in brief...

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CONRAIL

December, 1985

NS DIVESTITURE PLAN: CONRAIL CRITICAL; DOJ GIVES PRELIMINARY OK, PENDING FURTHER STUDY

Norfolk Southern (NS) Corporation's most recent attempt to meet antitrust objections to its acquisition of Conrail is likely to devastate rather than preserve rail competition; create needless employee upheaval; and relegate shippers to the poor service, high-cost operations of two small, financially ailing rail systems that may not be able to survive even in the short-term, Conrail said in response to the latest NS plan.

Conrail executives criticized the NS plan at a Washington press conference on December 2.

The Antitrust Division of the Department of Justice (DOJ) had announced on November 21 its conclusion that NS's third proposal to divest rail assets to Guilford Transportation Industries (GTI) and the Pittsburgh & Lake Erie Railroad (P&LE) appears on its face to address the competitive concerns that must be addressed before the Department can approve Norfolk Southern's acquisition of Conrail.

But, in a press release issued by the Justice Department, the Division stated that, subject to the provision of the necessary funds by the Department of Transportation, both Division staff and an independent consultant retained and supervised by the Division would begin to study the latest Norfolk Southern proposal in detail, including an extensive field examination of the assets to be divested and detailed financial analysis of GTI and the P&LE.

At the conclusion of this investigation, the Antitrust Division will make a recommendation to the Attorney General about whether he should approve the transaction on competitive grounds, as required by an agreement between Norfolk Southern and the Department of Transportation.

Conrail executives, in addition to being critical of this NS plan, also criticized NS's efforts to pressure the U.S. Senate to vote on the plan in early December, despite the fact that the Department of Justice had not yet

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TRAINMAN KOHL HONORED FOR HEROIC RESCUE

Conrail Trainman John H. Kohl, who risked his own life to prevent a two-year-old child from being hit by a Conrail train last July, has been honored for his heroism by the Carnegie Hero Fund Commission.

The rescue, which occurred in Cresson, Penn., received nationwide attention because of the great odds that Kohl overcame to pull it off—odds that put his own life in jeopardy as well as the child's.

On July 27, Kohl and fellow crew members Edward A. Todd and William F. Fitzpatrick were bringing Conrail train TV-2 east into the MO interlocking near Cresson, when they noticed two-year-old Jeanne Detibaugh on the tracks. When she did not move out of the path of the train, Kohl climbed down the ladder in front of the moving locomotive, anchored himself with one hand and one foot to the snowplow, grabbed the girl's loose clothing and shoved her out of the path of the train. She missed being hit by only inches, suffering only minor cuts and bruises.

The Carnegie Fund, a Pittsburgh-based philanthropy established by Andrew Carnegie, honors people throughout the United States and Canada who risk and/or lose their lives attempting to save another human being. Kohl was one of 22 recipients announced in early December; a total of 78 were honored in 1985. Each honoree receives a cash award and a medal describing the heroic act.

SALE BILL DELAYED BY OBJECTIONS IN SENATE

As this issue of *In Brief* went to press, S.638, the Senate bill authorizing a sale of Conrail to Norfolk Southern, was put on "hold" in the U.S. Senate, despite the efforts of NS to push for the approval of the full Senate before the end of the year.

Senate majority leader Robert Dole attempted to schedule the bill for action December 5, but was blocked by Pennsylvania Senators John Heinz and Arlen Specter, both Republicans; and Senators Howard Metzenbaum (D-Ohio) and Larry Pressler (D-S.D.).

Those four raised strenuous objections when Dole attempted to schedule the bill for debate in the Senate, and Dole withdrew the bill.

Norfolk Southern's inability to gain any ground in its push for Senate approval through the first week in December increased the likelihood that no action would be taken on the bill by the end of 1985.

Despite an earlier statement by NS Chairman Robert B. Claytor that NS would withdraw its offer at the end of the year if no progress had been made in the Senate, recent statements by NS officials indicate that the company will pursue its bid for Conrail into 1986.

CONRAIL RESTRUCTURES SALES DEPARTMENT, APPOINTS AVP's TO HEAD MARKET-BASED GROUPS

Conrail has restructured its Sales Department and added three new regional sales offices in order to enhance the railroad's responsiveness to the needs of its shippers.

The reorganization brings the total number of Conrail's regional sales offices to nine, and divides those offices into two market-based groups. Those groups will be headed by Timothy P. Dwyer and John P. Sammon, both named Assistant Vice President—Sales. Dwyer and Sammon are based in Philadelphia and report to Conrail's Vice President—Sales, Gery M. Williams, Jr.

"Shippers have come to expect more from Conrail because of our innovative approach to marketing and sales," said Charles N. Marshall, Conrail's Senior Vice President—Marketing and Sales. "We are now putting our regional offices closer to those shippers and organizing a system that will offer total marketing, sales and transportation logistics support. This change in the Sales Department is the first step in that effort."

The two new sales groups headed by Dwyer and Sammon both account for about the same amount of sales volume within the company.

The group headed by Dwyer is responsible for coordinating Conrail's sales efforts in the highly industrialized market between the Allegheny Mountains and Chicago, Ill. That group includes sales

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RAIL EARNINGS REMAIN MIXED IN THIRD QUARTER

Financial results at the nation's major railroads continued to be mixed during the third quarter of 1985, and during the first nine months of the year, compared with the same period a year ago.

As reported in last month's *In Brief*, Conrail posted third quarter earnings of $120.2 million on revenues of $783.4 million, compared with earnings of $140.8 million on revenues of $843.7 million in last year's third quarter.

Nine months' earnings this year totaled $329.7 million on revenues of $2.42 billion, compared with earnings of $410.6 million on revenues of $2.59 billion in 1984.

Norfolk Southern Corp.

Norfolk Southern said its net income was up 5.1 percent during the third quarter to $141.6 million from $134.7 million, or $2.25 a share from $2.14 last year. Revenues increased 13 percent during the quarter to $1.03 billion from $909 million in 1984.

The increase in NS' quarterly earnings was due to a gain of $19.7 million on the sale of 1.7 million shares of Santa Fe Southern Pacific Corp. stock that NS had owned. The sale added 31 cents a share to NS' earnings.

For the first nine months of 1985, NS has earned $380.1 million or $6.04 a share on revenues of $2.81 billion, compared with earnings of $374 million or $5.94 a share on revenues of $2.71 billion in 1984. Earnings increased 1.6 percent and revenues 3.7 percent.

Norfolk Southern's revenues for the third quarter and first nine months of 1985 include gains of $211.6 million and $230.2 million, respectively, from its acquisition of North American Van Lines Inc. in June. North American also added $18 million to Norfolk Southern's pre-tax earnings.

CSX Corp.

CSX said its earnings fell 12.7 percent in the third quarter to $110 million or 73 cents a share, compared with earnings of $126 million or 86 cents a share in the third quarter last year.

Revenues for the period declined nearly 12 percent to $1.71 billion from $1.94 billion in 1984.

For the first nine months of the year, CSX's net income dropped 14.2 percent to $332 million on revenues of $5.54 billion from $387 million on revenues of $6.07 billion a year ago. Revenues declined almost 9 percent during the period.

CSX said the decline was due in part to a 17 percent drop in domestic coal carloadings. Overall, coal traffic for CSX was off 13 percent. Sales volumes were also down for CSX' natural gas unit.

Santa Fe Southern Pacific Corp.

Santa Fe Southern Pacific Corp., parent company of the Santa Fe Railway and Southern Pacific Transportation Co., said its earnings increased 10.2 percent for the third quarter to $151.4 million on revenues of $1.65 billion, compared with earnings of $137.4 million on revenues of $1.66 billion in the third quarter of 1984.

For the first nine months of 1985, SFSP's earnings declined about 14 percent to $332.3 million from $387.4 million during the same period last year. Revenues declined 3.1 percent to $4.85 billion from $5.0 billion in 1985.

The higher income posted in the quarter, the company said, resulted mostly from sales of real estate, including several properties in California. Operating results for both of SFSP's rail systems were down during the quarter.

Burlington Northern Inc.

Burlington Northern Inc. said its net income was up nearly 17 percent during the third quarter to $188.1 million from $161.0 million in the third quarter a year ago. Revenues during the quarter declined 12.2 percent to $2.13 billion from $2.43 billion a year ago.

Operating income for the Burlington Northern Railroad, though, was down in the third quarter and the first nine months of 1985, while increased earnings were posted by BN's natural gas operations.

For the first nine months of 1985, BN posted net income of $501.7 million on revenues of $6.58 billion, compared with net income of $475.3 million on revenues of $6.97 billion. Earnings for the first nine months increased 5.3 percent, while revenues declined 6 percent.

Union Pacific Corp.

Union Pacific Corp., parent company of the Union Pacific system, reported that it's net income declined during the third quarter to $120.4 million on revenues of $1.93 billion, compared with earnings of $136.1 million on revenues of $2.03 billion.

Net income declined 11.7 percent during the quarter, and revenues were down nearly 5 percent.

For the first nine months of 1985, UP said its net income was flat—$366 million compared with $365.8 million a year ago. Revenues declined 2.5 percent to $5.86 billion from $6.0 billion in 1984.

UP said that earnings for its Champlin Petroleum and Rocky Mountain Energy units were ahead during the quarter, but its Union Pacific rail unit and Upland Industries unit experienced declining earnings.

UP Chairman, President and Chief Executive Officer William S. Cook said he expected that total earnings for all of 1985 should equal or exceed 1984's net income of $494 million.

BUSINESS REPORT

Traffic carried on Conrail lines in October increased 6.9 percent over carloads carried during October of 1984.

Conrail hauled 268,469 carloads of freight during October, compared with 251,220 carloads during October of last year. Carloads received from connections were up about 7 percent, while cars loaded on Conrail lines were up about 6.7 percent.

Much of the increase was due to a 37.6 percent rise in coal traffic over last year. Carloadings of coal increased this year compared with carloadings shipped in October of 1984, when utilities began to work off excess inventory they built up in anticipation of a coal strike. That strike would have occurred about October 1, 1984, but was averted.

Conrail also saw a boom in export and domestic coal carloadings shipped through Pier 124 in Philadelphia. Coal traffic through the pier was the most in any month since the pier's modernization. (See related story, on page 3.)

Other commodity groups posting large increases in carloadings during October compared with last year included: farm products, up 23.4 percent; metallic ores, up 18.4 percent; coke, up 18.6 percent; and lumber and wood products, up 7.1 percent.

The only commodity groups posting significant declines in carloadings were stone, clay and glass, down 13.7 percent; and pulp and paper products, down 10 percent.

CONRAIL ANNOUNCES TWO PROMOTIONS IN LABOR RELATIONS, REAL ESTATE

Lawrence J. Finnegan has been appointed Regional Director-Personnel for Conrail's Eastern Region, headquartered in Philadelphia.

Finnegan's duties include responsibility for overseeing the administration of labor agreements, health services and personnel policies for Conrail's 5,800 Eastern Region employees. He reports to Robert E. Swert, Conrail's Vice President—Labor Relations.

Finnegan began his railroad career in 1970 as a labor relations personnel trainee and has held various labor relations positions with Conrail and the Penn Central, a predecessor railroad. Previously, he was Assistant Director—Labor Relations at Conrail's corporate headquarters.

John E. Sandefur has been appointed Director of Field Services—Real Estate for Conrail.

Sandefur's duties include management of Conrail's six regional Real Estate Department offices covering Conrail's 15-state territory. Sandefur reports to John F. Jaeger, Assistant Vice President-Real Estate.

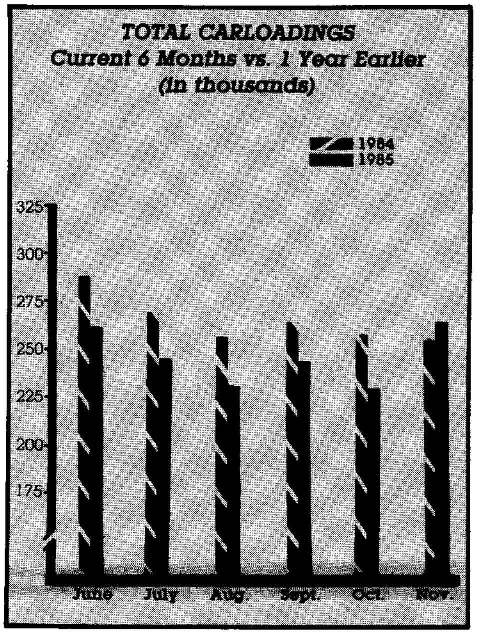
Sandefur began his railroad career with the New York Central in 1955 and has held various Real Estate department positions with the Penn Central and Conrail. His most recent position was Director of Management Services.

COAL BUSINESS AT PIER 124 BOOMING IN 1985

The volume of coal and coke shipped through Conrail's Pier 124 in Philadelphia soared during the first 10 months of 1985 to nearly 4 million tons, compared with 1.5 million tons during the same period in 1984, an increase of 155 percent.

October shipments over Pier 124, for both export and domestic markets were 659,148 tons, marking the busiest month at the pier since Conrail and the Commonwealth of Pennsylvania embarked on a plan to modernize the pier in the early 1980s.

One of the advantages of the modernization at the pier is the ability to load Panamax-sized vessels, which carry in excess of 60,000 tons of coal each. During the first nine months of 1985, 25 such ships were loaded at the pier with 1.5 million tons of export coal.



In addition to export coal, the pier transloads: coal from railcars to ships and barges for shipment to East Coast electric generating stations; coke for both domestic and world markets; and aggregate materials (stone).

"This increased use of the pier is a result of two related developments: an aggressive program to market the region's coal to the world, and the excellent capability that Pier 124 now has as the result of the $41 million expansion and modernization of the facility," said Stuart M. Reed, Conrail's President and Chief Operating Officer.

"We've been able to establish a growing place in the world market for Pennsylvania and West Virginia coal through our aggressive marketing efforts—reflecting in part Conrail's commitment to remain a low-cost carrier for coal producers—and by working with international traders, producers, users and other members of the coal community. As a result, the railroad, the coal industry, and the region's economy share in the benefits. Our efforts to encourage use of Pier 124, through our market-sensitive rates, demonstrates the railroad's commitment to the region it serves," said Reed.

As part of that commitment, earlier this year Conrail created an International Sales Group, headed by Alfred A. Michaud, Vice President-International Sales, to develop business opportunities in foreign markets for Conrail and its American customers.

The efficiency of the pier was made possible by the improvements completed in early 1984, when the rebuilt facility went into full operation. The pier has an annual design capacity of 10 million tons.

CONRAIL HANDLING 48-FOOT TRAILERS, REDUCES RATES FOR 28-FOOTERS

Conrail has become the first railroad in the Northeast and Midwest to offer piggyback service for 48-foot trailers between Chicago and key terminals in New Jersey and Pennsylvania. The railroad also has significantly reduced its rates for the movement of 28-foot trailers between Chicago and Harrisburg, Pennsylvania.

"By publishing rates to move 48-foot trailers and cutting our rates for the movement of 28-foot trailers, we hope to gain additional traffic for Conrail, while making the necessary efforts to meet competitive service and pricing requirements of our customers," said Charles N. Marshall, Conrail's Senior Vice President-Marketing and Sales. "This is one more instance where we believe that Conrail, with its innovative rates and aggressive marketing programs, is there to meet the needs of its intermodal customers." Both programs went into effect October 1.

Conrail is offering second morning delivery between Chicago and the major eastern terminal points.

The service and rates cover rail transportation of 48-foot truck trailers between Chicago and Conrail's intermodal terminals at Kearny, N.J. (serving the New York City metropolitan area), Harrisburg and Morrisville, Pennsylvania, (serving the Philadelphia metropolitan area), and movement of 28-foot truck trailers used on tandem rigs, usually for less-than-truckload (LTL) shipments, between Chicago and Harrisburg.

Conrail is the nation's largest hauler of piggyback freight (marine containers or truck trailers carried on railroad flat-cars).

UPGRADE COMPLETE ON 36-MILE LINE TO PITTSBURGH

Conrail has completed a $3.7 million program to upgrade sections of its Monongahela Line between Pittsburgh and Monongahela City, about 36 miles south of Pittsburgh.

The project, completed in early November, involved the installation of 15.7 miles of continuous welded rail and nearly 14,200 crossties along the route, and the surfacing of the supporting railbed. Also included in the project was the rehabilitation of two public grade crossings.

The Monongahela Line links the coal fields of southwestern Pennsylvania with industries and export piers in the Northeastern section of the country. In addition, trains carrying commodities such as steel, auto parts, miscellaneous freight and chemicals use the Monongahela Line.

MANAGEMENT, FINANCIAL COUNSELING ADDED TO CONRAIL'S MINORITY PURCHASING PROGRAM

Conrail has expanded its minority vendor program to include marketing, planning, financial and management counseling to the railroad's minority suppliers.

To direct the new effort, Conrail has named Marvin H. Blassingale as Manager-Minority Supplier Assistance. Walter R. Livingston III succeeds Blassingale as Manager—Minority Vendor Programs.

In his new position, Blassingale will assist minority vendors and coordinate the selection and delivery of outside consulting services for those vendors. Livingston assumes responsibility for further expanding Conrail's available base of minority vendors qualified to provide goods and services to the railroad. Both report to Jeremy T. Whatmough, Vice President—Materials & Purchasing

As a part of the program, Conrail will be able to provide minority vendors with assistance in: implementing bookeeping and management information systems, identifying financing sources, developing and implementing marketing and sales plans, establishing manufacturer/supplier relations, speeding payment of invoices, planning purchases and identifying other agencies that assist minority companies.

The aim of the program is to help strengthen those minority suppliers who do business with Conrail, so that they will remain active and in business; to help them grow and boost their sales to Conrail and other companies; and to help minorities develop the skills necessary to run their businesses over the long-term.

"It's good business sense to support and encourage minority firms to bid for our business," said Conrail Chairman and Chief Executive Officer L. Stanley Crane.

Conrail's minority vendor programs are aimed at encouraging minority firms to supply a wide variety of goods and services used by the railroad. Last year, Conrail purchased more than $120 million in goods and services from minority firms.

MORGAN STANLEY & CO. ANNOUNCES NEW INVESTORS

Morgan Stanley & Co. Inc. has added nine new investors to the group it has assembled to purchase the government's 85 percent share of Conrail for $1.2 billion.

The new investors, added in early November, bring the total number now involved in the buyout plan to 41. The new commitments of the nine additional investors total $112.5 million.

"These are sophisticated investors," said Morgan Stanley Managing Director Thomas A. Saunders III. "They would not be committing large sums of money unless they believed the Morgan Stanley plan stood a good chance of success."

Later in November, Saunders said Morgan Stanley would extend its offer for Conrail for an additional six months—through June 30, 1986. At the press conference, Saunders also said that should Norfolk Southern withdraw its offer, Morgan Stanley is prepared to discuss its plan with Secretary of Transportation Elizabeth Dole.

"We are flexible on all aspects of our plan," said Saunders. "I am convinced that we can arrive at an understanding that is acceptable to all parties, one that will maintain Conrail's independence."

In letters sent in November to chairmen and ranking minority members of the Senate and House of Representatives committees considering the sale, Saunders said that the new investors "are respected for their sophisticated analytical skills and prudent investments, providing further evidence that Conrail is and will continue to be a viable railroad." He added that several of the new investors came to Morgan Stanley unsolicited.

The nine new investors and their businesses are: American General Corp., Houston, Texas, insurance company; Capital Guidance Corp., Houston, Texas, investment company; Competrol (BVI) Ltd., New York City, investment company; General Industrial Investments Ltd., Turks and Caicos Islands, British West Indies, investment company; Mr. Ludwig Jesselson, New York City, private investor; New York Life Insurance Co., New York City, insurance company; Paribas North America, New York City, investment banking firm; Stanford University, Palo Alto, California, university endowment fund; and Stephens Inc., Little Rock, Arkansas, investment banking firm.

Saunders said that interest among potential investors continues. Therefore, the individual stakes that each investor would have in the plan have not been reallocated. But it is planned that with the addition of new investors, the amount invested by CSX Corp. will be reduced to $50 million.

"We recognize concerns have been expressed that CSX remained one of our largest investors. CSX is now in the third or fourth tier of investors," said Saunders. "This reduction of CSX's investment should once and for all put to rest any concerns about their role in the management of Conrail."

CONRAIL RESTRUCTURES SALES DEPARTMENT

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offices in Cincinnati, Detroit and Pittsburgh; and Conrail's automotive sales office in Detroit.

Heading those offices are Donald L. Crum in Cincinnati, Alan F. Duncan in Detroit, and Richard C. Cohea in Pittsburgh, as well as Jack Ringwood in the Detroit automotive sales office. All four report to Dwyer.

"Conrail's automotive and steel business demands 'just-in-time' service, especially on the western end of our railroad in Indiana, Michigan and Ohio," said Marshall. "Dwyer leads Conrail's efforts with respect to this highly concentrated industrial market."

The second group encompasses Conrail's remaining sales territories in an effort to develop the traffic potential of Conrail's interline market. Said Marshall: "Conrail serves the largest consumer market in the United States and is the leading interline rail carrier of freight from the producing areas in the West and South."

That group consists of the three new sales regions headed by John W. Field in Atlanta, Paul Hiryak in Houston and James J. Ogle in San Francisco; and existing offices headed by James S. Sheahan in Chicago, Ronald W. Bridges in New York and F. Dean Jackson in Philadelphia. All six report to Sammon.

That group also is responsible for increasing Conrail's intermodal and export/import traffic. Gerald S. Duzinski, formerly Vice President of Sales and Marketing for a trucking subsidiary of Sun Carriers, has been named Director of Intermodal Sales. He reports to Sammon.

Dwyer was previously Conrail's Assistant Vice President—Field Sales in Philadelphia, and has served in Conrail sales positions in Columbus, Detroit, Pittsburgh and San Francisco. He began his railroad career in 1967 with the New York Central.

Sammon was Director of Business Group Planning for Conrail's Automotive-Gondola-Flatcar business group and served in various positions in that group after joining Conrail in 1979.

NEW LTD YARD SERVES BOSTON AREA

Conrail has expanded its lumber transfer and distribution (LTD) system to Massachusetts to serve the Boston, Cape Cod and Providence, Rhode Island, areas. The system allows mills in the western United States and Canada to enter distant markets without investing in storage/distribution facilities, while lowering the delivered cost of lumber.

A new 15-acre LTD terminal, the sixth on the Conrail system, has been located halfway between Boston and Providence in Stoughton, Mass., near Routes I-95 and I-93.

"Conrail's LTD center at Stoughton can open new markets for shippers in Western Canada and mills and wholesalers in the United States," said Charles N. Marshall, Conrail's Senior Vice President—Marketing and Sales.

Transportation of the lumber works like this: lumber shipments in boxcars or on flatcars are brought by Canadian railroads to Adirondack Junction or Huntingdon, Quebec, or by U.S. railroads to Chicago or E. St. Louis, Ill., for interchange with Conrail. Conrail then delivers shipments to the Stoughton facility—the Conrail-Cohenno LTD Center—owned and operated by an independent contractor, Brad Cohenno.

At the Stoughton terminal, the lumber may be stored without charge for up to 30 days before being loaded onto trucks for delivery in full or partial shipments to distributors and retail outlets. Similar arrangements are available at the other transfer centers on the Conrail system.

The new transfer and distribution center handles green lumber, kiln dried lumber and plywood, shelving and other specialty items. The facility offers 120,000 square feet of storage space for the specialty woods.

MANAGEMENT PRESENTING SALE INFORMATION AROUND THE SYSTEM

Members of Conrail's senior management have been traveling around the system presenting the Conrail perspective on the sale process and the benefits that employees would receive under the Morgan Stanley offer to purchase Conrail stock held by the federal Government.

Conrail executives, including Bruce B. Wilson, vice president—Law, Robert E. Swert, vice president—Labor Relations, Donald A. Swanson, vice president—Transportation and Timothy P. Dwyer, assistant vice president—Sales, have made presentations to union local chairmen in Harrisburg, Albany, Monroe (Mi.), Pittsburgh, Buffalo, Indianapolis, Wilmington (Del.), and Springfield (Mass).

The presentation contains an explanation of why Conrail can be viable in the future as an independent railroad; how Conrail expects to maintain that viability through its marketing and sales efforts; and what benefits Conrail employees will receive based on the September 17 agreement between the Railway Labor Executives' Association, Morgan Stanley and Conrail vs. the Norfolk Southern offer.

The meetings have also included extensive question and answer sessions.

The presentation in Albany was also videotaped. When production of a final version of the tape is completed, it will be available for viewings across the system.

Other presentations at locations on the system may be scheduled in the future.

NORFOLK SOUTHERN'S DIVESTITURE PLAN

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begun the detailed analysis of the proposal that it said would be necessary.

"The only explanation for such haste is the fear that NS's plan 3, like its other proposed divestiture plans, will not withstand analysis," said Bruce B. Wilson, Conrail's Vice President-Law. "The first two plans could not withstand scrutiny because they were inadequate to achieve their stated goal of creating long-term, viable, competitive rail service to a merged NS-Conrail. The latest plan is equally inadequate.

"It appears that the only beneficiary of the NS plan is NS itself," said Wilson. "The only reason for this plan is to accommodate the sale of Conrail to NS. But the independent Conrail of today is working. It has produced innovative, procompetitive shipper-oriented service. Its long-term viability is assured. It is simply inconceivable that NS' latest plan will leave the public as well off as it is today."

Wilson said that raised the following fundamental question: "Why is Congress being asked to approve a massive restructuring of the Northeast-Midwest rail system, necessarily incurring a start-up period of unknown duration, disruption of service, dislocation of employees, and long-term uncertainty without the Justice Department analysis?"

Under the new NS proposal, GTI would obtain more than 1,500 miles of new lines and the rights to use tracks of other railroads in order to provide access to Midwestern markets and link them with the Northeast. The P&LE railroad would gain more than 700 miles of track through acquisitions, leasing and trackage rights, allowing connections with large railroads outside of the region.

Conrail Analysis of NS Plan

In an extensive preliminary analysis by Conrail of the latest NS divestiture scheme, Wilson stated that the "massive, risky, and unnecessary restructuring of the Northeast-Midwest rail system" under the NS plan has "numerous and fundamental" defects:

• GTI and P&LE are not financially viable. Even Norfolk Southern, in sworn ICC testimony in 1982, described the prospects of the Delaware & Hudson (D&H) component of GTI as "even worse than they were a few years ago." Yet under Plan 3, NS argues that GTI, including the D&H, has suddenly become financially viable. NS's argument that Conrail, one of the most efficient and innovative carriers in the industry, cannot survive independently and that two marginal small carriers could better survive an economic downturn is disingenuous and economically illogical.

• The plan is insensitive to employee interests. It would apparently force employees to transfer from Conrail to Guilford and P&LE or lose their jobs. No mechanism for this transfer is mentioned. If Guilford or P&LE ultimately proves not to be viable, as seems likely, former Conrail employees would again face further restructuring.

• The plan fails to provide for any new rail service in many of the counties where the Justice Department demanded new service; where rail service is offered, it is competitively inferior.

• The needs of many shippers and communities are ignored. Indeed, Guilford's statements about contacts with shippers cannot be believed. Guilford states that it contacted "more than 200 potential customers located on the Detroit-St. Louis line" and that these shippers' responses indicate "that the opportunity to use competitive rail service provided by (Guilford) would be welcomed." In fact, of the 13 large firms listed by Guilford, eight were not contacted by Guilford or do not support NS's plan.

• The plan overestimates the revenues available on the divested lines and underestimates the time and cost involved in making them operational. Despite all of its unsolved operational problems, Guilford expects to earn 60 percent more revenue on its new general freight business than Conrail earns on similar traffic. Guilford's revenue projection for new general freight business on the divested lines is approximately $1,925 per car, whereas Conrail's average revenue is approximately $1,180. Nowhere does Guilford explain why shippers would pay so much more for so much less (i.e., the inferior service it plans). In addition, Guilford claims it will attract 78 percent of its new business from intermodal traffic, while admitting that its service will be slower and its rates higher than Conrail's (on average, over $200 per trailer more than Conrail, its biggest competitor).

• Up to 70 percent of Guilford's total revenues from shippers served through trackage rights and switching will go to Conrail/NS for trackage and switching charges.

• Many of Guilford's long-distance operations involve use of its existing New York line which is more circuitous than Conrail's competing line and cannot be operated at competitive speeds.

• The plan fails to address numerous concerns raised by states, communities, and shippers.

• The divestiture plan has been designed in secrecy—negotiated by NS, GTI, and P&LE in private meetings with the Justice Department—without any input from the railroads, shippers, and public who would be most severely affected by the plan.

• Critical data necessary for a full analysis of the plan is missing.

• The bottom line is that NS is throwing Guilford and P&LE concrete life preservers. The years it would take to get the physical plant structure established, the money it would take to accomplish the task, and the greatly expanded operating demands that Guilford and P&LE would face mean that their efforts are doomed from the start.

DOJ Approval—Preliminary

Assistant Attorney General Douglas H. Ginsburg, head of the Justice Department's Antitrust Division, stated in the DOJ press release: "The latest Norfolk Southern plan appears on its face to address the competitive problems that the Division's letters of January 25 and March 26, 1985 to Secretary Dole state must be alleviated before the Attorney General will approve the sale of Conrail to Norfolk Southern.

"This plan also appears on its face to address the concerns that I had with previous divestiture proposals, as described in detail in my letter of September 25, 1985, to Secretary Dole. The plan appears to create a long-term, viable, competitive rail carrier in all the counties that we have identified as containing 'problem' markets that must be addressed by any divestiture.

"Accordingly, I have concluded that it is appropriate for the Division and an independent consultant to begin the very detailed study of the plan that will be required before I can conclusively advise the Attorney General whether the proposed divestiture addresses the competitive concerns raised by this transaction."

According to Norfolk Southern, the new proposal will make the two small regional railroads effective competitors in the Midwest.

Norfolk Southern's earlier plans were both rejected by the Justice Department. The first plan would have divested 1,200 miles of track in questionable condition to Guilford and P&LE. Under the second plan, both systems would have gained trackage rights over the 500-mile high speed route between Cleveland and St. Louis.

HOW THE DIVESTITURE AND GUILFORD, P&LE PLANS MAY AFFECT CONRAIL JOBS

The marketing and operations efforts contemplated by Guilford Transportation Industries and the Pittsburgh & Lake Erie Railroad could have a damaging effect on employment for the Conrail portion of a merged Norfolk Southern/Conrail system.

In its marketing plans, Guilford anticipates picking up 173,000 carloads of freight. Plans formulated for the P&LE anticipate that railroad would gain 108,000 carloads after the divestiture.

According to Robert E. Swert, Conrail's vice president of Labor Relations, that potential flow of traffic from Conrail to Guilford and P&LE represents jobs lost on Conrail and employees forced to accept uncertain futures with those two struggling railroads.

"We believe the plan is totally insensitive to the employees' concerns and makes a mockery of the sacrifices that the employees made since 1981 and the assurances

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CONRAIL JOBS

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they received from Congress that a profitable Conrail would remain a single entity," said Swert at Conrail's Washington press briefing December 2.

"If you would assume for a moment that the average train length on Guilford would be essentially the same as it is on Conrail, about 90 cars, that converts into about 2,000 trains, or 6,000 job starts removed from Conrail.

"If you assume the same for P&LE, those numbers translate into about 1,200 trains, or 3,600 job starts," Swert said.

"The plan is not specific as to what happens to displaced employees, but one would have to assume that some would be offered jobs with Guilford and P&LE, and if those railroads failed," Swert said, "they (the employees) would be looking for employment after the period of time it takes for Guilford or P&LE to fail."

SYSTEM INJURY RATE 1.33 IN SEPTEMBER

Conrail posted a system-wide rate for lost-time injuries of 1.33 per 200,000 man hours worked during September of this year, pushing the system's rate for the entire year up to 1.35 from 1.30 in August.

During the month, eight Conrail divisions posted lost-time rates of 0.00: Toledo, Harrisburg, Allegheny, Mohawk-Hudson, Cleveland, New England, Southern Tier and Michigan. Two others, Pittsburgh and Columbus, came in with rates better than the railroad's 1985 goal of 1.4 lost-time injuries per 200,000 man-hours worked. For September, those two divisions were at 0.73 and 0.74, respectively.

Allegheny Division maintained its lead for the year as the safest Conrail division, with a year-to-date rate of 0.57. New England is second at 0.81 and Columbus third at 0.92.

Conrail's best region for the month was the Western, with a lost-time rate of 0.68. For the year-to-date, the Central region has taken the lead from the Eastern region, with a rate of 1.31.

LOST TIME INJURY FREQUENCY RATE BY DIVISION September

Rank	Division	Rate
1.	Toledo	0.00
2	Harrisburg	0.00
3	Allegheny	0.00
4	Mohawk-Hudson	0.00
5	Cleveland	0.00
6	New England	0.00
7	Southern Tier	0.00
8	Michigan	0.00
9	Pittsburgh	0.73
10	Columbus	0.74
11	Philadelphia	1.53
12	Youngstown	1.74
13	Buffalo	2.22
14	Chicago	2.31
15	New Jersey	2.45
16	Southwest	4.63

in brief...

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