

The Harder They Come ...

Hilmar Reksten from Boom to Bankruptcy

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The Norwegian shipowner Hilmar Reksten is something of an enigma in international shipping. In the 1960s and early 1970s he was one of the major players in the tanker market. His fate in the 1970s is a classic example of overstretching. As the freight market turned, Reksten's fortune — in both meanings of the word — dwindled. There are two reasons for Hilmar Reksten's notoriety. First, he had a distinctive business policy which enabled him to earn astonishing amounts of money when the market was growing, but which left him extremely vulnerable when the demand for tanker transport stagnated. Second, he left a legacy of bankruptcies, tax evasion charges, secret foreign foundations and holding companies, as well as legal cases still lingering in the Norwegian judiciary more than 20 years after his death. This paper analyses the rise and fall of Hilmar Reksten's shipping empire.¹

Hilmar Reksten was the son of sailor, and embarked on a career as a shipowner in the interwar period. After operating his own and chartered vessels on the Great Lakes trade, Reksten in 1938 ordered his first tanker. During World War II, he worked for Nortraship, which was responsible for the operation of the Norwegian fleet. His position in the organisation was controversial, and Thowsen claims that Reksten provoked *The Establishment* in Norwegian shipping.¹ He was a self-made man who had made money from tramp shipping, and he challenged the position of the liner companies, the most prestigious part of the Norwegian shipping heritage.

In the postwar period, Hilmar Reksten followed a clearly defined business strategy. In a way, the strategy followed by Norwegian shipowners — high levels of contracting, focus on large, capital-intensive vessels and a relatively low share of long-term charters — was

¹ The analysis is partly taken from Stig Tenold, "The Shipping Crisis of the 1970s: Causes, Effects and Implications for Norwegian Shipping" (Unpublished PhD thesis, Norwegian School of Economics and Business Administration, 2000). An earlier version of the paper was presented at the Third International Congress of Maritime History, Esbjerg, August 2000.

² For an introduction to Reksten's position in the Nortraship-organisation, confer the chapter "Hilmar Reksten -et stormsentrum" [Hilmar Reksten - eye of the hurricane] in Atle Thowsen, *NORTRASHIP – Profit og patriotisme* [NORTRASHIP – Profit and Patriotism], (Oslo, 1992), 217-251 and 289.

taken to the extreme by Reksten.³

The expansion phase of international tanker shipping in the 1960s was characterised by a latent demand surplus. This was partly a result of the fact that the capacity within the shipbuilding industry was insufficient to meet the constantly increasing demand for newbuilds, partly a reflection of the unanticipated growth of transport demand. Shipowners who were eager in the contracting market, ordering new tonnage which could find profitable employment immediately after delivery, were particularly fortunate. In spite of periods of slack demand, the profits from the freight rate peaks were generally large enough to secure the profitability of the investments.

Some of the most favourable investment objects in this period of high growth were large, relatively fast vessels, in particular tankers. Owners of big, turbine-driven tankers were able to earn considerable amounts of money, as their vessels could transport large cargoes efficiently. Several Norwegian shipowners had channelled much of their resources into the fast-growing bulk sector, and a large share of the Norwegian fleet consisted of mammoth tankers and flexible combination carriers. This allowed Norwegian shipowners to reap the benefits of the favourable demand situation.

The oil price increases from 1973 onwards paved the way for a structural change in the markets for shipping services and energy, and exacerbated a negative trend in the international economy. The shipping sector was characterised by substantial overcapacity. Freight rates and vessel values fell dramatically and lay-ups increased. The problems were particularly severe in the market for large tankers.

The state of the shipping market in the 1970s was the diametrically opposite of the situation in the 1960s. As demand growth fell and bunkers prices increased, a fleet consisting of large, fast tankers became a burden rather than an advantage. In a market characterised by oversupply, a considerable fleet of newbuilding contracts became a liability rather than an asset. The winners of the 1960s in several cases became the losers of the 1970s, as their strategy was no longer treated favourably by the market forces. Nowhere was this more evident than in the fate of Norwegian shipowners, and no more so than in the case of Hilmar Reksten.

Hilmar Reksten's emergence as one of the world's leading tanker owners was the result of a business philosophy resting on three principles. First, he focussed on the market for oil transport. Second, he expanded his fleet through the ordering of the largest and most efficient vessels available. Third, he operated in the spot market, ie the market for single voyages, rather than on long-term contracts.

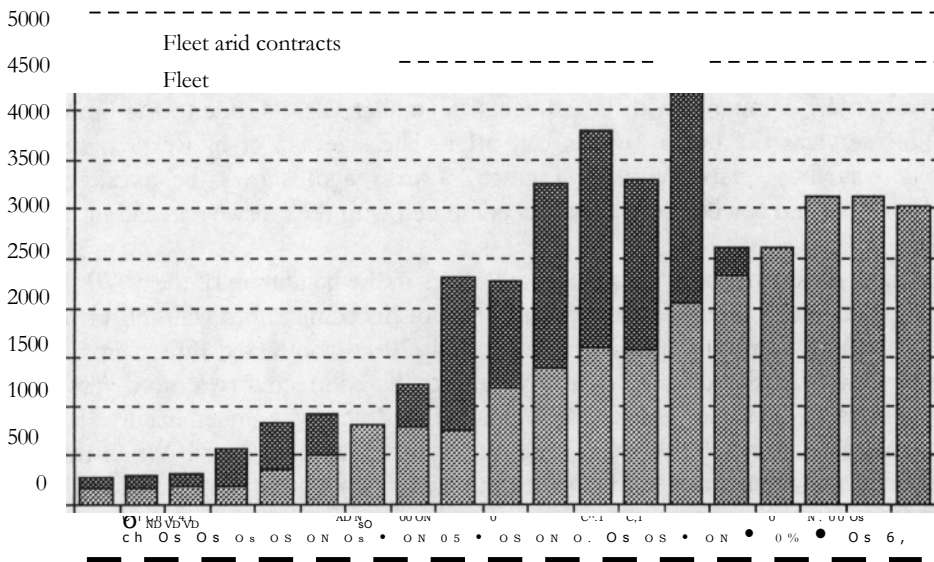
The expansive strategy becomes evident when we examine the size of Reksten's fleet and newbuilding contracts. On the international level, the amount of tanker tonnage on order fluctuated between 45 and 90 per cent of the existing tanker fleet in the period 1967-1974. For Norwegian shipowners, the corresponding figures were 60 and 130 per cent. In

³ The international shipping crisis of the 1970s and its effects on the Norwegian shipping sector is analysed in Stig Tenold and Helge W. Nordvik, "Coping With the International Shipping Crisis of the 1970s: A Study of Management Responses in Norwegian Oil Tanker Companies", *International Journal of Maritime History*, No. 2 (December 1996), 33-69.

existing fleet, and all the contracted vessels were mammoth turbine tankers.⁴

The strong fleet expansion started in the early 1960s, when Hilmar Reksten contracted a series of seven turbine tankers for delivery in the years 1965-1967. One of these tankers, the TT Julian, was contracted at the Norwegian yard Aker Stord, and marked the beginning of a close business relationship. In the period 1967-1973 Hilmar Reksten contracted 12 mammoth tankers at a total value of more than NoK 2000 million at this yard, and in early 1971 Reksten's contracts accounted for almost half the orderbook of the yard. At the time Reksten, Hagbart Waage and Biørn Biørnstad, three Norwegian shipowners who all had large amounts of unchartered tonnage on order, were responsible for more than 90 per cent of the tonnage on order at Aker Stord.⁵

Figure 1. Hilmar Reksten's fleet and newbuilding contracts, 1000 dwt, 1961-79



⁴ One of Reksten's companies, RA Hadrian, owned a series of 16.000 dead weight ton (dwt) bulk carriers, managed by a company owned by Hilmar Reksten's son. Even when these vessels are included in Hilmar Reksten's fleet, tankers made up more than 95 per cent of the tonnage.

⁵ Indeed, these three shipowners accounted for 27 of the 31 tankers contracted at Aker Stord in the period 1967-1974. Mjelva, Hans K., "Stord Vera 1945-1975", *Sjøfartshistorisk Arbok 1995* Norwegian Maritime Yearbook 1995, (Bergen, 1996), 197-198, claims that the reason they chose the Aker Group was the yard's willingness to accept a large amount of newbuildings whose profits were not secured through long-term charters. Reksten and Waage were infamous for their spot market focus. Biørnstad generally operated his vessels on medium-term charters, but he had not secured employment for any of the four vessels contracted at Aker when the tanker market collapsed.

⁶ Figures from a database on Reksten's contracting and fleet. Data on contracting have been taken from the survey of "Newbuilding contracts for Norwegian account", published at least two times annually in *Norwegian Shipping News*. Data on existing fleet have been taken from the Veritas-registry. The list does not include the

Figure 1 illustrates the expansive contracting policy of Hilmar Reksten, and particularly the acceleration of newbuildings on order from the beginning of the 1970s. One reason for the large proportion of contracted tonnage relative to the existing fleet was the focus on consistently larger vessels, as indicated in Table 1. The average size of the vessels in his fleet was more than doubled from 1970 to 1973.

Table 1. Average size of the tankers and contracts of Hilmar Reksten, 1970-74

	Average size – existing fleet	Average size – newbuilding contracts
1970	90.500 dwt	221.000 dwt
1971	100.000 dwt	265.000 dwt
1972	114.000 dwt	275.500 dwt
1973	196.500 dwt	285.000 dwt
1974	227.500 dwt	352.500 dwt

By focussing on large and modern tankers, Hilmar Reksten was able to benefit from the increasing economies of scale in the tanker industry. However, investments in large tankers are relatively risky compared with investments in smaller vessels, due to the limited types of transport services the larger vessels can offer. The size aspect of Reksten's business philosophy was thus relatively risky. Figure 2 (next page) shows the average size of Reksten's vessels and newbuilding contracts compared with the Norwegian and international averages.

Hilmar Reksten's contracting at fixed prices in the beginning of the 1970s had been favourable, particularly when compared with those of his competitors who fell victim to the strongly increasing newbuilding prices.⁷ Early in 1970 he contracted three ships, totalling 850.000 dwt, at Aker Stord. Less than a year later, he contracted two more vessels, both 283.000-tonners, at the same yard. The last block of contracts was signed in July 1973, when Reksten contracted four 420.000 dead weight ton tankers at Aker Stord. When the freight market broke down later that year, he had eight vessels, amounting to more than 2,8 million dwt, in order at the Norwegian yard.⁹

The structure and expansion of Hilmar Reksten's fleet illustrate his willingness to take risks. By pooling all his resources into one market, the market for large-scale tanker transport, he had to forego the security inherent in the operation of vessels in several market segments. His fate was thus directly linked to the fluctuations in the market for high volume, long-distance oil transport. Another conspicuous feature of Reksten's strategy was the operation of the vessels in the part of the shipping market where the fluctuations were the

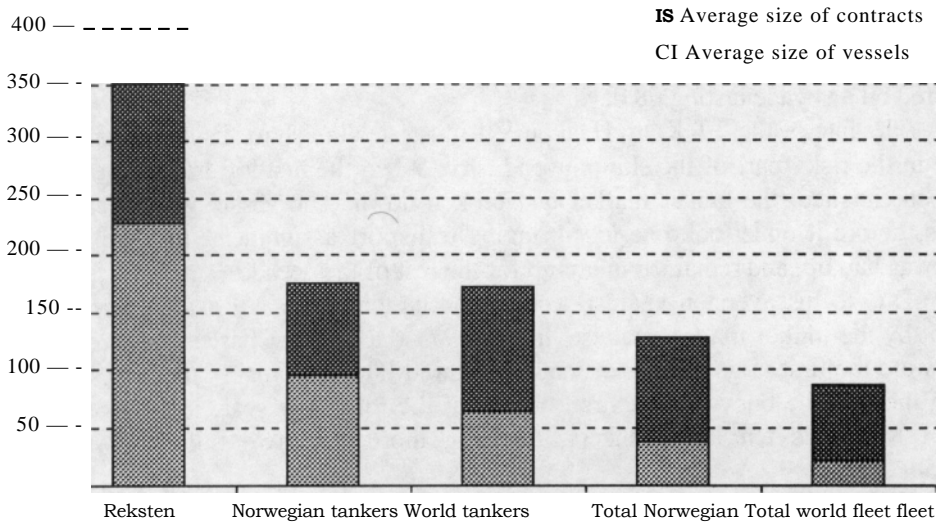
vessels ordered in Hilmar Reksten's name, but intended for the company of his son Audun Reksten, vessels owned by Reksten through foreign companies or vessels chartered from other shipping companies. These vessels have also been omitted from the rest of the paper.

⁷ Figures based on the same sources as Figure 1, rounded off to the nearest 500 dwt.

⁸ Consequently, the Norwegian economic journal *Kapital*, No. 7-8, 1973, 41, claimed that there were large hidden reserves in the Reksten fleet.

⁹ Figures from "Norwegian Newbuilding Contracts as per January 1st, 1974", *Norwegian Shipping News*, No. 2a, 1974, 41-62.

Figure 2. Average size of existing vessels and contracts 1974, 1000 dwt 10



most violent – the market for single voyages. Shipowners may reduce their exposure to freight rate fluctuations by securing their income through long-term charters with oil companies or other charterers. Reksten rejected this possibility, focussing instead on the market segment where the profit potential, and the risk of failure, was higher.

The expansive business policy earned Reksten a reputation in the shipping industry, and he has been characterized as "risk-loving" and "an archetypal gambler". In addition to his own rapidly expanding fleet, he chartered vessels from other shipowners and operated these in the spot market.

Hilmar Reksten's fondness for the spot market resulted in some spectacular fixtures. In his autobiography *Opplevelser [Experiences]*, he characterizes "the four times I hit the bull's eye in the spot market" as the main achievements in his career. In 1948, the MT Julian was committed to a five-voyage charter, and the ship's profit during these nine months far exceeded its initial price. Four years later, the MT Octavian was given a five-year charter at very good terms, a deviation from Reksten's general chartering policy. He claims that this "is an example that I committed vessels to charters when I felt that it was right."¹⁰ The largest block-closure included 12 of Reksten's 15 vessels, which were chartered to British

¹⁰ The figures for Reksten are taken from the same sources as Figure 1. The figures for the Norwegian and international fleets and contracts are taken from Fearnley & Egers Chartering Co. Ltd., *Review 1975*, (Oslo, 1976), Tables 3, 9, 20 and 26 which includes tankers and bulk carriers of more than 10.000 dwt and other vessels over 1000 grt.

¹¹⁰ Hilmar Reksten, *Opplevelser [Experiences]*, (Oslo, 1979), 168.

Petroleum. This agreement, from 1970, involved 59 voyages around the Cape.' The spot market triumphs culminated when the 210.000 dwt TT Kong Haakon VII was engaged at the rate Worldscale 400 in October 1973. Reksten claimed that this is "a rate the world has never seen, neither before nor after." The net profit from this trip was more than NoK 42 million, almost \$8 million, which implies that 40 per cent of the ship's building price had been recovered on a voyage lasting 68 days.

The fate of the TT Kong Haakon VII illustrates the short distance from success to failure in the risky part of the shipping industry. When the historic trip at Worldscale 400 had been finished, the tanker market had broken down. The vessel was inactive for four months, before it undertook one loss-bringing transport assignment. In October 1975 the vessel was laid up, and remained in lay-up for the rest of the decade.

Due to his aversion against secure timecharters, Hilmar Reksten was particularly hard hit by the tanker market malaise. In late 1974 the TT Sir Charles Hambro and the TT Julian were the first large tankers officially declared laid up, with six more Reksten-vessels joining them in the buoys in the first months of the following year." By December 1975, nine of Reksten's ten large tankers, totalling more than two million dwt, had been mothballed.¹⁵

The high lay-ups were a direct consequence of Hilmar Reksten's chartering policy. However, his business strategy can not only be inferred from the employment, or rather lack of employment, of his fleet. Although generally a reclusive person, when Reksten voiced his opinions in public he seldom failed to ridicule shipowners operating their vessels on long-term charters.

The question of Hilmar Reksten's "risky" chartering policy is as much about the perception of risk as the willingness to take risks. On several occasions Reksten defended his spot market chartering policy, claiming that the alternative, operating the vessels on long-term charters, was more risky. He based this judgement on exchange rate and cost developments; "the chartering policy [...] was based on commercial reasoning and not gambling. I could not afford to gamble." Shipowners operating on long-term charters were denigrated as "husmenn" (cotters). In Reksten's opinion, the risk associated with operation in the spot market "is, in periods of depression, not unreasonably large for experienced shipowners with a practised organisation and competitive tonnage, which in periods of increasing demand can also reap unreasonably large profits.'

Ulfeser, Reksten's belief in this strategy bordered on the religious. In 1971 he sent

¹² It has been claimed that Reksten made considerably larger profits from these trips than those he declared to the Norwegian authorities, and that this revenue enabled him to accumulate resources abroad and establish a fleet outside Norwegian jurisdiction

Reksten, *Opplevelser*, 169.

¹⁴ HP Drewry Shipping Consultants Ltd., *The trading outlook for very large tankers*, (London, 1975), 53.

¹⁵ List of Norwegian lay-ups in *Norges Handels og Sjøfartstidende*, 3 December 1975, p. 5.

¹⁶ Reksten, *Opplevelser*, 169.

¹⁷ Hilmar Reksten, *Noen ideer om konkurransevilje og risikomomentet under strukturendringene i norsk tankskipsfart* [Some ideas about willingness to compete and the risk aspect during the structural changes in Norwegian tanker shipping], Kristofer Lehmkuhl Lecture 1971, Norwegian School of Economics and Business Administration, 1971, 6 and 21.

his main Norwegian opponent, Sigval Bergesen d.y., almost a kilo of documents, containing calculations "proving" that his spot market strategy was superior to Bergesen's reliance on long-term charters. The reply from the latter was sarcastic; "I have skimmed [your unconventional and most unexpected Easter greeting], but I am searching in vain for its head and tail, as I suppose the documentation should serve another purpose than showing that you are more clever than I am." This was not Reksten's first attempt at converting Bergesen to the advantages of the spot market, but Bergesen had previously "appeared to be disagreeable and immune to approaches which could have hindered some of the harmful effects which the company's chartering policies entailed."

One week before The Organization of Petroleum Exporting Countries began their concerted effort to raise oil prices, Hilmar Reksten concluded in a public interview that "[a]gain I am in the fantastic position that all my vessels are by the goal line, unchartered and free." The fantastic position was reflected in the historic closure of the TT Kong Haakon VII at Worldscale 400, but also in the high share of Reksten's fleet laid up the following years.

When the market for large tankers broke down in late 1973, Reksten's strategy backfired, as his strategic decisions during the previous boom period had left him extremely vulnerable. The expansive newbuilding programme had resulted in large financial obligations and his chartering policy did not provide him with any secure revenues. Only a relatively rapid freight rate recovery could save Reksten from bankruptcy – there was nothing Reksten himself could do to alleviate his situation.

The economic peaks and troughs resulting from Reksten's business policy are evident from the operating results of his listed company, Rederiaksjeselskapet Hadrian (Figure 3 next page). This company, owning between two and four tankers in the period 1968-1981, represented only a minor part of the Reksten shipping empire. The economic performance of RA Hadrian clearly shows the shifting fortunes of Reksten's fleet before and after the freight market breakdown. As the company only constituted a minor share of his shipping business, the actual profits in the late 1960s and the early 1970s were considerably higher, and the losses after 1974 considerably larger.

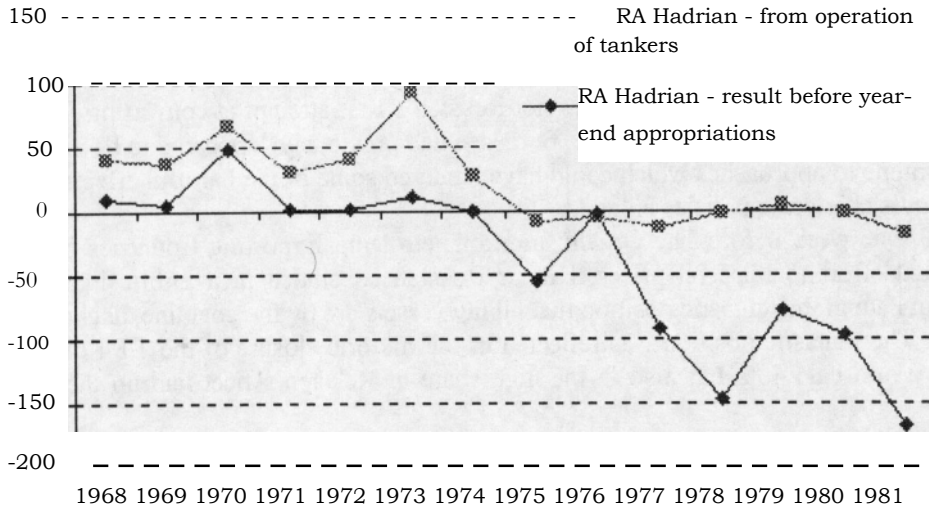
The shipping economist Victor D. Norman has shown that a strategy focussing on the spot market would have given higher average profits than medium- or long-term charters in the period prior to the crisis, and that the combination of spot market operation and equity financing would be preferable to long charters and large debts.¹ Reksten, however, combined his risky chartering strategy with an expansive newbuilding programme largely financed by debt. His relationship to Hambros Bank was particularly close.

¹⁸ Erling Borgen, *Huset Bergesen [The House of Bergesen]*, (Oslo, 1984), 140-141.

¹⁹ Hilmar Reksten, "Sig. Bergesen d.y. & Co. 1947-1970", manuscript sent to Sigval Bergesen d.y. and Norwegian newspapers, 1971, 73.

²⁰ Summary from a public interview arranged on 9 October 1973, reprinted in *Norges Industri*, 22 October 1973, 12.

²¹ Victor D. Norman, "Market strategies in bulk shipping", in Einar Hope, (ed.), *Studies in Shipping Economics – in honour of Professor Amljot Stromme Svendsen*, (Oslo, 1981), 21.

Figure 3. Tanker profits and result, RA Hadrian, million NoK, 1968-81'

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Reksten's liquidity became strained shortly after the freight market had broken down. On the one hand, his aggressive contracting resulted in large financial obligations. On the other hand, the spot market focus led to lacking revenues. Moreover, the strong fall in vessel values put him in a difficult position towards his creditors.

As early as April 1974, Hilmar Reksten refused to pay the instalments on four of the turbine tankers contracted at Aker Stord. He claimed that his lack of payment was a protest against the fact that his previously paid instalments had been used for other purposes than his own ships. Simultaneously, Reksten indicated that he wanted to cancel several of the contracts at Aker Stord because the yard would be unable to deliver the vessels by the scheduled time or secure financing in the manner stipulated in the contracts. In September 1974 the Aker Group decided that the contracts with Reksten about the building of the four 420.000-tonners should be terminated due to lacking payment. The company chose to go to

²² Based on annual reports from RA Hadrian. The 1976 result includes extraordinary revenues of NoK 132,6 million from the sale of four 16.000 dwt dry bulk vessels. The 1978 result includes extraordinary costs of NoK 72,4 million allocated to meet possible claim with regard to cancellation. Due to large depreciations with regard to undelivered vessels, the high income from the operation of tankers in 1973 was not reflected in the economic results of the company.

²³ Norman, "Market strategies in bulk shipping", 21.

arbitration court to secure compensation for the losses resulting from the fact that the ships would not be built. Three months later, Reksten cancelled the two remaining contracts for the building of two 283.000-ton tankers.

As a result of the annulment of the contracts for the building of the 420.000-ton tankers, Hilmar Reksten was ordered to pay the Aker Group NoK 320 million.²⁴ He blamed the Aker Group for his calamity, and in a letter to Fred. Olsen, chairman of the board of the Aker Group, he claims that "in July 1973 you even managed to fool *me* into signing the contracts for buildings number 414-417." The managing director of the yard, on the other hand, claims that "Hilmar Reksten had from the autumn of 1972 pushed Aker to give him more contracts, but the board decided that Aker had enough Reksten-contracts already. [...] Reksten did not give in. He was both insulted by and angry with Aker. [...] The end of the story was that Aker in June 1973 signed contracts for four vessels with delivery in 1977-78."

In addition to the NoK 320 million for the undelivered 420.000-tonners, Reksten had to pay NoK 200 million in cancellation fees for the two 283.000-ton vessels.²⁵ Consequently, as a result of his eager contracting in 1972 and 1973, Reksten had to pay NoK 520 million, approximately \$95 million, for vessels which he never received. Furthermore, the value of the vessels which were delivered had plunged – when the TT Cyprian was delivered in 1975, at a cost of NoK 210 million, it had a market value of less than half of this amount.

The liquidity difficulties occurred parallel with a strong reduction of the value of Reksten's assets. Estimates from a Norwegian shipbroking company show that the value of a standard 200.000 dwt tanker decreased by 80 per cent from 1973 to 1975.²⁷ Reksten has estimated that the value of his fleet fell by more than two billion kroner, or two thirds, from January 1974 to September 1975.²⁸ His net wealth fell from NoK 2,7 billion to red figures over the same period.

The combination of insufficient revenues and obligations on contracted vessels made Reksten illiquid. When the arbitration court in late May 1975 ordered him to pay compensation to Aker, Reksten was on the brink of insolvency. His situation appeared to be precarious. Moreover, the fates of Hilmar Reksten and the Aker Group were intertwined. The result was that the Norwegian authorities, which had previously had a non-interventionist policy towards the shipping sector, entered the scene.

In June 1975 the Norwegian government, in a secret proposition to the parliament, suggested that the authorities should take over Hilmar Reksten's portfolio of shares in

²⁴ The already paid initial term, constituting 86 million, was deducted. The NoK 80 million payment per vessel which Reksten was ordered to pay by the arbitration court was considerable higher than the NoK 50 million cancellation fees which had been agreed between the Aker Group and three other shipowners; see Haaland, Arild, *Reksten-eventyret – en økonomisk tragikomedie i syv akter og en epilog [The Reksten Fairytale – an economic tragicomedy in seven acts and an epilogue]*, (Bergen, 1996), 37-38.25

Reksten, *Opplevelser*, 66, and Onar Onarheim, *Min torn [My bout]*, (Oslo, 1984), 150. The confusion with regard to the timing is a result of the fact that the contracts were dated 29 June, but signed in early July.

²⁶ Settlement between Reksten and his creditors, signed September 1975. 107 million of this was deducted from the total sum, due to instalments previously paid by Reksten.

²⁷ Fearnley & Egers Chartering Co. Ltd., *Review 1976*, (Oslo, 1977), Table 19.

²⁸ Reksten, *Opplevelser*, 175.

Norwegian companies. The motive was not to help Reksten *per se*, but rather to "avoid that [Reksten's] liquidity problems are transmitted to the Aker group, putting the company's 11 400 employees at stake." The authorities paid more than NoK 177 million for the shares, but the amount was insufficient to solve Reksten's economic problems.

Hilmar Reksten's main creditors were the Aker Group, Hambros Bank, two Norwegian ship financing institutions and the owners of four vessels which had been chartered-in. In the period 1970-1973 Reksten augmented his fleet, and his risk exposure, by taking four vessels, totalling more than 900.000 dwt, on long charters. He intended to operate the vessels in the spot market, based on the idea that the income from the spot market employment would exceed the rate he had to pay to the legal owners of the ships. Reksten declared that he was unable to pay the stipulated rent on these vessels in April 1975. The owners cancelled the timecharters, and claimed \$61 million in compensation for the default of the contracts.

The vessels chartered by Reksten thus added to his economic difficulties. One of the shipowning companies, Ocean Steamship Company, threatened to file Reksten for bankruptcy unless their claim was met by early August. Iceland Shipping Corporation, a Panama-registered company based in Switzerland, offered to pay \$20 million for the \$61 million claim on Reksten. The payment was divided among the four shipowning companies, and the threat of bankruptcy was temporarily shelved. This left four main creditors. Of these, the Aker Group was in a particularly vulnerable position, as they had severe liquidity difficulties themselves.

In an agreement between Reksten and the main creditors dated 19 September 1975, it was decided that the minor creditors should be fully redeemed, that Reksten's companies should be allowed to survive and that the remaining creditors could not unilaterally file for bankruptcy.²⁹ The creditors accepted the continuation of Reksten's activities as the authorities had signalled that a scheme in aid of Norwegian shipowners would be established. Four months later the authorities established the Norwegian Guarantee Institute for Ships and Drilling Vessels Ltd. [Norsk Garantiinstitutt for skip og borefartøyer AS].

Officially, the establishment of the Guarantee Institute was motivated by concern for the Norwegian shipping sector in general. By the establishment of this institution, the authorities hoped "to avoid that a considerable amount of tonnage is sold abroad at prices which are lower than those which can be justified from a socio-economic point of view."³¹ The Guarantee Institute accomplished this by providing guarantees to alleviate shipowners' liquidity difficulties, thus preventing foreign creditors from taking possession of Norwegian vessels. Officially, the Guarantee Institute was motivated by the assumption that the breakdown of the shipping market was a temporary phenomenon, and that the price of the

²⁹ Quote from the secret proposition to the Storting regarding the authorities' purchase of Reksten's shares; Stortingsproposisjon nr. 187 (1974-75) *Om fullmakt til kjøp av aksjer i norske selskaper [Parliamentary proposition on the authority to purchase shares in Norwegian companies]*, 1.

Norges Offentlige Utredninger nr. 13 (1983) Reksten-saken [*The Reksten-case*], 82.

³¹ Stortingsproposisjon nr. 17 (1975-76) *Om etablering av en midlertidig garantiordning for norske skip og borerigger [Parliamentary proposition on the establishment of a temporary guarantee scheme for Norwegian ships and drilling vessels]*, 3.

Norwegian vessels would be lower than their long-term income potential justified.

Two alternative motives for the establishment of the Guarantee Institute have been presented. The first is that the Guarantee Institute was set up to aid the Norwegian shipbuilding industry and government-guaranteed institutions which had financed the expansion of this industry." The second is that the establishment was a means to saving Hilmar Reksten from bankruptcy, induced by the close links between Reksten and the Aker Group. This motive has been presented both by the Guarantee Institute's banisters and by Haakon Nygaard, one of the instigators behind the institution and later its managing director."

Regardless of whether Reksten's predicament was a main or a minor motive for the establishment of the Guarantee Institute, he was central to the economic performance of the institution. Of the 22 large tankers for which guarantees were granted, 12 belonged to Reksten. The Guarantee Institute became an expensive exercise for the Norwegian authorities, leading to losses of more than NoK 1,7 billion, or almost \$300 million in the period 1981-85. Almost half of these were related to Hilmar Reksten's companies. However, a portion of the Guarantee Institute's losses on Reksten was recovered after a series of court cases between the Guarantee Institute and Hambros Bank. The bank agreed to pay NoK 100 million in a settlement in 1982 and another 300 million in a settlement after a NoK 1,7 billion civil action in 1995. Hambros Bank was sued due to the fact that they had knowledge of secret foreign Reksten-funds when the Guarantee Institute was established.

Parallel with their preparation of measures to aid the shipping sector, the Norwegian authorities initiated an investigation of Hilmar Reksten in order to find out whether he had accumulated illegal assets abroad. The basis for the investigation was newspaper reports that Reksten had large interests in foreign shipping companies. The financial assistance from the mysterious Iceland Shipping Corporation, which saved Reksten from bankruptcy, strengthened the authorities' suspicion that he controlled secret foreign funds. In June 1976 Hilmar Reksten was charged with tax evasion and violation of currency regulations, and his passport was confiscated. Reksten later referred to the criminal procedure as "juridical vivisection".

The Norwegian part of Hilmar Reksten's shipping empire consisted of the listed company RA Hadrian and four family-controlled companies. Of these, RA Julian owned the majority of the tankers in 1973, whereas RA Diocletian, RA Trajan I and RA Appian were

³² This aspect is analysed in Tenold, Stig, "Saving a sector – but which? The Norwegian Guarantee Institute for Ships and Drilling Vessels Ltd.", forthcoming in *International Journal of Maritime History*.

³³ The Guarantee Institute's barristers claimed this in a court case against Hambros Bank in 1992; see *Aftenposten*, 29 October 1992, 7. Nygaard's claim can be found in Rapport til Stortinget fra den granskningskomisjon i Reksten-saken som ble oppnevnt ved Stortingets vedtak 20. juni 1985 [Report to the Storting from the investigative committee in the Reksten-case established by royal resolution 20 June 1985], presented 9 February 1988, 199.

³⁴ Letter from Hilmar Reksten to Prime Minister Odvar Nordli, dated 26 March 1979, Archives of the Norwegian Shipowners' Association, folder 6 B K 75 – Krisen 1975 XII: 1/11-78-30/6-79.

a combination of shipowning- and holding-companies.' All Reksten's companies, and most of his vessels, had been named after Roman emperors.

When the board of the Guarantee Institute dealt with Reksten's application to join the institute, they found that all of his vessels were worth keeping. They suggested that the assets and liabilities of Reksten's companies should be transferred to a new company, and simultaneously demanded that Hilmar Reksten should make his retreat. The latter demand was motivated by the fact that "it is unacceptable that the Norwegian authorities grant guarantees to a company managed by Reksten, as he seems to have withheld revenues of 500 million kroner from Norwegian taxation."

The entry of the Guarantee Institute thus signalled the exit of Hilmar Reksten. A new company RA Trajan II, was established to take over vessels from the companies owned by Hilmar Reksten and his family. Moreover, the family's 80 per cent share majority in RA Hadrian was transferred to the Guarantee Institute without compensation. The vessels were to be managed by Hilmar Reksten's adopted son, Johan Reksten. Although Hilmar Reksten was allowed to remain on the board of RA Hadrian, he refused to sign the annual report and chose not to participate on board meetings as "he questioned the legal basis for the agreements with the Aker Group and the Guarantee Institute."

In order to secure the liquidity of the companies until the end of 1979, RA Trajan II and RA Hadrian received guarantees from the Guarantee Institute of NoK 277 million and NoK 463 million respectively.' In the period 1976-1980 the annual losses of the companies were in the region of NoK 270-300 million. Their negative balance increased from NoK 131 million in 1976 to NoK 1.275 million by the end of 1980.

In late 1981 the Guarantee Institute disbursed NoK 871 million in connection with the guarantees granted to the benefit of Reksten's companies. On 10 May 1982 RA Hadrian was wound-up after almost fifty years of operation. The company's NoK 17,4 million share capital was lost, and the accumulated losses amounted to NoK 567 million. RA Trajan II continued its activities with Johan Reksten and Hambros Bank as the main shareholders.

In February 1979 Hilmar Reksten was charged with eight counts of tax evasion and exchange-control violations. He was acquitted on seven counts, but a fine of one million kroner was imposed on him for offences in connection with undisclosed profits of NoK 13,6 million from the sale of a tanker in 1973. Hilmar Reksten condemned the criminal proceedings against him in a letter to the Norwegian Prime Minister Odvar Nordli; "[e]ven

³⁵ Due to cross-holdings and transactions within the group it is difficult to distribute the vessels across the various companies. Moreover, Hilmar Reksten usually signed newbuilding contracts personally, and later decided to which company the vessel should be allotted.

³⁶ Letter from Leif Asbjørn Nygaard to the Minister of Trade and Shipping dated 8 March 1976, Archives of the Norwegian Ministry of Foreign Affairs No. 164.58, *Norsk Garantiinstitut for skip og borefartøyer*, box 1, folder 4: 1/12-75-31/3-76. Nygaard was head of office in the Ministry of Trade and Shipping and member of the board of the Guarantee Institute. Reksten later referred to him as "the leader of the revolutionary tribunal".

³⁷ Director's report, R/A Hadrian, Annual Report 1976, 32.

³⁸ Stortingsmelding nr. 103 (1980-81) *Om virksomheten i Norsk garantiinstitut for skip og borefartøyer AS i 1980 [Report to the Storting on the activities of The Norwegian Guarantee Institute for Ships and Drilling Vessels AS in 1980]*, 4. The guarantees were renegotiated and increased in 1978.

my iron constitution could not endure the strain." He died in Bergen in July 1980, aged 82.

In November 1980 Hilmar Reksten's estate was filed for bankruptcy by the Norwegian authorities due to lacking tax payments. The work of the administrators of the estate and their expensive hunt for assets abroad is a history in its own right.³⁹ In January 1991, ten years after the untangling of the Reksten-empire started, the Norwegian newspaper *Aftenposten* claimed that "[t]he Reksten-case is definitely approaching an end."⁴⁰ However, legal cases in connection with the estate are still contested in the Norwegian judiciary. According to the current Norwegian national budget, "[d]ue to on-going lawsuits related to its only remaining activity, the Reksten-complex, the Guarantee Institute can not be dissolved."⁴²

Hilmar Reksten took advantage of the profit opportunities in the shipping sector. On 9 October 1973, he considered himself "in a fantastic position". No shipowners had more tonnage available for assignments in the red-hot spot market than he had. A few years later Hilmar Reksten set a new, more dubious record. No shipowners had more tonnage laid up than he had.⁴¹

Hilmar Reksten's strategy — focus on large tankers, expansive contracting and operation in the spot market — had served him well in a growing shipping market. After the oil price increases of 1973 and 1974, the tables had been turned. Reksten's strategy, which had enabled him to become one of the world's leading tanker owners, was particularly ill-suited to the changed fundamentals in the shipping market. Indeed, when the tanker market collapsed, his fleet expansion and chartering strategy had made it impossible to adapt to the new situation. Hilmar Reksten's spectacular rise was overshadowed by his even more spectacular downfall.

³⁹ Letter from Hilmar Reksten to Prime Minister Odvar Nordli, dated 26 March 1979, Archives of the Norwegian Shipowners' Association, folder 6 B K 75 – Krisen 1975 XII: 1/11-78-30/6-79.

⁴⁰ The administrators disclosed, among other things, that the money which the Iceland Shipping Corporation used to save Reksten in 1975 actually belonged to Hilmar Reksten. For two different views on the work of the administrators of the estate, see Thune, Jens Kristian, *Jakten – på sporet av Hilmar Reksten [The Hunt – in Hilmar Reksten's Trail]*, (Oslo, 1991) and Haaland, Arild, *Reksten-eventyret – en økonomisk tragikomedie i syv akter og en epilog [The Reksten Fairytale – an economic tragicomedy in seven acts and an epilogue]*, (Bergen, 1996).

⁴¹ *Aftenposten*, 24 January 1991, 22.

⁴² Stortingsproposisjon nr. 1 (1999-2000) *Statsbudsjettet – Noerings- og Handelsdepartementet [The National Budget – Proposition from the Ministry of Trade and Industry]*, 19.

⁴³ See the comparison of the lay-ups of independent tanker owners in Drewry, *The role of independent tanker owners*, 9-56.