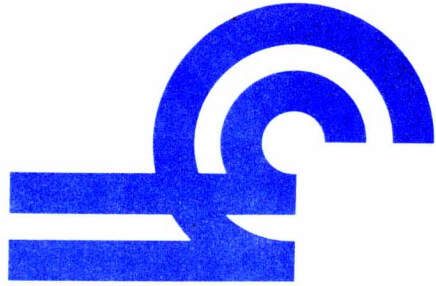


CONRAIL



Office of the Chairman
1838 Six Penn Center Plaza
Philadelphia, PA 19104
March 30, 1981

Dear Conrail Employee,

I am sure you have seen the recent headlines and news stories announcing the proposal by the U.S. Department of Transportation to "split up" or to "sell off Conrail in the immediate future." I think it is important that you know where we stand, and where we can go from here, as I see it. I also want you to know what is needed under today's conditions to continue adequate Northeast and Midwest freight service while providing the greatest number of jobs.

It is true that Conrail has come a long way. Our core system is now in top shape and our service is more than adequate. Nevertheless, there are two basic problems that cannot be ignored. Conrail does not have enough business to support the physical plant and equipment it has today; and Conrail's costs are too high—higher than costs for the same work on competing railroads. If we are to have any chance for a future as an independent railroad, we must maintain the superior standard of service that you have worked so hard to develop; and it is essential that we get our costs down to a competitive level so that we can become self-sustainable. We have dedicated and competent employees in both management and labor to accomplish these goals. In fact, we must accomplish them or the government will have no other choice than to split Conrail up and sell it off to other railroads.

We are already taking action in a number of areas: unneeded facilities are being closed; work force reductions in both agreement and non-agreement jobs are underway; unused and unneeded track is being taken up; the use of outside consultants is being significantly reduced; costs are beginning to come down in some key areas; and we are close to turning an operating profit on a monthly basis. But it is not enough and much more remains to be done. To survive, we must do more than simply turn an operating profit. We must generate enough profit to pay for the \$300 million to \$400 million a year required for track and equipment costs before we can be self-sustaining.

As required by the Staggers Act, a number of reports have been prepared by the United States Railway Association (USRA), the U.S. Department of Transportation (DOT) and Conrail to be submitted by April 1. These reports measure money needs to run the railroad under a number of assumptions.

The DOT, through the Federal Railroad Administration (FRA), announced on March 24 that its report will strongly advocate the sale of Conrail to other railroads as quickly as possible (probably within 12 to 24 months). This comes as no surprise as it has always been one of the available alternatives. On the other hand, Conrail has a plan which can result in it becoming a self-sustaining railroad if extremely demanding conditions are met.

Make no mistake: Conrail's plan requires hard decisions and unprecedented cooperation and sacrifices by Conrail's employees, connecting carriers, suppliers, shippers and state and local governments. Without all of these ingredients, there is no future for Conrail as a separate entity.

In addition to essential actions by shippers, other carriers, and various levels of government, Conrail has outlined a proposal in its March 15 Labor Report to Congress, copies of which were sent to unions representing Conrail employees. The principal points of that proposal are:

- at least a \$200 million annual savings from our upcoming labor agreement settlements—including wage hold downs until revised work rules can be agreed upon to bring costs into line;
- a reduction in freight employment of approximately 11,000 over a five-year period; much of this reduction will come from voluntary severance or through normal attrition;
- passenger operations have been a drain on cash, and we are working with the Federal government and various commuter agencies for an orderly transfer of these functions.

We believe these contributions, with limited amounts of Federal assistance and resolution of certain other problems, would provide the basis for a self-sustaining Conrail.

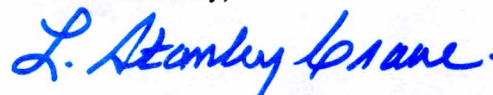
While these needs are based on tough and unpopular decisions, we believe they are more acceptable than other alternatives. For example, a hypothetical situation dividing Conrail into North and South units for a controlled transfer sale of Conrail to other railroads would, we believe, result in some 20,000 to 25,000 of our present force of 65,000 freight employees losing their jobs—more than double the number of employees displaced under the Conrail proposal. And, another alternative—liquidation or the sale of Conrail lines to other railroads based on what we believe they would buy—would mean that some 40,000 to 50,000 of our freight employees would be displaced. I must also caution that available Title V appropriations will be inadequate to provide significant separation pay, let alone long-term salary protection, to such a large number of people.

Let me make it clear that if the government decides that the sale of Conrail to other railroads is the best way to resolve the problem, we will cooperate fully in helping them to achieve that result. However, the best way to minimize the chances of that happening is to provide the high quality of service that has already earned the respect and support of shippers and other railroads, and to cut costs to a competitive level.

There is no time for further studies; the time for action is here. Decisions must be made now. We sincerely believe that the recommendations we will make in our April 1 report to Congress could make this railroad viable and allow it to continue to provide excellent rail freight service in the Northeast and Midwest. In order to do this, we need your firm commitment, support, and understanding of the hard decisions and sacrifices which are essential if we are to have a chance to be successful. In particular, those of you who belong to labor organizations must decide with your leadership whether you will make the necessary contribution. Working together, we can do it and provide a future for Conrail and your jobs.

I hope this gives you a clear understanding of where things stand, what the choices are, and what must be accomplished. I will do my best to keep you up to date on further developments as they unfold.

Sincerely,



L. Stanley Crane

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1838 Six Penn Center Plaza
Philadelphia, PA 19104

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