

in brief...

PUBLISHED MONTHLY FOR EMPLOYEES OF CONSOLIDATED RAIL CORPORATION

CONRAIL

August, 1982

OUR PURPOSE: TO BRING YOU THE FACTS AS QUICKLY AS POSSIBLE

by L. Stanley Crane
Chairman and Chief Executive Officer

I'd like to share with you the reasons why we are beginning this new monthly publication, *In Brief*, and sending it to your home. For one, we feel that silence breeds uncertainty—and that you and your family deserve timely information about Conrail's progress and its goals.

This is a critical period in Conrail's history. In the face of a recession and a traffic decline, we must strive to become a profitable railroad if we are to be sold intact to the private sector—thus preserving the greatest number of jobs and the best rail service for our territory. All of us with a stake in Conrail's future must direct our efforts

towards this goal. Good communication is an important step in helping you to understand what we've accomplished and what must be done.

Another reason for this publication is that you have told us it is needed. Early this year we surveyed randomly-selected employees to determine how *The Conrail Inside Track* was meeting employees' needs for information about the railroad. You indicated that you wanted more **facts**: timely, hard news about where Conrail is headed.

In Brief will provide information about Conrail's financial progress, traffic levels, service quality, legislative developments and other important news as quickly as possible. We will continue to publish *The Conrail Inside Track* on a quarterly basis,

and that publication will concentrate on in-depth coverage of the railroad and its people.

I hope that *In Brief* will help you to better understand our progress and our challenges, and I am looking forward to having more opportunities to communicate with you.

USRA ISSUES SIXTH ANNUAL REPORT ON CONRAIL PERFORMANCE

On July 13, United States Railway Association Chairman Stephen Berger announced that USRA had issued its sixth annual report to Congress on Conrail performance. It said that Conrail's \$39 million profit in 1981 represented dramatic success in matching costs to revenues.

It noted there were major improvements in productivity and cost control, and the profit was realized in the face of a recession that has impacted more heavily on the region served by Conrail than on other parts of the country. Conrail was able to improve operating profit margins, although traffic dropped 8.3 percent from the previous year's levels, reflecting the economy's downturn.

According to the Association document, many factors and parties contributed to Conrail's turnaround in 1981, but pivotal were the benefits derived from passage by Congress of the Staggers Act of 1980 and the Northeast Rail Service Act of 1981. These laws in combination with recent ICC rulings opened a new era of "flexibility and opportunity" for Conrail and the rail industry generally. It said the full financial rewards of the legislation will be realized in 1982 and beyond.

The report observed:

"Senior management carried out its commitment to find ways to tailor assets and costs to current traffic and revenue. Conrail employees contributed both by wage concessions and by participation in an extra-

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COST CONTROL RESULTS IN A POSITIVE SECOND QUARTER

For the second quarter of 1982, Conrail reported net income of \$56.2 million on revenue of \$958.8 million, compared with net income of \$13.8 million on revenue of \$1,073.2 million in the second quarter of 1981.

For the first six months of 1982, Conrail reported its first net income for the first half of any year since it began operations on April 1, 1976. The corporation reported net income of \$30.6 million on revenue of \$1,903.0 million compared with a \$52.1 million loss on revenue of \$2,132.0 million for the same period of 1981.

Conrail's continuing cost reduction efforts, including employees holding the line on wage increases, were largely responsible for the positive results in the second quarter and first half of 1982. The second quarter results were achieved despite a 14.7 percent decrease in freight traffic (carloadings of freight handled), compared with the same quarter of 1981. Excluding coal traffic—which was substantially reduced in 1981 by a coal miners' strike—the decline was 27.4 percent.

Carloadings were down 42.2 percent in primary metals, 17.4 percent in automobiles and automobile parts, and 22.8 percent in

chemicals. The only major areas not to show a carloading decline were trailer on flatcar (piggyback), up 1.4 percent, and coal, up 63.2 percent.

Under the financial reporting requirements of the Interstate Commerce Commission (ICC), Conrail lost \$7.9 million for the second quarter of 1982 and lost \$25.2 million for the first half of the year. The ICC requires railroads to note as an expense major track replacements in the year the expense is incurred.

To become a self-sustaining railroad, Conrail must generate net income (ICC basis) and be able to finance necessary capital improvements.

More than a year has now passed since Conrail last obtained funding from the federal government for operations or rehabilitation. It is not anticipated that such funding will be needed in the future.

For the remainder of 1982, Conrail's results will depend heavily on the nation's progress toward economic recovery and the performance of industries that provide a large portion of its volume, such as steel and automotive. We will follow these industries' performances in future editions of *In Brief*.

USRA REPORT (continued from page 1)

ordinary growth in cost consciousness. Shippers adjusted to deregulation—some shifting to other carriers and modes, others to Conrail—as prices and services were tailored more effectively to the railroad's inherent competitive position. The report added that the multiyear federal investment in improving plant and equipment, totaling approximately \$3.3 billion since Conrail began operating in April 1976, has established Conrail as an economical and reliable source of freight transportation service to the markets of the region, and the "dividends on that investment are rising."

USRA analysis determined that many of Conrail's 1981 cost improvements should be sustainable in future years, and noted that in early 1982 Conrail "continues to demonstrate the ability to adjust to revenue changes, an achievement crucial to further progress towards viability."

As a follow-up, USRA is scheduled to submit a report to Congress in September which will compare Conrail's productivity with that of other railroads in the nation. This will provide a basis for assessing further improvement opportunities.

The United States Railway Association is a nonprofit federal corporation. The Association developed the plan for reorganizing seven bankrupt railroads in the Northeast quadrant of the country into the Conrail system.

LABOR/MANAGEMENT PROJECT BEGINS IN CLEVELAND

On July 26 in Cleveland, Conrail formally launched its new Labor/Management Project, designed to improve productivity and employee morale through the direct involvement of employees in problem-solving.

On hand for the formal kickoff of the program were members of its Steering Committee: Conrail representatives R.E. Swert, senior vice president-labor relations, and D.A. Swanson, vice president-transportation, and labor representatives Dan Collins, assistant general secretary and treasurer-United Transportation Union, and Al Archual, vice president and general chairman-Brotherhood of Railway and Airline Clerks. Also present were other representatives of Conrail management and rail labor unions, members of Conrail's Cleveland Joint Improvement Committee—a successful labor/management program—and William Loftus of the Federal Railroad Administration, which is providing a portion of the funding for the new Conrail project.

After the new program gets started in Cleveland, early plans call for it to expand to Detroit, Altoona and 32nd Street in Philadelphia. More information on the Labor/Management Project will appear in the next edition of *The Conrail Inside Track*.

DOT AND LABOR EXECUTIVES STUDY OPTIONS FOR CONRAIL'S RETURN TO PRIVATE SECTOR

When the Northeast Rail Service Act (NERSA) was signed into law a year ago, it directed that an effort be made to return Conrail to the private sector through sale of its common stock, held by the U.S. government. Under NERSA, the Secretary of Transportation was required to engage an investment banker or similar financial institution to arrange for the sale of this stock.

The U.S. Department of Transportation has retained the investment firm of Goldman, Sachs and Co. to study the alternatives for the transfer of Conrail to the private sector and to attempt to arrange for the sale of its stock.

Possible buyers of Conrail could include another railroad, a non-railroad concern such as an energy company, the public, through a public sale of stock; Conrail employees, through an employee buy-out plan, or any combination of the above options.

The Railway Labor Executives' Association (RLEA), an organization of the top executives of labor unions representing railroad employees, is currently studying the option of an employee buy-out. The RLEA has employed Brian M. Freeman as financial advisor for that study. Freeman is a private sector investor and attorney, who formerly was Deputy for Corporate Finance and Special Projects in the U.S. Treasury Department.

The RLEA panel studying the employee buy-out option includes Fred A. Hardin, president of the United Transportation Union; Richard I. Kilroy, president of the Brotherhood of Railway, Airline and Steamship Clerks; O.M. Berge, president of the Brotherhood of Maintenance of Way

Employees; Andrew M. Ripp, international vice president of the International Brotherhood of Electrical Workers; and Albert A. Terriego, vice president and director of the railroad division of the Transport Workers Union of America.

On July 21, Conrail's Board of Directors established a special committee to represent the Board in matters relating to the government transfer of Conrail to the private sector. Board members serving on the committee include William R. Dimeling, committee chairman, and Stanley E.G. Hillman, L. Chester May, Roger S. Hillas, Daniel B. Burke and Sam Hall Flint. Conrail's management has appointed Roy B. Opitz, assistant vice president-corporate planning, to provide liaison with the DOT investment bankers and RLEA investment advisor.

NERSA provides that Conrail will remain as an entity until at least June 1, 1983, unless Conrail needs federal funds in excess of the amount authorized for it before then. Conrail has not drawn down any federal funding since the second quarter of 1981; no further need for federal funding is anticipated.

If Conrail passes the profitability tests mandated by NERSA for mid- and late-1983, it can be sold only as an entity until June 1, 1984. If Conrail is not sold as an entity by that time, employees have a 90-day period to submit a plan to buy stock.

While it is presently uncertain when Conrail will be returned to the private sector, the timing will be influenced by the state of the economy and by Conrail's financial performance, according to Opitz.

We will follow further developments in future editions of *In Brief*.

ABOUT RUMORS—Rumors are a fact of life in any business, and Conrail is no exception. No matter how or why they start, rumors are rarely beneficial and can be both disruptive and disturbing.

As Conrail moves closer to the goals of becoming fully profitable and being returned to the private sector, rumors are bound to increase.

As a start, a trade publication has reported a rumor circulating in Washington that Conrail could be sold by this coming October. The facts are that Conrail's management knows absolutely nothing that would confirm this report. However, it might be considered an encouraging sign of increasing public faith in Conrail's future, as the railroad could only be sold as a single entity at this time.

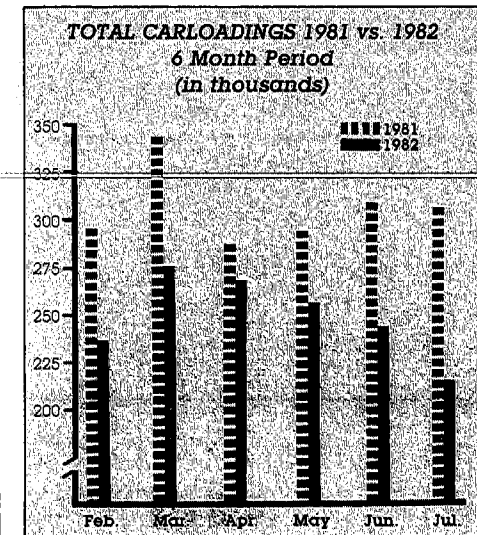
If you hear a rumor that is particularly disturbing or disruptive, let us know and we'll do our best to give you the facts in future editions of *In Brief*.

RECESSION CONTINUES IMPACT ON TRAFFIC

In July, Conrail's carloadings were more than 28 percent lower than carloadings for the same month a year ago—indicating that the recession continues to take its toll on Conrail's traffic levels.

Except for farm products and trailer-on-flatcar traffic, carloadings in all other commodities were lower last month than they were in July of 1981. Primary metals were down more than 52 percent; coal was down more than 35 percent; pulp and paper, more than 21 percent; and chemicals carloadings dropped almost 23 percent.

On the positive side, trailer-on-flatcar traffic rose 11.1 percent last month over July 1981 levels, and farm products traffic (raw grain and perishables) was up 4.7 percent.

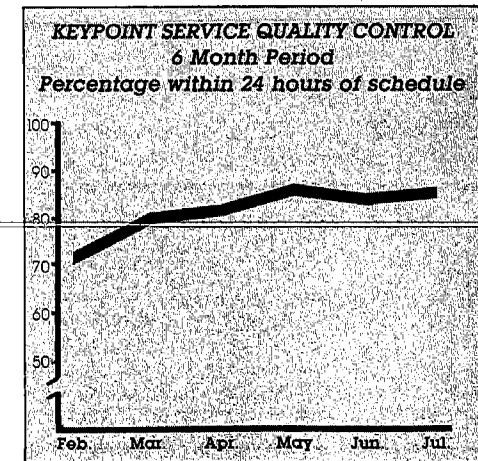


SERVICE QUALITY REMAINS HIGH

During the month of July, Conrail maintained its high level of service to shippers. Fully 84 percent of the traffic measured under Conrail's Keypoint Quality Control program reached its destination within 24 hours of schedule during that month.

The Keypoint Quality Control program measures approximately 10,000 loaded freight cars each week moving between 1000 origin/destination points on the Conrail system. It compares the actual performance of each freight car against the schedules published by the Transportation Department, using data from Conrail's computerized transportation and billing system. The program logs the hours it takes for each car to move from the shipper's siding or the point where it is received from a connecting railroad to the point where it reaches its destination and is delivered to the customer or interchanged with another railroad.

On time performance of Conrail trains (percent of trains reaching their destinations within one hour of schedule) matched or exceeded July 1981 levels. Mail trains were



97 percent on time, "TrailVan" piggyback trains were 86 percent on time, and freight trains were 84 percent on time. At major Conrail yards, 94 percent of the cars monitored made their connections.

NEWS DIGEST

STEEL PIPE RATES REDUCED—Conrail and major connecting southwestern railroads have reduced rates up to 20 percent on steel pipe shipments to Oklahoma and Texas from the eastern United States.

The rates were reduced to meet economic and competitive conditions in the oil and gas pipe markets, which are cyclical. In lowering the rates, Conrail simplified and updated its pricing structure not only to meet current market conditions, but to lay the groundwork to remain in the market over the long term.

The reductions, effective August 1, apply to 12 destinations initially, but Conrail expects to expand that list soon.

NEW SERVICE ON SOUTHERN TIER—In late July, Conrail began operating two through trains daily (except Sundays and holidays) via the western portion of its Southern Tier route. The trains, one westbound and one eastbound, operate between Oak Island Yard in Newark, New Jersey, and Conrail's major east-west classification yard in Elkhart, Indiana. The trains are routed via Olean and Jamestown, New York, and Meadville, Pennsylvania.

The two trains had been operating between Oak Island and Elkhart since April 27—but via Buffalo and Hornell. Conrail rerouted the trains in an effort to be more responsive and provide through train service over the western portion of the Southern Tier line.

OHIO TRACK WORK CONTINUES—Conrail is working on a \$6.8 million track improvement project to upgrade nearly the entire length of the Burt-Columbus main line between Galion and Columbus, Ohio. The

project, scheduled for completion in late summer, includes installation of 54.9 miles of continuous welded rail and more than 1,100 cross-ties; the surfacing of 54.9 miles of rail bed, and the rehabilitation of 46 public and 14 private grade crossings.

When the work is completed, maximum speed for general freight trains will be increased to 50 mph from 30 mph. The Burt-Columbus main line, a key link in Conrail's network, is also used by unit coal trains and Conrail's high-speed, high-priority piggyback trains. Conrail had invested \$4.3 million through the end of last year to upgrade the line.

BACKHAUL COMES TO NY STATE—Shippers of wine and liquor from the Southern Tier area of New York state are benefiting from Conrail's "backhaul" rates, which are as much as 17.5 percent lower than comparable truck rates. These reduced rates apply to the rail movement of New York State wines and liquors from Hammondsport, New York, to destination points in Alabama, Georgia, Florida and North Carolina.

Conrail's backhaul rates offer incentives for shippers to fill boxcars that would otherwise return empty from Conrail to their home roads. In 1980, Conrail's backhaul concept won the Golden Freight Car marketing award from *Modern Railroads* magazine.

Under the new program, Conrail receives shipments from Hammondsport area spirits producers via an interchange with the Bath and Hammondsport Railroad. Conrail then handles the shipments to its Potomac Yard in Washington, DC, for interchange with connecting carriers for the remainder of the trip south.

PIGGYBACK PERISHABLES TRAFFIC GROWS

West Coast-originated piggyback shipments of fresh fruit and vegetables moving in shipper-owned trailers to the East Coast over Conrail lines increased by about 70 percent in the first six months of 1982 over the same period in 1981.

This increase continued a trend of spectacular growth that began in May 1979—when the Interstate Commerce Commission deregulated most rail shipments of perishables. (In 1980, the ICC extended the regulatory exemption to potatoes, cocoa beans, dried beans, peas and other edible field seeds. In March 1981, the ICC deregulated all commodities shipped in piggyback service.)

Deregulation allowed western railroads and Conrail to aggressively compete with trucks in terms of price and service, and resulted in tremendous gains in piggyback perishables traffic. From June through October of 1980, the peak produce season, Conrail nearly quadrupled its perishables

traffic over 1979 levels, and this volume tripled in 1981. The 1982 gains continue the trend.

Although refrigerated boxcar shipments of perishables handled by Conrail declined by about 16 percent for the first six months of 1982 vs. the same period of 1981, the decline was more than offset by the substantial increase in piggyback perishables traffic.

Conrail interchanges perishables traffic in the Chicago area with the Burlington Northern and Santa Fe railroads directly, and via the Chicago & North Western and other intermediate carriers, with the Southern Pacific, Union Pacific and Western Pacific railroads.

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CIC RESULTS IN BETTER CUSTOMER SERVICE

Conrail recently streamlined and consolidated all its car tracing and diversion/reconsignment activities at a centralized Customer Information Center (CIC), resulting in faster response and less waiting for customers.

Located at Conrail's 32nd Street office in Philadelphia, the CIC replaces the previous system of local car-tracing offices. Staffing the CIC are 25 specially-trained service in-

formation clerks and four diversion/reconsignment clerks. Their training in handling customer inquiries, plus the speed of the CIC's new computerized automatic call distributor, makes the system fast and efficient, enabling Conrail to answer the calls more quickly and save time for customers on every call.

Ninety percent of the incoming calls on the CIC's 33 WATS lines and eight local lines are answered within 10 seconds of the first ring, and less than two percent wait for more than 30 seconds to reach one of the service clerks. The Customer Information Center is handling more than 9,000 car-tracing and diversion calls each week.

The new system is also faster because each clerk has a terminal linked directly to Conrail's main computer, which keeps track of all car movements throughout the system and is constantly updated as cars come onto Conrail or move through classification yards and are put together into trains. The computer's response time on a car-tracing inquiry is practically instantaneous—so quick that the average call to trace four or five cars takes only two minutes to complete.

The CIC is also the clearinghouse for information on loaded freight cars that have to be stopped in mid-transit for repairs. A printout of cars entering Conrail's repair shops is received at the CIC each day. If the repairs require more than 24 hours, the

Customer Information Center will notify the consignee, and will call again when the car is back on its way. In addition, the CIC notifies perishables customers of their car locations on a daily basis.

CANADA LEADS IN SAFETY

Through the end of June, Conrail's frequency rate for employee lost time injuries was 5.6 systemwide. The frequency rate shows the number of lost time injuries per 200,000 man hours worked.

The Canada Division, which reported no lost time injuries for the first six months of this year, currently has the best frequency rate among Conrail Divisions. The Toledo Division is second with a 2.0 frequency rate. On a regional basis, the Central Region is first with a 3.5 frequency rate for the year through the end of June. And the second-placed Western Region has improved its lost time injury frequency rate by 36 percent for the first six months of this year versus the same period last year.

Systemwide, employee lost time injuries for June of 1982 decreased 35.8 percent over the same month last year. And Mechanical Department employees of the former Susquehanna District of Conrail's Lehigh Division marked their third year without a single lost time injury.

IS YOUR ADDRESS CORRECT?

The purpose of this new publication is to bring you important news about Conrail as quickly as possible. We must have your correct address on file to accomplish this.

If this edition of *In Brief* was sent to your old address and forwarded to you, please notify the Payroll Department, which generates our mailing list, that you have moved. Ask your paycheck distributor or office manager for Change of Address form G-2101, and send the completed form to Director-Payroll Operations, Room 207, 15 North 32nd Street, Philadelphia, PA 19104.

This will make it possible for *In Brief* as well as *The Conrail Inside Track* to reach you more quickly in the future.

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Letters to the editor are welcome and should be sent to the above address.

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