

**Nortel:  
Ottawa Should Review Sale to Ericsson  
Because of Vast Tax Support to Nortel,  
National Security Considerations, and Abuse of RIM Bid;  
Canada Export Corporation Wrong to Fund Nokia Bid**

**BDO Dunwoody Weekly CEO/Business Leader Poll  
By COMPAS in *Canadian Business*  
For Publication August 10, 2009**



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## 1.0 Overview

Following the court-approved sale of Nortel assets to Swedish giant Ericsson, CEOs and business leaders on the COMPAS business panel were asked for their views on the resulting controversies.

By a wide margin, panelists believe that

- The Government of Canada should review the sale, partly because of the vast amount of tax support that had contributed to the development of Nortel intellectual property;
- The Harper Government should also review the sale because (a) of the national security implications of licensing next generation technology to a foreign company and (b) Nortel acted improperly in requiring bidders to agree not to bid on any other property for at least a year with the result that RIM did not make a bid; and, on a separate matter,
- Canada's Export Development Corporation (EDC) was wrong to offer foreign-owned Nokia substantial financing for its ultimately unsuccessful bid.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.



## 2.0. Government Should Review Sale; EDC Wrong to Fund Nokia’s Ultimately Unsuccessful Bid

Table 2a sets out panelists’ opinions of the desirability and rationale of a government review of the Nortel sale. Meanwhile table 2b displays panelists’ negative opinions of Export Development Canada’s offer of financing to failed bidder Nokia.

*Table 2a: (Q1) Nortel has just sold its wireless business to Swedish firm Ericsson. The sale includes the licensing of 600 Nortel patents for the next generation of very fast wireless technology. Waterloo, Ont-based Research-in-Motion did not bid because it would not agree to a condition set by Nortel that a participant could not bid for any other Nortel property for at least a year. On a 7 point agreement scale where 1 means strongly disagree and 7, strongly agree, please score your agreement with the following opinions on this controversy: RANDOMIZE*

	Mean	7	6	5	4	3	2	1	DNK
Nortel acted improperly in requiring bidders to agree not to bid on any other property for at least a year.	5.2	33	20	10	8	9	8	5	9
The Government of Canada has every right to consider blocking the sale because of the vast amount of tax support that went into Nortel’s R & D.	5.2	35	22	14	9	4	10	6	1
The Government of Canada has every right to consider blocking the sale because Nortel improperly stopped RIM, a successful Canadian company, from bidding on the assets.	4.6	24	13	16	11	10	15	7	5



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	Mean	7	6	5	4	3	2	1	DNK
Nortel's next generation of wireless patents are so valuable that they should not be allowed into the hands of foreign companies.	4.6	16	21	16	11	6	11	8	11
The Government of Canada has every right to consider blocking the sales because of the national security value of Nortel's technology.	4.2	20	12	9	14	16	13	10	6
The Government of Canada should not interfere in the decision because the courts have deemed Nortel's auction process acceptable.	3.7	8	22	8	15	8	18	19	3
The Government of Canada should not interfere in the sale because of the harm that such interference would do to foreign investments and trade relations.	3.6	10	13	14	9	17	15	20	2

Table 2b: (Q2) Nokia, another European company, was an early but unsuccessful bidder. Canada's Export Development Corporation (EDC) offered Nokia substantial financing for its bid. On a 7 point scale where 1 means totally improper and 7, totally proper, how proper was it for the EDC to offer financing to Nokia?

Mean	7	6	5	4	3	2	1	DNK
2.8	2	8	11	9	17	21	30	3

The following verbatims provide a nuanced sense of panel opinion:

Pity the poor Nortel shareholder. Its patents are very valuable, but can on be levered by the beleaguered and



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bumbling company. They should sell them. RIM should have agreed to a one year holiday. Bought the assets and fight over that provision later.

This has got to be one of the most irrational decisions ever made in this country.

Where tax payers' funds have been used for development the company should not be allowed to sell to a foreign interest. The EDC should not be funding foreign interests.

So mush for diversification from being "hewers of wood and drawers of water".

Foreign buyers have consistently failed to live up to commitments made when purchasing Canadian assets and Canadian buyers should not be shut out of the process. The court decision is a legal one and has no bearing on any political decision which may be made by the Canadian government. In other words, legal can be trumped by political.

This is one of the difficult positions, Canada has to face. Nortel was behind in product offerings or could not execute on their research. The fact that the patents will be under license ensure income flow into Nortel. However, like all corporate support Canada offers, many of these deals are not tied to continuing obligations for this support. Canada should tighten up its agreements so that taxpayer monies are returned when situations like Nortel happen.

The idea of leaving it up to Nortel, of all organizations, to make rules for bidders is ludicrous. It is bankrupt and incompetent, much of its intellectual property was funded in very large part by Canadian tax dollars, and I would have thought that the bankruptcy court would have had complete jurisdiction over this. The idea of financing foreign firms to do their vulture picking at presumably bargain basement terms



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is so bizarre that it does not bear talking about. Only in Canada eh?

Innovative exporters should be supported to remain alive and well and selling from Canada. Canada's innovation is low based upon patent counts; one-third of the U.S. and one-tenth of Japan's.

If Canadians (and the Government of Canada) believe that Nortel's assets are so valuable why did they not step in years ago as the company was destroying itself via corporate suicide? It's a little late to get national fever over Nortel.

There is no way the courts should accept that a bankrupt company can set any type of terms on sale of its assets to the highest bidder. Court should accept highest bid, then, and only then, the government departments decide whether to approve sale or not.

In [this] area, Conservative governments have been wrong, wrong, wrong since the Avro Arrow and it's cost this country dearly.

RIM has a right to insist that the federal government needs to establish the legal issues on whether the Nortel rules favoured one bidder versus another, then live with the outcome. The fact that there is a tremendous taxpayer investment here gives the federal government both the right and the responsibility to weigh in on these issues - it was not all Nortel's money and therefore they have to either repay the gifts or accommodate others at the table.

### **3.0 Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted August 5 - 6, 2009. Respondents constitute



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an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=106 are deemed accurate to within approximate 9.6 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

