



Why Canada Will Not Let Bombardier, Inc. Fail

Description

Justin Trudeau has a very difficult decision on his hands. **Bombardier, Inc.** ([TSX:BBD.B](#)) is in need of more capital and has reportedly asked the federal government for US\$1 billion of capital.

If Mr. Trudeau were to grant Bombardier's wish, there would be a serious political backlash. Left-wing voters see Bombardier as a large corporation trying to win political favours at the expense of ordinary people. Meanwhile, right-wing voters would see any capital injection as a bailout, as government overreach, and as a violation of free-market principles.

Yet at the same time, Canada cannot simply let Bombardier fail. We take a look at why below.

Others get help, too

Bombardier's misadventure with the CSeries has helped demonstrate the power of competitors such as **Boeing Co.** ([NYSE:BA](#)) and Airbus. But let's not forget that these companies have received plenty of government funding, too.

Let's start with Boeing. According to a 2015 report from Good Jobs First, an American think-tank, Boeing is one of the largest beneficiaries of government assistance in the United States. The company has received over US\$450 million in federal grants and tax credits since 2000, as well as more than US\$64 billion in loan guarantees over the same time. Boeing has also received more state aid than any other corporation.

Airbus is just as bad. The company was originally created by a consortium of European governments and has repeatedly received launch aid for new aircraft projects. This practice was so heavy-handed that the World Trade Organization ruled it illegal in 2010.

So when people say Bombardier is unable to compete, let's not forget who the company is competing against.

The cost of unemployment

Bombardier employs roughly 45,000 people in Canada, and salaries are typically quite high. In Quebec, Bombardier employees make roughly double what the average Quebec resident makes.

And if Bombardier were to go under, many of these people would have great difficulty finding new jobs. Some would take their skills to other countries. Parts makers and other suppliers would suffer. There would be strong ripple effects in certain regions. All told, Bombardier's failure would result in a tremendous loss of tax revenue for provincial and federal governments. Unemployment benefits would also be expensive. These losses would make US\$1 billion look like a drop in the bucket.

A better option

At this point, one thing should be clear: Bombardier is too big to fail. None of us want to admit it, but it's the truth. So what should Mr. Trudeau do?

Here's one solution: first, wait for Bombardier to fail. Then, just like what happened with the auto companies, the government could step in and help with a reorganization. The process ideally would result in a brand new Bombardier, one with ownership split between the bondholders, the employees, and the taxpayer.

Of course, this solution would leave current Bombardier shareholders out in the cold. So if you hold shares, you better hope that Mr. Trudeau doesn't go down this road.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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