BANKRUPTCY PROTECTION: What Would It Mean for the Auto Industry?

Introduction
The global financial crisis and the resulting recession are causing havoc for the world auto industry. Auto sales have collapsed by as much as 40-50 per cent – starting in the U.S., but now the slump has spread to Canada, Europe, and Asia. Automakers around the world are in trouble – and governments around the world are rushing to support their respective auto industries.

GM and Chrysler ran out of operating money last December, and asked for emergency government help. Ford has not yet requested emergency aid – but it is burning through its cash reserves very quickly as well.

Obama’s Bombshell
On March 30, U.S. President Barack Obama rejected the restructuring plans that Chrysler and GM had submitted. He gave Chrysler 30 more days to submit a new plan (based on a merger with Fiat) and gave GM 60 days to submit a new plan. He demanded that both companies cut back their operations (and their labour costs) even more. Even Ford is being hammered by the crisis, burning through cash quickly.

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We disagree. Bankruptcy protection will cause tremendous harm to workers, retirees and consumers alike. But no matter what we think, it is clear that bankruptcy protection is a possibility. We need to understand what it means, and we need to prepare ourselves to defend our interests if it happens.

This handout provides some answers to basic questions about bankruptcy protection. The CAW is doing everything possible to help keep the auto companies working in Canada, while still protecting the integrity of our collective agreement and our retiree benefits.

What is bankruptcy protection?
Bankruptcy protection is a legal process that allows troubled companies to keep operating for a while, even though they can’t pay all of their bills. It is designed to give companies some time to reorganize their operations, and then begin life again with a better chance of survival.

Is bankruptcy protection the same as bankruptcy?
No. A company in bankruptcy protection is not bankrupt. It continues its operations, and its workers remain employed.

But it is temporarily shielded from some of its debts, while it tries to reorganize its business so it can survive.

What caused this crisis? Not the autoworkers!
● Irresponsible lending and speculation by hedge funds and sub-prime financiers.
● Collapse of over-extended investment banks.
● Failure of governments to regulate the financial system.
● Failure of governments to manage international trade so we have a fair share of good jobs in sectors like the auto industry.

What if a multinational company enters Chapter 11 in the U.S., does it automatically enter CCAA in Canada?
No. A company can be in bankruptcy protection (Chapter 11) in the U.S., yet still pay its bills and operate normally in Canada. On the other hand, the Canadian subsidiary might enter CCAA protection in Canada as a way of escaping some of its debts in this country. It depends on the company’s debts in Canada, and on its corporate strategy.

Will I lose my job if the company goes into bankruptcy protection?
No. There is no immediate change in employment when a company enters bankruptcy protection. The whole idea of CCAA is to allow the company to keep operating while it reorganizes its business. As the CCAA process unfolds, or when a company “exits” from CCAA protection, the company may close or sell certain operations – but the companies are still governed by existing laws and contractual commitments, and the CAW will keep fighting to protect Canadian jobs and plants.

What if bankruptcy protection fails?
If the company cannot, while protected by Chapter 11 or CCAA rules, develop a reorganization plan that is approved by the bankruptcy judge and key stakeholders (including banks, bondholders, and unions), then it may be forced to liquidate. That is when a company becomes truly bankrupt: its operations cease, its remaining assets are sold off, and its pension funds are wound up. The process of liquidation is governed by a separate Canadian law called the Bankruptcy and Insolvency Act.
Sticking Together to Defend Our Interests

These are incredible, frightening times for autoworkers. We are victims of a global financial crisis, and lopsided free trade deals, that we did not create.

Whether GM or Chrysler go into bankruptcy protection is completely beyond our control. It has nothing to do with our wages and benefits. We could work for free, and it might extend the life of these companies by a week. Remember labour makes up only 7 per cent of the total cost of making and selling vehicles.

Bankruptcy protection is all about the collapse of auto sales, the brinksmanship of the bondholders and other financial interests, and the failure of governments to do what’s needed to truly rebuild a viable North American industry.

We are doing everything possible to keep all three companies operating (GM, Chrysler and Ford). The CAW has been part of the solution. And if one or both companies enters bankruptcy protection, your union will keep fighting for your interests. With our legal resources, with our collective bargaining strength, and above all with the support of our rank-and-file members, we will fight for and win the best deal possible for our active members and our retirees.

Please stand by for more information and be ready to support your union. Thank you for your continuing support and solidarity!