Bombardier, Inc. Isn’t an Auto Company And This Isn’t 2008

Description

The decision to bail out America’s failing financial institutions in 2008 was never a popular one. Neither was the decision to bail out the auto companies.

Even today, those decisions remain highly controversial. On one hand, it signaled to voters that governments favoured large corporate interests over the interests of average citizens. But on the other hand, the decisions saved millions of jobs and even netted the U.S. government a US$15 billion profit.

The Canadian government didn’t fare quite as well. Its decision to help in the auto bailouts resulted in a $3 billion loss. But once again, the decision has been largely vindicated; according to a 2012 study, Canada’s economy would have immediately contracted by $23 billion if **General Motors** and Chrysler were allowed to fail.

So, it’s no surprise that Quebec economy minister Jacques Daoust is comparing **Bombardier, Inc.** (TSX:BBD.B) to General Motors and Chrysler in 2008. When making the case for federal assistance, he said, “We are going to ask [the federal government] to support the aerospace industry in Quebec the same way they backed the auto industry in Ontario when times were difficult.”

But there are some big differences between Bombardier now and the auto industry then.

Bombardier has other options for financing

During the crisis, General Motors and Chrysler needed more cash to avoid bankruptcy. But with the financial sector so battered, the companies simply could not get any financing. Even a normal Chapter 11 bankruptcy, which would have reorganized the company’s capital structure, was not in the cards. So, if the government didn’t step in, General Motors and Chrysler would have ceased operations and their employees would have lost their jobs.

Bombardier is in a much better situation. While the company needs cash, it also has assets that others are willing to buy. Most notably, a *Reuters* report indicated that a Chinese buyer was willing to pay US$7-8 billion for Bombardier Transportation.

But if Bombardier sold off divisions to a foreign buyer, it could mean a loss of jobs for Quebec. So, we shouldn't really be describing the company as "too big to fail." The moniker "too big to leave" would be more appropriate.

Management is remaining in place

When Chrysler got bailed out, the company eventually got acquired by **Fiat**. As for General Motors, CEO Rick Wagoner lost his job.

But Bombardier's board team, led by Pierre Beaudoin, is remaining in place. And the company's dual-class share structure, which gives the Bombardier/Beaudoin family voting control, is not changing either.

How can we expect Bombardier to change its ways when Quebec isn't encouraging the company to do so? It's something for Mr. Trudeau to think about as he considers aiding the company.

The economy is in much better shape

The decision to bail out General Motors was an easy one, but President Obama's team was split on what to do about Chrysler. After all, Chrysler was not as important as General Motors and was in much worse shape. But the president decided that with the economy in such a weak state, letting Chrysler fail was too big of a risk.

Fast forward to today, and Quebec's economy much stronger than America's was at the time. Thus, there's a legitimate argument that any Bombardier bailout money could be better spent elsewhere. It's an argument that most Canadians tend to agree with.

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