Fairplay

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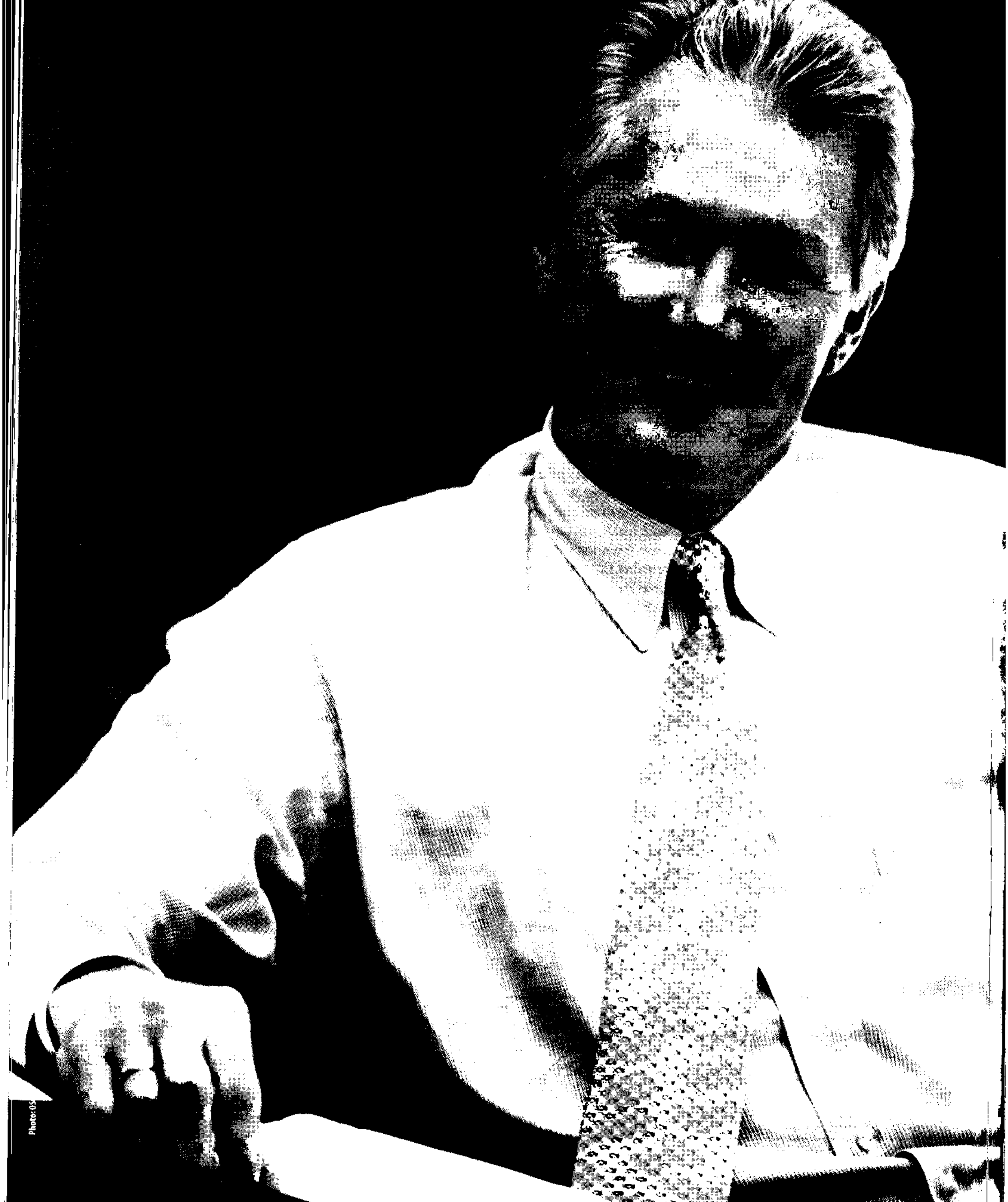
The survivor

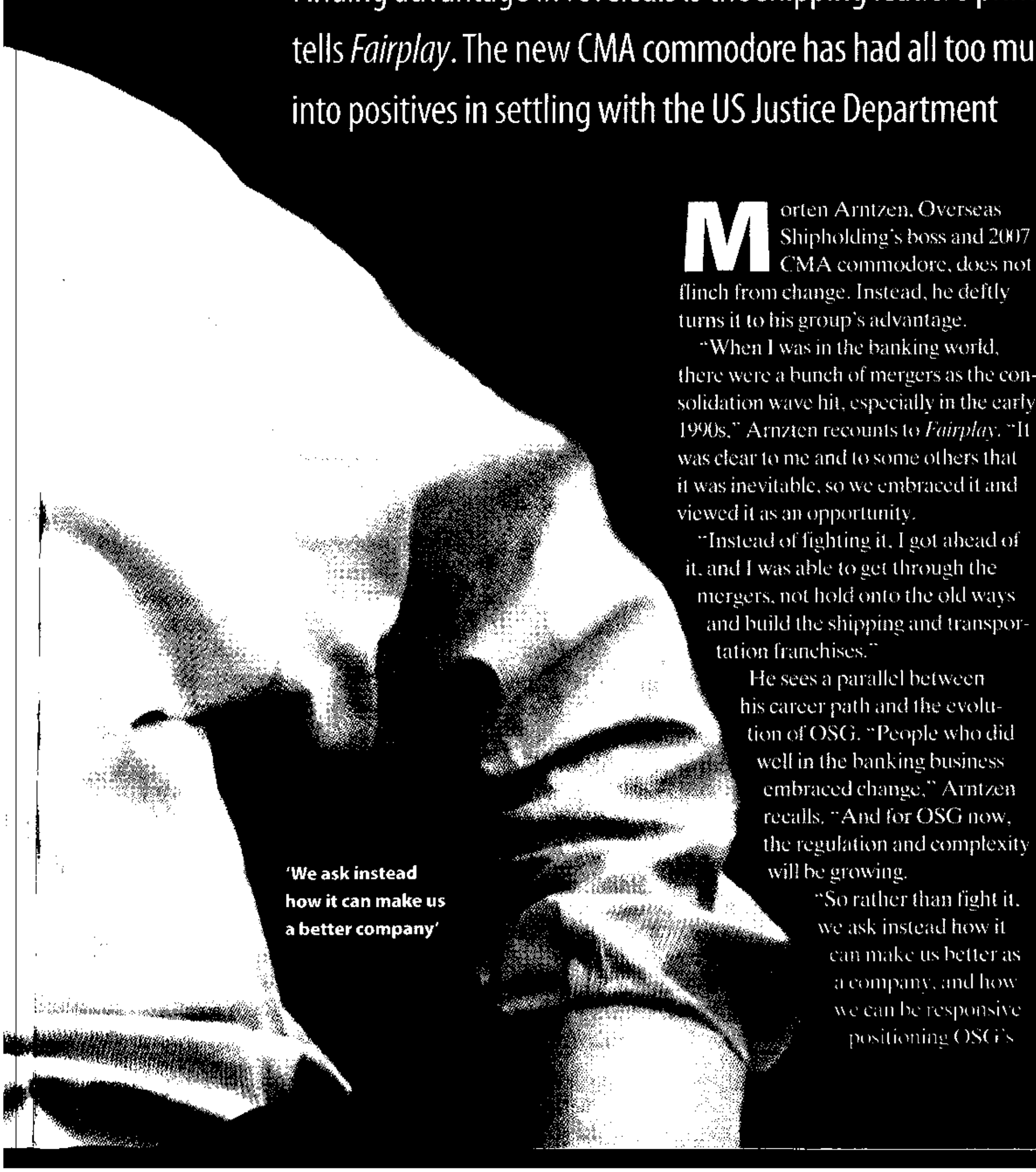
CMA Commodore: Morten Arntzen makes his next move p16

COVER STORY



Bending, not breaking, at OSG

Finding advantage in reversals is the shipping leader's prime challenge, Morten Arntzen tells *Fairplay*. The new CMA commodore has had all too much practice in turning conflicts into positives in settling with the US Justice Department



'We ask instead how it can make us a better company'

Morten Arntzen, Overseas Shipholding's boss and 2007 CMA commodore, does not flinch from change. Instead, he deftly turns it to his group's advantage.

"When I was in the banking world, there were a bunch of mergers as the consolidation wave hit, especially in the early 1990s," Arnzten recounts to *Fairplay*. "It was clear to me and to some others that it was inevitable, so we embraced it and viewed it as an opportunity.

"Instead of fighting it, I got ahead of it, and I was able to get through the mergers, not hold onto the old ways and build the shipping and transportation franchises."

He sees a parallel between his career path and the evolution of OSG. "People who did well in the banking business embraced change," Arntzen recalls. "And for OSG now, the regulation and complexity will be growing.

"So rather than fight it, we ask instead how it can make us better as a company, and how we can be responsive positioning OSG's business to be in front of that wave, rather than being drowned by it."

During Arntzen's first three years at the OSG helm, the New York-based tanker owner has evolved dramatically, enhancing its market position and simultaneously pushing forward in multiple sectors.

But it has not all been smooth sailing. Just weeks before being named Connecticut Maritime Association commodore, Arntzen had to sit down with the press to discuss a subject far less palatable than transport.

On 19 December, OSG reached a comprehensive settlement with the US Department of Justice on 33 counts of environmental and recordkeeping violations and agreed to pay the record sum of $37M.

Arntzen did not hide as the negative publicity struck: in fact, he proactively called *Fairplay* to arrange a face-to-face to discuss his side of the story on the day the DoJ press release hit the wires. Then he moved on.

Like many other successful leaders, Arntzen's management formula is a mix of big-picture foresight and delegation of the nitty-gritty to experienced teams.

"It's all about empowerment. You

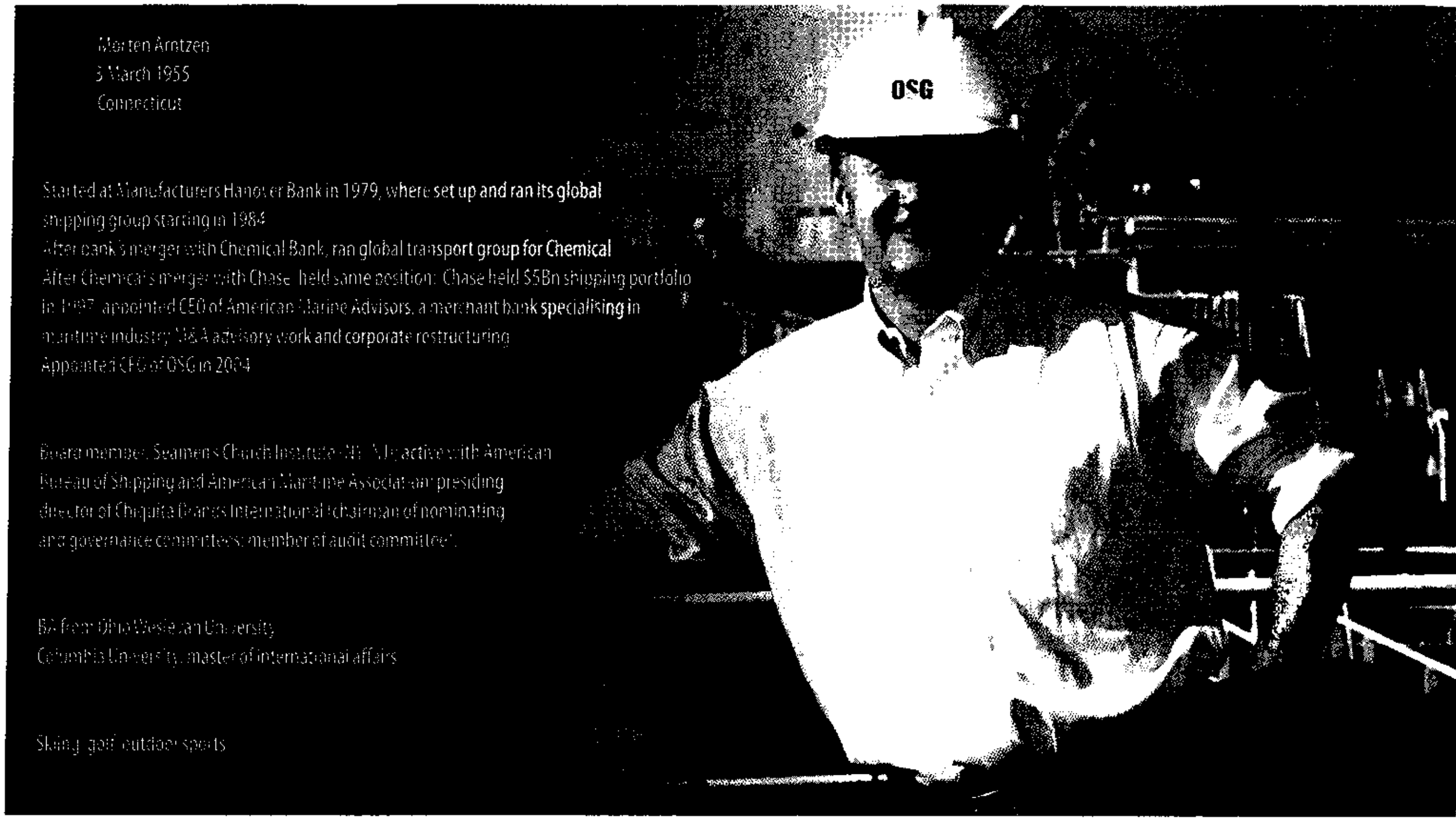


Photo: OSG

can get the best out of people by involving them in the planning and then the implementation," he emphasises.

"A few months after I joined OSG [in 2004], we brought in the Monitor Group, Professor Michael Porter's company, to facilitate a review that led to our strategy now," Arntzen recalls.

"We identified what we were good at, and people throughout the company were participating. So everyone felt like they were part of the process. That benefits us enormously today."

Targeting strategic sectors

The result of that review was the targeting of four strategic sectors in which OSG "seeks to be a market leader, at or near top": the mainstream international-flag crude sector, the international products trade, the US-flag products business and LNG.

Unlike quite a few other shipping executives, Arntzen does not hail from a multi-generational shipowning family. Born in Norway, he came to America as a young child (aboard Norwegian-America Line's *Bergensfjord*) when his father opened a New York office for Wikborg Rein, a top Oslo legal firm.

After graduating from Columbia University with a master's in international affairs, he joined the prestigious training programme at what was then Manufacturers Hanover.

> 'Our industry will face increased regulation and scrutiny. The US will likely be in the forefront – especially California – and China may be more visible'

Picking up on his Norwegian roots, the bank's top brass prophetically moved him into the shipping group, where he began his ascent.

As the years passed, 'Manny Hanny' merged with Chemical Bank.

That, in turn, merged with Chase Manhattan.

With each of these transitions, Arntzen was promoted to positions of increasing responsibility.

His next career move, to American Marine Advisors (now AMA Capital Partners), confirmed that he could work at both a behemoth such as Chase, where he oversaw 500 people in the transport group, and a far smaller entity.

"When I joined AMA, we had only about a dozen people," he says, joking: "I had a little bit of vertigo and learned to do my own typing."

By the time he left for OSG, AMA was "as highly regarded as any [company] in the world of shipping debt and equity finance," he continues.

"So, in that sense, even though OSG is much bigger, it has that in common. Good people can excel and prosper. A big part of my job is creating the right environment for that to happen."

It's also about financial acumen, with Arntzen's 25 years in the financial trenches typifying the new breed of banking-savvy shipping boss.

Keeping assets off balance sheet

OSG's recent deals have been sophisticated. The LNG transaction is tied to project financing for vessels valued at $900M, while the US-flag construction program enables OSG to control assets with value exceeding $1Bn – yet kept off OSG's corporate balance sheet.

Publicly traded spinoff Double Hull Tankers – through which OSG controls seven modern vessels through a leaseback arrangement but does not own the ships – is another example of Arntzen's creativity in maritime finance.

His financial pedigree was further evident in the early 2005 acquisition of Stelmar, which fuelled OSG's push

> 'There will be zero tolerance [by customers] for a business that is not incident free. You can't hide or run away from it'

into the international products trade and was tied to changes in the US federal tax code.

OSG's operations have also had major changes. In addition to its foreign-flag operations in Newcastle, England, the company has added product tanker management in Athens.

OSG is also melding its US-flag operations with its Tampa team, which joined through the acquisition of Maritrans in late 2006.

Compliance and regulations are now viewed as mission-critical competencies in the Manhattan headquarters that report directly to Arntzen. Corporate governance has also been bolstered.

'We needed to modernise'

"When I came here, OSG was a public company, but like many shipping companies, it had been run similar to private outfits," he says. "It was clear to the big shareholders and to the board that we needed to change. Corporate governance was a very big thing; we needed to modernise."

Rather than encountering resistance, he describes a very broad mandate to move the company forward. "One important change we made is to spread out our management dialogue throughout the company and let people know that their opinion counted," Arntzen remembers.

"Family businesses and listed companies run that way, work through strict command and control. We needed to flatten it out."

Another peak at OSG for Arntzen was the day he stood alongside ex-President Bill Clinton at the signing of the Aker Philly newbuild contract.

As for the valley of the DoJ settlement, he explains why the company agreed to that record plea: "We did not want to divert any additional management time to this. We thought it was best to move onward."

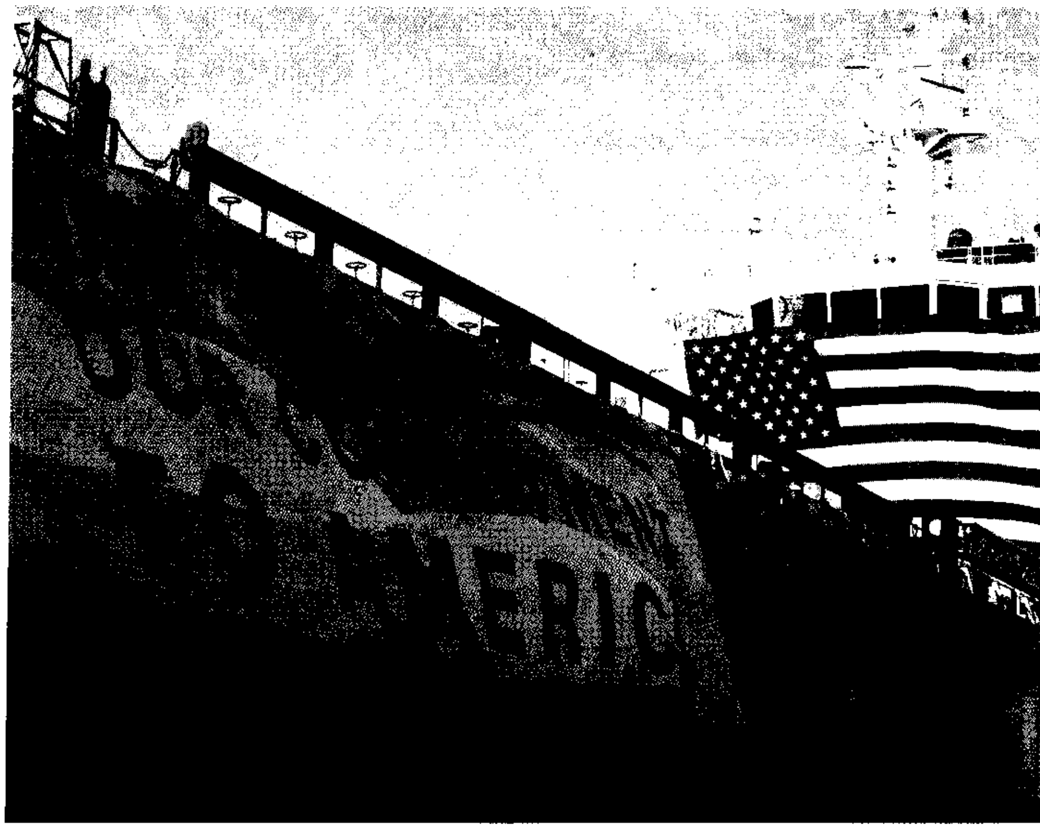


Photo: OSG

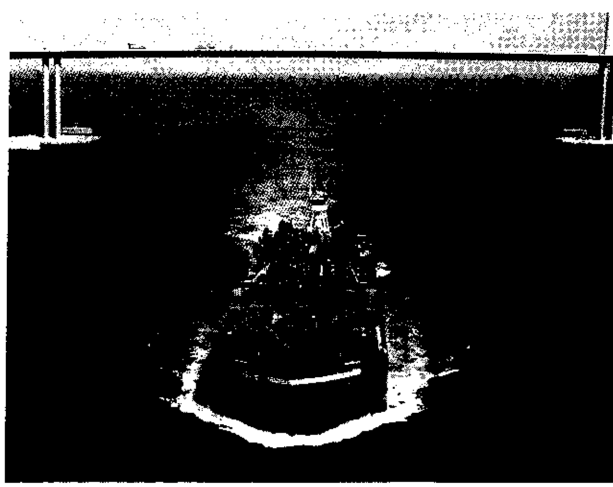


Photo: OSG

OSG is making a major push into the US-flag sector with both tankers and ATBs

Putting that case in a broader context, he asserts: "Our industry will face increased regulation and scrutiny. The US will likely be in the forefront – especially California – and China may be more visible in this area. This is a worldwide trend."

As a consequence, he points out that "operations is becoming one of the new glory areas. That's how important it is.

"There will be zero tolerance [by customers] for a business that is not incident free," he says. "You can't hide or run away from it." ■

TIMELINE:
Rapidly evolving OSG

Overseas Shipholding has had a development flurry in the past two years, all but one positive:

- 20 January 2005 – Stelmar purchase closed, significantly raising OSG's product carrier and Panamax capacity
- 3 June 2005 – OSG signs definitive agreement for charter of 10 US-flag product tankers being built by Aker Philadelphia for delivery through 2010
- 25 September 2006 – Accord announced to buy US-flag barge and tanker operator Maritrans for $455M; deal closes 28 November
- 11 November 2006 – First Aker Philly newbuild Overseas Houston christened
- 19 December 2006 – OSG agrees to comprehensive settlement with DoJ on environmental and record-keeping charges, pleading guilty to 33 counts and agreeing to record $37M fine
- 7 February 2007 – OSG agrees to charter up to six additional product-carrier newbuilds built at Aker Philly, potentially extending series from 10 to 16 ships. Of the original 10 vessels, nine have been secured employment (four to Tesoro, three to BP and two to Shell)
- 26 February 2007 – Deal closed to buy Houston's Heidmar Lightering from Morgan Stanley
- 6 March 2007 – OSG signs for three 290,000-barrel ATB newbuilds from Bender/Tampa Bay