

**Written Submission for the Pre-Budget
Consultations in Advance of the Upcoming
Federal Budget**

**By the Canadian Wireless Telecommunications
Association (CWTA)**

CWTA's recommendations for Budget 2021:

- **Recommendation 1: Provide a stable regulatory environment that encourages investment**
- **Recommendation 2: Waive spectrum licence fees for 2020/21**
- **Recommendation 3: Allow full and immediate expensing of depreciable telecom network equipment assets**
- **Recommendation 4: Streamline and coordinate government funding programs for rural broadband deployment**

August 7, 2020

The Honourable Wayne Easter
Chair, Standing Committee on Finance
House of Commons
131 Queen Street, 6th Floor
Ottawa, Ontario K1A 0A6

RE: CWTA submission to the House of Commons Standing Committee on Finance's consultation in advance of the 2021 federal budget

1. The Canadian Wireless Telecommunications Association (CWTA) is the authority on wireless issues, developments and trends in Canada. It represents wireless service providers as well as companies that develop and produce products and services for the industry. CWTA is pleased to file its comments with respect to the above-noted consultation.
2. In advance of the 2021 Budget, the House of Commons Standing Committee on Finance has asked respondents to share their priorities for the 2021 federal budget.
3. The COVID-19 pandemic has caused hardship for nations around the world, including Canada. In addition to posing significant health risks, the pandemic has had a significant negative impact on our economy. More than one million jobs have been lost, the economy has contracted, and the national public debt has risen dramatically as the federal government has taken important steps to protect the health and economic well-being of Canadians and businesses.
4. The health crisis has also highlighted how vital telecommunications services are to Canadians' health and safety, and to sustaining economic and social activity. As Canadians transitioned to physical distancing and remote work, Canada's wired and wireless networks faced increased traffic volumes and altered usage patterns. Fortunately, as a result of years of private sector investment in network infrastructure Canada's world-class networks have performed exceedingly well, with most Canadians being able to transition to working from home, and staying in touch with friends and loved ones, with few, if any, disruptions.
5. Canada's facilities-based network operators also quickly added capacity where needed, and have worked closely with governments, hospitals, and other essential service providers to ensure they receive the critical support they require. Facilities-based network operators also implemented numerous supportive measures, such as removing data caps on home and small business internet plans and waiving certain wireless fees, to make working from home easier. Network operators also offered flexible payment options to customers experiencing financial difficulties during this time.
6. The importance of Canada's telecommunications services is not limited to dealing with the pandemic. Telecommunications has become one of the world's most crucial types of infrastructure, with governments around the world recognizing that the digital economy is

central to their countries' economic success. Though Canada is in an enviable position, with the vast majority of Canadians having access to privately funded, high-quality telecommunications services, the COVID-19 pandemic has reminded Canadians that there remain coverage gaps in some areas. Expanding coverage to these underserved areas will not only enable Canadians residing in these locations to participate in the digital economy, including working and learning remotely, it will also drive economic growth.

7. Studies have shown that a 10% increase in broadband penetration (whether wired and/or wireless) results in an estimated 0.9% to 1.5% increase in GDP growth.¹ For example, achieving the government 95% broadband service availability in Saskatchewan, a province with a large rural population, would result in an estimated increase to its GDP of \$1.2 billion.²
8. Canada's economic recovery will also be dependent on its ability to adopt new technologies that increase productivity, create jobs and drive economic growth. In the case of Canada's wireless networks, each new generation of wireless technology has resulted in a burst of economic growth, led to innovations and disruptive business models, and changed the way Canadians live and work.
9. The next generation of wireless networks, 5G, will not only be faster, it will also be ultra-reliable, offer higher capacity, and ultra-low latency. This will enable entirely new ways for individuals, businesses, and governments to use wireless networks to connect and communicate. A recent study by Accenture estimates that the deployment of 5G networks will result in an incremental annual GDP contribution of \$40 billion by 2026 and by this same time add close to 250,000 permanent jobs to the Canadian economy.³
10. However, the expansion of Canada's network infrastructure and introduction of 5G wireless in a timely manner is not guaranteed. Accenture estimates that in order to deploy 5G networks in Canada, an estimated 26 billion dollars in infrastructure spending, primarily by facilities-based carriers, from 2020 to 2026 will be required.⁴ This does not include the billions more that must be spent on acquisition of new spectrum licences necessary for full 5G deployment. Similarly, the expansion of wired and wireless networks into underserved communities will require massive amounts of investment.
11. While the federal and provincial governments have developed funding programs that will contribute to some network expansion projects, the majority of investment for broadband expansion and 5G deployment will come from the private sector. Facilities-based network operators will be challenged to reach the required levels of investment without a regulatory framework that preserves incentives for private investment in network building, as well as strategic government policies that facilitate investment in network infrastructure.

¹ Accenture Strategy, *Accelerating 5G in Canada: Benefits for Cities and Rural Communities*, page 12, <https://www.cwta.ca/wp-content/uploads/2019/11/Accelerating-5G-in-Canada-V11-Web.pdf>

² *Ibid*

³ *Fuel for Innovation: Canada's Path in the Race to 5G*, Accenture Strategy, June 2018.

⁴ *Ibid*.

12. As a case in point, a recent two-part study by PwC estimates that if the federal government were to abandon its long-standing policy of promoting facilities-based competition in favour of mandating wholesale network access for mobile virtual network operators (MVNOs), network operators would be forced to cut \$8 billion in annual operating and capital expenditures by 2025.⁵ The impact of these cuts on the Canadian economy is estimated to include a \$10 billion reduction in GDP, \$2.5 billion reduction in federal tax revenue, and over 100,000 fewer telecommunications and telecommunications supply chain jobs.⁶ PwC also estimates that such a policy would reduce the effective coverage of 5G networks from 95% to 75% by 2030; widening the urban and rural digital divide and weakening Canada's international competitiveness.⁷
13. To prevent such negative consequences, and to provide a regulatory environment that encourages private sector investment in telecommunications infrastructure, CWTA respectfully submits the following recommendations to this committee:

Provide a Stable Regulatory Environment that Encourages Investment

14. While Canada has some of the best performing and most expansive telecommunication networks in the world, continuing massive private sector investments are required to ensure that underserved areas receive access to high-quality telecommunications services and that our nation's network infrastructure is enhanced with the latest innovations, such as 5G. The government of Canada has long recognized the importance of a stable regulatory environment that encourages private sector investment in telecommunications infrastructure. However, the government has recently signalled a willingness to entertain policies, such as mandated MVNO network access, which have been shown to reduce investments in jurisdictions where they have been tried, while delivering questionable benefits to consumers.
15. The COVID-19 pandemic has underscored the importance of our countries' telecommunications infrastructure to maintaining social and economic activity, and how high-speed broadband can boost the economic development of rural and remote communities. The federal government should expressly renew its long-standing support for facilities-based competition, which will provide the private sector with the regulatory certainty required to make the long-term investments needed to help the federal government meet its broadband connectivity objectives and to fuel Canada's economic growth.

⁵ <https://www.pwc.com/ca/en/communications/publications/761378-understanding-the-impacts-of-mvnos-in-canada-part-1.pdf>

⁶ *Ibid*

⁷ <https://www.pwc.com/ca/en/communications/publications/761378-understanding-the-impacts-of-mvnos-in-canada-part-2.pdf>

Waive Spectrum Licence Fees

16. The COVID-19 pandemic and measures taken by network operators to assist Canadians through this difficult time have had significant negative impacts on network operators' financial position. Decreased roaming revenue, waiving of certain service fees and increases in bad debt have resulted in lower revenues and reduced investment capacity for some providers. The duration and full impact of the pandemic are unknown, and may further impact service revenue and investment capacity.
17. While the federal government has allowed for the deferral of some spectrum and radio licence fees, CWTA recommends that all spectrum and radio licence fees for the 2020-21 fiscal year be waived entirely. This relief would assist all network operators in their efforts to ensure that Canadians continue to benefit from world-class telecom services. It is also consistent with the government's recent waiver of part I broadcast licence fees.

Allow Full and Immediate Expensing of Depreciable Telecom Network Equipment Assets

18. As part of the federal government's 2019 Fall Economic Statement, the government introduced a number of measures related to the expensing of eligible capital property. This included the Accelerated Investment Incentive which provided an enhance first-year allowance for certain eligible properties, including property related to telecom network equipment. The economic statement also included the immediate expensing of the full cost of certain machinery and equipment and clean energy investments.
19. The Accelerated Investment Incentive has been credited with increasing the capital expenditures that network operators invest in their networks and, in particular, coverage in rural and remote areas.⁸
20. Under the income Tax Regulations, there are currently several classes of depreciable assets that relate to telecom network equipment, each with different Capital Cost Allowance rates:
 - Class 8: radiocommunication equipment;
 - Class 42: fibre optics; and
 - Class 46: data network infrastructure equipment and systems software.
21. To further enable ongoing and future investment in the expansion and enhancement of Canada's wireless network infrastructure, including the deployment of 5G network infrastructure, CWTA recommends that Budget 2021 increase the CCA – from current rates to 100% - for all three classes, a policy which has successfully been implemented in the U.S.⁹. This acceleration of the CCA rate would permit facilities-based carriers to recover new investments more quickly. It would also enable more rapid and more significant investments in network

⁸ See <https://roge.rs/3fcoj8m> , <https://bit.ly/39CqZLu>, <https://tgam.ca/3f7yxHn>, <https://bit.ly/33aOvOr>

⁹ <https://taxnews.ey.com/news/2018-0063-tax-cuts-and-jobs-act-will-affect-telecommunications-industry>

expansions and upgrades, including 5G network deployment, precisely when they are needed most.

22. Such a change will return significant benefits to Canadians and the Canadian economy. The additional investments in telecommunications infrastructure that it would stimulate would further improve productivity, enable businesses in all regions of the country to compete on a national and global level, and connect all Canadians with constantly improving telecommunications services.

Streamline and Coordinate Government Funding Programs for Rural Broadband Deployment

23. With their low population density and increased costs of deployment, expanding wired and/or wireless networks into rural and remote areas of Canada is challenging. CWTA recognizes that the federal government has committed significant funding for the deployment of broadband services in underserved areas. Provincial governments have also committed funding for broadband projects. While we commend all levels of government for devoting resources to this issue, having multiple government programs with different criteria and application processes adds layers of complexity to what are already complex challenges.
24. Funding programs such as those administered by ISED Connect to Innovate and the CRTC Broadband Fund require the production of significant amounts of information by applicants and create a heavy monitoring and change management burden on both government and applicants. In short, having multiple funding programs results in inefficiencies and inconsistencies. Lengthy application and approval processes lead to delays or even the cancellation of projects due to cost escalations or the need to deploy tied-up capital to other projects. Streamlining application and funding processes, greater collaboration between stakeholders and increased coordination amongst all levels of government is required. Where possible, broadband funding programs should be coordinated or consolidated, and publicly available mapping data should accurately indicate the specific facilities that have been publicly funded.

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