Frank Iarossi, a senior executive for Exxon, was sleeping soundly in his bed in a Houston suburb when the phone jarred him awake in the middle of the night on March 23, 1989. A frantic voice on the other end was the first he would hear about an oil spill that would become one of the worst crises in the history of American business.

“Mr. Iarossi, there’s been an accident up in Alaska,” said the voice on the other end. “Lots of oil was spilled over on Bligh Reef, clean up hasn’t even started yet. Someone from Houston is going to have to get out here real fast.”

As Iarossi put down the phone, a nauseous feeling began to rise up in his stomach. Just how bad was the spill? Who was responsible? And, most important of all, how should the company respond?

**Exxon History**

In the mid-1800's, a flood in the petroleum market sent the prices from $20 a barrel in 1859 to ten cents in 1861. John D. Rockefeller saw that the future of the industry depended on orderly production, transportation, and refining practices. Rockefeller started a small oil refinery in Cleveland in 1863, and seven years later formed the Standard Oil Company, incorporated in Ohio. The name Standard represented high, uniform quality. The company grew into a huge complex of refining, pipeline, and marketing organizations. Since states outlawed one company from owning shares of another, Rockefeller and his partners founded the Standard Oil Trust in 1882.

In that same year he formed the Standard Oil Company of New Jersey, a refining and marketing organization, as an operating arm of the trust. This company would bear the name Standard Oil (New Jersey) from 1892 to 1972. In 1911, a court ordered dissolution broke the oil trust into thirty four separate companies. Eight of these companies chose to keep the Standard Oil name. The negative public image of the Standard Oil monopoly remained with its name and Standard Oil (New Jersey) carried that burden as the largest of the eight companies.

For sixty years following the breakup, salesmen of the Standard Oil Company (NJ) sold their products under trademarks that included Esso, Enco, and Humble, but longed for a single name under which to market their product.

Standard Oil (NJ) and its affiliates took a momentous step in 1972 when they gave up their well known trademarks to become the Exxon Corporation. Although Exxon registered the name in countries across the globe, it continued to retain the Esso trademark outside of the...
United States because there was no compelling reason to abandon the well known Esso name abroad.

**Leaving the Port of Valdez**

As crewmen loaded the *Exxon Valdez* almost to capacity on the evening of March 23, 1989, the ship's captain, Joseph Hazelwood, went ashore with the chief engineer and radio electronics officer. The three men conducted some official business, ran personal errands, and met at a bar in the late afternoon. They played darts with local residents and each purchased one or more rounds of drinks. The radio electronics officer stated that he drank beer while Hazelwood consumed a “clear” beverage, and the chief engineer drank gin and tonic. The chief engineer said that he had three gin and tonics and did not recall how much Hazelwood had.

After about four hours at the bar, they ordered pizzas from a local pizza parlor and each had another drink. The radio electronics officer believes that Hazelwood drank a vodka while they waited for their pizza. The cab driver who drove the group back to the ship claims that no one seemed to be “under the influence of alcohol.”

The state employs pilots to navigate vessels out of the Port of Valdez. The pilot who navigated the *Exxon Valdez* on the night of March 23rd stated that he smelled alcohol on the captain's breath upon his return from town, but his behavior and speech seemed unimpaired. The captain left the bridge soon after the ship began its journey and returned an hour and a half later when the pilot disembarked at Rocky Point. The pilot again smelled alcohol on Hazelwood's breath, but saw no signs of impairment.

There were heavy ice flows in both the inbound and outbound traffic lanes on the night of March 23, 1989 as the *Exxon Valdez* attempted to pass through the Valdez Arm. Hazelwood had two choices: he could slow down and navigate the ship through the ice field or navigate around the ice and pass within a half a mile of Bligh Reef. He decided to cross the traffic lanes and avoid the ice. Darkness posed difficulties for navigating through ice and passing near Bligh Reef only posed a hazard if there were either a propulsion or steering malfunction or a navigation error.

As the ship approached the waterway bordered by heavy ice on one side and Bligh Reef on the other side, Hazelwood asked the third mate if he felt comfortable navigating alone. Even though the third mate had performed excessive work and received little sleep in the past twenty-four hours, he felt comfortable navigating the ship around the ice. Hazelwood reportedly left the bridge to attend to administrative duties.

Hazelwood knew the area well and could have had an accurate mental picture that would have allowed him to visualize the vessel's movements around the reef. It would have taken him twenty minutes to maneuver the vessel safely around the reef, and he would have had two hours to finish his other duties before returning to port.

In addition, according to the *Exxon Bridge Organization Manual*, the captain or the chief mate was required to be on the bridge given the dangerous situation. Since the chief mate had worked long hours earlier, it was Hazelwood's obligation to be on the bridge. According to federal regulations, a Federal pilot had to be in charge of a vessel's navigation in those
waters, and Hazelwood was the only officer on board who possessed the required Federal pilotage endorsement.

**Background on Joseph Hazelwood**

Hazelwood grew up on Long Island, drawn to the sea from an early age. As a teenage member of the Sea Scouts, he distinguished himself for calm and courage by climbing the 50 foot mast of a schooner to haul in a mainsail blown out by a violent storm. He attended New York's Maritime College, an elite and rigorous state school run in the Bronx. People remember him starting to drink there. Later he developed a reputation as a hard drinker among some of his fellow sailors, who also said that he always knew when to stop so his performance would not be seriously impaired.

He was one of a select group of his Maritime College classmates hired by Esso. His first commanding officer Steve Breolsford claimed Hazelwood had a sixth sense about seafaring that enabled him to smell a storm on the horizon, or watch the barometer and figure how to outmaneuver it.

Exxon, however, issued a 1982-83 review of officer performance on Hazelwood that recommended he be reassigned to shore duty. This appraisal was never signed or forwarded to Exxon headquarters for review.

In 1985 Hazelwood captained the Exxon Chester through a freak storm of thirty foot waves and fifty knot winds. The radar and electronics gear went out, and some of the crew were ready to abandon ship. Hazelwood calmed them, rigged a makeshift antenna, and guided the ship back to port.

He was arrested for drunk driving in 1984 in Huntington, NY. Hazelwood entered a rehabilitation program after that on the advice of his Exxon supervisor, Captain Mark Pierce. Hazelwood was put on 90 day leave after the arrest. Company records at Exxon show Hazelwood as "depressed and demoralized...that he had been drinking excessively and episodically resulting in familial and vocational dysfunction."

In May of 1985 Exxon administrative manager Ben Graves wrote a memo to Exxon's legal department reporting that Hazelwood had admitted returning to ships in port "in an intoxicated state on several occasions, and that shipmates...reported he had violated company alcohol policy on at least several occasions."

By 1988 Hazelwood had resumed heavy drinking and his 20 year marriage was on the rocks. Between 1984-1989, his driver's license was suspended three times for drunk driving violations. The Coast Guard renewed Hazelwood's shipmaster certification without checking his car driving record.

One crewman recalled that two months before the spill, Hazelwood invited him into his cabin "to destroy a bottle." "It's almost like Joe was trying to get caught," said a good friend of Hazelwood's. "He'd close his door, but everyone knew what went on. He would always say that everything was fine, but then why was he drinking? The guy was begging for help, but he kept it all inside."
The Seven Sisters

Seven giant corporations—Exxon, Shell, BP, Gulf, Texaco, Mobil and Socal (Chevron)—have had a strong hand in the control of the world's oil supply since the early 1900's. Like the classical sisters in ancient mythology, these Seven Sisters, as they were called as early as 1913, seemed to have achieved immortality. They were the first of the global giants. They had larger incomes than many of the small nations where they operated.

Exxon's 1973 annual report claimed, "Exxon was a multinational corporation at least fifty years before that term was commonly used." The Seven Sisters, led by the two largest, Exxon and Shell, strove to be self-sufficient oil companies whose oil could flow into their tankers through their refineries to their filling stations.

As the unopposed leaders of the oil trade through the 1960's, the Seven Sisters had an image of permanence and stability that "commanded the awe of governments and publics." The 1970's, however, saw a dramatic shift in the balance of power. Unlike the 1960's, demand began to meet and surpass supply. Oil had become the lifeblood of world energy and surpluses became a thing of the past. Free world petroleum demand rose from 19 million barrels a day in 1960 to more than 40 million barrels per day in 1970. Wells in the Middle East satisfied two thirds of this increased consumption and led to a dependence on Middle Eastern oil. In addition, the devaluation of the American dollar gave power to the sellers in the Middle East.

The Oil Crisis

The first challenge to the absolute power of the Seven Sisters came from Libya in 1969. At that time, Libya supplied one quarter of Western Europe's oil. As the cheapest oil to transport after the closing of the Suez Canal, Libyan oil was desirable to the profit hungry corporations. However, Libya received no extra concessions for their cheaper oil. When Colonel Qadaffi came to power in 1969, he threatened to cut back production if prices were not raised. The companies attempted to stand firm on their prices, but eventually Libya forced them to concede to a thirty-cent increase in the posted price and a hike in Libya's share of profit from 50 to 55 percent.

The Libyan crisis set off an avalanche among the oil producing countries and began to shift the balance of power from the buyers to the sellers. It began not only a retreat by the companies, but a seller's campaign to maintain sovereignty and control over their oil resources.

Earlier, in 1960, oil producing countries in the Middle East had formed the Organization of Petroleum Exporting Countries (OPEC) to help defend their oil interests. However, OPEC had little power in the 1960's with the oil surplus and dominance of the giant oil companies.

The Middle East was now, however, in a position to use their "oil weapon" to achieve both economic and political goals. Some politicians believed that they wanted to use oil to restrict American support of Israel. They also thought the middle eastern countries hoped to capture the "windfall profits" of the oil companies.
In 1973, war in the Middle East broke out and OPEC began demanding a 100 percent increase in the price of oil. The oil companies consulted with the governments of the major consuming nations and together rejected the demand as outrageous.

**The Oil Embargo**

OPEC’s power rose in the 1970’s, and in September 1973, the organization announced an oil embargo as a political move against Israel. Initially, OPEC's embargo cut back oil shipments by five percent every month. Only "friendly states" could maintain their levels of buying. After the United States announced a $2.2 billion military aid package for Israel, the Arab states declared an embargo on all oil shipments to the United States. The price of oil quadrupled in just two months and placed the oil trade in the hands of eleven countries, not seven companies.

The embargo put the Seven Sisters in a challenging position. They had to allocate their oil in a way that would not appear to defy the Arabs' boycott, yet would satisfy their customers throughout the world. And the American companies had to enforce an embargo of their own home country. As multinational corporations, some began to question the true loyalties of the companies.

The dramatic increase in the price of oil shocked the American public. Some people accused the companies of deliberately plotting the oil crisis and joining the Arab cartel to raise the price of oil. A public opinion poll showed that most people placed the blame for the energy crisis on the companies more than the Arabs. The companies seemed to buffer much of the anger that the public would have directed at the Middle East.

At the height of the oil shortage, Exxon announced record breaking profits. Profits were up 80 percent in 1973 to give Exxon profits that exceeded the profits of any other corporation up to that time: $2.5 billion. Exxon and other oil companies explained that profits had previously been too low because they needed the profits for the development of future energy resources. For example, Mobil advertised, "We're recycling the money he pays at the pump right back into oil-finding offshore, Alaska, anywhere." However, the companies could not convince the energy starved public so easily.

At the end of the embargo in 1974, Washington made many attempts to break the oil cartel and bring down the price of oil. The economy was in the midst of a recession and high inflation that could partially be attributed to high energy costs. By 1975, consumers had cut back enough so that supply began to exceed demand again and economists predicted the fall of OPEC. However, the Middle Eastern countries simply cut their production and maintained their fixed prices.

**Iran/Iraq War**

The outbreak of war between Iran and Iraq in the late 1970’s brought further havoc to the oil industry. It initially removed eight percent of the free world demand for oil from the market and fear drove prices to an all time high. As prices and profits rose, oil companies sank large sums into new development. The frantic pace caused costs to rise out of control.
throughout the industry. Exxon spent over a billion dollars in 1980 on the Colony Shale Oil Project, which it had to abandon two years later due to the rising costs of the project and the falling price of oil.

High prices forced the public to make deeper cuts in consumption to lower their energy costs and lessen their dependence on the Middle East. Long lines at filling stations, fuel shortages, and angry consumers again plagued the oil industry. An agreement was reached in 1981 that brought prices down and ended the last large rise in oil prices of the 1980's as the laws of supply and demand gained control over prices.

Oil Prices Return to Normal
After 1983, the world saw a dramatic reduction in oil costs primarily due to reduced dependence on Middle Eastern oil. Development in other countries, including the U.S., flourished. Many turned to alternative, cheaper sources of energy. In addition, the industrialized nations moved toward conservation and higher efficiency. By 1985, the United States was 32 percent more oil efficient than it had been in 1973. These three trends reduced the demand on OPEC oil by 13 million barrels per day, a fall of 43 percent from 1979 levels.

Oil Shock
In late 1985, a third oil shock hit the world that reduced prices to as low as $6 per barrel from over $30 per barrel. The surplus in demand had created a war for market share among the oil producing countries. In late 1986, the leaders of OPEC ended the low prices. They established a price of $18 per barrel and instituted a quota system to support this price. Although prices fluctuated between $15-$18, this agreement remained solid through the 1980’s. These prices reflected pre-1979 levels and therefore wiped out the increases of the early 80’s.

Development in Alaska
The interest in Alaskan oil began as early as 1923 when President Warren Harding set up a naval petroleum reserve on the Arctic coast of Alaska. Wildcatters poked around the region and big oil companies began to take a larger interest following the Suez Crisis in the mid-1950's. Many companies sought to relieve their dependence on Middle Eastern oil, but had to give up after drilling many expensive dry holes in the frigid climate of northern Alaska. Exxon began drilling in 1956, but suspended operations just three years later after drilling the most expensive dry hole ever drilled up to that time.

Richfield, a California independent, continued to investigate the Alaska region and Exxon became Richfield's partner through its Humble Oil subsidiary in 1964. Richfield merged with Atlantic refining to become Atlantic Richfield, or ARCO. ARCO and Humble continued to drill expensive dry holes in Alaska and their final, risky attempt was at Prudhoe Bay on the north coast in 1966. Many had their doubts and ARCO's head later stated, “It was more a decision not to cancel a well already scheduled than to go ahead.” In 1967, they
began drilling the Prudhoe Bay State well, which would be their last attempt in Alaska if it failed.

In December of 1967, they struck oil in the largest oil field ever discovered in North America. Prudhoe Bay would not destroy oil prices, but it would have the potential to slow American dependence on the Middle East and "reduce dramatically the tautness in the global oil balance."

The Big Three on the North Slope were ARCO, Exxon, and BP. Experts suggested that Prudhoe Bay could become the third-largest producing field in the world. The harsh physical environment of Alaska presented their only large obstacle. Technology had to be developed to drill and produce in such a frigid area with such extensive permafrost. The lack of roads and ice-filled waters also presented a transportation problem.

The Pipeline

After much debate, a pipeline seemed to be the best answer. One idea was an eight hundred mile pipeline south across Alaska to the port of Valdez where the oil could then be shipped through the Prince William Sound to markets in America or abroad. Many suggested building a pipeline across Canada into Chicago, but the idea was discarded for the "all-American route" which would be more secure and could add flexibility. In addition, the Canadian government frowned on the idea and such an extensive pipeline would take longer to build than a trans-Alaska pipeline.

In 1970, the major companies involved in the pipeline construction, including the Exxon Pipeline Company, incorporated the Alaska Pipeline Service after a joint venture the previous year. When the Exxon Valdez ran aground, British Petroleum owned fifty percent, Exxon and ARCO owned about twenty percent each, while Amerada Hess, Mobil, Phillips Petroleum, and Unocal all held smaller stakes.

However, the barriers to the trans-Alaskan pipeline were many. In addition to the technological building problems, the oil companies had to contend with Eskimos, Alaska natives, and environmentalists. The 1969 Santa Barbara oil spill energized environmentalists to win a federal court injunction in 1970 that blocked the building of the pipeline. They claimed that the companies were moving too quickly without sufficient understanding and caution.

The oil companies underestimated their opposition and spent $75 million on equipment to build the roads and lay the pipes. That equipment remained frozen on the banks of the Yukon River until the injunction was lifted five years later as an emergency measure after the oil embargo. By 1977, over a million barrels a day were flowing through the pipeline and over the following two years that amount grew to two million barrels, a quarter of America's total crude oil production. By 1977, the total cost of the pipeline system had reached $8 billion.
Running Aground

According to the third mate, the following events led up to the grounding on Bligh Reef. As the ship approached the Busby Island Light, the third mate shifted the steering from automatic pilot to hand steering. He gave orders to the helmsman for a ten degree right turn of the rudder which would gradually turn the ship and return it to the traffic lane. He telephoned Hazelwood that the ship had begun to turn and the ship should pass safely through the ice.

After 1.5 minutes, he noticed that the ship had not turned and ordered a twenty degree right turn of the rudder. After another two minutes, he ordered a hard right turn, recognized that the vessel was in danger, and telephoned Hazelwood to say that they were in "serious trouble." At the end of the phone conversation, the third mate felt the vessel contact the bottom.

The Alcohol Problem

The investigating officers who boarded the ship three hours after the accident detected a strong smell of "stale" alcohol on the captain's breath. When questioned about his drinking, Hazelwood responded that he drank two non-alcoholic beers while the vessel was at sea. The officers later found the two empty bottles in the captain's stateroom.

The investigating officers requested toxicological testing of the ship's personnel, but had trouble obtaining the proper equipment. When proper equipment was located aboard the ship ten hours after the accident, urine samples were taken from the third mate, helmsman, and lookout. The captain did not provide a urine sample because he was unable to urinate.

One half hour later, a medical technician boarded the ship to take blood samples. The captain provided the first blood sample and also gave a urine sample. Analysis of the samples found .06 percent ethanol in the captain's blood and .01 percent in the urine. No traces of alcohol were found in samples provided by other crew members.

Assuming that Hazelwood did not consume alcohol after the accident, calculations show that Hazelwood's blood alcohol concentration (BAC) level could have been around .27 percent at the time of the accident. This concentration is higher than when he was arrested for drunk driving in 1988 with a BAC of .19 percent. The arresting officer reported that he smelled strongly of alcohol, had difficulty getting his driver's license out of his wallet, and was unsteady on his feet. In most states, a driver is charged with drunk driving if his BAC is above .1 percent.

An Exxon policy dated March 1987 prohibited the use, possession, distribution, or sale of drugs and alcohol on company premises. Coast Guard regulation states that a person operating a vessel other than a recreational vessel is intoxicated when (1) the person has a BAC of .04 percent or (2) the person is operating any vessel and the effect of the intoxicant(s) on the person's manner, disposition, speech, muscular movement, general appearance, or behavior is apparent by observation. It also states that a crew member shall not perform or attempt to perform any scheduled duties within four hours of consuming any alcohol. The marine employer is responsible for ensuring compliance with this rule.
Media Coverage of the Oil Industry

In the late 1970's, oil companies were heavy users of corporate advertising. They promoted their virtues with issue ads rather than their product. For example, Texaco ran environmental and energy crisis ads throughout the 1970's.

Only Mobil, however, maintained a steady commitment to issue advertising through the 1980's with their frequent advertisements in national magazines and the op-ed pages of major newspapers.

Despite these efforts, in the 1980's, many of the oil giants did not have a strong image with the American public. "Oil companies are held in remarkably low esteem," said James Foster, president and chief executive officer of Brouillard Communications in New York. "People don't know who they are or what they stand for. A shroud of mystery surrounds them, and it translates into a negative perception...Since the embargo days, the oil industry has gone into a shell and has not told their story very well. They consequently had very little reputation or equity to fall back on when they ran into problems. They've become invisible, and it's catching up to them."

Communications at Exxon

Although Exxon was one of the largest corporations in the world at the time of the spill, Exxon USA's office in Houston was only equipped with one man and an answering machine to respond to the crisis on March 23, 1989. Despite this, Frank Iarossi had to come up with a plan for dealing with the crisis in terms of the spill itself and how the company would communicate with several different constituencies.