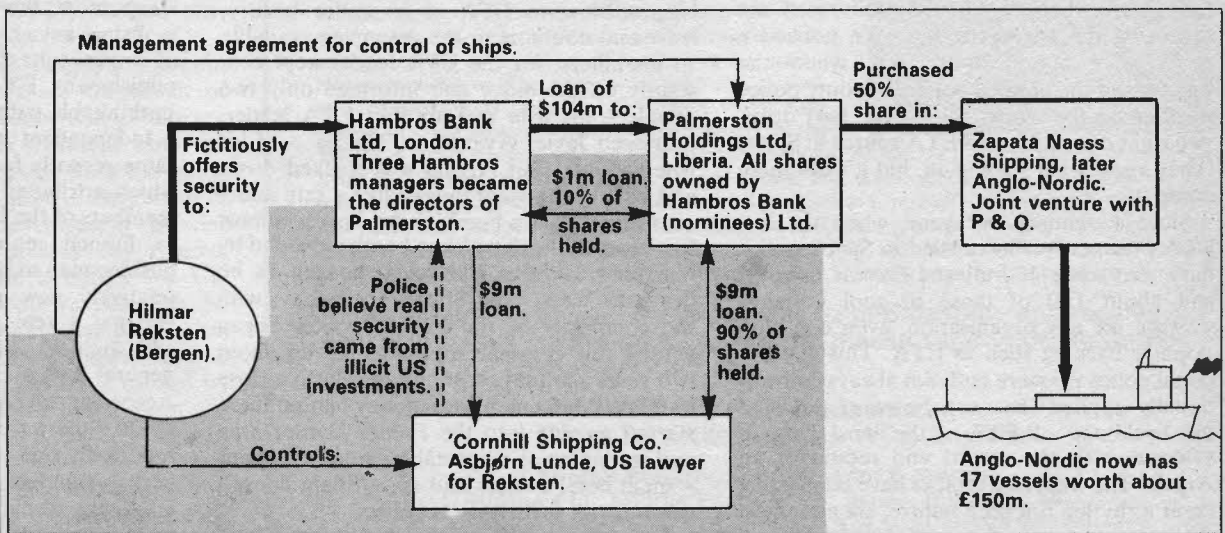
The structure... is designed to maximise overall profits... the company best suited to doing so gaining shipbuilding grants, intercompany charters to accumulate assets in another country, and so on... In each case the real ownership of the companies is disguised by founding fictitious holding companies.

Cornhill was one such company; Arran Investment Corporation of Panama was another – which, again, involved Hambros.

Arran controlled a British registered company, Thornhope Shipping, though most of the shares were registered in the name of Hambros Nominees. Reksten had been on the board of Thornhope since 1943 but the company remained dormant until 1970 when it placed an order for two ships – worth £23



The Bank of Norway thought Reksten was pledging his ships as security to Hambros. In fact the police believe (the shaded area) that he used real estate investments in Long Island, which he had bought with funds accumulated in breach of Norway's exchange control regulations. Top left, Reksten; bottom, Sir Charles Hambro.



million – with the Swan Hunter shipyard. Hambros applied to the Bank of England for the ship building grants for the two ships and a letter from a Hambros director to Reksten in June 1970 stressed the importance of the company being managed and controlled in Britain to qualify for the grants. Taking on these new ships involved a big increase in the share capital of Thornhope and the Bank of Norway report considers this share subscription by Reksten – the ultimate owner of the company – to be a breach of foreign exchange controls as Department of Trade authority had not been secured.

The Bank report considers that Thornhope's role was in fact to channel earnings to

another Reksten shadow company, Gannet Shipping in the Cayman Islands. The Bank of Norway told the police that:

Gannet's sole function was the diversion of profits and the accumulation of assets, and the aim of the company was to avoid British and Norwegian tax and foreign exchange regulations.

Public interest in the Reksten trial in Norway is heightened by the fact in the tanker market slump Reksten virtually went bust. He had to be rescued by the Norwegian government at considerable cost while, it is believed, his own fleet, bought with his concealed profits, made money. The feeling against Hambros runs particularly high because as recently

as last year Charles Hambro flew to Norway and applied strenuous pressure to the prime minister not to withdraw the government guarantees over the Reksten companies. The guarantees Hambros obtained saved his bank from immense potential losses – fears of which had already forced its share price down. Now, the Bank of Norway report, which shows how Reksten concealed assets which could have been used to meet these debts, alleges that the companies of which Hambros employees were directors, were part of the whole scheme. Formally, Hambros refuse to discuss the matter; but their position is that they have not been accused of being a party to Reksten's offences and are not in the dock with him.