in brief...

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CONRAIL

March, 1983

CONRAIL'S CHALLENGES: BUILD REVENUE, REDUCE COSTS

Conrail's challenges for the future, as set forth at the annual Management Conference in Philadelphia on March 8, are to capture as much revenue as possible in a declining market and to continue to bring down its costs in line with its competitors'.

"Profitability of a company starts with revenue," said Chairman and Chief Executive Officer L. Stanley Crane at the day-long conference, which was attended by more than 200 top managers from around the system. Crane added that while cost control would continue to be an important goal, it is useless if no revenue is coming in.

Building up revenue will be challenging because of the decline of the heavy manufacturing industries best served by rail, Crane said. "I'm concerned that these 'smokestack' industries are on the wane in this country, because they depend on the rail mode of transportation and they are the industries that we serve best. We have a real stake in their future."

But the opportunities for business are still there, Crane said. "Despite figures that show our area's economy has suffered, there's still a substantial portion of the total productive capacity of the US located in this part of the country, served almost exclusively by Conrail."

And Conrail has shaped itself into a railroad that's ready to serve these industries, Crane said. "We've come a long way," he said. "It took some time for us to identify what our problems were and to address them, but we did it...with help from our employees, our managers and Congress."

"We can't be like a Super Bowl team and think that the world is our oyster...or somebody else will come along and knock us down. We must continue to find ways to compete with trucks and to build up our business."

"We should be proud that we did so well last year despite a drop in traffic," said Crane. "Our service reliability was as good as any other railroad's, and our Marketing people were responsive to our customers' needs."

But Crane warned against getting too confident. "We can't be like a Super Bowl team and think that the world's our oyster...or somebody else will come along and knock us down. We must continue to find ways to compete with trucks and to build up our business.

"In next year's fast-moving world, we've got to make this company work," he concluded. "There's a challenge out there, but I know you can do it. And I'll be out there with you, pushing as hard as I know how to push."

In one of several presentations by members of Conrail management that day, Assistant Vice President-Performance Analysis and Costing Joseph F. Folk said that while Conrail has made great progress in controlling costs, its competitors' costs are still lower in many areas.

Folk pointed out that last year, Conrail was still spending more in operating expenses for each car-mile than it was taking in, on an ICC basis, while other railroads' revenues outpaced their expenses for each car-mile. He also noted:

• Conrail's traffic, in ton-miles, decreased by 27 percent since 1977, compared with an increase of revenue ton-miles by one percent for the rest of the rail industry

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ICC MOVES ON BOXCAR DEREGULATION

On March 4, the Interstate Commerce Commission announced that it had voted to exempt railroad boxcar traffic from regulation. Conrail, which has been a leading advocate of railroad deregulation, had petitioned the ICC last year to deregulate boxcars.

Although the results of this move are uncertain until the ICC issues the details of its decision—which it is expected to do within 60 days of the March 4 date—Conrail expects that the action will help make boxcar service attractive to shippers again.

On November 23, in oral argument before the ICC, Conrail General Counsel Charles N. Marshall had said that Conrail sought deregulation to provide freedom to adjust money-losing rates and to encourage efficient use of its boxcar fleet. It is estimated that unnecessary empty boxcar movements cost the railroad industry $350 million annually and cost Conrail $60 million annually.

Marshall said that much of the railroad's merchandise traffic has been diverted from boxcars to other types of rail service and to modes—such as barges and trucks—that are more competitive because they have been deregulated. As a result, each boxcar in service today is carrying half the number of loads that it did in 1977.

Until the ICC releases the specifics of its decision, Conrail is uncertain of its impact. However, deregulation of other types of rail traffic—such as perishables and piggyback—has resulted in lower prices, better service for shippers and increased volume.

CONRAIL, BLE CONTINUE DISCUSSIONS

On February 14, President Reagan invoked emergency powers of the Railway Labor Act to avert a strike against Conrail by members of the Brotherhood of Locomotive Engineers (BLE). The strike had been scheduled to begin at 12:01 a.m. on February 15.

The White House took this action upon the recommendations of the National Mediation Board, which handles collective bargaining disputes in the transportation industries.

A 60-day cooling off period was imposed to give a presidentially-appointed emergency board 30 days to investigate the circumstances and make recommendations; and to give the BLE and Conrail management the 30 days following to reach a settlement.

Conrail and the BLE disagree on wages, work rules and other issues in the negotiation of a new contract. The two sides requested mediation after being unable to agree on a union demand for a pay differential between engineers and members of train crews.

in brief...

NEWS DIGEST

CONRAIL INCREASES PIGGYBACK RATES—Effective March 1, Conrail increased rates for most segments of its piggyback traffic (truck trailers or marine containers transported on railroad flatcars).

Conrail's last significant increase for this type of traffic occurred in December 1980. Since that time, piggyback rates have remained unchanged or have declined. The current increase was necessary to cover increasing costs.

The rate increases vary, depending on the type of business and the destination, with the average rate increasing about 2.5 percent.

RAILROADS ORDER FEWER CARS—In 1982, orders for new and rebuilt freight cars fell to 7,671, down from 19,916 orders in 1981, reported the Association of American Railroads (AAR) and the American Railway Car Institute.

Orders for new cars last year, which totaled 6,321, reached their lowest point since 1979. Of the remaining cars ordered last year, 750 were to be built in railroad shops and 600 were rebuilds.

The AAR has also reported that more than 277,000 freight cars are out of service on Class I railroads because of an overall traffic decline. Cars placed in service last year totaled 18,736, compared with 46,001 in 1981, and the number of new cars placed in service was the lowest since 1938.

NEWS FROM OTHER ROADS—Norfolk Southern Corporation, the nation's fourth-largest railroad, announced on February 28 that it had purchased 5.01 percent of the outstanding common stock of Santa Fe Industries, the parent company of the Santa Fe Railway. The stock purchase, based on market prices on February 28, was worth $97 million. Norfolk-Southern representatives said that the stock had been bought for investment purposes.

The Union Pacific (UP) and Missouri Pacific (MP) railroads have begun single system service in two major corridors, less than a month after the Interstate Commerce Commission approved their merger.

The daily service operates from the Midwest to the San Francisco-Oakland area over UP and former Western Pacific track, and from the Pacific Northwest to Houston, Texas, over UP and MP. One of the new trains cuts as much as 24 hours from previous schedules.

NEW LEGISLATION INTRODUCED—The Transportation Improvement Act of 1983 has been introduced by Senator Robert Packwood, the chairman of the Senate Commerce Committee.

The bill, S.48, would create a new National Transportation Commission, effective January 1, 1985, to absorb and combine the functions of the Interstate Commerce Commission, the Civil Aeronautics Board and the Federal Maritime Commission. These existing agencies could voluntarily transfer their functions to the new agency after September 1, 1984.

S.48 also contains provisions to repeal prohibitions on rail ownership of water carriers and eliminate ICC approval of mergers of small motor carriers if one of them is affiliated with a railroad. Rail carriers would be allowed to acquire motor carriers subject only to a public interest standard.

Hearings before the Senate Commerce Committee on this new legislation are tentatively scheduled for March 21 and 23.

SURVEY SHOWS 4TH-QUARTER CORPORATE PROFITS FELL 30 PERCENT

A *Wall Street Journal* survey of 507 major corporations showed that after-tax profits dropped 30 percent in the fourth quarter of 1982 from the same period a year earlier.

The fourth-quarter plunge was far steeper than the 18 percent declines recorded for the second and third quarters, according to the survey results published in the *Journal* on February 22. But analysts interviewed by the newspaper indicated that they expect a year-to-year gain in the first quarter of 1983 because they believe that an economic recovery is underway.

Some of the reasons given for the fourth-quarter slump were lower steel and auto production; troubled farm equipment, airline and mining industries; large year-end write-offs and lowered prices as businesses attempted to clear out their inventories.

The nine auto and equipment industries surveyed reported losses totaling more than $274 million in the fourth quarter, down from $147.8 million lost in the fourth quarter of 1981. Steel manufacturers surveyed lost a total of more than $2 billion, compared with $203 million lost in the 1981 fourth quarter. Losses in the mining industry totaled $482.5 million, compared to a net income of $37.7 million for the fourth quarter of 1981.

In other rail-served industries, building materials companies' profits were down 54 percent; chemical industry profits declined 51 percent; food products profits were down 2 percent; and petroleum companies' net incomes declined 19 percent. The forest products industry, which had reported a net income of $633 million for the fourth quarter of 1981, lost more than $50 million in the fourth quarter of 1982.

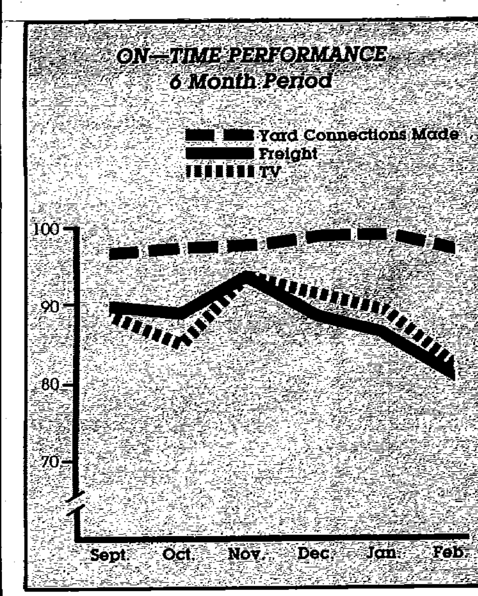
SERVICE REPORT

A massive snowstorm that hit the East Coast on February 11 affected the movement of Conrail trains and caused some on-time performance measures to fall from January's levels. But overall, a higher percentage of Conrail trains were on time last month than in February of 1982.

Here is a breakdown of Conrail's on-time performance last month:

- 89.2 percent of mail trains reached their destination yards within one hour of schedule last month, down from 95 percent in January but up from 73 percent for February a year ago.
- On-time performance of TrailVan trains reached 83.6 percent, up from February 1982's level of 76 percent but down from the 90 percent recorded for January of 1983.
- Freight trains were on schedule 83.1 percent of the time, compared with 88 percent in January and 77 percent a year ago.
- At Conrail yards, 97 percent of the cars monitored made their connections, down slightly from January's 99 percent but up from last February's 94 percent.

Conrail's Keypoint Quality Control Program, which measures the on-time delivery of individual loaded cars to the customer's siding or interchange, showed that 78.9 percent of the cars measured were delivered within 24 hours of schedule last month. This measure improved from January's 73 percent and February of 1982's 72 percent.



PRICING, SERVICE SPUR GRAIN TRAFFIC

A major restructuring of a century-old set of grain tariffs, truck-competitive rates and special efforts to meet shipper requirements helped spur Conrail to a 15 percent increase in moving grain shipments in 1982 vs. 1981 (88,685 carloads vs. 76,826 carloads, respectively).

That trend has continued in early 1983. Carloads of grain and grain products carried by Conrail in January totaled 10,432, a 50 percent increase over January, 1982.

Because of a 1981 revision of Conrail's 4,000 page-plus grain tariff to two concise documents totaling less than 40 pages, along with selected lower rates, Conrail has been able to respond quickly to shipper needs and to increase its share of the available market.

In the grain rate restructuring, one tariff sets rates for grains and grain products for human consumption; the other deals with feed grains and other grain products generally not for human consumption.

Another tariff, designed for the large-volume grain shipper, enabled Conrail to set competitive rates. This resulted in one grain marketer locating two new grain elevators with a combined capacity of 500,000 bushels on Conrail's Detroit-Chicago main line in Michigan. In 1982, the first full year of operation at the elevators, Conrail handled more than 4,000 carloads of export grain. Conrail's low rates enabled the marketer to sell his Michigan grain in the export market for the first time.

Lower rates have also enabled Delmarva Peninsula (in Delaware) grain growers to tap new markets previously inaccessible to them because of high transportation costs. Marketers shipped 450 carloadings of feed corn via Conrail out of that region to other areas of the country, none of which had previously moved by rail.

In late 1982, in another action to compete with trucks, Conrail slashed its rates for corn and grain from northwestern and north central New York State to dairy and poultry farms in the Southern Tier of the state. The rates are nearly 50 percent lower than truck rates and were established to capture the intrastate feed grain market. In the last two months of 1982, Conrail handled 75 carloads (7,500 tons) of that traffic, all of which once had moved by truck. Conrail in 1982 also increased its share of the interstate grain traffic moving into New York State. It carried about 1,500 carloadings of corn into the state from other areas in 1982, vs. about 700 carloadings in 1981.

BUSINESS REPORT

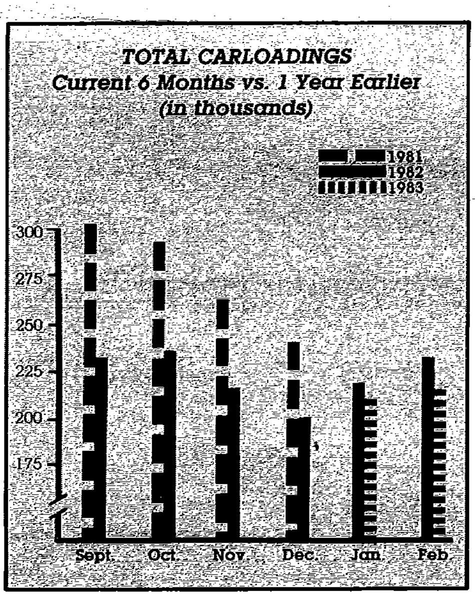
Bullish housing and automobile markets helped to increase Conrail traffic in some areas last month—but total carloadings were still 9.1 percent lower than they were for February of 1982.

Traffic loaded on Conrail lines was 3.4 percent lower than in February of 1982; traffic received from connections was down 15.6 percent.

Higher automobile sales in January—along with increased production as manufacturers bet on higher future sales—increased Conrail carloadings of autos and parts by 17.8 percent last month over levels a year ago. Sales of domestic autos rose more than 11 percent in January from levels a year earlier, and domestic auto production last month soared more than 51 percent over levels for February of 1982.

Increased housing starts in January, which were 35.9 percent above December's levels and almost 100 percent above levels for January of 1982, helped increase traffic in lumber and wood products. Carloadings of these commodities rose 24.3 percent in February from levels of a year ago. In other areas, farm products traffic was up 9.1 percent and trailer-on-flatcar was up 22.7 percent.

Steepest declines were in metallic ores traffic, down 70.7 percent; coal, down 21.5 percent and food products, down 20 percent.



TOTAL CARLOADINGS
Current 6 Months vs. 1 Year Earlier
(in thousands)

CONRAIL HOSTS MINORITY VENDOR TRADE FAIR

In an effort to expand its business with minority suppliers, Conrail on March 7 hosted a Minority Vendor Trade Fair in Philadelphia.

More than 200 representatives from the minority business community—most of whom had never done business with Conrail before—attended the fair and had the chance to discuss business opportunities with 95 representatives of Conrail's Purchasing Department.

"We have a solid Minority Vendor Program, and it ranks among the best, whether you compare it with other railroads or with other companies outside the rail industry," said Conrail Chairman and Chief Executive Officer L. Stanley Crane to the Purchasing Department managers. "I believe in it, I'm proud of it, and I'm eager to see it improve and grow."

Crane noted that Conrail now has more than five times as many minority businesses as suppliers as it did seven years ago, and is spending 25 times as much money with those businesses as it did seven years ago. But he emphasized that attracting new minority suppliers to Conrail is vital to the program's success.

"In light of the fact that our overall purchasing activity is lower than it used to be, I realize that you are facing a tough job," he said. But despite the decreased expenditures, he added, Conrail will maintain its goals for increased business with minority suppliers.

UPDATE ON LABOR/ MANAGEMENT PROJECT

Building on the success of similar groups in the Cleveland and Detroit divisions, the Toledo Joint Improvement Committee was established in that division last month as part of Conrail's systemwide Labor/Management Project.

The Toledo group, comprised of nine representatives of Conrail management and 17 representatives of rail labor, will meet monthly to discuss and solve problems affecting their division. Co-chairmen of the Committee are J.M. LeGates, terminal superintendent at Stanley Yard; R.H. Burgin, local chairman of the Brotherhood of Railway Signalmen and A.M. Hermann, local president of the Transport Workers' Union.

In Detroit, where the Joint Improvement Committee has already saved Conrail more than $63,000 annually, seven quality circle leaders have been trained and recruiting is underway for quality circle group members. These groups, which are voluntary, give employees a chance to discuss problems in their work areas, solve them and help Conrail to save money while improving the work environment.

The quality circle groups in Cleveland are in various stages of progress with their respective projects. And in Philadelphia offices at 32nd Street, mid-level management and labor leaders have been trained in participative management techniques and a quality circle steering committee has been formed. Leader/member recruiting and training will follow shortly.

IN SAFETY, WE'RE 72.6 PERCENT BETTER

Conrail finished January with a rate of lost time injuries that was more than 72 percent lower than it was for January of 1982.

The systemwide lost time injury frequency rate—the number of lost time injuries per 200,000 man hours worked—stood at 1.8 for the month of January. Conrail recorded 51 lost time injuries and 205 total reportable injuries for that month. By department, Transportation recorded the greatest improvement for the month: 87 percent better than in January of 1982.

Among Conrail divisions, Youngstown, Allegheny and Canada had no lost time injuries for the month of January. The Philadelphia Division dramatically improved their lost time injury frequency rate to .69 for the month, after finishing 1982 in last place with a rate of 7.73.

The Central Region, with a lost time frequency rate of 1.08, had the best record among Conrail regions for January.

LOST TIME FREQUENCY RATE BY DIVISION
January, 1983

Rank	*Division*	*Rate*
1	Youngstown	0.00
2	Allegheny	0.00
3	Canada	0.00
4	Philadelphia	0.69
5	Columbus	0.77
6	Buffalo	0.97
7	Toledo	1.19
8	New England	1.52
9	Harrisburg	1.85
10	New Jersey	1.91
11	Southern Tier	2.05
12	Southwest	2.14
13	Cleveland	2.29
14	Michigan	2.30
15	Pittsburgh	3.01
16	Chicago	3.73
17	Mohawk-Hudson	3.79
18	Detroit	5.15

CONRAIL'S CHALLENGES
(continued from page 1)

and a decrease of only seven percent for trucks.

- Conrail has reduced its locomotive repair costs by 38 percent since 1978, while other railroads' repair costs have increased.
- Through aggressive rationalization of yard activities, Conrail has reduced costly switching operations. The number of yard switching hours for each 1,000 car miles was reduced from 1.17 in 1980 to .95 in 1982, in spite of traffic declines.

At other sessions during the conference, managers reviewed Conrail's financial, operational and business results for the year 1982. A special annual report to employees in the next edition of *The Conrail Inside Track* will summarize these results.

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