Prior to that, when there were six unions, CAW had signed a collective agreement in 1991. That agreement expired on December 31, 1993. In terms of the other five unions, they have been without collective agreements since December 31, 1991.

Senator Jessiman: Will they now all expire at the same time?

Mr. Tellier: Yes.

Senator Jessiman: Are they all for the same period? Are they all for two years or for three years?

Mr. Tellier: The bill introduced in Parliament by the Minister of Labour provides for new collective agreements which would stay in place until December 31, 1996.

Senator Jessiman: Would they be retroactive to the expiration of the other agreements?

Mr. Tellier: Yes.

Senator Jessiman: How is CN doing for January and February and March of this year, exclusive of what you have lost in these last few days?

Mr. Tellier: The first two months of 1995 have been as good as the 12 months of 1994. We were doing extremely well until this labour dispute started 10 days ago, senator.

Senator Jessiman: You are still working under what you call "horrible conditions." However, you must remember — although, as you say, it was not you yourself but the person who previously filled your shoes who has given up whatever it is that was given up. That is how a bargaining procedure works. For whatever was received in return, they probably had to give up something, too.

What would you predict? What are your estimates of profit for the fiscal year ending December 31, 1995, assuming you remain as you are now?

Mr. Tellier: Senator, if you want me to say that we should be profitable again in 1995, I agree with you that, under normal circumstances, we should be. However, senator, it is important to keep in mind that, traditionally, the balance sheet of Canadian National looks like a roller coaster. Most of the time, this company has been losing money as opposed to being profitable.

In order to be profitable on a longer-term basis, you must improve the operating ratio, to use the jargon, and to bring it down. The operating ratio is how much you have to spend in order to collect one dollar of revenue. Two years ago, in order to collect a dollar of revenue, we had to spend 97 cents. This means we had only 3 cents left to reimburse our debt or to pay the interest on our debt and to pay for capital budget, buying new rolling stock, improving the road bed, and what have you.

We succeeded in 1994 in improving our operating ratio from 97 down to 90 cents. That means that, in 1994, we had 10 cents left on every dollar of revenue to pay the interest on the debt and to invest in improving the property. In order to be profitable year in and year out, and during a recession, for instance, we must bring it down to about 85 cents. This is the level for the U.S. Class I.

[Mr. Tellier]

Last year, you know that the Canadian economy was exceptionally good. We had a rate of growth of close to 5 per cent. This will not be there forever. If we do not bring our cost structure down quickly, the next time we face a recession or a slowdown in the economy, again we will go into the red.

The last time the Government of Canada recapitalized or invested money in Canadian National was in 1978, because the debt load was dangerously high. The government then said "You must sell some of your non-core assets, such as hotels, and you must apply the proceeds of those asset sales to the reduction of your debt." Now the debt is increasing again, and if we do not reduce our cost structure, when the next recession comes, whether it be in two years or five years, we will face the same situation again.

Senator Jessiman: This $225 million is a true profit. What would be the cash flow for the year ending December 31, 1994, adding back depreciation and whatever?

Mr. Tellier: I think it is just slightly under $400 million. However, Mr. Chairman, it is very important to note that the $245 million of profit in 1994 was not sufficient for us to avoid increasing our debt in 1994, nor was it sufficient to finance our capital budget with our cash flow. Our capital budget to improve the railroads in 1994 was in excess of $450 million. In spite of the fact that we had profit of $245 million, we nevertheless needed to borrow in 1994.

One reason that our debt keeps growing is the necessity of paying for these buyouts, these termination benefits. Although some people have employment security, we offer a termination benefit package to employees who renounce employment security. Last year, this cost us in excess of $100 million, cold cash.

Senator Jessiman: Of all the other unions in Canada and the United States, do the union members who work for your company have the best benefits? Are there any other companies in the same position as you? Do you know?

Mr. Tellier: In terms of employment security, I would say yes.

Mr. Leneker: I believe the employment security benefit is an exceptional benefit based on railway standards in North America. On the operating side of the house, there are similar provisions in place in Canada as those which exist in the United States in terms of protection for surplus people. We call them furlough boards. In the United States they call them reserve boards. They pay income protection at the rate of about 80 per cent of a person's income. On the operating side, it is very comparable. On the non-operating side, it is not.

The Chairman: We are well over the half-hour mark. However, flexibility is in order. I have five more senators wishing to speak. I would invite them to be concise and to the point.

Senator Tkachuk: Mr. Tellier, I have a couple of questions. You mentioned the percentage of labour costs in the operation of your railroad. I think it was 46 per cent. Does that include non-union employees?