

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

October, 1984

SENATORS PROPOSE PUBLIC OFFERING OF CONRAIL

In separate letters to Secretary of Transportation Elizabeth Dole, Pennsylvania Republican senators John Heinz and Arlen Specter proposed that the Department of Transportation consider a public offering of Conrail's stock.

The DOT is still negotiating with three potential buyers for Conrail from an original list of 14. The three include Norfolk Southern Corporation, a transportation company based in Norfolk, Virginia; Alleghany Corporation of New York City and a consortium of investors headed by hotel magnate J. Willard Marriott.

SHIPPERS RATE CONRAIL AS BEST RAILROAD

In a marketing survey of several hundred shippers by *Distribution* magazine, Conrail was the top-rated railroad for its good service, pricing and communication with shippers.

Conrail ranked eighth on the list of top 160 carriers and had the best shipper reviews of all rail carriers. The top seven carriers on the list were trucking and air freight companies.

According to *Distribution*, which published the list of top carriers in its September issue, shippers favored carriers which:

- identified market needs and developed truly innovative product lines to meet those needs;
- backed those products with dependable performance and essential follow-up services;
- trimmed operating costs to be able to offer the products at reasonable, affordable prices; and
- kept customers informed about the products' capabilities with effective, timely advertising and other forms of promotional communication.

Conrail received high marks from individual shippers for its aggressiveness and innovation in marketing programs; for its effective advertising and promotional efforts and for its flexible service.

One Ohio-based shipper cited Conrail for its "willingness to arrange switching at all facilities to coincide with our operations."

In his letter to Dole, Heinz contended that "none of the purchasers meets the first requirement to being in the railroad business, namely, having a commitment to succeeding in railroading."

He added, "Since the rail freight business undergoes major ups and downs with the business cycle, survival in the industry requires an enduring and profound institutional commitment to being—and wanting to remain—in the railroad business..."

"On present evidence, there is little reason to believe that those now negotiating to buy Conrail have anything but a middleman's interest in buying then reselling Conrail at the earliest date allowed. (The Norfolk Southern proposal has a different problem, namely the prospect of a dramatic reduction in competition and rail service.)"

Heinz said that he favored a public offering, constructed so that no single interest could hold more than five percent of Conrail's stock. He said that this restriction will "effectively freeze out middlemen and fast-buck operators" and added that a

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CENTRAL, SOUTHERN REGIONS CONSOLIDATED

Effective October 15, Conrail consolidated the former Southern Region with the Central Region in an effort to make operations in that part of the system more efficient and centralized.

The Southwest and Columbus divisions—both part of the former Southern Region—have become part of the Central Region, headquartered in Pittsburgh. General manager for the Central Region is Ralph Gratz. Robert L. Downing, former general manager of the Southern Region, is now general manager of the Northeastern Region, replacing David L. Wilson, who resigned in September to take a position with another company.

At headquarters for the former Southern Region, Jack Kithcart, regional superintendent of transportation and Gary Myers, chief regional engineer, will remain at Indianapolis and report to General Manager Gratz.

CONRAIL REPORTS BEST 3RD QUARTER, NINE MONTHS

On October 17, Conrail reported net income of \$140.8 million for the third quarter and \$410.6 million for the first nine months of 1984—the best results for both periods in Conrail history.

Comparable 1983 results showed net income of \$85.6 million for the quarter and \$195.5 million for the first nine months. Third quarter 1984 net income increased 64 percent over the same period in 1983, and nine-month net income rose 110 percent.

Revenue for the third quarter 1984 was \$843.7 million (vs. \$760.2 million in 1983), while nine-month revenue was \$2,587 million (vs. \$2,268 million in the similar 1983 period).

"Conrail's financial performance in the third quarter continued on the same profitable track as in the first half," said L. Stanley Crane, chairman and chief executive officer. "The strength of our third quarter results was a reflection of the two key ingredients we have benefited from all year—rail traffic increases coming from solid economic activity and our vigorous cost control programs, which include improvements in operating efficiency."

Crane also noted that Conrail's cash balance continued to build during the quarter (to \$784 million by September 30 from \$710 million at the end of the second quarter). He said the accumulation of additional cash was "further evidence of Conrail's financial strength, for at the same time Conrail continues to carry out a half-billion-dollar-plus capital expenditure program."

In the third quarter, freight carloadings increased 6.5 percent over the same period in 1983 (777,800 loadings vs. 730,400, respectively). For the first nine months, the increase was 8.8 percent (2,380,200 loadings vs. 2,188,000).

Leading the traffic gains over 1983 were: coal (11.9 percent for the quarter and 12.6 percent for the first nine months); coke (61.3 and 22.4 percent, respectively); metallic ores (32.0 and 43.7 percent, respectively); motor vehicles and motor vehicle components (6.2 and 15.4 percent, respectively); non-metallic minerals (30.4 and 23.4 percent, respectively); and piggyback (8.4 and 9.3 percent, respectively).

CRANE TALKS ON TECHNOLOGY'S PAST AND FUTURE AT CONRAIL

Computer technology has paid off for Conrail by enabling it to overcome its physical limitations, said L. Stanley Crane, chairman and chief executive officer, at a meeting of the Association of American Railroads' Data Systems Division on September 10.

"Technological innovation in the data systems area has revolutionized the way we produce our transportation service and

manage our physical plant and rolling stock," said Crane. "It has landed us in a new world in a relatively short 20 years, a world in which deregulation is now a fact of life and in which lower costs and higher quality service to our customers clearly are the fundamentals of future progress."

Crane noted that technology has enabled Conrail to keep its costs low when its traffic was declining, to share information on operations across various departments and to improve productivity and operating efficiency. He added that future investments in technology will be based on how well it helps Conrail to serve customers and meet the competition.

"Today we are going to our customers to discover how we might redesign schedules and adapt our system to their production and distribution objectives," said Crane.

"Previously our technological progress was limited only by the speed with which we could apply the technology to solve our problems of productivity and efficient management. Today our technological progress is limited by the technology that our customers require of us, and by the technology that the competitive marketplace permits us to afford."

Because of this, Conrail will not add new technology without the assurance of tangible benefits, Crane said. "We cannot become engaged in the exploration of new technology for technology's sake," he said.

"The only useful focus is the pursuit of applied technology, designed to solve present business problems in a manner that provides a calculated return to the business. At Conrail we are measuring all of our investments in new systems technology by this standard."

BUSINESS REPORT

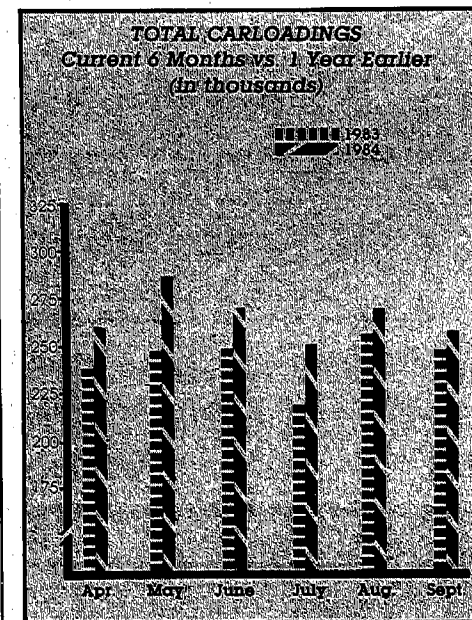
Conrail hauled 258,977 carloads in September, five percent more than it hauled during the same period in 1983.

Traffic loaded on Conrail lines was up 5.6 percent, and traffic received from connections was up 4.1 percent.

The strongest increases last month were in carloadings of coal, up 15.1 percent, trailer-on-flatcar traffic, up 8.8 percent, metallic ores, up 50.7 percent, non-metallic minerals, up 22.7 percent and coke, up 50.2 percent.

A strike by United Auto Workers employees against General Motors, which began September 14, affected Conrail's carloadings of automobiles and parts. Conrail lost about 3,000 carloads of business and about \$3.4 million in revenue because of the strike, and carloadings of transportation equipment for the month of September dipped 1.1 percent below 1983's levels.

Other decreases were in primary metals traffic, down 3.0 percent; farm products, down 13.3 percent; food products, down 15.4 percent; pulp and paper, down 7.4 percent and waste and scrap, down 1.1 percent.



GROUP ASKS FOR TIGHTER CONTROLS ON RAILROADS

A group of railroad shippers unveiled a four-point proposal on September 13 which would impose tighter controls on railroads by changing the Staggers Rail Act, which deregulated railroads in 1980.

Fred Zitto, chairman of the legislative committee of the Procompetitive Rail Steering Committee of the National Industrial Traffic League, said that the changes were necessary to "remedy monopolistic abuses and realize Congress' goal of a market-disciplined rail industry." The League, which is comprised of railroad shippers, announced their plan at a press conference in Washington, DC.

The Staggers Act has been recognized as a positive force in the rail industry, allowing railroads to offer more competitive pricing and services and to get a more reasonable return on their investments. A story on the benefits that Staggers has brought to Conrail and to the rail industry appears in the current edition of *The Conrail Inside Track*.

The Committee's proposal would:

- prevent the cancellation of joint rates and through routes if such a move were intended to reduce competition, create a monopoly or restrain trade. Injured parties would be able to seek relief through the courts;
- require railroads to perform reciprocal switching;
- require railroads to allow other carriers to use their terminal facilities to provide alternative service if the ICC finds it can be done without impairing the owning carrier's ability to operate; and
- prevent merging carriers from changing joint rates, through routes, reciprocal switching and trackage rights agreements that had been negotiated by their predecessors.

William H. Dempsey, president of the Association of American Railroads, emphasized that shippers' problems can be resolved through negotiation with railroads rather than through changes to the Staggers Act.

"I think that we would all agree that both railroads and shippers have benefited from the Staggers Act," said Dempsey. "I am sure no one would like to risk losing those benefits in a legislative process that might go too far—especially not if shipper concerns can be answered without such risk."

Charles N. Marshall, Conrail's vice president of marketing, told an audience in Washington on October 3 that the health of the rail industry would be jeopardized if the Staggers Act is changed.

"It is difficult to overstate the importance of the Staggers Act," Marshall told a meeting of the Transportation Research Forum. "It may well have been the nation's last chance to maintain its rail system as a viable private enterprise, unlike the inefficient, national monopoly railroads in Europe, Japan and South America."

Any modification to the Staggers Act can be made only by Congress, which is now recessed and will not meet again until after January 20. But the Interstate Commerce Commission announced on September 11 that it would investigate the effects of Staggers on users and providers of rail service.

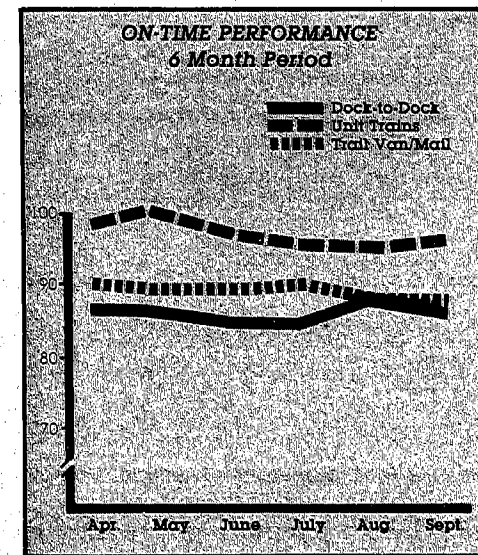
The ICC said that the investigation would provide a forum for discussion between railroads and shippers. "This proceeding may lead to a greater consensus among all the parties as to the proper role of regulation in today's rail transportation markets and will offer opportunities for resolving commercial disputes without recourse to agency, court or legislative intervention," said the ICC.

SERVICE REPORT

Last month, 85.1 percent of the loaded freight cars measured under Conrail's Key-point Quality Control Program were delivered to their customer siding or interchange within 24 hours of schedule. This program logs a car's actual transit time in hours, from its origin on Conrail lines to its destination, and compares it against actual schedules.

In other measures last month, 86 percent of Conrail's high-priority TrailVan and mail trains reached their destination yards within one hour of schedule. Among unit trains, 96.3 percent were on time; 96 percent of the coal trains, 100 percent of the ore trains and 94.4 percent of the grain trains.

At major Conrail yards, 97.8 percent of the cars monitored made their connections.



IN THE PRESS: SHOULD THE CONRAIL SALE BE DELAYED FOR A YEAR?

Editor's note: On September 24, The New York Times published two editorial opinions concerning the sale of Conrail. Congressman Bob Edgar (D-Pennsylvania) explained why he thought the sale should be delayed a year (Edgar was one of a group of congressmen who proposed a delay). Elizabeth Dole, Secretary of Transportation, took another point of view and said that the sale should be moved along without an arbitrary delay. Here are excerpts from those published editorials.

"The debate over the proposed sale of Conrail is not about whether the railroad should be sold. Congress, in fact, is not against the sale of Conrail. But it is our responsibility to ensure that the sale be the best deal the government can get—for the taxpayers that have financed the system, and for the Northeast region that is dependent on the system for jobs, services and economic development.

"That concern must be met before Congress will agree to a sale, and there must be sufficient time to establish that it has indeed been met. Congress' responsibility to the taxpayers' \$7 billion investment requires no less. That is why a moratorium on the sale of Conrail is necessary.

"Let us look at where we are. Before deciding on a buyer, the Administration must assess what Conrail is really worth and ensure that the taxpayers get a fair return on their investment; determine what will be done with the proceeds of the sale; consider the intentions of the prospective buyer carefully and gauge how the economy of the region served by Conrail will be affected by the sale.

"A one-year moratorium on the sale would allow us to do just that."

"Why the rush to sell? The system is not costing the government any money. The goal of the privatization of Conrail should be a good sale, not just a quick one."

—Edgar

"There is no rush to sell Conrail. Any decision I make as to its ultimate disposition must be ratified by Congress through passage of enabling legislation. However, to arbitrarily abort the process by imposing a delay of one year or more would be a grave disservice to all concerned.

"Conrail's employees are entitled to an early end to the suspense about the future of the railroad. Shippers deserve the assurance that Conrail will have long-term professional leadership, rather than the risk that it will be turned into a political football. Prospective buyers of Conrail who have expended large sums in preparing bids and engaging in complex negotiations should not be left dangling interminably.

"Worse yet, if after all the efforts of the past years the sale process were suddenly canceled, can we expect bidders to take the government as seriously if it begins another effort to sell Conrail a year from now?"

"Delay would also be costly to the states. As long as Conrail remains in government ownership the Northeastern states lose over \$20 million a year in foregone tax revenue. That's almost \$2 million a month, a high price for the states to pay. When Conrail becomes a privately-owned company, it will pay not only state taxes but eventually Federal taxes as well."

"... If we delay unwisely, the greatest risk is that we may lose the chance to achieve our fundamental goals—to make a sale that leaves Conrail in the strongest financial condition and maintains continuity of service to the Northeast region."

—Dole

NEWS DIGEST

INDUSTRY INCOME UP FOR FIRST HALF—For the first half of 1984, income for the nation's railroads rose 113 percent over the first half of 1983, the Association of American Railroads reported recently. Net income for 1984's first half totaled \$1.4 billion, compared with \$657 million for the same period in 1983. Total operating revenues for the six-month period improved from \$12.9 billion in 1983 to \$15 billion in 1984.

COURT BLOCKS CSX-BARGE LINE MERGER—On October 4, a federal appeals court blocked the acquisition of American Commercial Barge Lines Co. by CSX Corporation. The acquisition, approved by the Interstate Commerce Commission in July, would be the first merger of a rail company and barge line. It had been scheduled to become effective on Sunday, October 7.

The ICC's decision has been challenged by barge operators, coal companies, electric utility companies and others.

DENVER AND RIO GRANDE RAILROAD TO BE SOLD—A Denver-based real estate and energy company will acquire Rio Grande Industries, parent company of the Denver and Rio Grande Western Railroad, for nearly \$500 million. The company, Anschutz Corp., will purchase the outstanding shares of Rio Grande's common stock for \$50 a share.

The 1,868-mile D&RGW brought in more than \$400 million in revenue last year and is primarily a coal-carrying railroad.

SANTA FE-SOUTHERN PACIFIC MERGER HEARINGS BEGIN—The Interstate Commerce Commission on October 1 began hearings on the proposed merger of the Santa Fe and Southern Pacific railroads. The merger is being stalled by competing carriers such as the Union Pacific System, the Kansas City Southern and others who are pushing for trackage rights and other special considerations before the merger is approved.

CONRAIL'S SAFETY RECORD IS IN THIRD PLACE

During the month of August, Conrail's systemwide safety performance reached the minimum goal set for the company for 1984. Among the 12 Class I railroads, Conrail is now in third place in safety and a hair's breadth away from second place.

Conrail's goal for 1984 is to have a systemwide injury frequency rating of 1.80 or lower. Conrail achieved a 1.80 rating systemwide for the year to date through August.

Last year, Conrail was in fifth place in safety among Class I railroads and had improved its ranking from last place in 1982. Conrail won a special commendation for this achievement in the E. H. Harriman Awards competition for railroad safety.

Currently, the Union Pacific Railroad is in first place in safety among Class I railroads, with a frequency rate of 1.33. The Seaboard System is in second place, with 1.83.

YOUNGSTOWN DIVISION TAKES LEAD IN SAFETY

Conrail's Youngstown Division had the best record in safety among divisions for the month of August, with no lost time injuries and a lost time injury frequency rating of 0.00. Youngstown improved its ranking among divisions from ninth place in July to first place in August.

The frequency rate measures the number of lost time injuries per 200,000 man hours worked. When two or more divisions have the same rate, the higher ranking is given to the division with the most man hours.

Four other divisions—Philadelphia, Cleveland, Michigan and Canada—also had no lost time injuries in August. The Cleveland Division improved their ranking from 13th place in July to third place in August.

The top five divisions in safety for the year 1984 through August are Canada, with a frequency rate of 0.00; Columbus, with

0.43; Allegheny, with 0.70; Toledo, with 1.10 and Michigan, with 1.15.

Among regions, the Western Region had the best record in safety for the month of August, with a frequency rate of 0.41. The Central Region has the best record for the year to date, with 1.26.

Systemwide, Conrail's lost time injury frequency rating was 1.27 for August and 1.80 for the year-to-date.

LOST TIME INJURY FREQUENCY RATE BY DIVISION August, 1984

Rank	Division	Rate
1	Youngstown	0.00
2	Philadelphia	0.00
3	Cleveland	0.00
4	Michigan	0.00
5	Canada	0.00
6	New Jersey	0.55
7	Toledo	0.57
8	Pittsburgh	0.59
9	Columbus	0.62
10	Chicago	0.71
11	Allegheny	0.71
12	Harrisburg	1.12
13	New England	1.30
14	Southwest	1.86
15	Mohawk-Hudson	2.60
16	Buffalo	2.72
17	Southern Tier	4.31

ALLEGHENY LOGS SECOND SAFETY RECORD

For the first time in Conrail history, the Allegheny Division on August 4 achieved a second million man hours without any lost time injuries.

A celebration was held October 11 at the Altoona Sheraton to commemorate the achievement. Conrail President Stuart M. Reed and other top operating officers were on hand for the event, and guests of honor included employee, management and labor representatives from the division.

The Allegheny Division had achieved its first million man-hour award on March 31, 1983, after working from October 29, 1982 through that date without a lost time injury. To achieve the second million injury-free man hours, division employees worked

from March 9, 1984 through August 4 without a lost time injury.

Reed praised the division for its positive attitude towards safety and its enthusiastic participation in Conrail's safety programs. He also credited employees' families for helping to reinforce their safety consciousness.

"A million man hours without a lost time injury—twice—can happen only when everyone around you is alert and educated to the importance of safety," said Reed. "Your families deserve credit for helping to create the kind of environment where safety is of enough concern to help prevent the injuries that result in absence from the job."

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Letters to the editor are welcome and should be sent to the above address.

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