

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

June, 1983

CRANE COMMENTS ON RLEA PROPOSAL FOR THE PURCHASE OF CONRAIL

On June 14, the Railway Labor Executives Association (RLEA) submitted to the Department of Transportation (DOT) its proposal for an employee purchase of Conrail.

DOT holds 85 percent of the common stock of Conrail, with the remaining 15 percent committed to a trust for Conrail's Employee Stock Ownership Plan. Within certain guidelines of the Northeast Rail Service Act of 1981, and with the approval of Congress, DOT can sell the federal government's interest in Conrail—in effect, transfer ownership from the federal government to the private sector.

RLEA is an association of chief executive officers of labor organizations that represent agreement employees in the railroad industry. The RLEA proposal is the first offer to buy Conrail which has been received by DOT to date. The offer includes a \$500 million cash payment that would be borrowed from private lending sources (backed up by Conrail's assets), which becomes a debt to be paid back by the railroad over a period of years. The offer also includes an extension of wage deferrals beyond the current contract period, which expires July 1, 1984.

In addition, the offer includes the elimination of certain Conrail tax benefits, an action that might provide a positive economic value to the federal government of approximately \$1.2 billion.

On June 16, Conrail Chairman L. Stanley Crane made the following statement in regard to the RLEA proposal:

"The role of Conrail management has been to direct the corporation on a course which has improved service, produced financial viability and preserved Conrail as an entity, in the interest of the public, shippers and employees alike. A number of contributions have been made, by employees and others, to achieve these goals. The wage hold-down was one of those contributions.

"The RLEA plan presented June 14 is one approach toward fulfilling the objective of returning Conrail to the private sector, and I have been an advocate of that goal. I do believe, however, that it will be in the best interests of all parties to reduce the debt to be borne by the corporation and thereby increase its financial flexibility. Instead, the RLEA plan contemplates that the company will assume the burden of \$500 million of

new debt to be amortized by the company. This raises serious questions that need to be reviewed.

"In addition, I am particularly concerned that the RLEA plan does not make clear how it would implement the assurances that management would maintain the necessary independence to effectively carry out its duties and responsibilities in a normal way.

"I am sure the Federal Government will

carefully examine the RLEA's plan—as well as other plans which may surface in the future—in regard to how they will affect Conrail's financial viability and how they will provide for necessary independence for the corporation's management and Board of Directors in carrying out their normal duties. Anything which acts to curtail either of those goals would be counterproductive to Conrail's long-term health and its ability to serve its customers."

USRA: CONRAIL WILL BE PROFITABLE

The United States Railway Association (USRA), in a report sent to Congress June 1, determined that Conrail "will be a profitable carrier."

The report, *Conrail Profitability Determination*, examined Conrail's potential to succeed as a privately-owned, operating railroad without need for further federal assistance. It covered a 1983-87 time frame and looked at traffic, expenses and capital programs over the period. The report was submitted under the terms of the Northeast Rail Service Act of 1981 (NERSA).

"While it is vital to recognize the risks in the future outlook, the likelihood that Conrail will generate positive net cash flow is sufficient to justify the determination under NERSA that Conrail will be a profitable carrier," the report concluded.

The positive finding means the Secretary of Transportation, as stated in NERSA, must continue to try to sell Conrail as a single, operating entity. A negative determination could have meant piecemeal sale of Conrail's assets.

The Association found that NERSA required a test of whether Conrail could earn positive net cash flow after meeting capital needs. This is a more stringent test than book accounting profits, which Conrail has already achieved.

The report cautioned that the projected level of positive net cash flow is modest for the short term, but that higher levels of profitability could be achieved through further productivity improvements at Conrail and through growth in the economy.

On the "risk" side, the USRA report stated that while "Conrail's financial

improvement since 1980 is all the more laudatory in light of an unexpected 26 percent traffic decline," two realities cannot be ignored:

- First, hampered by the recessionary
- (continued on page 4)

JOBS ESTABLISHED AT CAR SHOPS; LOCOMOTIVE SHOPS SLOW

Conrail established a total of 300 positions at two Pennsylvania car repair locations, effective June 10, to repair boxcars used in serving the automotive industry.

This action—which will add approximately 66 positions at the Meadville Car Shop and 234 at the Samuel Rea Car Shops at Hollidaysburg—is being taken to meet anticipated demand for boxcars required by the automotive industry.

The annual two-week vacation closings at Conrail's locomotive and car shops in the Altoona, Pennsylvania area will begin July 4 at Altoona's Juniata Locomotive Shops and July 18 at the Sam Rea Shops. But because of reduced demand for locomotive repairs, the Juniata Shop will not be called back immediately after the vacation period. The 780 Conrail employees working at Juniata will be called back based on the requirements for locomotive repairs and components.

Work is planned to resume at the Sam Rea Shops immediately after the two-week vacation period.

CRANE DISCUSSES PROGRESS AND CHALLENGES AT AWARDS CEREMONY

In accepting the "Man of the Year" award from the St. Louis Railway Club on May 23, Conrail Chairman and Chief Executive Officer L. Stanley Crane said that profitability, performance and people are behind Conrail's present success and will determine its future success.

Crane, who won the award because of his role in Conrail's turnaround and progress in his first two years as chairman, told the group: "Just as a three-legged stool needs all three legs in order not to collapse, a business needs profitability, performance and people. Any two are meaningless without the third."

With the help of rail labor and federal legislation, Conrail has strengthened its profitability, Crane said, but cautioned that challenges still remain. "Conrail is now a railroad operating as any other railroad, and the problems we have are basically the same as other railroads," he said. "I can summarize those problems in one word, revenues. It all begins with revenues, or sales volume."

CONRAIL WOWs KELLOGG

Conrail's "Warehouse on Wheels" (WOW) service for Kellogg is providing up to 48 hours faster delivery of shipments from the Battle Creek, Michigan, ready-to-eat cereal manufacturer to its East Coast customers.

Under the WOW system, boxcars—acting as "rolling warehouses"—move loads of cereals across the railroad during the weekend, arriving at local yards in time for rapid distribution early each week to meet retailers' needs.

Instead of moving cars from Kellogg Company on an "as-needed" basis, which caused transit delays at the receiving end, before WOW was established, Conrail worked with Kellogg to arrange schedules to permit operation of a special train service from Kellogg's Battle Creek facility by 9 a.m. every Friday. By mid-day, the cars are being grouped into trains at Conrail's major freight car classification yard in Elkhart, Indiana, for movement to four major Conrail terminals, then to any of 60 cities in Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Maine and New Hampshire.

The WOW service was developed when Kellogg asked Conrail to design a service that would convince East Coast customers to keep using rail delivery of their shipments instead of switching to trucks. Kellogg and Conrail both adjusted their operating patterns, enabling Conrail to protect this traffic from diversion to another transportation mode and increase its volume, and enabling Kellogg to continue to use rail, its preferred distribution mode.

Kellogg Company ships an average of 50 cars per week via WOW rail service on Conrail.

Service performance—or innovation in providing newer types of rail transportation service—is a prerequisite for sales volume, Crane said. "We must innovate and find ways to meet the need for high service reliability and faster transit times, at lower costs," he said. Crane cited contracts, competitive pricing, and special services such as the just-in-time delivery service for General Motors as examples of how Conrail is making rail transportation service more attractive to customers.

Today, Conrail's people at all levels must help the railroad to maintain good service, Crane said. "Before deregulation, decisions largely came from the top in a consensus environment," he said. "Today, the day-to-day decisions are developed by people deep within the organization."

"Our salespeople must be more knowledgeable about their product than in the past. Our marketing people must develop the transportation product into service packages that are sensitive to the needs of customers. And our operating people must complete the cycle with efficient delivery."

The biggest challenge for Conrail's operating people, Crane said, is to maintain service that is not only comparable to other modes, but better. "If we do not perform on a daily basis, if we drop the ball, we can lose a piece of business for an extended period of time. If we dissatisfy a customer and he signs a long-term contract with another carrier, Conrail can be painted out of the picture forever."

TRUCK-COMPETTIVE SERVICE OFFERED FOR IRON AND STEEL

Conrail has begun offering new, joint rail-motor carrier rates for iron and steel shipments from 30 steel mill locations to the Detroit, Michigan and Philadelphia, Pennsylvania, metropolitan areas for truck delivery to final destinations. The new rates save from 10 to 17 percent over the average charges by motor carriers for transportation between the same points.

These rates are part of a continuing joint effort by Conrail and local trucking and warehousing firms to compete with all-truck service combining efficient, long-haul rail

movements with truck delivery of iron and steel shipments.

The Detroit truck warehouse serves 61 locations throughout Michigan, including Dearborn, Hamtramck, Pontiac, Sterling Heights, Warren, and Ypsilanti. The 135,000 square-foot Camden, New Jersey, warehouse delivers iron and steel shipments within a 50-mile radius of Camden.

The special rail-truck rates apply to shipments of bars, billets, blooms, ingots, slabs, sheet, or strip steel.

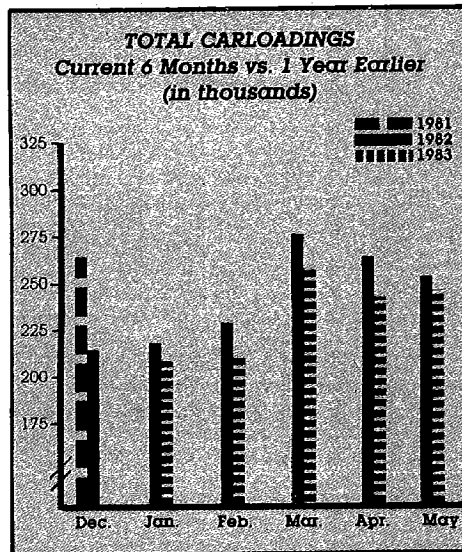
BUSINESS REPORT

While Conrail is still hauling fewer carloadings on a month-to-month basis than it did last year, the gap appears to be narrowing.

Last month, Conrail hauled 246,010 carloads, down 3 percent from May of 1982. Traffic loaded on-line was down 1.3 percent; traffic received from connections was down 5.4 percent.

Conrail improved its carloadings for the month in six major commodity groups. Lumber and wood products traffic was up 10.7 percent; chemicals traffic was up 3 percent; stone, clay and glass carloadings increased 6.8 percent; transportation equipment traffic increased 5 percent; coke carloadings increased 26.2 percent and trailer-on-flatcar traffic increased 26.9 percent.

Declines were reported last month in farm products, down 17 percent; coal, down 12.7 percent; food products, down 14.9 percent; pulp and paper, down 11.4 percent; metallic ores, down 5.4 percent; and other commodities.



NEWS DIGEST

TRACK WORK CONTINUES AROUND THE SYSTEM

IN PENNSYLVANIA—Conrail has started work on a \$14.3 million track improvement project to upgrade sections of an 83-mile segment of the Harrisburg-Philadelphia main line between Phoenixville, Pennsylvania, and Harrisburg.

The line is Conrail's major route between Philadelphia and Harrisburg. It links the industries of Northern New Jersey and Allentown/Bethlehem and the Philadelphia area with the remainder of the Conrail system via Harrisburg. Commodities moved over the line include coal, ore, steel, grain, automobiles and auto parts.

The Harrisburg-Philadelphia project, begun in early April, is scheduled to be completed in early November. It includes the installation of nearly 50 miles of continuous welded rail and more than 48,200 cross-ties and the surfacing of 96 pass miles of railbed. In addition, a total of 134 public and private grade crossings will be rehabilitated.

Since 1976, Conrail has invested \$24.7 million to rehabilitate the line between Harrisburg and Philadelphia.

IN INDIANA—work has begun on a \$3.5 million track improvement project to upgrade 31 miles of the Petersburg Secondary between Buckskin and Petersburg and the Lynnville Secondary between Buckskin and Lynnville.

The Petersburg Secondary links the industries of the Evansville area and the coal fields near Oakland City to the remainder of the Conrail system. Trains from those areas are routed to Big Four Yard, Conrail's major freight car classification facility near Indianapolis. The Lynnville Secondary is a 7-mile branch line connecting to the Petersburg Secondary at Buckskin, used primarily for coal originating at Lynnville.

The Petersburg Secondary project, begun in mid-March, will be completed in September. It includes the installation of 27.8 miles of continuous welded rail (7 miles of that on the Lynnville Secondary) and 27,000 cross-ties and the surfacing of 46 pass miles of railbed.

Since 1976, Conrail has invested \$8.3 million to rehabilitate the 160-mile Petersburg Secondary line.

IN NEW YORK AND MASSACHUSETTS—Conrail has begun work on a \$7.8 million track improvement project to upgrade sections of the Boston-Albany main line between North Grafton, Massachusetts and Niverville, New York.

The 192-mile Boston-Albany main line is a key core route of Conrail's freight system, connecting the Boston marketplace with the rest of the Conrail system and the west, via Conrail's Selkirk Yard, near Albany. At Springfield, the line intersects with a north-south rail route, providing connections for traffic to and from Canada and northern New England, and also Connecticut points. The Boston-Albany line carries a variety of rail freight traffic, including high-speed, high-priority "TrailVan" piggyback trains.

The Boston-Albany project, begun in April, is scheduled to be completed in October. It includes the installation of nearly 40 miles of continuous welded rail, and more than 41,000 cross-ties, as well as the surfacing (raising and leveling) of over 100 pass miles of roadbed. In addition, 10 roadway grade crossings will be rehabilitated.

Since 1976, Conrail has invested \$42.2 million in rehabilitation work on this line between Boston and Albany.

LABOR/MANAGEMENT PROJECT SAVES ANOTHER \$250,000

Various improvements proposed recently by groups participating in Conrail's Labor/Management Project are expected to save Conrail more than \$250,000 per year.

Early this month, in Cleveland, two of the first quality circle groups established at Conrail presented the results of their first projects to division management. "Conrail's First Circle," for Communications and Signals employees, developed a proposal for reassigning company vehicles in their department in the Cleveland Division. The project is expected to save approximately \$89,000 per year for that department in that division alone.

The "Retailers," a group of employees from the Collinwood Diesel Terminal, developed a way to re-use locomotive lube oil, with substantial annual savings.

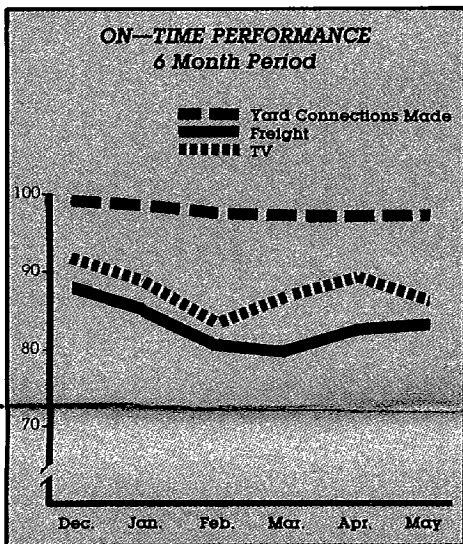
The Detroit Joint Improvement Committee, a coalition of managers and union representatives in that division, finished a project that changed the location for repairing cushion underframe cars used by the automotive industry. Savings are expected to reach \$47,000 per year.

Other joint labor/management groups have been established under Conrail's Labor/Management Project in Cleveland, Toledo and Altoona. Quality circle groups are now in place at Detroit and Philadelphia as well as Cleveland. Total savings from projects developed by these groups are more than \$1.25 million.

EDITOR'S NOTE: A feature on Conrail's Labor/Management Project will appear in the Summer edition of *The Conrail Inside Track*.

SERVICE REPORT

On-time performance of Conrail trains remained consistently high last month, as most measures equaled or exceeded service levels for May of 1982.



Conrail's Keypoint Quality Control Program, which measures dock-to-dock schedule performance of selected freight cars, showed that 83.3 percent of the measured carloads reached their destinations within 24 hours of the scheduled standard. This measure was down slightly from the 85 percent level for May 1982.

Other areas improved or stayed consistent. Among mail trains, 94 percent—the same percentage for May of 1982—reached their destination yards within one hour of schedule. On-time performance of TrailVan trains improved from 76 percent in May, 1982 to 85.3 percent last month. Freight trains' on-time performance improved from 81 percent a year ago to 81.5 percent last month. At Conrail yards, 97.5 percent of the cars monitored made their connections, up from 91 percent a year ago.

BLE RATIFIES PACT

On May 24, the Brotherhood of Locomotive Engineers announced that its membership had ratified a new contract with Conrail, putting to rest disagreements over wages, work rules and other matters. A tentative agreement had been reached on April 21 between Conrail and top union officials, averting a work stoppage scheduled for April 30.

The new contract, which affects approximately 3,200 Conrail engineers, provides that the BLE become signatory to the May 5, 1981, labor agreement ratified by other major unions representing Conrail employees. With the signing of the contract by the BLE, all major Conrail unions are now signatory to the agreement.

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economy of 1981-82, Conrail has not yet generated a year of positive net cash flow if extraordinary items are excluded. This refers to the sale of tax benefit transfers, relief from state taxes, and commuter rail passenger adjustments.

• Second, current projections of Conrail's traffic are clouded by the nature of the 1981-82 recession and structural changes taking place in the region's economy—particularly in the steel and auto industries—and by increased competition from trucking due to deregulation.

Conrail Chairman and Chief Executive Officer L. Stanley Crane, in a statement to the press, noted, "Conrail is pleased with the USRA finding that Conrail will be a profitable railroad. We look forward to continuing progress in sustaining that prediction."

USRA is a non-profit government corporation with financing and monitoring responsibilities toward Conrail.

TOLEDO, CLEVELAND IMPROVE SAFETY PERFORMANCE

The Toledo and Cleveland divisions dramatically improved their safety records from March to April, and a total of five Conrail divisions posted no lost time injuries in April.

The Toledo Division, in 13th place in March with a lost time injury frequency rate of 2.88, came in first for April, with no lost time injuries. (Frequency rate measures the number of lost time injuries per 200,000 man hours worked.) The Cleveland Division, which stood at ninth place in March with a frequency rate of 2.11, moved up to second place for April, with no lost time injuries. The New England, Southern Tier and Canada divisions also reported no lost time injuries in April.

The Central Region continues to have the best regional safety record, with a lost time injury frequency rate of 0.98 for April and 1.04 for the year-to-date. The top five safety performers year-to-date in the divi-

sion category are Canada, with no lost time injuries; Allegheny, with a frequency rate of 0.44; New England, with 0.73; Southern Tier, with 0.96 and Youngstown, with 0.99.

Systemwide, Conrail's lost time injury frequency rate was 1.39 for April and 1.70 for the year-to-date.

LOST TIME FREQUENCY RATE BY DIVISION April, 1983

Rank	Division	Rate
1	Toledo	0.00
2	Cleveland	0.00
3	New England	0.73
4	Southern Tier	0.96
5	Canada	0.99
6	Pittsburgh	0.69
7	Youngstown	0.73
8	Columbus	1.34
9	Allegheny	1.65
10	Buffalo	1.86
11	New Jersey	1.92
12	Harrisburg	2.31
13	Southwest	2.60
14	Detroit	3.51
15	Mohawk-Hudson	3.65
16	Chicago	3.93
17	Philadelphia	3.98
18	Michigan	4.41

LOSS AND DAMAGE CLAIMS DROP

Recent statistics from the Association of American Railroads (AAR) show that railroads are handling freight more carefully and reducing customer claims for lost or damaged freight.

The freight railroad loss and damage bill last year was 9.3 percent lower than in 1981, the AAR reported. New claims filed during the year dropped 27 percent.

Total payouts dropped from \$257 million in 1981 to just under \$233 million last year; new claims dropped from 1,183,427 in 1981 to 866,753 in 1982, the lowest figure since the AAR began keeping records.

(At Conrail, the reduction for loss and damage claims has outpaced the decline

in traffic. While carloads handled by Conrail dropped 20.5 percent from 1981 to 1982, the number of claims dropped 29 percent.)

Industrywide, the AAR reported that the ratio of loss and damage to each \$100 of freight revenue was 77 cents in 1982, up slightly from the 75 cents reported a year earlier. The past two years represented the best on record. According to Ralph A. Grover, executive director of the AAR's Freight Claim and Damage Prevention Division, the slight rise in the ratio from 1981 to 1982 followed historic patterns because the loss and damage ratio usually rises during a recession.

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In Brief is published by the Public A Department of Consolidated Rail Corporation, Room 1040, Six Penn Center, Philadelphia, Pennsylvania, 19104.

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