

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL



November, 1984

MANAGEMENT SUPPORTS BROAD PUBLIC OWNERSHIP IN CONRAIL SALE

Conrail management supports a financing program that includes a public offering of stock as the best way to transfer Conrail to the private sector.

At a hearing on October 24 before Senator Arlen Specter (R-Pennsylvania), Robert H. Platt, Conrail's executive vice president-finance and administration, said that Conrail supported a broad dispersal of its stock because it would leave the company stronger than would a sale to just one owner. He said that broad public ownership would "continue to allow management and employees and a board of directors the independence to act in the long term interests of the company, and not potentially in the short-term interests of a single owner."

The purpose of the hearing, held in Harrisburg, Pennsylvania, was to obtain public and industry views on the sale of Conrail. Both Specter and fellow Pennsylvania Republican Senator John Heinz have said that they favor a public offering.

In his prepared testimony, Platt stated: "We in Conrail's management are advocating the public offering concept because we believe that the resulting structure of the corporation will best serve the interests of the nation's economy and its transportation system, of the taxpayers who have made the investment which has brought Conrail to where it is today, of the geographical area and the shippers Conrail serves, of its employees and of its future stockholders."

(Conrail's Chairman, L. Stanley Crane, sent a complete text of Platt's testimony to all Conrail employees on October 31.)

At present, the U.S. Department of Transportation is still considering three potential purchasers of Conrail, culled from an original list of 15 who had submitted bids by the June 18, 1984 deadline set by the DOT. The three bids are from Norfolk Southern Corporation, Alleghany Corporation and a group of investors headed by hotel magnate J. Willard Marriott.

In his testimony, Platt reiterated concerns expressed by Crane, noting that an acquisition by Norfolk Southern "would reduce railroad competitive service to shippers and would have serious antitrust problems and probably result in a substantial reduction of jobs for Conrail employees." He added, "...if you have two viable competitors—Norfolk Southern and Conrail—and you fold one into the other, you have a reduction in service and shippers have fewer options to choose from."

With regard to the Alleghany and Marriott group offers, Platt said, "while we are respectful of these companies, we seriously question the benefits of that ownership and most particularly the benefits of their contribution to the future of Conrail. As you know, their purchase offers are heavily dependent on Conrail's assets and credit capacity."

Platt said that labor-management cooperation was one foundation on which any sale of Conrail must rest.

"If actions were taken by these two groups once to save a faltering company, actions can be taken again to preserve a thriving company for the long term," Platt said.

Also last month, Representative John Dingell (D-Michigan), who is chairman of the House Energy and Commerce Committee, said that he has launched an investiga-

tion of the Administration's proposal to sell Conrail.

Representative Dingell said that he has asked the U.S. Railway Association and the investment banking firm of Lazard Freres to "assist the committee in assessing the future potential of Conrail and to evaluate recent proposals from the private sector to acquire and operate the federally-owned railroad."

He added that he will seek "to determine whether the public interest is best served by returning Conrail to private sector operation at this time and whether any of the current proposals provide for full compliance with the law and our intent to retain viable rail service."

After the DOT recommends an option for transferring Conrail to private sector ownership, the proposal must be reviewed and approved by Congress.

OTHER ROADS REPORT 3rd QUARTER, 9-MONTH RESULTS

On October 17, Conrail reported its best third quarter and nine-month financial results in history: earnings of \$140.8 million for the third quarter, and \$410.6 million for the first nine months of 1984. Conrail's revenue for the two periods totaled \$843.7 million for the third quarter and \$2,587 million for the first nine months.

Here is a look at how other railroads did during those periods.

CSX Corporation, parent company of the Chessie and Seaboard System railroads, earned \$126.2 million on \$1.9 billion in revenue during the third quarter. CSX's earnings increased 82.6 percent over earnings for the same period in 1983. A 27 percent increase in coal traffic helped to spur the improvement.

For the first nine months of this year, CSX reported earnings of \$386.6 million, compared with \$167.6 million for the first nine months of 1983.

Norfolk Southern Corporation, a company formed by the merger of the Southern and the Norfolk and Western railways, earned \$134.7 million in the third quarter, up 31 percent from the \$102.8 million earned in the same period last year. Norfolk Southern's income for the first nine months of 1984 was \$374 million, up 46.6 percent from

the \$255.2 million earned during the first nine months of 1983. An increase in freight traffic, particularly in coal, helped to increase the company's earnings.

Sante Fe Southern Pacific Corporation earned \$137.4 million in the third quarter, up very little from the \$137.3 million earned in the same period in 1983. Revenues for the third quarter increased from \$1.56 billion in 1983 to \$1.66 billion in 1984.

For the first nine months of 1984, Santa Fe Southern Pacific earned \$387.4 million, down from the \$655 million earned in the same period of 1983.

Union Pacific Corporation, despite strong increases in rail freight traffic, reported lower earnings for the third quarter because of weak gasoline prices, which hurt the performance of their energy subsidiary. Union Pacific earned \$136.1 million for the third quarter of 1984, down 10.3 percent from the \$151.7 million earned for the same period last year. Revenues were down 10.2 percent to \$2.03 billion, compared with \$2.26 billion in the 1983 third quarter.

For the first nine months of this year, Union Pacific earned \$365.8 million, up from \$318.7 million earned during the same period last year.

CRANE TALKS ON BENEFITS OF PRICE COMPETITION

EDITOR'S NOTE: During an October 12 speech before the American Paper Institute, Conrail Chairman and Chief Executive Officer L. Stanley Crane discussed the importance of flexible, competitive pricing to shippers and railroads. Below is part of the text of the speech.

"My company or any company should not be forced to handle the business at a loss for my part of the haul in order to subsidize someone else—any more than a paper manufacturer ought to be required to sell paper for less than it costs him to make it. The fundamental principal underlying the railroad pricing philosophy, like any businessman's philosophy, is that the price of things he sells must in the end be greater than the sum of his costs.

"Yet there are those today urging that Congress limit this fundamental principle of free enterprise by amending the Staggers Act and returning to some of the old ways of regulation. In the short term, some shippers may experience some benefit, either

through a better car rental return on the cars they may own, or by imposing artificial regulatory constraints on pricing. But in the long term, competitive pressures simply will not permit sufficient revenue flow to the industry; the railroads will continue their historical trend of deterioration; and at that point in time the shipper will be at the mercy of another form of competition. One cannot reasonably believe in the free enterprise system for everyone but the railroads.

"In the present environment, the customers are the real winners, because the railroad industry is now subject to pervasive competition from other modes. Most rail traffic is divertible to one or another of these other modes. The marketplace will seek that mode which can serve it best at the best price. It will reward efficiency and eliminate waste.

"The shape of the rail physical plant in this country has never been better. And indeed that is to the benefit of shippers. But there is nothing permanent in that relief, unless the catalyst that has caused it to occur is permitted to continue to operate. That catalyst is competition, and the benefits of competition, to carriers and shippers, are lasting.

GRADE CROSSING SAFETY IMPROVES

Last year, safety at the nation's railroad grade crossings improved by 8.9 percent over 1982's levels, according to statistics released by the Association of American Railroads.

Accidents involving motor vehicles at grade crossings dropped for the fifth straight year to 6,272, or 47.7 percent lower than the 11,999 accidents reported in 1978. In 1982, grade crossing accidents totaled 6,882.

The number of fatalities resulting from grade crossing accidents last year totaled 483, an all-time low. Last year was the fifth straight record-setting year for lower grade crossing fatalities, and it topped the 1982 record of 526.

Overall, fatalities at grade crossings have been reduced by 57 percent since 1974, when 1,128 fatalities were reported.

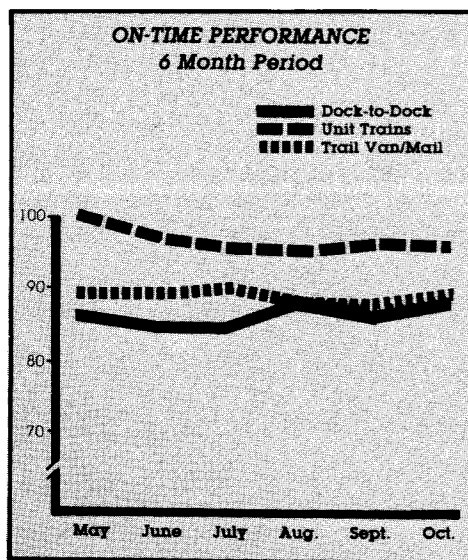
The number of injuries at grade crossings also reached a new low last year, dropping from 2,417 in 1982 to 2,372 in 1983. Since 1975, the number of injuries decreased by 34.1 percent.

One of the reasons cited by the AAR for the improvement is "Operation Lifesaver" a nationwide program sponsored by the National Safety Council to educate the public about grade crossing hazards. The program involves cooperation among the AAR, railroads and state governments. Operation Lifesaver is in place in seven Conrail states: Illinois, Indiana, Michigan, Ohio, New York, New Jersey and Maryland. Conrail is also working to involve other states in the Operation Lifesaver effort.

SERVICE REPORT

Last month, 87 percent of the loaded freight cars measured under Conrail's Key-point Quality Control Program reached their destinations at a customer siding or interchange within 24 hours of schedule. This program measures performance of selected cars and compares it against Conrail's schedules.

Almost 88 percent of Conrail's high-priority TrailVan and mail trains reached their destination yards within one hour of schedule last month, as did 95.5 percent of Conrail's unit trains (95.6 percent of the coal trains, 100 percent of the ore trains and 92 percent of the grain trains.) At Conrail yards, 98.1 percent of the cars monitored made their connections.



A NOTICE FROM THE RAILROAD RETIREMENT BOARD

Beginning January 1, 1985, railroad retirement tax rates and the maximum amounts of compensation subject to retirement taxes will increase. Also beginning in 1985, the maximums will be applied on an annual, rather than monthly, basis.

The railroad retirement tier I tax rate, like the social security tax rate, increases from 7 percent on employers and a net 6.7 percent on employees to 7.05 percent on each. The maximum amount of an employee's compensation subject to the tier I tax increases from \$3,150 a month to the social security maximum of \$39,600 a year.

The tier II tax rate on employers increases from 12.75 percent to 13.75 percent while the rate for employees increases from 2.75 percent to 3.50 percent. The maximum amount of compensation subject to the tier II tax will increase from \$2,350 a month to \$29,700 a year.

The changeover from monthly to annual maximum amounts will affect the way in which these payroll tax deductions are made for railroaders with higher earnings. It will also result in some employees paying more in railroad retirement taxes each year and receiving additional retirement credits.

With annual maximums, an employee with uniform earnings in every month of the year will, by the end of the year, have paid the same amount in railroad retirement taxes that he or she would have paid under monthly maximums. However, employees

whose monthly earnings exceed 1/12th of the annual tier II maximum will see larger payroll tax deductions at the beginning of the year. The deductions would later decrease when the employee has earned the maximum amount of compensation subject to the 1985 tier II tax. Once the employee earns the maximum compensation subject to the 1985 tier I tax, retirement tax deductions would stop completely for the remainder of the year.

Employees whose monthly earnings fluctuate and sometimes exceed 1/12th of the annual tier II maximum will pay more in railroad retirement taxes than they would under monthly maximums, even if their total earnings for the year do not exceed the annual tier II maximum. But these employees will receive higher compensation credits as well and they can also receive additional service month credits in excess of their actual work months.

In addition to regular railroad retirement taxes, railroad employers pay railroad unemployment-sickness taxes and supplemental railroad retirement annuity taxes. Throughout 1985, railroad employers will pay a tax of 8 percent on the first \$600 an employee earns each month to finance the railroad unemployment-sickness benefit program. The supplemental annuity tax rate for the first quarter of 1985 will be 20 cents per work-hour, the same as the rate effective in 1984.

BUSINESS REPORT

In October, Conrail hauled 250,856 carloads of freight—almost 10 percent less than it hauled in October of 1983. This marked the first time since June of 1983 that Conrail's traffic did not improve when compared with the same period a year earlier.

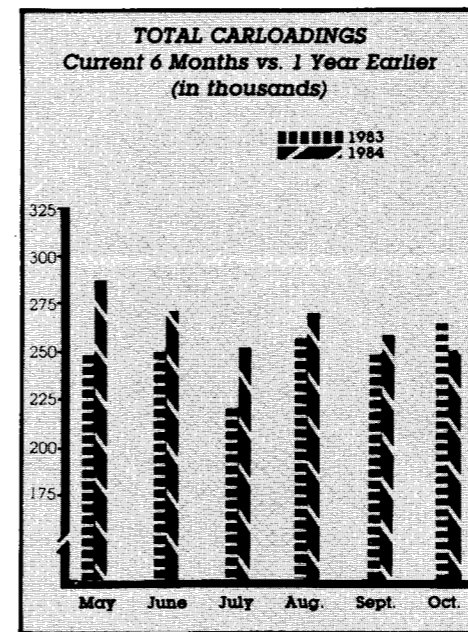
Traffic loaded on Conrail lines decreased 6.8 percent; traffic received from connections decreased 14.5 percent.

The main reasons for the dropoff last month were a strike by General Motors employees, which affected Conrail's carloadings of automobiles and parts, and a decrease in coal movement. Conrail lost at least 3,500 carloads of freight because of the GM strike, and carloadings of transportation equipment, which includes automobiles and parts, were down 2.7 percent. Traffic in metals decreased 13.5 percent.

While the GM strike affected one segment of Conrail's traffic, the threat of a coal strike affected another. Coal-burning utilities had been stockpiling coal because of the threatened strike, which will not occur because the coal industry reached a settlement with the United Mine Workers. But since coal inventories are high, utilities are moving less, and Conrail's traffic in coal for October decreased 31.2 percent.

Other decreases last month were in farm products, down 9.2 percent; food products, down 11.2 percent; pulp and paper, down

6.7 percent and chemicals, down 7.9 percent. Carloadings of piggyback traffic stayed 6.4 percent ahead of levels for October of 1983, and minerals traffic was 15.5 percent ahead.



DELAWARE TRACK PROJECTS UNDERWAY; OTHERS WRAP UP

Conrail has started a \$4.5 million track improvement project that will complete the installation of continuous welded rail on its Delmarva Peninsula lines between Wilmington and Harrington, Delaware and on the Indian River Secondary between Harrington and Frankford, Delaware.

The project, which began in mid-September, is scheduled to be completed early next month. It includes the installation of 21.8 miles of continuous welded rail and 4,200 cross-ties, the surfacing of 42.8 pass-miles, and rehabilitation of 33 switches and 26 grade crossings.

The project will be done in three segments on the Delmarva lines.

One segment, on the New Castle Secondary between Porter and Edge Moor Yard, near Wilmington, includes the installation of 13.6 miles of continuous welded rail, 20 pass-miles of surfacing, and the rehabilitation of 15 switches, eight public and four private grade crossings.

A second segment is on the Reybold Industrial Track between Porter and Reybold. It includes the installation of 4.6 miles of continuous welded rail and 2,500 cross-ties, 12 pass-miles of surfacing and the rehabilitation of 11 switches and five grade crossings.

The third segment is along the Indian River Secondary from Dagsboro to Frankford. This portion of the project includes the installation of 3.6 miles of continuous welded rail and 1,700 cross-ties, 10.8 pass-miles of surfacing and the rehabilitation of seven switches and nine grade crossings.

Last month, Conrail wrapped up three other track projects in Ohio and Pennsylvania.

- A \$5.6 million track improvement project on the Cincinnati Line between Springfield and Dayton, Ohio, included the installation of 32 miles of continuous welded rail and 22,000 cross-ties, the surfacing of 73.9 pass-miles, and the rehabilitation of 13 switches and 14 grade crossings.

- A \$3.4 million project in Pennsylvania upgraded a section of the Pittsburgh Line between Marysville and Hawstone. Conrail installed 11.6 miles of continuous welded rail and more than 3,000 cross-ties, surfaced 18.1 pass-miles and rehabilitated six grade crossings.

- In the Pittsburgh area, a \$2.7 million project upgraded the line between Conway Yard and Morado. It included the installation of 6.2 miles of rail and about 10,000 cross-ties, surfacing of 49.2 pass-miles and the rehabilitation of 80 switches and one grade crossing.

APPOINTMENTS IN SALES

C. Philip O'Rourke has been named assistant vice president-government sales. O'Rourke is responsible for Conrail's sales relationships with U.S. Government agencies, including the Postal Service. He served as vice president-traffic with the Lehigh Valley Railroad and has held a number of sales positions at Conrail, including assistant vice president-national sales (field) and assistant vice president-sales.

F. Dean Jackson succeeds O'Rourke as Philadelphia regional sales manager. Jackson had been Regional Sales Manager in Cincinnati since 1975. He joined the New York Central System in 1944 as a freight trucker, and held a variety of positions in the Transportation and Sales departments of the New York Central and the Penn Central.

Donald L. Crum replaces Jackson in Cincinnati as regional sales manager. Crum previously was director-national account planning in Conrail's Sales headquarters in Philadelphia. He joined the Pennsylvania Railroad's Sales Department as an office manager in 1955, and has held various sales positions with the Pennsylvania Railroad, Penn Central and Conrail. The Cincinnati Sales Region is responsible for all Conrail freight sales activities in parts of Illinois, Indiana, Kentucky, Ohio, and West Virginia, and supervises the operation of four sales offices (in Cincinnati and Columbus, Ohio; Indianapolis, Indiana and Louisville, Kentucky.)

Patrick C. McCormick has been appointed director-sales support. McCormick, formerly an account executive in Conrail's Pittsburgh sales office, was appointed to a new position encompassing both national freight sales account planning and the establishment of new sales programs. He joined the New York Central in 1956, moving into the Sales Department in 1961, where he held various sales management positions.

A REMINDER: KEEP YOUR ADDRESS CURRENT

Over the next several months, *In Brief* will attempt to keep you as up-to-date as possible about the sale of Conrail and other important events.

To help us bring you the news as quickly as possible, please be sure that the Payroll Department, which generates our mailing list for *In Brief*, has your correct address on file. While *In Brief* does get forwarded because it is mailed first class, this only puts unnecessary delay between the news and your reading about it.

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Instructions for changing your address can be found on the lower left-hand corner of page four.

SAFETY SHOE PROGRAM REVISED

Conrail has recently changed its Safety Shoe Program to allow employees to purchase the shoes at retail stores in addition to shoemobile trucks at work locations.

Conrail's Safety Shoe Program, which began in February of this year, allows any Conrail employee to purchase up to two pairs of safety shoes each year at a reduced cost, with Conrail subsidizing the purchase by \$15 per pair. Employees must pay for the shoes by payroll deduction.

Previously, employees could purchase the shoes only from shoemobile trucks that visited work locations. The Safety Department is now giving employees the option to purchase the shoes from an authorized vendor's retail store. Employees will still be eligible for the reduced cost and the Conrail subsidy if they pay for the shoes by payroll deduction.

Authorized vendors for Conrail's Safety Shoe Program are Safety First, Lehigh, Knapp, Hi-Test and Iron Age.

To take advantage of the new option, employees should obtain a verification of Conrail employment form from their safety supervisors. The authorized vendors will honor that form in their retail stores.

COLUMBUS TAKES LEAD IN SAFETY AGAIN

Conrail's Columbus Division, which had the best safety record among divisions for the first five months of this year, was back on top again for the month of August, with no lost time injuries and a frequency rating of 0.00.

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 that division with the most man hours.

The Columbus Division improved their ranking to first place in September from ninth place in August. The Allegheny Division, in second place in September, improved their ranking from 11th in August, the third-placed New England Division had been in 13th place in August. The top four divisions in safety for September had no lost time injuries.

The divisions with the best safety records for the year 1984 through September are Canada, with a frequency rate for the year to date of 0.00; Columbus, with 0.39; Allegheny, with 0.62; Toledo, with 1.24 and Michigan, with 1.28.

Among regions, the Central was the best both for September, with a frequency rating of 0.67, and for the year to date, with 1.22.

Systemwide, Conrail's lost time injury frequency rate was 2.72 for September and 1.93 for the year to date.

LOST TIME INJURY FREQUENCY RATE BY DIVISION August, 1984

Rank	Division	Rate
1	Columbus	0.00
2	Allegheny	0.00
3	New England	0.00
4	Canada	0.00
5	Harrisburg	0.62
6	Youngstown	0.64
7	Chicago	0.74
8	Philadelphia	0.74
9	Mohawk-Hudson	0.93
10	Cleveland	1.05
11	Pittsburgh	1.26
12	New Jersey	1.91
13	Southern Tier	2.32
14	Toledo	2.41
15	Michigan	2.41
16	Buffalo	2.89
17	Southwest	3.45

PIGGYBACK, AUTOMOTIVE FLEETS EXPANDED

Conrail is acquiring 650 45-foot-long, 102-inch-wide highway truck trailers, valued at \$9 million, to expand and enhance its piggyback fleet and serve customers better.

The 650 trailers have a 96-inch wheelbase which permits them to be used with existing piggyback flatcar fleets. The new trailers also allow Conrail to achieve significant cost savings through increased use of its own trailer fleet. Deliveries of the 650

trailers to Conrail began last month and will be completed by early 1985.

In addition to the 650 new trailers, Conrail's trailer fleet also includes more than 2,800 40-foot trailers and about 2,000 45-foot by 96-inch trailers.

Piggyback is one of the fastest growing segments of rail freight transportation. Conrail is the nation's largest hauler of such shipments; its piggyback traffic increased nearly 17 percent in 1983 over 1982.

Conrail is also acquiring 100 enclosed bi-level finished vehicle carrier racks at a cost of about \$2.7 million.

The racks will be installed on leased flatcars, and used to meet transportation needs for automobile and truck manufacturers. The U.S. automobile and truck manufacturing industry experienced a dramatic resurgence in 1983 and 1984, which shows signs of continuing through the 1985 model year.

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