



A Quarterly Magazine from ABS

Winter 2003/2004

SURVEYOR



ABS



New Vision for a

servicing ships and sailors in San Francisco Bay. Over the following century, while maintaining family control of the company, the Crowleys grew it into a major provider of maritime services ranging from tugs and barges to containerships, with operations from the tip of South America to Alaska's North Slope.

Now nine years into the job, Thomas B. Crowley Jr. has soundly trounced any doubts about youthful

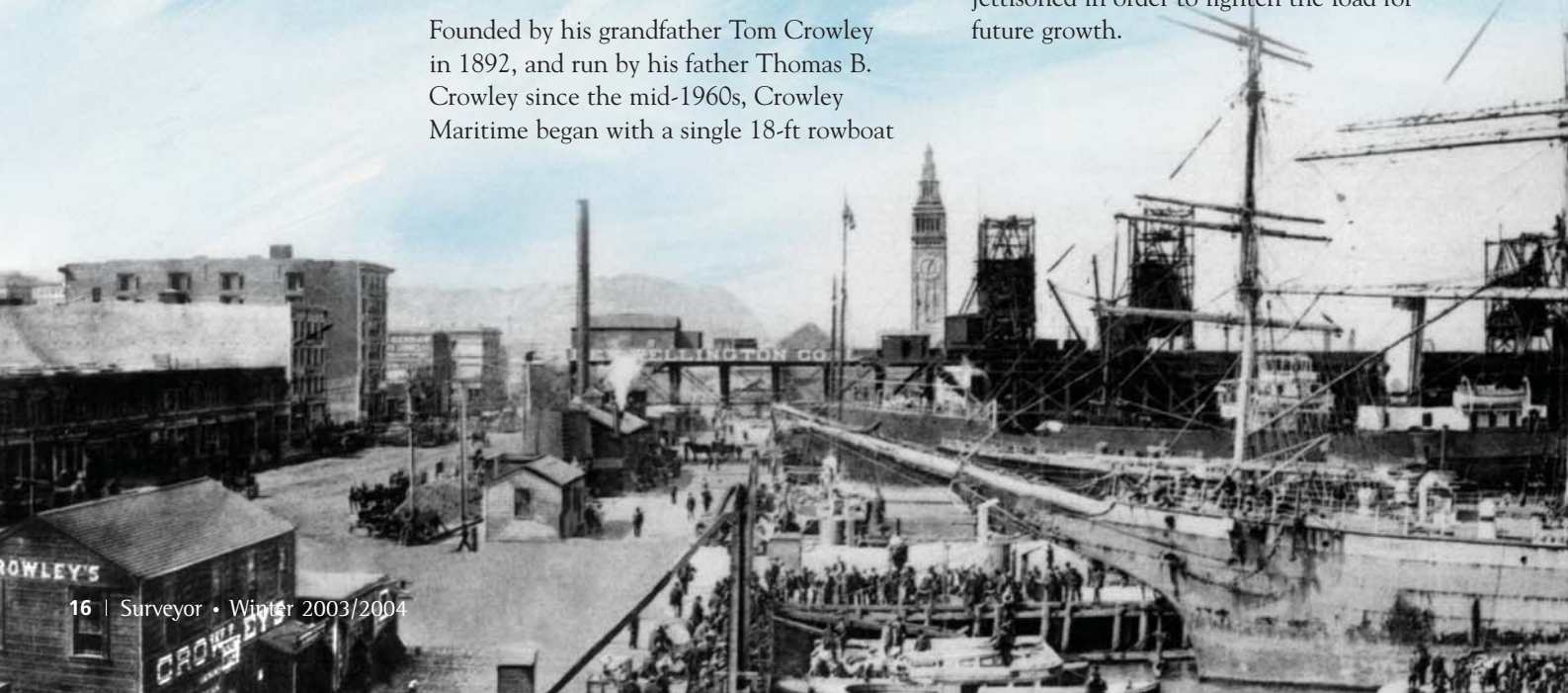
corporate leadership. In a series of striking decisions, the third-generation Crowley has guided a carefully paced streamlining and repositioning of the company to meet the new challenges of its second century.

Profile: Thomas B. Crowley Jr., Chairman, President and CEO, Crowley Maritime Corporation

In 1994, 27-year-old Thomas B. Crowley Jr. faced the kind of challenge that few can imagine. With the untimely passing of his father, he had suddenly ascended to chairmanship of a diversified international organization employing over 5,000 people, operating more than 200 vessels, and generating annual revenues in excess of \$1 billion. Just six years out of college at the time, the eyes of the maritime world were focused on the young man and his impending adventure, wondering how well he would take the reins of Crowley Maritime Corporation.

Founded by his grandfather Tom Crowley in 1892, and run by his father Thomas B. Crowley since the mid-1960s, Crowley Maritime began with a single 18-ft rowboat

The first stages of this transformation involved dealing with the legacy of his grandfather's slogan, "Anything, anywhere, any time, on water," and the century of growth it inspired. As the company grew, it accumulated business lines and strategies that needed reexamining in the light of the market realities that have made 'return to core competencies' the new mantra for many industries. Within a few years, Crowley determined that the business needed to narrow its focus into a few principle areas, with some of its operations needing to be either reformatted or jettisoned in order to lighten the load for future growth.



n Old Company

One of the first actions he took was to sit down with the company's managers and define its corporate culture. "One of the advantages to a family business is that, without the housecleaning and radical changes of direction that come with new management in other types of organizations, the company is able to build a solid culture," he says. "Ours evolved over time, stemming from my grandfather and father, but we had never written down what that culture was. So we developed a list of our core values and published that to the employees, so they could identify with it as well."

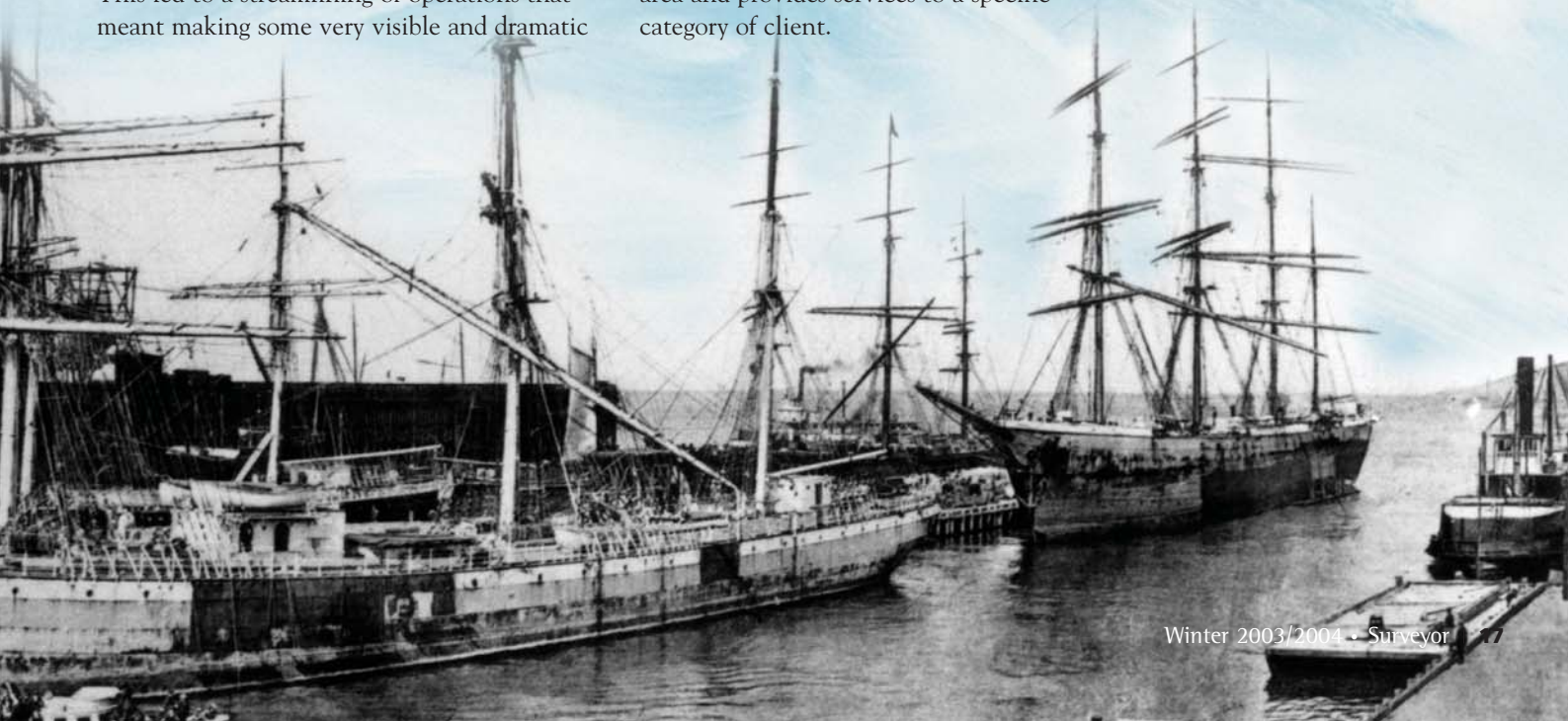
Among the first fruits of that corporate introspection was the establishment in 1994 of two long-term plans, one called Focus 2000, for Crowley Marine Services, and another called Voyage 2000, for Crowley American Transport (CAT), at the time the name of the company's liner operations. Running under the motto 'Customers Come First,' they formalized and built upon the company's organic strategy that quality service is the key to prosperity.

This led to a streamlining of operations that meant making some very visible and dramatic

changes. In 1998, Crowley sold the Red & White Fleet, the San Francisco Bay passenger service the company had run since the turn of the century. He also pulled out of its oldest business line, harbor services in San Francisco Bay. Later, under pressure of a poor container market and dim prospects for its

improvement in the wake of the Asian financial crisis, he sold CAT to premier German container carrier Hamburg-Süd, and reorganized his Caribbean and Central American operations into slimmer, more efficient business units under a new name, Crowley Liner Services.

He also reformed the company's internal organization. When he became chairman in 1994, there were two company presidents and seven administrative staff positions that reported to the CEO. Over the next few years, he turned that arrangement upside-down. Now, two senior administrative staff positions report to Crowley, along with seven business-unit leaders. Each unit covers a well-defined business or geographic area and provides services to a specific category of client.



"Eliminating a level of management was good from a cost perspective," he says, "but it had other advantages as well. In terms of information flow, it brought me closer to the business; and personally, it brought me closer to the people making the sales calls and running our operations."

New Philosophy

Among the changes Crowley brought to the company was a shift in philosophy towards specialized assets. "We've always been a hardware company, investing in ships, tugs, barges, etc., and one piece of our future is to continue investing in hardware – but only when we can make a positive difference," he says.

"In the past, the company grew by acquiring general assets," he explains. "For example, we built 25 tugs, and a similar number of 400 x 100-ft barges, to support development of the North Slope of Alaska, in the hope that the trade would come – which it did. But in today's world, it is much tougher to make those kinds of bets and win.

"Our new approach is to invest in specialized assets that will earn above-average returns. So we are focusing on specialized vessels, such as US-flag Jones Act ships and advanced service vessels like the tugs in Alaska's Prince William Sound Ship Escort Response Vessels System (SERVS). There's nothing like them in the world," he says proudly.

Design, engineering, construction and management of Crowley's new assets are the purview of a special team located in Seattle, called Vessel Management Services Incorporated (VMSI). Since its formation in 1996, VMSI has delivered a series of tractor

and Z-drive tugs, four articulated tug-barges (ATBs), and, for Alyeska Pipeline Service Company's SERVS system, two state-of-the-art tractor tugs and three prevention and response tugs. As the shipowning arm of the Crowley organization, VMSI charters vessels to Crowley companies and third parties.

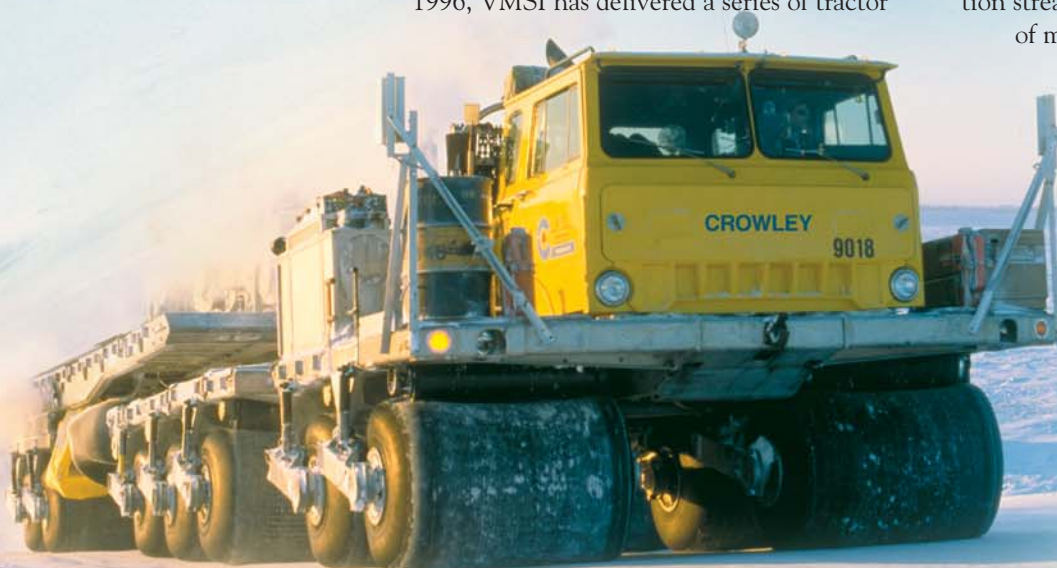
Crowley also discovered a hidden asset, one that had been building in value throughout the company's history: expertise. "A central piece to our future, which marks a big difference with the past, is to become a seller of management expertise in transportation," he says. "In the past, we developed tremendous experience in many areas. That itself is an asset, and we don't have to own any hardware to sell it. In our Central American operation, for example, we manage the business without owning any vessels, and much of our equipment is leased."

Crowley Logistics is one such non-asset-based operation that is focused on supply chain management. But the asset-based units of Crowley Liner Services also take this tack, he says, offering expertise in, for example, how to line up connections between such transport modes as truck and rail, or ship and air. It is a strategy that lets the container lines serve not only their own customers, but also the customers of their competitors.

On the tug side of the business, Crowley describes a similar opportunity. "We have long-established expertise in moving any kind of object at sea – aircraft carriers, drilling rigs, modules, etc. – and also in managing those moves. We can, for example, sell that specialized knowledge of how to get something difficult from point A to point B. The transportation stream is full of opportunities for the sale of management expertise. I envision us, in the long term, as being able to spread our wings into new areas without necessarily providing the hardware."

Building on a Solid Foundation

"We're a very different company today than we were eight years ago, but we got here slowly, and on a two-way street," says Crowley, referring to his belief in evolutionary change, and to the cooperative relationship with the



managers and staff, whose input informs and strengthens his own decision-making.

His chairmanship began with a tough kind of on-the-job training, the success of which he credits in part to the support given by the company's experienced managers. As he worked beside them, he learned their philosophies, clarified his own, and was soon confidently directing the company according to his vision of the future.

"I believe every decision is a learning process, which is why I give the managers a lot of latitude," he says. "I certainly don't know all the answers – besides which, there are not a lot of black-or-white answers in our business. It's all about assimilating information and trying to make the best decisions you can," he adds. "The way I see it, if you get it more than half right, you're doing okay."

His talents and philosophies were carefully nurtured under his father's tutelage. Thomas B. Crowley did not want his son to grow up an isolated child of the boardroom but to be a living part of the company. Through a long-term program of having him work at all levels of the firm before taking a responsible position, Crowley gave his son not just appreciation for how the company worked, but also for what corporate-speak like 'assets,' 'labor pool' and 'operations' actually mean. It also ingrained in him an appreciation for the people who make up the corporation.

"The people are the real source of strength in our organization," he adds. "My father used to say, 'When I started out in this business, I spent 90 percent of my time on the business and ten percent on the people. Now, I spend 90 percent of my time on the people and ten percent on the business.' My dad was a people-person and so am I. It's probably even truer today than in his time, that this is a people-based business. In a company this size, one person can't make every decision every day; it'll swallow you up. So, much of the chairman's efforts need to be focused on making sure the right people are in the right jobs: people who understand and support the corporate culture, and who consequently make the right kinds of decisions."

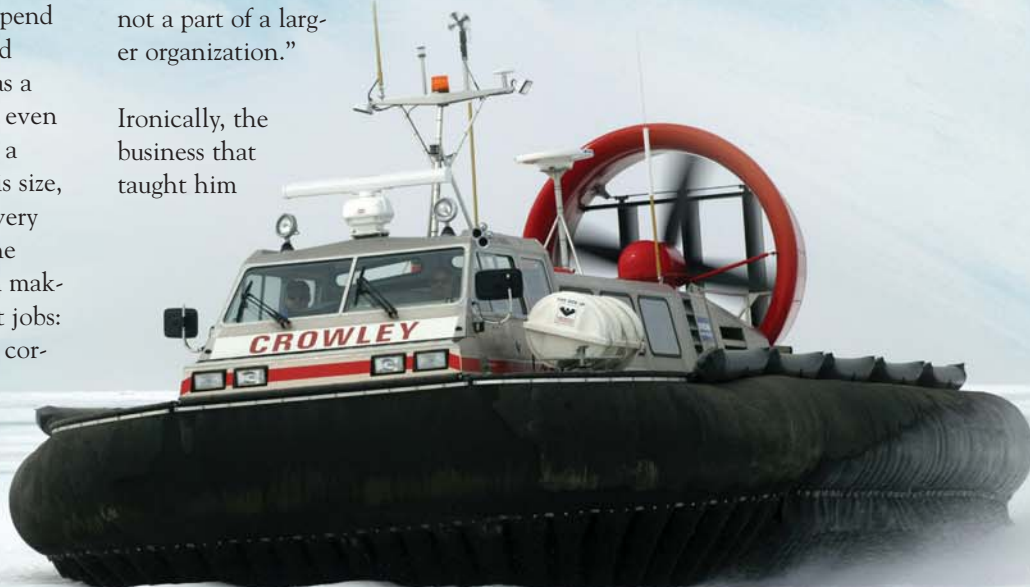
Crowley began working odd jobs for the company in 1983, while a junior in high school. As a student at the University of Washington,


he took a variety of summer jobs: barge mechanic, sales and accounting, computer systems, and manual labor in Alaska. "My dad used to say that he started off working in a shipyard, scraping barnacles off the bottom – and he wanted me to do the same," he says.

Moving through numerous departments after college, he settled in Jacksonville, Florida, managing the loading and unloading of the containerships calling there. A phone call from his father in 1991 brought him back to San Francisco for a new challenge: general manager of the Red & White Fleet, Crowley's passenger service in San Francisco Bay.

"The Red & White Fleet was the one part of our organization that had very different activities from all the others: tourism, retail customers, and its own sales, operations and accounting divisions. It was a great opportunity, because it gave me a real chance to run a small business that was not a part of a larger organization."

Ironically, the business that taught him





management also taught him that he ought to sell it. "The Red & White Fleet was just too different from the rest of the company, with a completely different set of customers and issues. It was a profitable operation, and it was fun, but it didn't have much synergy with the rest of our activities."

"My grandfather started off in the Bay and expanded horizontally through all the possible businesses it offered: launches, water taxis, tugboats, passenger boats, barges, growing the business doing everything on the water in San Francisco," he explains. "When that reached its limits he expanded outwards into Los Angeles, Seattle, Alaska, Florida, and so on. But once you spread out so far, you have to step back, look at the whole picture and ask what it is you are really good at. When I did that, I could see the passenger business hadn't grown. It was important in growing the company early on, but the company evolved beyond it, and we had to recognize that."

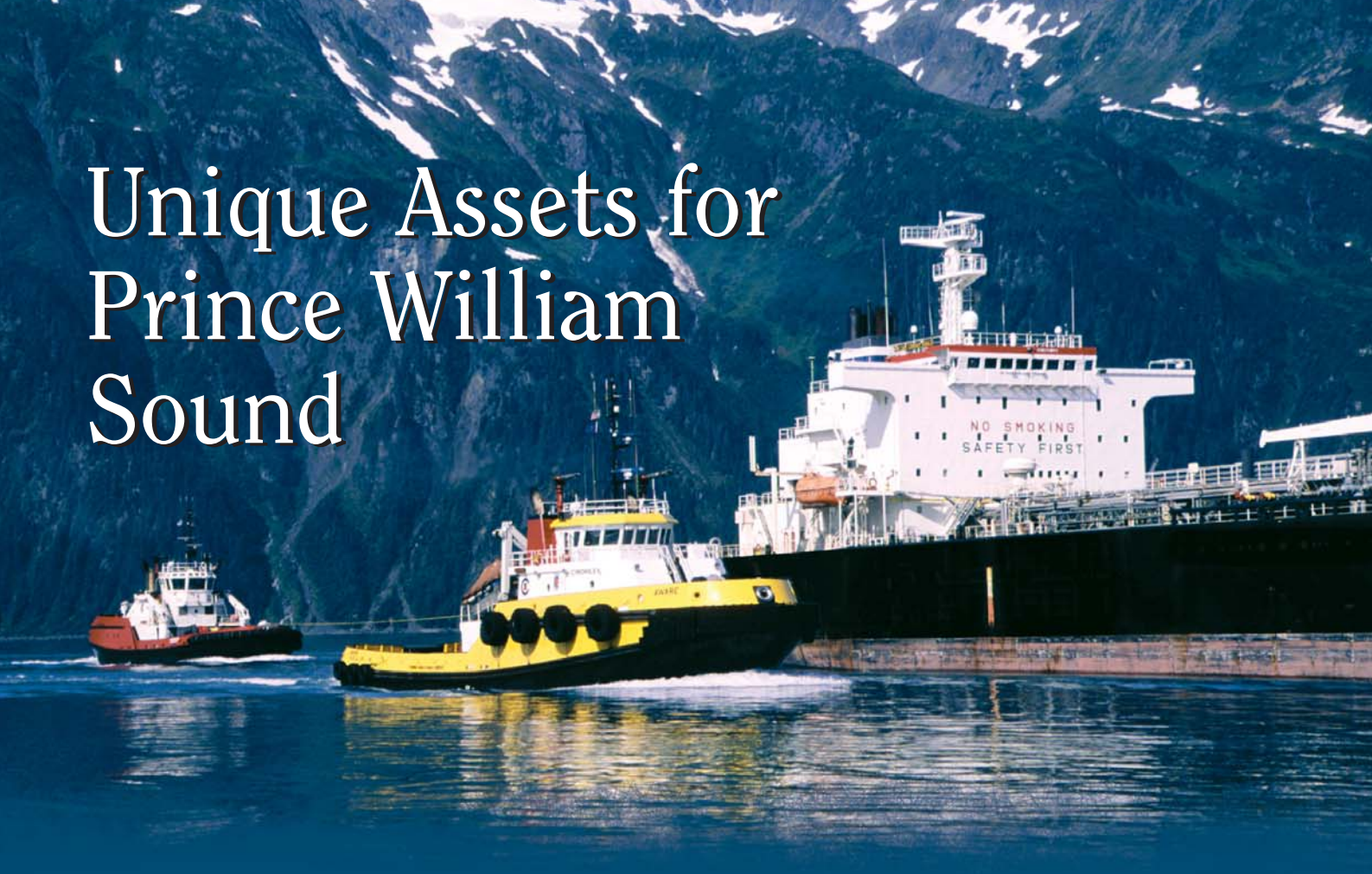
Its final lesson, then, was that sentiment has only a limited place in business; 'Graduation Day,' the moment he made the difficult decision to part with the Red & White Fleet, is perhaps the time in his business life for which he is most grateful.

"Among the advantages of coming back to San Francisco was attending the staff meetings my father held every Monday. I would sit in just as an observer. In those three years, between when I came back and when he passed away, I got to know the people and see how the company operated. I was really very fortunate in that."

In addition to input from his managers, he always had the examples of his father and grandfather to guide him. "The real advantage to being part of a family business, one that has had relatively little change in terms of top management, is its continuity of culture, philosophy and decision making, from my grandfather, to my father, to me. I can look back and see the decisions they made, and where it took them – the good and the bad – and draw on this, especially when thinking through the corporate strategic direction: what my dad did in a similar situation, what he would do now, how we got where we are, and so on; and I can apply their lessons to the question of how we go forward."

"I was trained for this job by one of the best," says Crowley. "It's too bad my father isn't around to see the company today. I certainly miss him, and his vision – but his vision and the things he accomplished are preserved, in a way, as we evolve, move forward, and, I hope, build a bigger, stronger company for the next generation."

Unique Assets for Prince William Sound



Two examples of Crowley's philosophy of building strength on unique assets can be seen at work in Alaska's Prince William Sound, where two specialized Enhanced Tractor Tugs (ETTs) and three Prevention and Response Tugs (PRTs) make up the heart of the Alyeska Pipeline Service Company's Ship Escort Response Vessels System (SERVS).

The two 153-ft ETTs, named *Nanuq* and *Tan'erliq*, built in 1998 and 1999 by Dakota Creek Industries of Anacortes, Washington, were constructed under a unique design-build-operate contract between Crowley and Alyeska to develop dedicated equipment for tanker escort and spill response in Valdez harbor and Prince William Sound.

Propelled by twin Caterpillar engines powering Voith Schneider propulsion systems, they have a static bollard pull of over 100 tons and an indirect pull of about 260 tons. They are supported by three PRTs, the *Alert*, *Attentive* and *Aware*, built in 2000. In addition to being able to generate 10,192 horsepower, the PRTs are armed with firefighting equipment, booms, spray dispersant arms, and special skimmers for spill recovery; their internal tanks can store 70,000 gallons of recovered oil.

"It's hard to come by a client willing to give a contractor like us a sufficiently long-term contract to support investing in such expensive equipment. A 10-year contract in today's world is very hard to get from an oil company," says Thomas B. Crowley, CEO. "In turn, we

committed quite a lot of capital to that solution for SERVS and Alyeska. Those vessels are our stars. We are a safety conscious and environmentally aware company, with the first ISO 14000 certified tugs in the fleet and a record of over 600 days without a lost-time accident. It is truly a unique set of assets and a unique business."



A RAPIDLY SPREADING CORPORATE TREE



Although the Crowley name immediately brings to mind tugs and barges, its activities span a much wider area of activity, one that stretches across the globe and embraces liner services and logistics, tankers and transportation solutions.

Its liner services business brings in about half the company's revenues. Crowley Liner Services, headquartered in Jacksonville, Florida, is divided into a group that serves Puerto Rico and the Caribbean, and another that focuses on Mexico, Central America, Panama, the North Coast of South America, the Dominican Republic, Haiti and Cuba.

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Services include regularly scheduled liner operations for cargo shipped in containers and/or trailers; rolling stock such as cars, trucks, buses and construction equipment; and breakbulk, heavy lift and over-dimension items via Crowley's extensive fleet of specialty

equipment and vessels. In 2001, Crowley became the first US ocean carrier in 40 years to transport commercial cargo directly from the United States to Cuba.

Crowley Liner Services shares headquarters with a third business unit, Crowley Logistics, Inc. As a third-party logistics provider (3PL), Crowley offers supply chain management and transportation management services including: freight forwarding; ocean, inland and air transportation; customs house brokerage; warehousing; and distribution. Crowley's offices and distribution centers can be found throughout the United States, Central America and South America.

The company's Transportation Management Center, the heart of its logistics framework, enables clients to combine and tailor services as needed, and tap into a sophisticated materials and shipment tracking technology.

Last year, Crowley Logistics acquired Speed Cargo Service, a Miami-based transportation services provider, and this year acquired Apparel Transportation, Inc., a Miami-based apparel transportation services provider. Both companies complement Crowley's existing

services in air, ocean and inland transportation services to customers throughout the United States, Central America and the Caribbean.

Three other business units have headquarters in Seattle, Washington: Ship Assist and Escort, the tug business serving California, Washington and Alaska; Petroleum Services, handling the towed barges on the US West Coast and fuel distribution in Alaska; and the Energy and Marine (E&M) services group, handling project work in the oil industry ranging from all-terrain and marine transportation to project management and logistics.

One recent feather in the E&M cap was the 2002 ocean tow of the ABS-classed *Orlan*, a concrete island drilling structure, from Prudhoe Bay on Alaska's North Slope to Sovietskaya Gavan in the Russian Far East for deployment in the oilfields off Sakhalin Island.

That was just one early step in Crowley Maritime's promising entry into Russia's offshore development. In April 2003, Crowley Far East Services was incorporated in Sakhalin State, to offer marine and shoreside logistics and transportation services to its developing energy and construction industries.

"Our latest area of operation is Sakhalin Island in Russia. It is an area totally underdeveloped in terms of infrastructure – roads, port facilities – and yet \$30 billion will be spent there in the next six years for oilfield development," says Crowley CEO Thomas B. Crowley Jr. "They can't build roads or port facilities in that short a time, so they will need our specialized services. With its shallow-water, beach-type landing operations and the types of equipment that need to be brought in, it's very similar to Alaska. We see a lot of challenge and opportunity for us out there," he adds.

The company has long been a part of the energy sector, dating from the 1930s when company founder Tom Crowley acquired equipment from Shell Oil and began barging petroleum products along the California coast.

In 1997, his grandson decided to build on this history, establishing Crowley Petroleum Transport to acquire and operate tankers in US trades.

The new business unit gained tanker operating experience running two double-bottom handysize tankers along the US West Coast, the ABS-classed *Blue Ridge* and *Coast Range*, and began building a fleet of ABS-classed articulated tug-barges (ATBs). In 2001, Crowley took this plan a step further and acquired Marine Transport Corporation (MTC), America's oldest shipping line (founded 1816) and a leading player in the US-flag Jones Act trades.

MTC brought to Crowley its longstanding experience in the Northeast US markets and four principal US-flag business lines – chemical parcel transport, refined petroleum transport, crude oil lightering and ship management – along with a customer base that complemented Crowley's own.

Crowley brought to the table the financial muscle to support renewal of MTC's aging Jones Act fleet, the organization to support very long-term planning, and – very important to MTC's former owners Richard du Moulin and Mark Filanowski – a respect for MTC's history and achievement that would make the company not the subject of a corporate raid, but a vital member of the Crowley group. Crowley folded Petroleum Transport into MTC, which operates today under its historic name as a business unit under the Crowley umbrella.

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"MTC had made the decision they needed to grow, but the sun was setting on their fleet," says Crowley. "Meanwhile, we had our tankers and the ATB program underway, and saw MTC as a way to accelerate our growth into petroleum transportation. Before this, we were seen as a tugboat operator trying to get into oil transportation; now, we are squarely in the position of an experienced tanker operator."

INVESTING IN

People & Safety



Safety and training programs can become endangered species in the corporate environment because many of their benefits are intangible. When successful, they eliminate the obvious conditions that led to their implementation and come into the cost-cutting crosshairs as items of questionable necessity.

The survival of such programs, then, often depends on the level of management belief that they are worth the effort. For Thomas Crowley Jr., and the people-oriented culture of Crowley Maritime, that, he says, is never a question.

"From a general management perspective, safety programs bring benefits one cannot readily see," says Crowley. "But for me, it comes down to a pretty simple point-of-view: We've been around for a long time, and we want to be around for a long time to come. Our name is on all our equipment. So we can't afford to do anything but the right thing the first time around. Safety and training programs are one way to ensure that we do."

"You can never push safety too far," he adds. "Some people suggest there's a limit to it, or that after a while it is a waste of money. Where you waste money is in not focusing on the right areas, or not doing the right kind of training. But underneath it all must be a corporate culture in which people want to do the right thing to begin with."

Such a culture does not result from management declarations that the corporation is a family, he says, but from proof that it is, through open-door communication, personal contact with staff, and recognition of their value as people.

"Training people to abide by safe practices isn't a complex science," he adds. "Either you have a company culture where people have their own motivation to follow that training, or you're throwing away your money. So, yes, you can waste money on training and safety, but you can't do too much of it."

Crowley has been conducting a vigorous campaign for certification to the ISO series of quality and environmental standards. These include the 2002 certification of Crowley Logistics to ISO 9001 and of Alyeska Pipeline Service Company's Ship Escort Response Vessels System to ISO 14001, soon followed by the entire Crowley organization's SQE (Safety, Quality, Environmental protection) certification. All certification was conducted by ABS Quality Evaluations, Inc.

"The values we know that ABS [and its affiliates] stands behind are very similar to the values our company stands behind," says Crowley. "This means a tremendous amount to us, as we want to be sure that any group inspecting our vessels, or giving us advice, shares the long-term vision, the credibility, and the value for its name that we do. ABS has certainly proven that over the years."