2014

Summary Report on Canada's Support for the Restructuring of General Motors and Chrysler in 2009

Canada: Industry Canada

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Faced with the potential collapse of General Motors (GM) and Chrysler in 2009, the Government of Canada provided financial support to allow the companies to restructure, thereby mitigating the impact of the economic downturn in Canada and North America.[1]

The billions of dollars the Government committed reflected the significant risk the potential collapse of the automotive sector represented to the Canadian economy.

This support was provided with a commitment to accountability to the taxpayers: the Government of Canada worked with its partners in Ontario and the United States (U.S.) to exercise the appropriate amount of oversight while the loans to GM and Chrysler were outstanding.

Introduction

The purpose of this document is to summarize and consolidate the information on the assistance provided by the governments of Canada and Ontario to GM and Chrysler during the 2008–2009 financial crisis. Specifically, the document outlines the total amounts disbursed, the use of the funds, the amounts recovered so far, the current market value of shares outstanding and the cost of the financial assistance. It is being published in response to a recommendation from the Office of the Auditor General that existing reporting be amalgamated into a single document.

- Industry Canada, as the department with policy responsibility and expertise on the automotive sector, monitored the sector and negotiated the amounts of the loans to GM and Chrysler and their Canadian subsidiaries, and the conditions attached to those loans. It carried out this work with the following partners: the Government of Ontario (the Ministry of Economic Development, Employment and Infrastructure and the Ministry of Finance), the U.S. Treasury and Export Development Canada.

- Export Development Canada secured the authorizations needed to undertake the loans and oversaw the loan agreements with GM and Chrysler, both in the United States (U.S.) and Canada, in cooperation with Industry Canada.

- Finance Canada analyzed and reported on the Government of Canada's fiscal situation and outlook, and recommended approval of the amounts of funding needed to support the auto industry. The Canada Development Investment Corporation, a federal Crown corporation that reports to the Minister of Finance, was responsible for the shares held in GM and Chrysler after the restructurings.

[1] When funding is stated to be from "Canada", two thirds came from the Government of Canada and one third from the Government of Ontario.

Objective of the Support for GM and Chrysler

The Government of Canada's primary objective in supporting GM and Chrysler was to prevent the disorderly and catastrophic collapse of the North American automotive industry in the middle of a deep recession.

The Restructurings

In late 2008, Canada and the U.S. Treasury began discussions with GM and Chrysler regarding support for the companies. From the beginning of these discussions, it was clear that the viability of the Canadian subsidiaries depended on the viability of the parent companies and that the most effective way to save the Canadian operations of both GM and Chrysler would be to support the restructuring of the parent companies. In return, Canada obtained firm commitments from each securing continued proportional production in Canada. Furthermore, Canada laid out necessary concessions from Canadian stakeholders to help make the Canadian operations of both firms cost competitive.

Both companies provided restructuring plans for their American and Canadian operations to the U.S., Canadian and Ontario governments in February 2009, with discussions on those plans continuing through March. After thoroughly reviewing the documentation, Canada and the U.S. Treasury determined that neither the Canadian nor the U.S. plans would lead to viability for either the parent companies or their Canadian subsidiaries. Therefore, on March 30, 2009, the federal Ministers of Industry and Finance and the Ontario Minister of Economic Development, Employment and Infrastructure rejected these viability plans and required the companies to undertake additional work to create restructuring plans to ensure their future competitiveness. Further, the ministers confirmed that all stakeholders would be called upon to contribute appropriately to improve the companies' overall cost structures.

General Motors

GM's second proposed restructuring plan was rejected on March 30, 2009, and it was given 60 days to improve its blueprint to return to viability. The need for a longer period to develop a viable restructuring plan reflected the size and complexity of GM, due to its worldwide manufacturing and sales footprint. Part of the complexity of the restructuring came from the fact that GM's plan included the winding down or divestiture of four brands: Hummer, Pontiac, Saab and Saturn, and all the associated factories, labour and dealerships.

After intense work by governments on both sides of the border and officials from GM, Canada and the U.S. accepted GM's restructuring plan on May 30, 2009. On June 1, 2009, GM entered a U.S. bankruptcy-court-supervised restructuring. It emerged 40 days later, on July 10, 2009, as "New GM" (General Motors Company) a corporate entity distinct from "Old GM" (General Motors Corporation), which had entered bankruptcy.

Amounts Disbursed

In accepting GM's restructuring plan, Canada committed to providing financial support of up to $10.8 billion. (As the support was denominated in U.S. dollars, funds flowing to the company and being returned to Canada were affected by the Canadian–U.S. dollar exchange rate at the time of each transaction). Canada's investment in GM's restructuring represented 16 percent (US$9.5 billion) of the overall US$59 billion deal to restructure the company, representing Canada's proportional share of GM's North American production.

Prior to and during GM's bankruptcy proceedings in the U.S., some $2.8 billion was provided directly to GM's Canadian operations to fund general corporate and working capital needs. This support included payments to suppliers, salaries, benefits and payments to cover warranty commitments. Of this total, $500 million was provided to GM Canada in April 2009 to meet its creditor obligations. The remainder of the funds flowed between June 1 and July 10, 2009, while GM Canada's parent was operating under bankruptcy protection in the U.S. During this period, GM Canada had to demonstrate that funds were required for operational purposes prior to their release by Canada. Of this loan amount, $1.3 billion was equitized (i.e. converted into common and preferred shares in "New GM").

During the bankruptcy phase of the restructuring (June 1–July 10, 2009), $3.5 billion was provided to GM corporate (as opposed to the Canadian subsidiary) in what is known as "debtor-in-possession" (DIP) funding. Use of DIP funding is a common commercial approach that gives financial protection to entities (in this case the governments) providing financing to companies operating under bankruptcy protection. The $3.5 billion was used to finance working capital needs, capital expenditures, payment of warranty claims and other general corporate purposes of GM's North American operations during bankruptcy.

At the end of the bankruptcy period, about $220 million was designated as a loan to "Old GM" and represented part of the total US$1.2 billion Canada and the U.S. Treasury had loaned "Old GM" to fund its wind-down. The remainder of the $3.5 billion was transferred to "New GM" and fully equitized, upon the company's emergence from bankruptcy protection on July 10, 2009.

As with some of the DIP financing provided by the U.S. Treasury, some of Canada's DIP funding was not needed during the bankruptcy period. Under the terms of the DIP loan agreement, these funds were placed in an escrow account. To access the escrow funds, GM had to provide a written request explaining why the funds were needed. These funds remained in escrow until GM had fully repaid its loans to the three governments.

When "New GM" emerged from bankruptcy protection in July 2009, Canada provided $4.5 billion (US$3.9 billion) in funding to the new entity. "New GM" was required to place these funds in a protected escrow account to ensure the company would use the funding to pay off specific liabilities that were affecting its cost competitiveness. This loan was later equitized as part of the restructuring.

On July 10, 2009, at GM's emergence from bankruptcy protection, the $10.8 billion funding from Canada was converted into an 11.7 percent equity ownership stake (58 million shares at the time), 16 million preferred shares and a $1.5 billion loan to “New GM”. As noted, some $220 million of the original financial support remained with “Old GM”, representing Canada’s proportional share of the funding required for GM to wind down its operations.

In addition to its equity stake, Canada received the right to name one member to GM’s Board of Directors until the time of the Initial Public Offering (IPO), which occurred in late 2011.

In addition, Canada received production and investment commitments to anchor GM’s presence in Canada over the medium term. The details of these commitments are commercially confidential and may not be released.

Use of Funds

The due diligence carried out by Canada as part of its discussions with GM clearly demonstrated that the company was facing default and required emergency operating funds to pay for labour, suppliers and other essential operating costs while a restructuring plan could be finalized and implemented. To this end, even prior to its bankruptcy filing, the U.S. government provided GM with more than US$19 billion to keep the company operating until it could finalize its restructuring plan.

As with Chrysler, GM was, under the loan agreements with Canada and the U.S. and under the supervision of the U.S. bankruptcy court, limited to using this funding to pay for operational and other costs related to its automotive operations. This limitation provided for payments for salaries and benefits to employees and payments to suppliers of parts and equipment.

As required by the loan agreements, throughout the period during which a loan was outstanding to Canada (up to April 2010), GM provided ongoing financial and non-financial reports that allowed Canada and the U.S. Treasury to monitor the use of funds and adherence to production commitments. Extensive due diligence was carried out on these reports to ensure funds were being used as intended and to monitor the health of GM as it emerged from bankruptcy and moved to profitability.

In addition, although it was a privately owned company from the time it filed for bankruptcy until its Initial Public Offering in late 2011, GM continued to voluntarily provide financial and other reports throughout this period to the U.S. Securities and Exchange Commission.

Recoveries and Costs

Beginning in December 2009, some six years ahead of schedule, GM began repaying its loan. On April 20, 2010, it provided a lump-sum payment of $1.1 billion for the outstanding balance, fully repaying the loan of $1.5 billion. In addition to the principal of the loan, GM paid approximately $83 million in interest.

As the owner of 16,101,695 preferred shares, with a face value of US$25 each or US$403 million in total, Canada receives 9 percent interest on these shares, or approximately US$36 million annually. To date, the total dividends received from these shares amount to $193 million.[2]

As part of the restructuring package, Canada received 58.4 million common shares (about 11.7 percent) in “New GM”, (later split 3-for-1 leading up to the IPO to facilitate the sale of shares, resulting in Canada holding 175 million shares). Of these, Canada sold more than 35 million in GM’s IPO on November 18, 2011. This sale generated $1.2 billion in revenue and reduced Canada’s ownership stake in General Motors to 9 percent.

On September 10, 2013, Canada sold an additional 30 million common shares to GM at US$36.65 per share for a total of more than $1.1 billion. After the sale, Canada’s ownership of GM was reduced to approximately 7 percent.

In January 2014, GM declared a quarterly dividend of 30 cents per common share, which provided US$33 million in additional revenue to Canada on a quarterly basis, for a total to date of US$99 million or C$109 million based on the exchange rates at the time of the dividend payment.[3]

Canada currently holds about 110 million common shares (7 percent) in GM.

Total recoveries to date from GM amount to $4.2 billion. These recoveries, however, do not reflect the government revenue generated from economic activity directly derived from the investment in GM’s ongoing success in Canada or the capital investments made by GM in Canada resulting from Canada’s support to its restructuring.

To fully understand the economic impact of protecting Canada’s automotive sector, it is necessary to understand that in early 2009, GM and Chrysler assembly plants directly employed an estimated 14,000 workers. In addition, over 50,000 jobs in other industries were estimated to be tied to production at GM and Chrysler. Using Statistics Canada’s input-output model, the Department of Finance estimated that 52,000 jobs (all the assembly jobs and about three-quarters of the indirect jobs) were protected by government action to support the automotive industry. This estimate does not take into account the induced effects arising from the maintenance of economic activity in the automotive and related industries. For comparative purposes, in the U.S., the Center of Automotive Research in November 2008 estimated that a bankruptcy leading to liquidation of GM and Chrysler would result in the loss of nearly 2.5 million jobs in the first year and a total net loss to state and federal government of $108 billion over three years. While no similar numbers are available for Canada, even a conservative extrapolation to Canada could be taken to represent thousands of lost jobs and billions of dollars in lost revenue for Canadian governments.

[2] 2009: $16.5 million; 2010: $36.9 million; 2011: $36.1 million; 2012: $36.0 million ; 2013: $37.4 million; 2014 (to date): $29.8 million.

[3] March 28 ($36.51 million); June 26 ($35.33 million) and September 26 ($36.84 million).

FIGURE 1: GM Disbursements and Recoveries

Entity	Amount
Disbursements	
General Motors Corporation (Old GM)	$3.5 billion
General Motors Company (New GM)	$4.5 billion
General Motors of Canada Limited	$2.8 billion
Total	**$10.8 billion**
Recoveries - Realized	
GM Loan Repayment (interest and principal)	$1.6 billion
November 2010 Initial Public Offering Gross Proceeds	$1.2 billion
September 2013 Block Trade Proceeds	$1.1 billion
Preferred Share Dividend Repayments	$0.19 billion
Common Share Dividend Repayments	$0.11 billion
Motors Liquidation Corporation (MLC) Loan Repayments	$0.03 billion
Sub-total Realized	**$4.23 billion***
Recoveries - Outstanding Shares	
Common shares (110 million)	$4.2 billion**
Preferred shares (16 million)	$0.46 billion**
Sub-total Outstanding	**$4.66 billion****
Total Recoveries* (Realized + Outstanding)	**$8.89 billion****

*May not add due to rounding.

**The total value of the GM common shares at the close of trading on November 28, 2014 was $4.2 billion, based on the closing price of US$33.43 per share and the Bank of Canada noon foreign exchange rate for the U.S. dollar of $1.1427. Actual recoveries will depend on market value of the shares on the date of sale. The face value of the preferred shares on the same day would be $460 million, based on a face value of US$25 per share and the same exchange rate as above.

Chrysler

Beyond the various cost-cutting measures it had already negotiated with stakeholders, Chrysler was given 30 days, from March 30, 2009, to sign a partnership agreement with Fiat. Chrysler's survival depended on coming to terms with another car company that would benefit from Chrysler's sales channels in North America and its expertise in trucks and crossovers. Such a partnership would, in turn, provide Chrysler with expertise in small, fuel-efficient cars and a sales channel to consumers outside of North America. Fiat emerged as the partner with the scale, technology and product pipeline that Chrysler needed to become viable. While Chrysler had additional significant issues that needed to be dealt with through its corporate restructuring, an alliance was essential to its survival.

On April 30, 2009, having secured an agreement with Fiat to gain access to its small car technology and management expertise, Chrysler's restructuring plan was accepted by both Canada and the U.S. On that day, Chrysler began a U.S. bankruptcy-court-supervised restructuring. It emerged 42 days later, on June 10, 2009, as "New Chrysler" (Chrysler Group LLC) a corporate entity distinct from "Old Chrysler" (Chrysler LLC), which had entered bankruptcy.

Amounts Disbursed

After accepting Chrysler's restructuring plan, Canada committed up to $3.775 billion to Chrysler to support its restructuring. At 20 percent of the overall support package, this amount reflected Canada's proportional share of Chrysler's total North American production. The amount included $250 million in emergency funding provided at the end of March 2009, without which Chrysler Canada would have been forced into default. In total, Chrysler ultimately required only $2.9 billion in funding from Canada.

The company emerged from bankruptcy protection on June 10, 2009. At that juncture, the $2.9 billion of funding from Canada was converted into a 2 percent equity ownership stake (24,615 "Class A Units") and a $1.6 billion loan and $80 million promissory note (a financial instrument where one party promises to pay a predetermined amount to another party) to "New Chrysler". The additional $1.3 billion remained as a loan to "Old Chrysler" to help it wind down its operations. The amount loaned was Canada's proportional share of the total amount required to support "Old Chrysler", with the balance supplied by the U.S. Treasury. Neither Canada nor the U.S. expected any of the loans to be recovered from "Old Chrysler" but Canada received, as its proportional share, $12 million in interest from this entity, prior to the restructuring.

In contrast with the GM restructuring, the Chrysler restructuring was largely debt-based. While Chrysler needed to reduce its costs, as did GM, it relied on medium-term loan support until Fiat's manufacturing know-how and fuel-efficient products could return Chrysler to profitability.

In addition to the equity stake, Canada received the right to name one member to Chrysler's Board of Directors, and production and investment commitments to anchor its presence in Canada over the medium term. The details of these commitments are commercially confidential and may not be released.

Use of Funds

The due diligence carried out by Canada as part of its discussions with Chrysler clearly demonstrated that Chrysler was facing default and required emergency operating funds to pay for labour, suppliers and other essential operating costs on both sides of the border, while a restructuring plan could be finalized and implemented.

Under the loan agreements signed with Canada and the U.S., and under the supervision of the U.S. bankruptcy court, Chrysler was limited to using this funding to pay for operational and other costs related to its automotive operations. This limitation provided for payment of employee salaries and benefits and for payments to parts and equipment suppliers.

As required by the loan agreements, throughout the period during which a loan was outstanding to Canada, New Chrysler also provided ongoing financial and other reports that allowed Canada and the U.S. to monitor Chrysler's return to financial health and adherence to production and other commitments. Extensive analysis and due diligence was carried out to ensure Chrysler was following its restructuring plan and to monitor the health of Chrysler as it emerged from bankruptcy protection and moved to profitability.

Recoveries and Costs

In May 2011, as a result of a much stronger than expected financial recovery, "New Chrysler" fully repaid its outstanding $1.6 billion loan to Canada, six years ahead of schedule. Over the life of the loan, Canada also received $319 million in interest and note repayments from Chrysler.

As part of its plan to make Chrysler a wholly owned subsidiary, Fiat purchased Canada's 2 percent equity stake in Chrysler on July 21, 2011, for US$140 million or C$132 million.

In total, approximately $2.1 billion of the $2.9 billion disbursed was recovered directly from Chrysler. This amount, however, does not reflect the government revenue generated from economic activity directly derived from investing in Chrysler's ongoing success in Canada or the value of the capital investment made by Chrysler in Canada resulting from Canada's support of its successful restructuring.

To fully understand the economic impact of protecting Canada's automotive sector, it is necessary to understand that in early 2009, GM and Chrysler assembly plants directly employed an estimated 14,000 workers. In addition, over 50,000 jobs in other industries were estimated to be tied to production at GM and Chrysler. Using Statistics Canada's input-output model, the Department of Finance estimated that 52,000 jobs (all the assembly jobs and about three-quarters of the indirect jobs) were protected by government action to support the automotive industry. This estimate does not take into account the induced effects arising from the maintenance of economic activity in the automotive and related industries. For comparative purposes, in the U.S., the Center of Automotive Research in November 2008 estimated that a bankruptcy leading to liquidation of GM and Chrysler would result in the loss of nearly 2.5 million jobs in the first year and a total net loss to state and federal government of $108 billion over three years. While no similar numbers are available for Canada, even a conservative extrapolation to Canada could be taken to represent thousands of lost jobs and billions of dollars in lost revenue for Canadian governments.

FIGURE 2: Chrysler Disbursements and Recoveries

Entity	Amount
Disbursements	
Chrysler LLC (Old Chrysler)	$1.3 billion
Chrysler Group LLC (New Chrysler)	$1.6 billion
Total	**$2.9 billion**
Recoveries	
Chrysler Group LLC (principal repayment)	$1.6 billion
Chrysler LLC and Chrysler Group LLC (interest payments)	$0.3 billion
Fiat (proceeds relating to sale of Chrysler membership interests)	$132 million
Total	**$2.1 billion***
*May not add due to rounding.	

Conclusion

As previously reported, Canada worked with Ontario and the U.S. Treasury for the critical and successful restructurings of GM and Chrysler and their Canadian subsidiaries. To date, $6.3 billion has been recovered directly from the companies.

Irrespective of the final recoveries, the Government of Canada successfully responded to the economic crisis, by averting the collapse of GM and Chrysler and their Canadian subsidiaries. The amount of funding committed to restructuring GM and Chrysler reflected the significant risk to Canada's entire economy that the potential collapse of the automotive sector represented.