L. Stanley Crane
Chairman and Chief Executive Officer
Consolidated Rail Corporation
Statement before the Subcommittee on Commerce, Transportation and Tourism
Washington, DC
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Mr. Chairman, I appreciate the opportunity to appear before you today regarding the manner in which Conrail may best be returned to private sector ownership. As you know, I strongly support that goal. I would like to discuss three subjects:

1. I will review Conrail's first half 1985 financial results. The results clearly demonstrate, quarter by quarter, Conrail's continuing ability to operate successfully in various business environments, and on the same operating basis as any other railroad.
2. I will discuss why I believe Conrail's long-term viability as a stand-alone company is not only secure, but is proven beyond any reasonable doubt; hence, why we believe the public offering approach to Conrail's sale best serves the many interests involved.
3. Finally, I will discuss why Conrail management, Conrail labor, and many others believe there is a better way -- a way consistent with transportation, tax and antitrust policy and the overall public interest -- to return Conrail to the private sector.

Let me begin with a review of our six-month results for 1985. Last week, Conrail reported a profit of $155 million for the second quarter and $210 million for the first half of 1985. These results compare with a profit of $179 million and $270 million for the second quarter and first half of 1984.

The most significant factor in the decline in our year-to-year results is that Conrail did not pay its employees industry-scale wages in the first half of 1984. In 1985's first half, we did. Had Conrail paid its employees industry scale wages in the first half of 1984, earnings would have been approximately $205 million for that period compared with 1985's $210 million profit. On an apples to apples basis, 1985's results are better.

In addition, the economy has not performed as well as most -- including the Administration -- expected. This is reflected in Conrail's carloadings as well as those of other railroads. Our carloadings are off about 7.7 percent, translating into a revenue decline of 6 percent, versus 1984. Again, however, as the overall operating results make clear, Conrail continues to demonstrate its ability to cut its costs and manage its way through difficult economic times. In fact, Conrail increased its cash balance in the period by $28 million, reaching $874 million as of June 30. We also continue to meet our capital expenditure plans, which represent a $550 million program for the year -- a level substantially above the minimum requirements set forth in the DOT's sale covenants.

These results demonstrate Conrail's ability to continue programs which improve customer service, solidify our long-term viability, and operate on a normal basis in a highly competitive environment.

After restating Conrail's first quarter 1984 results using current restored wage levels, the company's operating income for the first three months of 1985 fell 11.5 percent compared with 10 percent for NS. Chessie experienced a decline of 35 percent. And unlike these other two railroads, Conrail's decline in operating income is attributable primarily to its return to industry level wages. (See attachment for first half comparisons of Conrail to other major railroads).

The same comparison can be made for operating ratios -- operating costs as a percent of revenues -- a commonly applied measure of overall railroad operating efficiency. In the first quarter, we were somewhat better than Chessie, although not as good as NS. The same was true for the year 1984. The USRA's April report on Conrail stated that our operating ratio was better than those of Chessie, the Union Pacific, the Southern Pacific, and the Santa Fe railroads; it was not as good as those of the Norfolk Southern and the Burlington Northern.

By whatever measure you wish to apply -- net income, cash, capital programs, operating ratios -- Conrail consistently ranks among the best in the industry.

How would we deal with a future "economic crisis" which the DOT -- unlike the rest of the Administration -- seems to worry about? We proved in 1982, in the depth of the worst recession in 50 years, our ability to survive a severe cyclical downturn in the economy. In that year, revenues declined $585 million, and we matched that decline dollar for dollar in cost reductions. In every year since, it has been management's continued, vigorous cost control efforts, together with labor's cooperation and support, which have provided the impetus for sustained financial improvement. There is no reason to believe that Conrail will not manage with equal effectiveness in the future.

Mr. Chairman, it is remarkable that a company could perform so well, and at the same time find itself in the midst of the public debate on our viability that we are in today.

On the basis of what we know about Conrail and the world in which it operates, I believe that Conrail presents a greater case for viability than a number of other railroads now operating as private sector companies, and certainly a better case than those railroads selected to acquire the divested properties under the DOT proposal. Can anyone rationally believe that Conrail's viability is in jeopardy while the viability of the P&LE and Guilford system is assured?

Independent parties agree that Conrail can operate profitably as a stand-alone company. The U.S. Railway Association (USRA), which monitors Conrail for Congress, reported on April 1 this year that from 1984 through 1988, Conrail would earn net income of nearly $1.4 billion, after payment of taxes. The USRA study is significant because it was based on the assumption of an economic recession during 1986-87, showing that Conrail could still maintain profitability.

Today, many economists are even more optimistic. On June 7, Conrail submitted to USRA a new Five-Year Business Plan which projects earnings between 1985 and 1989 amounting to nearly $1.94 billion. In its proposed acquisition of the government's Conrail stock by a group of blue chip investors, Morgan Stanley states -- in revised projections -- that Conrail will earn about $1.84 billion in the 1985-89 period.

These projections, coupled with Conrail's earnings record over the past four-and-a-half years, clearly demonstrate that Conrail can operate independently and profitably. The only threat to Conrail's viability is also a threat to the industry's viability. That would be the loss or limitation of the regulatory freedoms provided by the Staggers Act.

I submit to you that of all the questions that have been raised by this sale process there is only one fundamental question: Whether Conrail can remain viable over the long haul.

If the answer to that question is "no," then Norfolk Southern with its "deep pockets" will not support Conrail in the long run any more than the N&W did with Erie Lackawanna and the D&H. That much is clear from the agreement that DOT and Norfolk Southern signed. There is no language in that agreement which commits Norfolk Southern to put any money into Conrail if Conrail is not viable.

Moreover, if Conrail's long-term viability is questionable, then what of P&LE and Guilford? If these companies cannot become viable, someone will pay for their shortcomings in the future, and it won't be Norfolk Southern.

On the other hand, if the answer to the Conrail viability question is "yes" -- a conclusion which I am prepared to support on Conrail's record and the quality of its management -- then there is no need for Norfolk Southern with all the problems it poses.

This Subcommittee has heard many hours of testimony from many parties about the competitive, tax and employment problems inherent in the DOT proposal to sell Conrail to Norfolk Southern.

Conrail already provides vigorous competition, both against trucks and other railroads, both in the Northeast/Midwest region, as well as in transportation markets which are national in scope. We provide competitive balance among the three railroads in the East. A sale of Conrail to Norfolk Southern would have a disastrous effect on competition.

Others have reached similar conclusions, including the National Coal Association, the Eastern Coal Transportation Conference, the American Iron and Steel Institute and many, many individual shippers. Their conclusions: Rates will increase and competition will decrease under a combined NS/Conrail. These problems do not exist in the Morgan Stanley Plan, which results in a publicly held, stand-alone Conrail. Norfolk Southern insists on immunity from antitrust laws as a condition to buying Conrail while the Morgan Stanley transaction needs no such extraordinary relief.

Let me now turn to the taxpayers' interest. Clearly, NS stands to gain substantial tax benefits from this transaction as a result of its ability to use Conrail's tax and financial benefits to shelter non-Conrail income. There is ample testimony on the record on this subject too.

Norfolk Southern's tax benefits have been estimated to be about $600 million, according to Morgan Stanley's study, and approximately $100 million, according to NS's study. An independent observer, the Congressional Budget Office, has estimated in a preliminary report that the government would lose about $400 million in tax revenue. This liability does not exist in the Morgan Stanley plan.

Finally, there will be significant job losses resulting from a combined NS/Conrail.

The DOT and NS contend that if NS acquires Conrail, the impact on employment will not be dramatic, and job losses will occur through "attrition". This is contrary to our industry's experience in general after mergers have taken place, and contrary to the results of the N&W-Southern merger in particular.

NS and DOT insist that only 1,800 jobs will be lost if NS acquires Conrail. Rail labor officials and others have estimated railroad job losses at 10,000 if NS acquires Conrail. Who is right? Can the economy of the Northeast and Midwest afford to find out? Once again, this risk does not exist in the Morgan Stanley plan.

A stand-alone Conrail offers employees the greatest number of job opportunities. They have earned those opportunities. Rail labor recognizes this, and as a result, on July 3 the task force appointed by the Railway Labor Executives' Association to represent labor in the sale announced its support of the Morgan Stanley offer.

Conrail has exhibited a level of labor/management cooperation over the past five years that is unprecedented in the railroad industry. We have recognized that we have a common interest -- the company's viability -- and that there is only one sure route to job security: Profitability. Labor and management have created a cooperative foundation that will support the interests of Conrail, as an ongoing business, long into the future.

In summary, various interests may argue over the ultimate benefits that will accrue to NS as a result of acquiring Conrail. Few would deny, however, that NS gets substantial financial benefits. Independent parties, such as the Congressional Budget Office, support that conclusion.

There are many interests involved in this sale -- employees, shippers, local communities and state and local governments -- who have made their opinions heard in recent months, loud and clear: What is good for Norfolk Southern is not necessarily good for them. The only true beneficiary in this proposed sale of Conrail to Norfolk Southern is Norfolk Southern.

To sell Conrail is to sell more than the physical system that exists among a finite number of locations in the Northeast and Midwest. It is to sell a transportation asset with value to the entire nation, because Conrail is a vital link in a national transportation network. This sale is really less a matter of closing a chapter on the past, less a matter of selling a restoration, than it is the opening of a new book on the future. It is the sale of a railroad that has dramatically changed its own -- and the entire industry's -- operating environment. It is the sale of a railroad whose external environment has been permanently improved as a result of the Staggers Act and NERSA.

The Conrail of today, its management, its employees, its operations, and its business potential, is a known quantity. It is a success. Norfolk Southern, Guilford, P&LE, and what they would bring to the Northeast and Midwest, remain, even now, an unknown quantity.

Labor and management are together in supporting a stand-alone Conrail. That can be achieved through the Morgan Stanley plan. It will work, because Conrail works. It is a business run by businessmen, with employees plainly dedicated to its success.

Mr. Chairman, the Northeast Rail Crisis is solved. The solution is Conrail.

Thank you.

L. S. Crane
Western New York Transportation Council
Buffalo, NY
August 6, 1985

Good afternoon. I greatly appreciate the opportunity to return to Buffalo to discuss issues concerning the Conrail sale and western New York. Let me say that I like your choice of topics! It is one that I am always happy to discuss, especially in cities other than Washington, because it is cities like Buffalo and regions like western New York where the outcome of the Conrail sale really hits home.

I last spoke to the Western New York Transportation Council nearly two years ago. Things were a little different then. Conrail was still building its record of profitability. All of us were recovering from the throes of a severe recession. The Conrail sale process was just getting under way. At that time, the focus of our discussion was the substantial opportunity that existed to turn our mutual interest in economic growth and development into actions and results.

Today I am very pleased to return to Buffalo because the determination and the salesmanship that all of us began to muster two short years ago is beginning to bear fruit. We have momentum. We have a lot more going for us today than we did two years ago. We have a Conrail that has built a strong record of profitability and is solidly in the black. We have an economy that has supported our efforts over the past two years and one that promises to remain strong at least for the foreseeable future. The momentum is in our favor.

For Conrail's part, the momentum created by our successful performance has moved the sale process forward -- to the point where, we hope very soon, Conrail will be owned in the private sector and not by the government. I have always agreed with that goal; it will be an important conclusion for our employees and customers alike. However, the manner in which that goal is accomplished concerns us greatly. The many interests that make up the western New York region are rightfully concerned too. We have come a long way with Conrail. It is a success. I am sure that we all would like to see that success, and the benefits that are finally beginning to flow from a profitable, well-maintained rail transportation system in the Northeast and Midwest, continue long into the future. No one wants a return to the old days.

Congress is now faced with a choice between two very distinct options: to return Conrail to the private sector as a stand-alone company, as proposed by a group of blue-chip investors led by Morgan Stanley; or to sell Conrail to one of its principal rail competitors, the Norfolk Southern, as proposed by the Department of Transportation. The ultimate decision of Congress will significantly influence the future shape of rail transportation in the Northeast and Midwest, particularly in Buffalo and western New York.

Geographically, Buffalo is a major Conrail hub leading to industrial Canada and all major U.S. markets through our rail network and our connections. This makes Buffalo a logical development center for Conrail, which is why we share a strong mutual commitment to economic development in western New York. My purpose today is to tell you why I believe that commitment will continue to be best served in the future by a stand-alone Conrail.

Let me begin by turning my focus to the momentum we already have established in Buffalo and western New York. Hard work and commitment has begun to bring a return. Let me review some of the results:

- Shortly after I last spoke here in September 1983, Conrail signed a 14-year contract with New York State Electric and Gas to move coal to the new Somerset generating station north of Lockport. Conrail's service has exceeded NYSEG's minimum requirements, resulting in substantial savings to the utility. The contract still has 12 years to run, and it has proven to be a very favorable arrangement, for NYSEG, for Conrail, and certainly for consumers.
- With the help of $4.7 million from the State and an investment of $9.3 million by Conrail, we have essentially completed the simplification of the rail network that once criss-crossed the Buffalo terminal.

As a result, we are providing better rail service to the area.

- In early 1984, Conrail opened a permanent industrial development office at its Northeastern Region headquarters near Albany, and our people have formed strong partnerships with development agencies, shippers and our short line connections throughout this region. This development team has one purpose: to bring new industrial prospects to the area, both from inside New York and outside, which meet your requirements for economic development.
- When Bethlehem Steel reduced its activities at Lackawanna, Conrail worked with Bethlehem to maximize market opportunities for the remaining operations. And, again working closely with the county industrial development agency, we have worked toward redevelopment of the Lackawanna complex. We see this as one of the primary sites for development in the Buffalo area.
- We continue to believe that our Falls Road Branch between Niagara Falls and Rochester offers excellent development sites, and we are committed to pursuing such opportunities.
- We also have an ongoing program to work with existing businesses in New York to help them secure new markets, reinvest in existing capacity, or expand into new

product lines. We worked hard, for example, to help Bush Industries in their relocation to consolidated facilities at Falconer in Chautauqua County. This is new business for Conrail and new business for Chautauqua.

- When Dunlop Tire considered expanding in the Southeast instead of in Tonawanda, Conrail worked closely with the city and county to make the Buffalo area more competitive for their business. This cooperative effort was a positive factor in Dunlop's decision to expand here.
- Finally, when public officials have raised concerns, Conrail has always been willing to discuss solutions on a reasonable business basis. Public officials have raised concerns about switching charges. We are engaged in reviewing our switching charges on an ongoing basis in terms of the substantial investment we have made in the terminal as well as the economies that have resulted from that investment. We have not found our switching charges to be an impediment to our present shippers or to prospects wishing to locate in Buffalo. Conrail's overall pricing is competitive. If the perception is otherwise, I hope we have clarified that.

Let me emphasize that all of these examples have been cooperative efforts. The only way to succeed is to take each new opportunity, one by one, develop a strategy and see it through. There are no blanket remedies. There is no panacea. That is what I mean by hard work. Conrail is a willing and active participant in this process. We are here to work with you.

There is one other key element to our mutual success that I would like to focus on. That is competition.

Just as Conrail has learned to compete in its markets -- because our survival has depended on it -- western New York must compete too. The competition is countless -- other locations across the nation are looking for the same industrial prospects. Conrail is in a position to help you compete for those prospects.

Since 1980, railroads have been freed of the artificial regulatory constraints that inhibited their ability to compete, and now price on the basis of market demand. The Conrail we know today is testimony to the success of free market principles. The price of any transaction can now reflect its costs. If we are able to reduce our costs and improve our productivity, we can reduce our prices, increase our market share, and our customers will thereby experience the benefits of true competition.

In Buffalo and western New York, Conrail's shippers have benefited from Conrail's increased efficiency. Conrail has invested millions of its own dollars in Buffalo-Niagara Falls terminal facilities and has created a state-of-the-art railroad serving western New York. I would match it against any other railroad in the country. We have developed special service and pricing packages on behalf of such western New York businesses as the grain millers, utilities, the auto and steel industries and chemical companies. As a result, rail service is, in many cases, less expensive than it once was for our Buffalo and western New York customers.

Let me point out that Norfolk Southern line haul rates have not been adjusted in response to Conrail's increased efficiencies. What NS has offered to gain the support of Buffalo interests is a token guarantee that it will reduce switching charges, which would also be a meaningless guarantee if NS succeeds in acquiring Conrail. In that event, western New York will experience a reduction in railroad service options, will lose the competitive influence of an independent Conrail, and shippers could very well experience higher prices as a result. That is how competition, or lack of competition, works.

On a commodity-by-commodity, destination-specific basis Conrail is committed to working with shippers to solve any and all practical commercial problems. We will work with shippers to keep their products competitive in their markets. We will work with any other railroad in the Buffalo-Niagara Falls terminal to move the freight. Our prices will be competitive. That is in our interest. If we cannot meet the price, we will not move the freight. I cannot think of a fairer proposition than that.

Conrail has tangibly demonstrated its commitment to this area and the entire Northeast-Midwest region. Under a combined Norfolk Southern-Conrail, Conrail's aggressive advocacy on behalf of its customers here would be severely diluted. Norfolk Southern has a great many other interests to the south and would hardly share our regional interest to the same intensity.

Now I would like to turn to some of the broader issues in the Conrail sale, and explain why I and many others, including rail labor, believe the Morgan Stanley plan, which maintains Conrail as a stand-alone company, is far superior to the DOT proposal to sell Conrail to Norfolk Southern.

First, the Morgan Stanley plan is not anti-competitive. Conrail already provides vigorous competition, both against trucks and other railroads, in the Northeast/Midwest region. We provide competitive balance among the three railroads in the East. A sale of Conrail to Norfolk Southern would have a disastrous effect on competition.

Others have reached similar conclusions, including the National Coal Association, the Eastern Coal Transportation Conference, the American Iron and Steel Institute and many, many individual shippers. Their conclusions: Rates will increase and competition will decrease under a combined NS/Conrail. These problems do not exist in the Morgan Stanley Plan.

Norfolk Southern insists on immunity from antitrust laws to buy Conrail while the Morgan Stanley transaction needs no such extraordinary relief.

Second, the Morgan Stanley plan does not include the negative tax consequences that are inherent in the Norfolk Southern proposal. An independent observer, the Congressional Budget Office, has estimated in a preliminary report that the government would lose about $400 million in tax revenue. This liability does not exist in the Morgan Stanley plan.

Third, the Morgan Stanley plan does not raise the problem of significant job losses that would result from a combined NS/Conrail. NS and DOT insist that only 1,800 jobs will be lost. Rail labor officials and others have estimated railroad job losses at 10,000 if NS acquires Conrail. Chessie has stated they will withdraw a substantial portion of their operations from the region, including Buffalo, if NS acquires Conrail. This would further aggravate the situation. Who is right? Can the economy of the Northeast and Midwest afford to find out? This risk does not exist in the Morgan Stanley plan.

Virtually nobody disputes that in each of those instances the Norfolk Southern proposal has significant problems. The only debate is over the degree of harm that might be done in a

Norfolk Southern acquisition of Conrail. Morgan Stanley's proposal has none of the problems or potential for harm.

There is only one fundamental question remaining: whether Conrail can remain viable over the long haul. I believe, without reservation, that the answer to that question is yes -- a conclusion which I am prepared to support on Conrail's record and the quality of its management.

Whether you look at Conrail's performance in 1982, when we experienced the worst recession in 50 years, or look at our performance through the first six months of 1985, when we performed on par with the best railroads in the nation despite a softening economy, the management of Conrail has proven that, no matter what the circumstances, the corporation can show a level of profitability sufficient to meet all of its own needs. There is no reason to believe that Conrail will not manage with equal effectiveness in the future.

Other parties agree that Conrail indeed does have a future as a stand-alone company. Labor and management are together in supporting a stand-alone Conrail. On July 25, the Railway Labor Executives' Association, representing rail labor's interest in the sale, announced their unqualified endorsement of the Morgan Stanley Plan. In a July 29 report, the United States Railway Association, which monitors Conrail's performance for Congress, released an independent analysis of Conrail's viability, which stated that Conrail's long-term viability is reasonably and credibly assured, nothwithstanding Norfolk Southern's dire predictions. Apparently Norfolk Southern does not believe in the future of the Northeast economy. We do. Our substantial investment in superior rail facilities, including those in this area, proves that we do.

On the basis of what we know about Conrail and the world in which it operates, I believe that Conrail presents a greater case for viability than a number of other railroads now operating as private sector companies, and certainly a better case than those railroads selected to acquire the divested properties under the DOT proposal. Can anyone rationally believe that Conrail's viability is in jeopardy while the viability of the Pittsburgh & Lake Erie and Guilford system is assured? How will these railroads compete against the superior routing capability, physical plant and financial strength of a combined NS/Conrail?

Ladies and gentlemen, it gives me great pleasure, and pride in what Conrail people have accomplished to be able to tell you today that Conrail is no longer part of the Northeast rail problem -- we are no longer an impediment to economic development in the Northeast and Midwest -- we are part of the solution.

The Conrail of today, its management, its employees, it operations, and its business potential, is a known quantity. It is a success. Norfolk Southern, Guilford, P&LE and what they would bring to this region, remain, even now, an unknown quantity.

In Buffalo, Conrail has stood behind its commitments. Those commitments are based on sound business principles. In the long run, no other kind of commitment or guarantee is meaningful. We have turned the hope of two years ago into some tangible successes, but more importantly, we have begun a positive momentum, with the promise of many future successes. I look forward to the opportunity to work with you to see those through.

Thank you.

L. Stanley Crane
Chairman and Chief Executive Officer
Consolidated Rail Corporation
AAR Data Systems Division
New Orleans, La.
October 5, 1987

Thank you. It is a pleasure to have the privilege of again making a keynote address before you. The last time I spoke to this group was in Philadelphia in September 1984. At that time, Conrail was just embarking on a unique odyssey called "privatization" -- which would ultimately lead us from government ownership to the vastly different and exciting world of Wall Street. As you know, we arrived safely, but our modern-day odyssey had all the adventures of Hercules.

Conrail's successful transformation from government ward of the 1970s to a component company of the Dow Jones Transportation Average today does not signify that Conrail or the rest of the railroad industry can expect financial security in the future. The customers we serve have a wide spectrum of transportation options available to them -- and rail service does not play a primary role in many of those options.

How do we make rail service more attractive? To meet the challenge from our trucking competitors, we in the railroad industry must achieve, in practice, the kind of pricing and service flexibility truckers enjoy. At the same time, we must control our costs by improving the productivity of our resources, both equipment and people, with the objective of taking every last penny of unnecessary expenses out of our cost structure.

Your professional expertise in computer technology can help us achieve these objectives, but technology cannot take the place of the business-based decisions that must be shouldered by people. Let me talk to specifics in your field.

There are three elements any railroad manager worth his salt should be looking for in a successful computerization proposal. They are: JUSTIFICATION, IMPLEMENTATION, and LEVERAGE.

Let me begin with JUSTIFICATION.

In the middle of the 19th Century, when the sun rose and set on the British Empire, the telegraph was on the cutting edge of technology. When the telegraph cable linking the British Isles with the Crown Colony in India was completed, it was a major event. John Ruskin, the famous literary figure and social reformer -- who was never known to be enthusiastic about technology -- was asked his reaction to the achievement. Ruskin replied, "What have we to say to India?"

With his comment, Ruskin played a role that I find very familiar -- devil's advocate and professional skeptic -- and we can all take a lesson from it. We must have JUSTIFICATION for the uses we're going to make of technology -- we must know "what we have to say to India" -- before we install the cables.

When I talk to Mike Sims about new technology or new computer acquisitions, I have always insisted that Conrail's investments must have JUSTIFICATION from a business standpoint. This means computer investment opportunities must compete with other capital expenditure opportunities for funding.

Railroads cannot afford to implement "cutting-edge" technology for its own sake. There must be an actual use for these tools, and they must have an attractive return on investment. And I have insisted that Conrail should invest no more than is required for the specific task at hand.

I want Conrail's managers to have the systems they need -- but those systems should not be gold-plated. That's JUSTIFICATION: Knowing "what we have to say to India" before we invest in the technology to say it.

We also cannot rely on computer investments alone to address the cost-control needs of our business. Technology advances by themselves will not generate the magnitude of cost reductions we require to remain competitive in the transportation marketplace.

That's why my second point -- IMPLEMENTATION -- means more than simply plugging in the electronics. It requires hard-nosed management decisions about other costs, too.

For example, you are all familiar with digital voice messaging, sometimes called PhoneMail. Coupled with computerized phone dialing systems, this technology lends itself quite well to railroad crew dispatching requirements. With the computer overseeing the process, we can be sure that crews are called in compliance with relevant labor agreements, and avoid being "timeslipped" because an eligible employee was not called properly. This system even allows us to provide some new services to employees, like a dial-in 800-number for crews to hear a computer-generated message indicating how many crews are ahead of them, and approximately when they might be called for work.

But the real benefit of IMPLEMENTATION comes when the normal management cost-control discipline is applied. We knew that crew-calling computer equipment would allow us to increase our calling capacity by a predictable percentage, so we have been able to reduce the number of crew-calling locations, representing several million dollars in savings.

The most important point here is that IMPLEMENTATION meant coupling the technology and the consolidation of the function into fewer geographic locations. It was this coordinated IMPLEMENTATION which led to the cost savings.

Very often, those of us running the business side of our companies see technological advances installed because of potential cost savings, but for a variety of reasons, the costs are not reduced commensurately. I have insisted that Mike Sims ensure that our computer acquisition decisions are based on what we call "hard savings" -- that means we carefully document the potential savings from each installation and then follow-up with the responsible manager to see that he or she has effectively managed those costs out of the department's budget permanently.

That's successful IMPLEMENTATION.

But even that is not enough. For when and where more opportunity knocks, we must open those doors, too. The next step is to LEVERAGE existing systems into new and innovative uses -- bridging all these systems into a comprehensive information control center for the business enterprise.

We're doing that on Conrail. By computerizing our locomotive scheduling and maintenance, we are improving our locomotive utilization, and enabling our locomotive planners to have a clear, up-to-the-minute picture of our operations. As a result, we saw another opportunity. Now, we're working to LEVERAGE and combine elements of the new crew-calling and locomotive scheduling systems in ways not originally intended, to realize even greater productivity and cost reductions by developing paperless train crew payrolls -- eliminating multiple, paper-based transactions.

Let me give you a few more examples of LEVERAGE.

The government's intervention in Conrail's early years required a sophisticated computer system to account for rehabilitation expenditures. This created a voluminous database about our right-of-way and its maintenance history. We've LEVERAGED that database, and by integrating data derived from our Track Geometry and "LightSlice" Rail Analyzer cars, we're able to pinpoint the places on our system where track maintenance investments bring us the maximum return -- and that plays a critical role in our discretionary capital budgeting each year.

In addition to the crew dispatching consolidations I noted earlier, we've also LEVERAGED our investment in computerized train dispatching and signal systems to reduce the number of train dispatcher locations and switching towers across our system.

The LEVERAGING extends to our existing commercial systems as well, to provide flexibility for our new Direct Marketing group. Instead of creating entirely new PC-based data files for Direct Marketing, we designed personal computer interfaces with our mainframes that permit Direct Marketing sales representatives to extract customer history from a wide range of existing databases.

We are also LEVERAGING our mainframes by testing laptop computers in our Sales Department. And, we are introducing an electronic messaging system that permits Conrail people using different mainframe functions to send and receive administrative messages to each other, even if they don't use a common host function.

Under deregulation, Conrail has been a strong promoter of the need for an impartial, industry-wide clearing house of interline rate information. We supported the establishment of DSI*Rail to permit railroads to communicate interline pricing concurrences electronically. Having such a centralized database of rates or prices permits the participating railroads to react more quickly with deregulated rate quotes -- and that can help protect rail traffic from diversion to other carriers.

But DSI*Rail must also be LEVERAGED by combining its benefits with the benefits of Electronic Data Interchange, or EDI. At Conrail, EDI has become Gospel. We've asked our volume intermodal shippers to begin using it for all their transactions with us, and our vendors and suppliers are increasingly using electronic transmission of their invoices and shipping documents.

Being able to integrate our deregulated pricing databases, the DSI*Rail communications link with our connections, and then use EDI to respond to customer requests, is meaningful to our customers. If a customer knows that Conrail can quote a price instantly over the phone, or electronically -- which may be implemented in the near future -- sending the price quote from our computer to the customer's computer, that could be the competitive edge that gets -- and keeps -- the business.

That's LEVERAGE: finding new uses for equipment originally designed just to "talk to India". If we can successfully identify ways to make that equipment useful in other areas of our business, the additional investment is usually quite small relative to the benefits obtained. And the examples I've given clearly illustrate that valuable object lesson.

I know that Joe Folk will be talking with you next about productivity in the rail industry, and in particular, the High-Productivity Integral Train Set concept, which the AAR has been researching. There has also been much work done on the Advanced Train Control System. At Conrail, we have a different interest in ATCS than some of our western colleagues, who see ATCS as a way of keeping track of overhead trains "out in the wide open spaces". We envision employing such a system in local and switching service, enabling us to give those crews last-minute changes or to dispatch them more rapidly to where they are needed. Until now, it seems that Federal Express was the only company whose delivery people relied on computers in their vans for dispatching. I can envision ATCS permitting railroads to offer similar responsiveness to their customers, as we continue to fight harder for a share of the freight market.

But we haven't gone far enough yet. Our geographic and track layout databases, coupled with our locomotive and commercial data, offer us the potential for LEVERAGING a new, comprehensive database that would enable our track designers to simulate new traffic patterns or track and signal configurations -- dramatically reducing the cost of such design changes, and increasing the reliability of our predictions about the feasibility of different track layouts.

I strongly believe that such LEVERAGE of existing computer systems will be the primary challenge for railroad data processing professionals into the next decade. That is the kind of expert counsel your CEO needs from you: solid advice on how to expand the utility of your company's present data systems in cost-effective ways. As Mike Sims and I have discussed many times, those of us who manage the business have to place a lot of trust and confidence in our chief information officers, because they are the most technically qualified to advise us. We may keep abreast of new developments in this rapidly changing field -- and you can ask Mike how many times a week I call him to discuss some of these things -- but ultimately, we must rely on your expertise and recommendations. So make sure you've covered the bases I've described: <u>JUSTIFICATION</u>, <u>IMPLEMENTATION</u>, and <u>LEVERAGE</u>.

Unfortunately, all of the things that you have done as railroad information systems professionals, and all the things that we as an industry have accomplished, are at stake in the battle over reregulation. Therefore, I'd like to conclude my talk today with a few thoughts on an absolutely vital concern to all of us in the railroad industry.

As you are well aware, the CURE lobby -- those who would reregulate railroads -- is highly active again in Washington. I understand that the transportation subcommittee of the House Energy and Commerce Committee is scheduled to mark up a reregulation bill on October 29. I am sure you realize that the CURE members' efforts to legislate lower rates for themselves at the expense of other shippers and the railroads represent the most pernicious danger facing our industry today.

We do not fear competition in the free marketplace. Railroads will aggressively compete for whatever freight traffic is out there. **But we must oppose -- with all our resources and in every available forum -- efforts to tilt the playing field in favor of one group of players at the expense of all others.**

If reregulation proposals become the law of this land, railroads will no longer have the ability to offer the services and prices our customers require. We will no longer be able to attract investment capital from Wall Street. We will even have to face the potentially devastating decision about whether to remain in the railroad business at all.

Please understand this message: the CURE proposals raise the specter of the utter collapse of our livelihood as railroaders -- and another senseless round of wrenching, traumatic changes in a national transportation system that is still going through necessary restructuring today. I will say it in simple words: CURE and reregulation could kill our industry.

Most of you know that I have spent my entire career -- with Southern Railway, the Pennsylvania Railroad for a short time, and Conrail -- as part of management. But I want to leave you with the thoughts of a union man, Samuel Gompers, the great AFL president. He said: "The worst crime against working people is a company which fails to operate at a profit." If CURE succeeds, that worst crime will be committed -- against all railroad companies and our people. We must work together to defeat CURE, and I know that we will all work closely to achieve that worthy goal.

Thank you.

L. Stanley Crane
Chairman and Chief Executive Officer
Consolidated Rail Corporation
Pennsylvania Chamber of Business & Industry
Business Leader of the Year Award
September 21, 1987

Thank you, Bob [Campbell]. On behalf of all of Conrail's people, I am honored to accept this award, and I am deeply grateful to you, Bob, as this Chamber's distinguished chairman, and Cliff Jones, your chamber's very able president.

The inscription on this plaque is particularly appropriate, because Conrail's management and union employees played the vital role in achieving our company's success. There was unprecedented cooperation by Conrail's labor/management team, which is one of the principal reasons why we succeeded.

But Conrail's efforts would not have been enough -- by themselves. There's an old saying, "Coming together is a beginning; keeping together is progress; working together is success."

Achieving a "stand-alone" Conrail depended heavily on the enthusiastic support of our friends and associates in the business community. We **came together** and **made a beginning** when the Chamber, as one of the earliest and staunchest supporters of an independent Conrail, and many individual Pennsylvania businesses, told Congress they wanted an independent Conrail.

(more)

We **made progress** when Conrail friends like Jeff Burdge of Harsco Corporation, who chaired the Chamber during the sale debate, Ralph Peters of Benatec Associates, and Bill Ward of Ward Trucking, all provided the Chamber with insightful leadership and **kept us together** during Conrail's battle for independence.

And by **working together,** we achieved **success** -- a profitable, independent Conrail. This plaque has my name on it, but many of you here -- along with Conrail's dedicated employees -- should join in sharing this award with me.

Today, Conrail is honored to be a Pennsylvania-based company. Pennsylvania is a good place to do business. We serve many of the key industrial enterprises in the Commonwealth. And we, in our fashion, do our share to enhance business in Pennsylvania. Since January 1986, Conrail helped 59 new companies to locate in Pennsylvania, representing hundreds of new jobs and nearly $50 million in investment by those companies. The state benefits from our efforts to bring jobs and investment to Pennsylvania and Conrail benefits from the new freight traffic.

To keep Pennsylvania's economy growing, business groups like the Chamber must cooperate to an even greater degree to enhance the state's economic climate. Pennsylvania's commitment to economic development is demonstrated by the incentives offered by the state to out-of-state businesses relocating here. We applaud that effort. Moreover, the expansion of existing businesses is another

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strong growth area we see for jobs and investment, and we think economic incentive packages to help "home-grown" companies to expand can also have great payback potential for the state.

I spent most of my career on the Southern Railway, but as Chairman of Conrail, I've been fond of saying that the North will rise again. The truth is that the North is already rising. Businesses which fled to the Sunbelt not so long ago are finding that their costs are now more comparable to the costs in this region -- and many of them are returning.

As Pennsylvania's business leaders, we must encourage this renewed investor interest in our area. We at Conrail look forward to working closely with the Chamber to achieve our common goals.

Ladies and gentlemen of the Chamber, my sincere thanks for bestowing this honor on me and the people of Conrail. **Even more importantly -- for your help and support in making an independent Conrail possible. Thank you.**

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