Open for business? Ottawa's ability to block foreign sales complicates BlackBerry and telecom deal making

By blocking Allstream's deal with Accelero, Ottawa telegraphed its resolve to make national security paramount when considering whether to allow a foreign firm to acquire what it considers a strategic asset

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When Canada blocked the sale of a fiber optic network to a company backed by an Egyptian telecom tycoon this week, it telegraphed its resolve to make national security paramount when considering whether to allow a foreign firm to acquire what it considers a strategic asset.

[np_storybar title="CPPIB considering joining BlackBerry takeover bid"

link="http://business.financialpost.com/2013/10/09/blackberry-ltd-cppib-considering-joining-takeover-bid/?__lsa=7f94-f5b9"%5DCanada Pension Plan Investment Board is considering joining a bid for BlackBerry Ltd., though the country's biggest pension fund says it's not compelled to rescue the struggling Canadian smartphone maker. *Keep reading.*
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That warning may effectively limit the pool of would-be buyers of BlackBerry Ltd or foreigners interested in Canada's telecom industry, and it could rule out all but a few well-established players based in North America, industry executives, lawyers and analysts say.

The government's ruling, announced on Monday, was a blow to Manitoba Telecom Services, which wanted to sell its Allstream fiber optic network to Accelero Capital Holdings, controlled by Egyptian businessman Naguib Sawiris. MTS shares dropped 8.6% on Tuesday.

But for BlackBerry, the embattled smartphone maker, Ottawa's decision may not make much difference as primarily North American companies appear to be interested in acquiring the parts of the company that would raise security concerns.

BlackBerry declined to comment. The government declined to elaborate on its reasons for blocking the Allstream bid.

For Canadian telecoms, however, the ruling may severely restrict the list of potential parties that may be allowed to invest in the sector at a time when U.S. telecoms have shown little interest in making investments in Canada.

"Canada is definitely open for business, but it may not be open to be given away to the first person who comes in the door with a bit of money," said Ross Healy, a portfolio manager with MacNicol & Associates, whose clients own BlackBerry shares.

BlackBerry's most sensitive asset – a secure network that handles millions of confidential corporate and government emails every day – is most likely to get shopped to North American entities, Healy said.

Sources close to the matter have told Reuters that BlackBerry is in talks with Cisco Systems Inc, Google Inc and Germany's SAP AG among others, about selling them all, or parts of itself. The potential buyers have declined to comment.

Such a deal would be an alternative to a preliminary, $9-a-share offer by a group led by BlackBerry's biggest shareholder, Canada's Fairfax Financial Holdings Ltd. BlackBerry put itself up for sale in August after lackluster sales for its new devices.

BlackBerry shares closed slightly higher on Tuesday, the day after Ottawa's announcement, a sign that investors were not concerned that the ruling on Allstream would hamper any deal making for the smartphone maker.

The sources close to the matter have told Reuters that BlackBerry is also seeking preliminary expressions of interest from other strategic buyers, including Asian technology giants such as LG, Samsung and U.S.-based Intel Corp.

Simon Dawson/Bloomberg

Analysts say BlackBerry could sell its handset business and operating system to an Asian phone maker, while selling its more sensitive enterprise business and network assets to the likes of a Cisco, IBM Corp, or Hewlett-Packard Co.

Under the Investment Canada Act, the federal government has wide ranging powers to veto any foreign takeover of a Canadian asset or company, if it deems that such a deal would not bring a “net benefit” to the country, or if it believes that such a deal may pose a threat to national security.

Even so, Canada has rarely used its veto powers. In 2010, it blocked a $39 billion bid by BHP Billiton, the Anglo-Australian mining giant, to buy Potash Corp, on the grounds of the “net benefit” test. Two years earlier, it blocked MacDonald Dettwiler and Associates Ltd’s attempt to sell its satellite division to Alliant Techsystems Inc, due to national security concerns.

This week the government offered little detail on the reason behind its rejection of the Allstream deal. But it did offer one tantalizing clue, noting that Allstream runs a network that provides critical telecommunications services to clients that include the government of Canada.

“The situation with BlackBerry will be the same or more so,” said Tony Baldanza, who heads Fasken Martineau’s antitrust and competition law group, noting that much of the government’s email traffic goes through BlackBerry’s secure servers.

BlackBerry will have to be selective about who it considers to be real prospective purchasers

“We have to assume that these national security provisions will be carefully considered and applied as necessary, so BlackBerry will have to be selective about who it considers to be real prospective purchasers," he said. "That does not exclude all buyers, but it does limit the market to which BlackBerry can turn."

The rejection also signals that the government is going to be picky about who it allows to invest in the domestic telecom sector, despite its stated goal of attracting foreign investment to boost competition and lower prices for consumers.

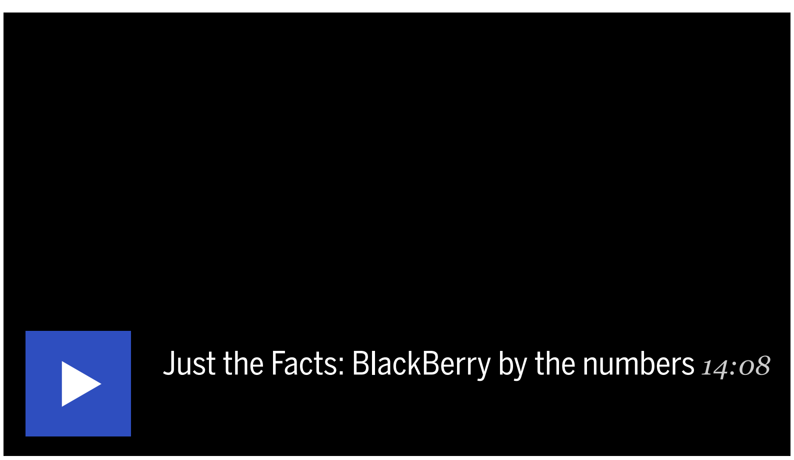
The government laid out the red carpet this summer when it appeared that U.S.-based Verizon Communications Inc was keen to enter Canada by acquiring start-up Wind Mobile.

Canada's top telecom carriers – BCE Inc, Telus Corp and Rogers Communications Inc – accused Ottawa of creating rules that favor foreign companies with preferential access to spectrum in an upcoming auction. The three also complained that the rules gave foreign companies more leeway in buying Canadian telecom start-ups, while they are essentially prohibited from striking such deals.

After the rejection of the Allstream deal, MTS's chief executive said the decisions to sell the network and to choose Naguib Sawiris' Accelero as the buyer were influenced by Ottawa's earlier efforts to encourage foreign investment.

"We thought we were right in line with the government desire to bring more investment from foreign countries into Canada and into telecom," Chief Executive Officer Pierre Blouin said in a phone interview.

Sawiris was in charge of Egypt's Orascom Telecom when it provided most of the initial financial backing for startup Wind Mobile, following a spectrum auction in 2008.



Canada's Conservative government fought a court battle against the country's own telecom regulator and rival operators to ensure Wind could operate. It later loosened the rules so foreigners could fully own telecom companies, such as Wind, that had less than 10 percent market share.

Even so, Ottawa dragged its feet on approving a change of control for Wind, after Sawiris's Orascom Telecom was sold to Vimpelcom, whose top shareholder is Moscow-based Altimo, controlled by billionaire Mikhail Fridman. Norwegian operator Telenor ASA has a large minority stake.

Although Wind has grown into the fourth-largest player in Canada and succeeded in lowering wireless prices in Canada, the carrier built its network on equipment from China's Huawei Technologies Co Ltd, a decision that has displeased Ottawa, according to industry sources. The sources asked not to be identified because of the sensitivity of the subject.

Wind Mobile declined to comment. A spokeswoman for Minister of Industry James Moore was not immediately available to comment on possible government concerns about Wind's relationship with Huawei.

Australia has banned Huawei, the world's No. 2 telecom equipment maker, from helping build its broadband network, over security concerns.

Wind and other startups have struggled to turn a profit. While the startups appear keen to sell out to larger players with the scale needed to succeed in the business, the government's latest ruling makes it unclear who could buy them.

Blouin, the CEO of Manitoba Telecom Services, said that unless the government clarifies the situation or the rules, it will be challenging to invite foreign investment into Canada's telecom sector.

"It's going to put a lot of doubt in a lot of people outside the country about an ability to invest in, or acquire telecom providers, whatever size they are," Blouin said.

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