

Eletson: a quality tanker operator

Eletson Corporation is one of the few companies that invested in double-hull tonnage in advance of OPA 90 and has made quality and transparency its watchwords. The company's CEO, Gregory Hadjieleftheriadis, is the subject of this issue's personal profile. By Barry Parker

First impressions are often lasting impressions. When you first meet Gregory Hadjieleftheriadis, you encounter a man who is both passionate and forward-thinking in all aspects of his business. His early career is a classic story. Coming from a maritime family, he grew up in Piraeus, went to sea and co-founded a company that has grown to be a marker against which other shipowners benchmark themselves. Hadjieleftheriadis' passion for high quality extends beyond his business, Eletson Corporation, into industry matters generally and increasingly into environmental matters. The link is integral - the words 'quality' and 'environmentally friendly' come quickly in any discussion of Eletson, where Hadjieleftheriadis has emerged as the leading spokesman. More so than anyone else, he embodies a powerful emerging paradigm: the tanker owner as a visible member of the world community with whom his company must interact.

Beginnings

Even at the beginning of Eletson, a 'Quality Culture' was in evidence, at least two decades before the 'Q' word became fashionable (and then de rigueur). Eletson was founded in 1966 by Gregory's father Vassilios, his brother Apostolos and two brothers-in-law, Eric Kertsikoff and John Karastamatis, with the mission of providing quality transport. His parents were born in Asia Minor (now Turkey), not far from where his family had operated a well regarded ship chandlery business in Constantinople, serving vessels transiting the Bosphorous and Dardenelles, since the 1800s. In the tumultuous 1920s, amidst the "Exchange of Populations" between Greece and Turkey, his family immigrated to Athens, continuing in the maritime business. His father Vassilios was a director of a Greek tanker owner, ELPA Maritime. After the founding of Eletson in 1966, their first forays were into second-hand tonnage, starting with a small combination carrier, Maria T., built 1936. In the late 1960s, Hadjieleftheriadis (who had already graduated from the Greek Merchant Marine Academy on the island of Hydra) went to London to complete advanced studies in business, where he met Australian born Pamela, later to become his wife. During that time, he also worked briefly in the London office of N.J. Goulandris. By 1970, Gregory was back in Greece and Eletson had purchased its first tanker, of 15,000 dwt, from Norwegian owners Ugland and renamed her Evi T. More product tankers followed in the 1970s and into the early 1980s, when the company bought a fleet of seven Japanese-built 29,900 dwt tankers from the Karageorgis group, making it a player in the dirty product trades. In 1983, five similarly sized single-skin newbuildings were ordered from Kanda Shipyard in Japan.

Eletson was in full expansion mode by 1986, when it ordered four 46,000 dwt product tankers from Korean Shipbuilding and Engineering Corporation (KSEC) in Pusan (now Hanjin). I asked Hadjieleftheriadis about the decision to order more expensive, by some \$2.5m each, double-hull tonnage in Korea, at a time when single-skin Japanese-built vessels were the norm. He chuckled and said, "I did not have a crystal ball and could not predict the Exxon Valdez accident, three years later, and the subsequent OPA 90 legislation [that moved the industry towards double hulls]". He went on to explain that the product trades were complex, "with efficient operation requiring us to wash tanks and discharge dirty ballast water overboard so we could arrive ready to load the next parcel", and that operationally, the void spaces between

the hulls offered what were effectively dedicated ballast spaces. Of course, he was also motivated by good citizenship, admitting that "I could not see us pumping dirty ballast water into the Mediterranean". He went on to say that he was comfortable because the yard had built sophisticated naval vessels and chemical carriers for European as well as Far Eastern owners. The ordering continued into the mid-1990s during which 11 Handymax and 10 Panamax vessels were ordered. Currently, Eletson has five vessels on order at Hyundai Heavy Industries' Ulsan Shipyard in Korea (three Aframax and two Panamax).

Setting the trend

Throughout the years, Eletson has consistently been a trendsetter, applying common sense and questioning conventional wisdom at every step along the way. Eletson was the first Greek company to enter the "Yankee High Yield Bond" marketplace, where foreign companies raise money from US investors, in this case \$140m. Many shipowners, especially those with a short-term asset flipping viewpoint, view bond financing as inflexible. The long-term viewpoint necessitated by bond financing suited Eletson (a long-term player with a mission of providing steady service to corporate customers) perfectly.

The financial discipline predicated on structures built to last and requisite disclosures with the private bond markets positioned Eletson to take advantage of a Clinton Administration initiative to encourage commercial shipbuilding in the US. In March 1994, Hadjieleftheriadis gave a seminal speech, on "Quality in Shipping" at the annual Connecticut Maritime Conference in Stamford, Connecticut (where an Eletson office had been opened in the mid 1980s). Over the course of the three-day event, he encountered representatives from Newport News Shipbuilding, eager to make a foray back into commercial work after years of concentration on now declining military work and from the US Maritime Administration's Office of Ship Finance - emboldened by new regulations that would open up its Title XI debt guarantee program to non-US owners ordering in US yards.

This confluence resulted in another historic first, the order of four double-hulled product tankers from the Newport News yard. Eletson eventually ordered four vessels of the "Double Eagle" design, an outgrowth of specifications drawn up earlier for US oil companies. There were some "hiccups with the construction", and eventually, the vessels circuitously found their way into the fleets of ExxonMobil and what is now Seabulk International (ex-Hvide Marine).

Transparency in action

Hadjieleftheriadis' view of operational transparency carries over to the financial arena; he says that "we want to show our business partners and international customers that this company is in very good shape". In spite of softer 1Q 2002 results, the company used the strong market of 2000-2001 to build up substantial reserves and pay down debt. Even after Eletson retired the Yankee bonds in November 2001, calling them in two years ahead of schedule, the company still provides financial information in the form of quarterly statements, although it is not required to do so. Contrast Eletson's successful record with the dismal records of shipping's other high yield borrowers. A number of the high yield maritime bond issues of 1997-1998 were ignominiously morphed into 'restructurings', where bond investors got fractions of the original principal. This is in stark contrast to Eletson's perfectly legitimate usage of early retirement features allowing the issuer to pay off bonds at par, i.e. returning 100 per cent of principal to the investors. Eletson still uses very traditional bank lending and was quick to re-engineer its ownership structure shortly after buying back the bonds, consolidating all of its vessels into the Eletson holding company.

Looking ahead

Consistently, Hadjieleftheriadis has revealed an unconventional streak that has proven to be right on the money business-wise. Consider that Eletson is an equity investor in OceanConnect.com, an online marketplace for bunker fuel, having made a strategic investment (as a buyer and consumer of bunker fuel) after an exhaustive study of the dot.com marketplace in early 2000. At the time, there were many procurement efforts emerging. Now, many are gone, but OceanConnect is among the well placed survivors. The company has also invested in its own website, www.eletson.com and prides itself on being proactive in the use of IT technology throughout the operation.

Perhaps Hadjieleftheriadis' most powerful strokes, swimming ahead of the tide, have been his appreciation for the importance of environmental stewardship long before it was fashionable. He met his Australian born wife around the time of the first stirrings of the environmental movement and long before anyone equated environmentalism with good business value. In 1982, he was among the founders of the Hellenic Environmental Protection Association (HELMEPA), serving as its first vice-president under founder George P Livanos. Increasingly, he has spent time in Australia, a country with the largest coastline in the world, where his activities have included cattle ranching. In 1999, he was one of the founding board members of AUSMEPA, the Australian Maritime Environmental Protection Association, which he describes as a "child of HELMEPA". He notes that Australia, with its beautiful coastline, is highly dependent on shipping for imports and exports and he sees AUSMEPA as providing a bridge between the Australian polity and the industry which serves it.

His views on the environment were most strongly stated in a speech given at the Mare Forum two years ago. "We only have one earth, which is covered 70 per cent by water and 30 per cent by land, on which six billion people live in an environment that is getting worse every day." In the same remarks, he lays down the gauntlet to his fellow owners: "We must appreciate the public sentiment and understand that our role in society and industry carries a very heavy burden. It is our responsibility to educate the public, to assist them in understanding what we do and to prove to them through continuous effort that we deserve much better."

An industry personality

Gregory Hadjieleftheriadis aptly describes himself as an industry personality. Already the public face of Eletson Corporation since the early 1980s when he began to speak on the conference circuit, he came into his own as a highly effective spokesman for the entire tanker industry as well in the early 1990s, passionately spreading his message that the tanker industry must embrace both quality and transparency. Hadjieleftheriadis saw the benefits of running a transparent operation before most of his peers. Industry transparency, which is now receiving a fresh look in the wake of maritime security concerns, was a taboo subject up until the mid-1990s when the International Association of Independent Tanker Owners (INTERTANKO) began its public relations efforts in earnest.

In a speech given two years ago, Hadjieleftheriadis was the first to explicitly and very publicly make the connection between transparency and quality. He said, "Eletson is on record for many years now stating that the best transparency in our line of business, at least as far as maritime safety is concerned, is not the voluntary one but the one that is regulated by an environment where transparency is enforced in such a manner that you have no option but to comply." Listing Enron, Andersen and even recent events at DNV, he says that we live in a changed world, where disclosure is the norm rather than the exception. He cited the Equasis database, where vessel histories are available publicly and the US Coast Guard's Qualship 21 programme, through which a scaling matrix explicitly rewards good operations, as some of the most positive over the past few years. More on point to issues being addressed suddenly on the International Maritime Organisation's (IMO) agenda in the spring

and summer of 2002, he continued, "The sooner we face the world as we truly are and stop hiding behind a brass plate on the wall, the sooner we shall be respected and eventually compensated for our risks and hard work."

So what about the future of the tanker business? Hadjieleftheriadis believes that our industry, where "even the biggest players are small in relation to the whole", must be regulated, most likely by the IMO through designated agencies with real teeth and enforcement powers. He sees a pendulum swinging back to national flags (such as the Greek flag where Eletson registers its vessels and has dutifully paid tonnage taxes irrespective of the state of the market), and says that "the time for flags of convenience is over. National flags are now inviting owners to come back."

As far as the future for Eletson, it is now in the hands of the next generation and will continue to provide high quality service in the demanding products trades. He describes his company as a company that embraces safety, security and environmental regulations that are ultimately beneficial. No doubt, Gregory Hadjieleftheriadis will be appearing at shipping conferences in Sydney, London, and Stamford, extolling the virtues of these values well before other owners have seen the advantages for themselves and the industry at large.