

Sinking reputations

THE CITY OF London's prestigious reputation for financial expertise has always relied on steering just the right side of the wide grey line between the legal arts of tax avoidance and the illegal acts of tax evasion. But the current trial of one time Norwegian shipping magnate Hilmar Reksten suggests that a more liberal approach is taken on operations outside our own, rather moderate, tax regime. The Norwegian trial has shown that Hambros Bank, who have been Reksten's bankers, and financial factotums, have been happy to arrange on his behalf a succession of ingenious corporate enterprises in scattered tax havens with the sole objective of, the prosecution allege, defrauding the Norwegian state of taxes on income of hundreds of millions of krone. The practices have been especially galling because Hambros have been the Norwegian government's London representative for state loans for almost 75 years; they will no longer be continuing in this role.

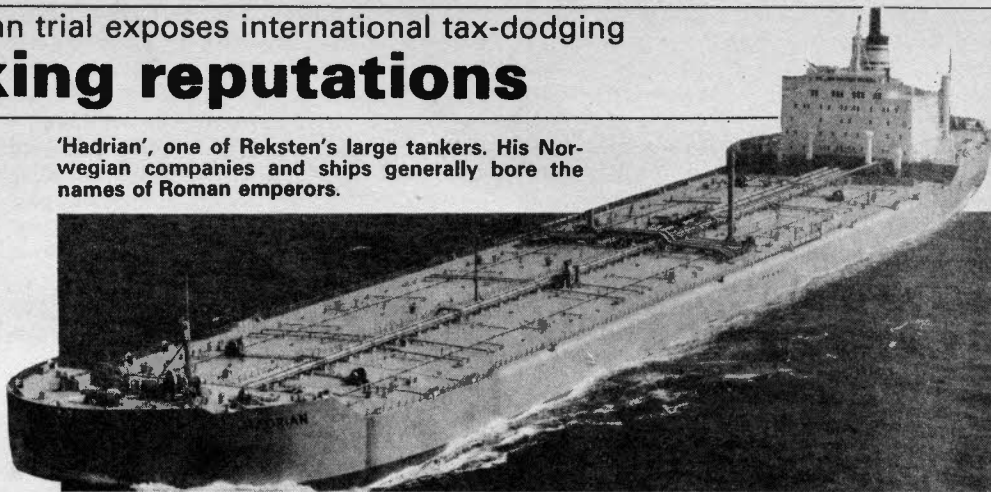
In a previous article, (NS 17 August 1979), we explained how in 1973 Hambros helped set up a Liberian company, Palmerston Holdings, through which Reksten secretly, and illegally, obtained a half share in an entire new fleet of tankers, now worth £150 million. Evidence showing that Sir Charles Hambro, the chairman of the bank, was entirely aware of Reksten's involvement has now been produced to the Bergen court. During the proceedings too, Hambros have been repeatedly mentioned as the various financial transactions of the Reksten group of companies are scrutinised. The Norway State Bank had already privately made clear its view that five directors of Hambros were a party to the offences alleged. The five include Sir Charles, as well as John Clay, Hambros deputy chairman, who is also a director of the Bank of England. But, since the deals all took place outside Norway, and none of the five are Norwegians, there was no question of charges being brought, as Hambros itself informally pointed out.

Reksten and his lawyers have remained virtually silent while the police prosecutor has spelled out the 'Reksten method' of evading taxation on international shipping operations. Reksten was formerly one of the world's largest supertanker operators, working from his Bergen headquarters. He chartered his ships out to companies in Bermuda and Liberia, who then chartered them out to real customers, mainly oil multinationals. Reksten contrived to charter his ships so that all the profits were accrued by the chartering intermediaries, while he reported negligible profits, or even losses, in Norway. The chartering intermediaries were often controlled by other companies themselves registered in the tax havens of Bermuda, Liberia, or Panama, whence the ownership trail usually led to a letterbox address in Monrovia, Liberia, or Hamilton, Bermuda.

The prosecution's contention is simple: these companies, such as the Liberian Palmerston Holdings, were secretly owned and controlled by Reksten. In all of this, the prosecutor has repeatedly said, Hambros were 'straw men', with their directors serving on the boards of the shell companies and shareholders registered to Hambros (Nominees). Rek-

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'Hadrian', one of Reksten's large tankers. His Norwegian companies and ships generally bore the names of Roman emperors.



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sten himself, of course, pulled the straws. Deals like Palmerston were cooked up in a series of meetings in New York, Brussels, Paris and London, while a fabricated account of developments was fed to the Norwegian authorities.

One set of arrangements allowed Reksten to take full advantage of the British government's generous shipbuilding grants to British companies. The London-registered Thornhope Shipping successfully obtained these subsidies to build two ships; it channelled its profits to another Panama shell company, Arran Investments. Reksten is now charged with illegally acquiring a substantial stake in this foreign company without permission, and with tax avoidance through shifting its profits off to Panama. Evidence given to the court about Thornhope has shown the integral role of Hambros in Reksten's affairs; Mr Erik Heirung, a former Reksten employee who represented Reksten on the Thornhope board, said that one of his jobs in Britain was to reduce the manpower of two associated shipping lines, Furness Withy and Silver Line, 'on Hambros instructions'. Hambros advised Reksten on the necessity to make Thornhope appear to be 'managed in Britain' and obtained the necessary Bank of England permission to allow the company, despite the foreign controlling interest, to obtain shipbuilding subsidies.

Another charge against Reksten concerns a tanker, the *Clementine Churchill*. By 1973 this was entirely owned by Reksten and his Norwegian companies. The Norwegian government, however, had been deceived into believing that 20 per cent of the ship was owned by Swan Hunter of Newcastle. When it was sold, in July 1973 for almost double its original cost, Reksten put the profits on the illicit 20 per cent share, about 13.6 million krone (£1.2m), into a registered foreign currency account at Hambros in London. The money was soon thereafter shifted off to another tax haven paper company, the Gannet Shipping Corporation of Grand Cayman. The Hambros account was legal since the Norwegian government had authorised it. But they were not informed of the illicit profits or their subsequent flight to Grand Cayman, either by Hambros or Reksten.

THE 'REKSTEN METHOD' of salting money away from arduous Scandinavian tax regimes clearly owes a great deal to the ingenuity of Hambros, who at one time or another have provided loans of hundreds of millions of pounds to finance his shipping

ventures. One of the more recent and complex pieces of such work will not however be investigated in the Bergen hearing. This concerns the way in which Reksten, in deep financial crisis after the 1973 tanker slump, bought his way out of impending bankruptcy. Reports of a Norwegian police investigation, and other documents obtained by the NEW STATESMAN, show how Hambros and Reksten set up a 'scheme' whereby some five major creditors would sell off their Reksten debts, estimated at \$61 million, for \$20 million and leave Reksten to carry on. The purchaser of the debts was another tax haven number, the Iceland Shipping Corporation of Panama. This company had been set up in 1968, but did not trade before 1975 when it suddenly offered to buy up Reksten's debts. Iceland could then claim the \$60 million any time up to December 1984. To date, most unusually, they have made no attempt to call on the debt.

The necessity for the Iceland operation arose from the tanker slump in the mid 70s. Reksten had chartered four additional supertankers in from other shipping concerns in Norway, Britain and elsewhere. Although the shipping world believed that Reksten had rechartered the ships very profitably, a different version was presented in Norway. All four ships were in fact chartered out to Intercontinental Chartering and Shipping Corporation of Panama, at, according to a police report, 'exactly the same rate as he himself hired the vessels for'. Intercontinental then rechartered the ships to real customers, at considerable profits. In 1973 alone, in this way ICSC accumulated 160 million krone (£14.5 million) whilst Reksten took a loss of 56 million krone (£5.1 million). By the start of 1975, Reksten had become unable to continue paying for the charter of the four ships, or for the new tankers under construction at the Norwegian Akers shipyard. Akers threatened Hambros that they would bankrupt Reksten unless their debts were settled.

On 24 July 1975, Sir Charles Hambro wrote to Reksten proposing a solution:

We have indicated that we would... create a scheme whereby up to \$20 million could be made available to you personally, to enable you to make an offer to your creditors... we for our part will (now) take all steps to facilitate the creation of the new company... and to provide the indicated 'facilities'

Hambros then set out an elaborate proposal for the major creditors, involving a complex series of transactions in the ownership of Reksten's companies, Hadrian Shipping and Julian Shipping, and their ships, including the

newly built (and laid up) supertanker, called *Sir Charles Hambro*. But the net effect was simple - \$20 million was put in by Iceland Shipping, and emerged in Mr Reksten's hands to buy off the creditors. The new company, Iceland, was totally a Hambros creation, with all shares to be vested in Hambros nominees, and all directors appointed by Hambros. It bore all the signs of the 'straw man' operation frequently highlighted by Bergen. Given Iceland's charitable reluctance to claim its due debts from Reksten, however, it is hard to avoid concluding that once again he and his friends are behind this shell company.

On investigation, the Norwegian police discovered that the directors of the company were three Swiss businessmen, with a telex number registered to an unforthcom-

ing Zurich company, Experta Trehaud AG. Faced with a wall of silence from Reksten and his employees, none of whom could or would provide any information about the real owners, the trail dried up. Hambros had taken a number of precautions to prevent extended discussion of the new company, including binding the creditors to confidentiality as part of the deal. Hambros also astonished their partners in a \$60 million loan from a banking syndicate to Reksten when, in August 1975, they suddenly and apparently rather riskily chose to buy the others out rather than disclose sensitive financial information.

A different version of events was presented to the Bergen court at the start of this week by lawyer Haakon Nygaard, who claimed that Palmerston and Intercontinental Chartering

were controlled by 'Hambros and Arab oil interests', not Reksten. Nygaard plays a particularly odd role in the whole affair; a lawyer with strong past links with Hambros, he now heads the Norwegian Guarantee Institute which provides financial guarantees for shipowners. The Institute, set up at Hambros' behest, played an important role in securing the creditors' acceptance of the Iceland deal, when Reksten's imminent bankruptcy had already hit Hambros' share prices.

Although the Reksten case has been dubbed the national 'scandal of the century', there remains a substantial pool of public sympathy for the 81 year old former shipowner. But the sympathy does not extend to the international wheeler dealers with whom he ran his business.