

# in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

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## RLEA TASK FORCE AGREES TO SUPPORT MORGAN STANLEY PROPOSAL

The Railway Labor Executives Association (RLEA) Task Force appointed by the RLEA to represent labor in the sale of Conrail has agreed to give its support to Morgan Stanley & Co. Inc.'s proposal leading to a public offering of Conrail stock. The agreement was announced July 3.

In accordance with the agreement, the RLEA released the following statement:

"The Railway Labor Executives Association today announced that the Task Force appointed by it to protect the interest of the employees represented by its members in the sale of the Government's interest in Conrail has initiated an agreement in principle with representatives of Conrail and the Morgan Stanley group. It has been the purpose of the RLEA from the outset to maintain Conrail as an independent entity and to achieve an eventual sale of the Government's interest in Conrail to the public. The Morgan Stanley plan would achieve those objectives.

"RLEA believes that an independent Conrail will best serve the public interest by preserving vigorous railroad competition in the Northeast and Midwest. Shippers and the public, as well as Conrail employees, will benefit from the agreement reached today.

"The agreement contains protection for the interest of employees, including the

value of their stock interest in Conrail, deferred wage increases and a program of protection for employees who may be deprived of employment for any reason other than strikes, acts of God, and other similar effects beyond the control of Conrail management.

"The Task Force will strongly recommend to the RLEA that it approve the agreement in principle and support the efforts of

## CONRAIL, UTU REACH AGREEMENT

Conrail announced July 17 that it had reached agreement with the United Transportation Union (UTU) on a new master labor contract through June, 1988, and on UTU support for maintaining Conrail as an independent company through a public offering of Conrail stock.

The master labor contract, which is subject to ratification, will provide a return to industry scale wages for UTU members retroactive to July 1, 1984, and cover future wage increases, fringe benefits, and other working conditions. The back pay for an average full-time employee equals approximately \$4,000, including a special \$565 lump sum payment.

In regard to the UTU's support for a public offering of stock to return Conrail to the private sector, the UTU stated, "We prefer that Conrail be returned to private sector ownership by means of a public stock offering and, therefore, in connection with our June 28, 1985 Agreement, we endorse a public sale of Conrail stock resulting in an independent company, if such a sale is approved by the House Energy and Commerce Committee, which approval includes a finding that Conrail will be financially stable, recognition for our wage increase deferrals, and provision for adequate employee protection."

The new master contract will return industry scale wages by applying on Conrail the same wage increases and health and welfare benefits as recently agreed to in national rail bargaining.

The UTU represents about 8,600 brakemen, conductors, yardmen and firemen on Conrail, out of a total unionized workforce of approximately 35,000.

Conrail and Morgan Stanley in seeking the enactment of appropriate legislation approving the Morgan Stanley group as purchasers of Conrail. The agreement and a definitive agreement are subject to enactment of satisfactory legislation approving the Morgan Stanley plan."

The Department of Transportation declined immediate comment on the agreement.

Conrail management responded to the announcement by RLEA saying, "Conrail confirms that it has reached an agreement with the Railway Labor Executives Association (RLEA). Conrail management is very pleased with the agreement. The RLEA announcement speaks for itself and Conrail management has nothing further to add at this time."

See reactions to RLEA task force endorsement on page 2.

## LABOR/MANAGEMENT PROJECT MOVES FORWARD

Conrail's Labor/Management Project has taken significant strides in a number of areas, with several new developments coming in the first six months of 1985.

Savings from programs devised and implemented by various local labor/management committees now total more than \$3 million, and as the project enters its fourth year of existence, the number of labor and management employees involved at various levels has grown to 500.

Among developments within the past six months are:

- the formation of new or additional Quality Circles at Altoona, Toledo, Columbus and Indianapolis, bringing the total number of those groups on-line across the system to 18;

- the formation of a 10-member, "in-house" training team for the Quality Circle program, eliminating the need to use outside consultants, the team consists of four management and six labor representatives;

- the formation of two new division level labor/management committees, the Allegheny Labor and Management Organization (ALAMO) and the "Pitt Crew" (Pittsburgh Division); the additions bring the number of operating division committees to 10.

## CONRAIL REPORTS \$154.8 MILLION NET INCOME FOR SECOND QUARTER

Conrail reported net income of \$154.8 million for the second quarter and \$209.5 million for the first six months of 1985. These results compare with record net income of \$178.9 million and \$269.8 million, respectively, for the similar periods of 1984.

(Conrail did not pay industry scale wages in the second quarter and first half of 1984. If it had, its earnings would have been approximately \$147 million for the second quarter and \$205 million in the first half of 1984, which are closely comparable to this year.)

Conrail's cash balance increased by \$28 million during the first half of 1985, reaching \$874 million at June 30, 1985.

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**SALE TO NS WOULD HURT COAL SHIPPERS—REED**

A sale of Conrail to the Norfolk Southern Corp. will "reduce the competitive alternatives available to the eastern coal companies today," Conrail President and Chief Operating Officer Stuart M. Reed told the Eastern Coal Transportation Conference July 2 in Pittsburgh.

"Any constraints on Conrail marketing reach reduce the opportunity for coal buyers to benefit from meaningful competition. Any constraints on Conrail marketing policies reduce the opportunity for coal producers to reach the markets," said Reed.

Conrail has been a pricing leader on coal movements for a number of different purposes, both domestic and export, Reed

said. And Conrail has established a low price posture on coal shipments to many Eastern and Midwestern utilities. Reed quoted Glenn R. Schleede, president of New England Energy Inc., the fuel and transportation subsidiary of New England Electric System, who said that utility's freight charges for coal could go up \$2.25 to \$2.75 a ton under Norfolk Southern's pricing policies.

Schleede has testified that Conrail's rates "are more reasonable," and that rates charged by NS are "excessive."

**CONRAIL INVESTING \$10.7 MILLION TO UPGRADE BOSTON LINE**

Conrail is investing \$10.7 million in a track improvement project to upgrade sections of its 200-mile Boston Line in Massachusetts. The project includes installation of 30.1 miles of continuous welded rail between Boston and Framingham.

Work on the project began in early May and is scheduled for completion in September. In addition to the rail work, the project includes installation of 68,580 crossies, and the surfacing of railbed between Boston and Pittsfield, Massachusetts. Also included in the project is the rehabilitation of 17 switches and six public grade crossings.

The Boston Line is a key route on Conrail, connecting the Boston marketplace with the rest of the Conrail system via Selkirk Yard near Albany, New York. Near Springfield, Massachusetts, the line intersects with a north-south rail route, providing connections for traffic to and from Canada, northern New England, and Hartford, New Haven and other Connecticut points. At Framingham, a Conrail line provides a connection to southeastern Massachusetts, including the Cape Cod area.

Last year, Conrail invested more than \$11 million on the section of the Boston Line between Chatham, New York and Framingham, which included the installation of 45.3 miles of continuous welded rail.

High-speed, high priority TrailVan piggyback trains and trains carrying such commodities as chemicals, grain, automobiles, auto parts, coal, paper products, steel, lumber, sand, feeds, and fertilizers utilize the Boston Line. In addition to Conrail freight service, the line is used by Massachusetts Bay Transportation Authority (MBTA) commuter trains and Amtrak intercity passenger trains.

The project is part of Conrail's continuing program to upgrade service on its 15-state, 13,400 route-mile system by investing capital resources where they will most effectively contribute to Conrail's ability to deliver reliable, efficient services to its customers.

"The consistent, intelligent investment of capital in track structure is essential to our ability to provide competitive transportation service," said Stuart M. Reed, Conrail's President and Chief Operating Officer. "This

**SPECTER BILL REQUESTS SALE TO MORGAN STANLEY INVESTOR GROUP**

U.S. Senator Arlen Specter (R-Pa.) introduced legislation in the Senate June 26 calling for the government to sell its 85 percent interest in Conrail to the group assembled by Morgan Stanley & Co. Inc.

Specter said the Morgan Stanley proposal "provides the most effective assurance for the long-term viability of the railroad."

U.S. Representatives Dennis E. Eckart (D-Ohio) and Thomas J. Bliley Jr. (R-Va.) introduced a similar bill in the House of Representatives. Joining Specter in intro-

ducing the legislation in the Senate were Senators Alan J. Dixon (D-Ill.), J. James Exon (D-Neb.), Larry Pressler (R-SD), John D. Rockefeller (D-W Va.) and Paul Simon (D-Ill.).

Additional House sponsors included: William O. Lipinski, (D-Ill.), Robert W. Edgar (D-Pa.), and Stan Lundine (D-N.Y.).

Specter said the plan to sell Conrail to the group of 32 diverse investors put together by Morgan Stanley, a New York investment bank, was preferable to "giving away" the railroad to Norfolk Southern. Specter has been opposed to Norfolk Southern's acquisition of Conrail since NS began to emerge as the favorite in the Department of Transportation's bidding process for Conrail.

"This proposal," he said at a news conference in Washington, "avoids the serious anti-competitive problems contained in the proposed sale of Conrail to (NS), ensures a greater return to the government and taxpayers and allows all an opportunity to invest in Conrail's future."

A key House member, Representative James J. Florio (D-N.J.), said he welcomed the bill, saying it provided his subcommittee (Florio is chairman of the House Subcommittee on Commerce, Transportation and Tourism) "with a valuable option as it determines how to deal with Conrail."

However, he said he has questions about certain provisions contained in the bill, and added that those questions may be one reason for the bill's limited sponsorship in the House.

\$10.7 million project is part of Conrail's overall \$557 million capital investment program in 1985 and will help us provide faster shipment times and safer operations, as well as operating cost reductions and improved equipment utilization."

The Boston Line project and others like it involve the laying of ribbons of welded rail approximately 1,560 feet long and the smoothing and raising of the supporting rail bed (called surfacing). Rail gangs working in assembly line fashion take out the old rail. The new rail is then positioned, spiked and anchored to the crossies with mechanized equipment. After the rail work is completed, the surface of the track is leveled.

**CONRAIL NET INCOME \$154.8 MILLION FOR SECOND QUARTER**

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L. Stanley Crane, Conrail's Chairman and Chief Executive Officer, stated: "There are several vitally important messages in Conrail's first-half performance. The first-half net income for 1985 reflects declines in carloadings of freight handled of about 7.7 percent and of revenue of 6 percent compared with the same period in 1984.

"In 1985's first half, Conrail restored most employees to industry-scale wage levels, while also making lump-sum payments of \$53 million for retroactive wage increases for the full second half of 1984.

"Most important is this: despite the first half traffic and revenue declines and the substantial increase in wage levels, Conrail was able to produce railroad operating income comparable to the best of the other major rail systems in the nation and increase its cash balance. Concurrently, Conrail continued its massive capital expenditure program of more than \$550 million for the year and enhanced its service quality. These achievements are highly significant.

"Our results provide additional and mounting evidence of Conrail's capability to continue programs to improve customer service and maintain long-term viability,

while operating as a 'normal' company in a highly-competitive environment. The critical question about Conrail's future is no longer whether the company has the wherewithal to be viable—for we are proving that with our financial results in every passing quarter," concluded Crane.

Revenues for the second quarter and first six months of 1985 were \$838.4 million and \$1,641.0 million compared with \$886.7 million and \$1,743.8 million for the same periods of 1984.

Carloadings of freight handled in the first six months of 1985 were 1,464,000 vs. 1,586,000 in the first half of 1984.

Traffic declines were noted in several key areas, including coal, down 16.5 percent for the first six months vs. the similar period of 1984, primary metals, down 13.2 percent, and piggyback (trailer/container-on-flatcar), down 4.3 percent.

Increases in carloadings were achieved in lumber and wood products, 14.2 percent, and coke, 12.0 percent.

Net income for the second quarter of 1985 reflects a \$14 million credit related to the sale of certain of Conrail's Canadian assets to the Canadian National Railway Company and Canadian Pacific Ltd.

**STEEL TRADE GROUP SUPPORTS MORGAN STANLEY OFFER**

The American Iron and Steel Institute (AISI), an industry group made up of the nation's steel producers, has announced strong support for the plan to sell Conrail to a coalition of investors put together by Morgan Stanley & Co. Inc.

In a letter to members of the House of Representatives June 14, Robert B. Peabody, president of AISI, said, "The American Iron and Steel Institute has reviewed the two current proposals for returning Conrail to the private sector. AISI strongly supports the Morgan Stanley proposal because it will retain Conrail as a viable independent corporation providing needed intramodal competition in the marketplace. AISI had earlier expressed its strong opposition to the Administration proposal that the government's interest in Conrail be sold to Norfolk Southern."

Accompanying the letter were position papers prepared by AISI on both the Morgan Stanley and Norfolk Southern proposals.

In its position paper on the Morgan Stanley plan, AISI noted its previous opposition to a sale to Norfolk Southern and said an independent Conrail would maintain future intramodal and geographic competition as envisioned by the Staggers Rail Act, assure the steel industry a better car supply through competition, keep intact a management team with an excellent record, provide an environment for continuing a recognized innovative marketing program that has resulted in lower cost and improved

services to the steel industry, and continue as the price and service leader, forcing CSX and NS to provide better prices and services to the steel industry.

AISI also noted that it believes Conrail "is a viable corporation for the long term."

The institute is made up of 51 member companies that represent 80 percent of the nation's total capacity for production of raw steel. About 75 percent of the nation's steel, the group said, is produced in the Northeast.

**BUSINESS REPORT**

Carloadings carried on the Conrail system declined 6.1 percent during June to 248,617 carloads compared with the same month last year.

Carloadings received from connections declined for the month to 97,951, down 8.9 percent from a year ago, while carloadings loaded on Conrail lines were down 4.1 percent to 150,666.

Coal traffic was off 12.5 percent from a year ago. Pulp and paper loadings declined 17.1 percent and waste and scrap loadings were off 23.7 percent.

Some commodities registered large increases during the month, however, with loadings of lumber and wood products increasing 22.7 percent and coke loadings moving up 10.2 percent. Transportation equipment recorded a small gain, up 1.1 percent from levels in recorded June of last year.

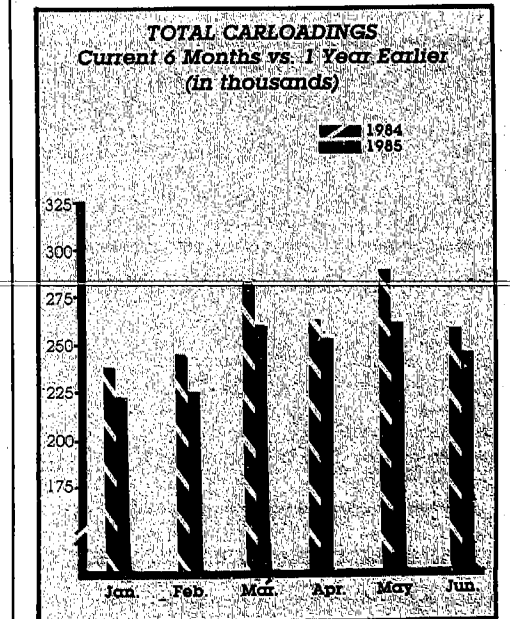
For the second quarter of the year, loadings carried on the Conrail system were off about 7.2 percent, and traffic for the first six months of 1985 recorded a 7.7 decline.

**INVESTMENT EXECUTIVES SUPPORT STAGGERS ACT**

A group of the nation's leading transportation investment executives have urged Congress to continue to endorse the Staggers Rail Act of 1980, which partially deregulated the railroads.

In a letter to senators and congressmen who have jurisdiction over transportation legislation, members of the Transportation Investor Roundtable (TIIR), a nationwide group of investor executives concerned with sound transportation policies, said that "the threat of changes in the Staggers Rail Act, or even the fine tuning of the Act, could quickly destroy today's renewed confidence in the railroad industry. Without this confidence, the economy as well as the nation's competitive position in world markets would be at risk from a weakening of its railroad structure."

The investor group pointed to more competitive freight rates, increased productivity, improved operating ratios and increased profitability as benefits flowing from the implementation of the act. The letter specifically notes that the industry's improved financial health has made possible capital improvements resulting in a 1984 accident rate which was the lowest ever recorded.



**CONRAIL WINS MODERN RAILROADS ACHIEVEMENT AWARD**

Conrail has been awarded a Class A Achievement Award by Modern Railroads magazine in its 1985 Golden Freight Car competition.

Conrail's achievement award was in the magazine's Traffic Diversion category. Since 1980, Conrail has received three Golden Freight Car awards and two Class A Achievement awards in the Modern Railroads competition. The overall Golden Freight Car award winner among Class A railroads was Grand Trunk Western Railway Co., for its entry in the Shipper Commitment category. The awards were presented in Chicago July 11.

The Conrail award was for just-in-time (JIT) service to auto companies, which the company has dubbed the Automotive Express. Conrail's entry in the competition detailed several JIT operations that Conrail has put in service for General Motors Corp. and Chrysler Corp. Just-in-time is a produc-

tion technique that provides parts and materials to a manufacturing facility on an "as needed" basis, eliminating costly inventories. Under such a strategy, plants that provide parts and materials to the central manufacturing operation are often grouped close to the central plant.

"This trend was made to order for trucking and posed a serious threat to the railroads' important, profitable auto parts traffic," said the magazine.

"Conrail was the first railroad to respond to this threat by providing JIT transportation service by rail. To do this, it had to provide services that would efficiently gather parts from many different locations and deliver them to assembly plants just hours before they were needed."

In pointing out the success of Conrail's Automotive Express service in recapturing traffic lost to the trucking industry, Modern Railroads noted that on Conrail train KZLA, which served General Motors' Lansing

Fisher Body plant for 19 months between 1982 and 1984, 10,300 of the total 11,520 carloads hauled were either diverted from trucks or other railroads or protected from truck diversion.

"To get that business, Conrail demonstrated to GM that it could provide the required service more economically than GM could with its own truck fleet," Modern Railroads said.

Grand Trunk earned the top industry award with its Extended Assembly Line Shipping concept, which GTW describes as "vehicle loading that is electronically preprogrammed to direct loading from assembly line to enclosed rail cars for immediate train shipment directly to the predetermined destination."

**CLEVELAND POSTS NO INJURIES IN MAY**

Conrail's Cleveland Division took top honors in May as the safest division on the Conrail system, recording no lost-time injuries for that month.

Five other Conrail divisions bettered the railroad's target of a lower than 1.4 lost-time injury ratio for the month. Those divisions included Harrisburg, 0.61; Youngstown, 0.74; Allegheny, 0.78; Buffalo, 0.96; and Philadelphia, 1.39.

The best Conrail region for the month and for the year so far is the Eastern Region.

That region posted a lost-time injury rate of 1.21 for May and its year-to-date rate stands at 1.07.

Three departments, Stations, Police and Auto Terminals, all posted no lost-time injuries during May.

The lost-time injury ratio measures the number of injuries per 200,000 man-hours worked.

For the Conrail system in May, the lost-time injury ratio was 1.40. For the year-to-date, that ratio stands at 1.34.

**LOST TIME INJURY FREQUENCY RATE BY DIVISION**  
May

Rank	Division	Rate
1	Cleveland	0.00
2	Harrisburg	0.61
3	Youngstown	0.74
4	Allegheny	0.78
5	Buffalo	0.96
6	Philadelphia	1.39
7	Chicago	1.46
8	New Jersey	1.76
9	Mohawk-Hudson	1.78
10	Pittsburgh	2.05
11	Southern Tier	2.06
12	Columbus	2.12
13	Michigan	2.35
14	New England	2.71
15	Southwest	3.21
16	Toledo	4.02

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