Canadian Wireless Telecommunications Association

Association canadienne des télécommunications sans fil

August 3, 2016

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

Via email: finapbc-cpb@parl.gc.ca

Re: CWTA submission to the House of Commons Standing Committee on Finance's consultation in advance of the 2017 budget

1. The Canadian Wireless Telecommunications Association 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, including handset and equipment manufacturers, content and application creators and business-to-business service providers. CWTA is pleased to file its comments with respect to the above-noted consultation.

2. Canada's wireless industry is comprised of a diverse range of competitors that all share a common goal: empowering more Canadians to use wireless to do more. Canadian consumer preferences have created our mobile-first world, where smartphones and tablets are the preferred choice to communicate, navigate, inform, shop, bank, work, collaborate, entertain and be entertained. Businesses rely on wireless to stay connected to their customers, employees and partners, and to increase productivity. Both consumers and enterprises depend on the wireless industry to continue investing and innovating so they can maximize the value of their wireless experience.

3. By investing to deliver and enhance expansive mobile broadband service, the wireless industry will inherently contribute to Canada's economy and Canadian prosperity. It will also support many of the objectives identified by the Committee as a focus for this consultation, including helping all Canadians, in all regions, maximize their contributions to the economy, and assisting businesses in meeting their expansion, innovation and prosperity goals.

4. Wireless network infrastructure expansion and enhancement not only creates jobs and contributes to GDP, it enables the mobile workforce, thereby removing geographical barriers for rural businesses and communities to participate fully in the Canadian economy. Wireless also connects all Canadians, allowing them to contribute to our shared national identity.

5. Service providers will be challenged to sustain the level of investment needed to maintain world-leading service in the face of exploding data consumption. However, strategic government policies can facilitate investment in wireless network infrastructure and ensure a balanced playing field within the creative and digital economy, thereby supporting innovation and economic development across the country.

6. Specifically, CWTA submits that the Government should:
   - Increase the Capital Cost Allowance (CCA) rates for classes of depreciable assets that relate to telecommunications equipment to stimulate hundreds of millions of dollars in new capital investment by service providers;
   - Review the research and development tax credit program to facilitate telecommunications equipment investment and innovation in Canada; and
   - Ensure taxation parity among all suppliers of digital goods to Canadians.

7. Indeed, no single measure could better contribute to all of the goals identified in the Budget consultation than facilitating wireless network infrastructure investment. We are pleased to elaborate more on the state of the wireless industry, its investment challenges, its contributions to government revenues, and its impacts on the Canadian economy and Canadian society throughout the rest of our submission.

Investing in wireless network infrastructure to meet demand

8. Canadian mobile data traffic is projected to increase 600% by 2020.[1] Meeting to this demand presents the wireless industry an opportunity to directly benefit all Canadians. However, the non-stop infrastructure investment required to do so also presents a significant challenge.

9. Total Canadian wireless capital investment in 2015 was $2.9 billion, marking the seventh consecutive year the wireless industry invested more than $2.5 billion in network infrastructure.[2] Canadian service providers spend more than $110 per subscriber, per year, in capital investments which ranks as the fifth-highest level in the world and more than two-and-a-half times greater than the global average.[3] The industry has invested an additional $12.3 billion since 2008 to acquire the spectrum needed to expand and enhance wireless networks to meet current and projected traffic volumes.

10. The results of this perpetual investment are significant. Canada's wireless network infrastructure covers an area bigger than France, the United Kingdom, Germany, Italy and Spain combined. Throughout this massive service area, Canadians have access to average smartphone connection speeds that are more than 50% faster, on average, than in those five European countries. And we take advantage of this service: Canadians use about 90% more data, on average, than users in these countries, and 83% of all mobile traffic in Canada travels over the latest generation (4G) networks, compared to an average of only 51% of the mobile traffic in these major European economies.[4]

11. Network investments also contribute directly to the economy, create jobs and enhance productivity. More than $55 billion has been invested in Canada's wireless network infrastructure since 1987. These investments

[1] Cisco: VNI Mobile Forecast 2016.
[2] Nordicity: The Benefit of the Wireless Telecommunications Industry to the Canadian Economy in 2014.
[3] Bank of America Merrill Lynch Global Wireless Matrix, January 2016.
[4] Cisco.

create jobs directly related to network expansion and enhancement and the ongoing delivery of advanced wireless services from Canada's service providers, as well as indirect and spinoff employment from those who serve the wireless industry. In 2015, Canada's wireless industry generated 138,779 full-time equivalent (FTE) jobs – an increase of 4,704 FTEs or 3.5% from the previous year. In 2015, the wireless industry also generated an <u>overall economic benefit of $24.7 billion</u> to the Canadian gross domestic product, including <u>$13.3 billion in direct GDP</u>.[5]

12. Expansive wireless broadband service enables significant productivity and innovation gains in virtually every aspect of the Canadian economy, as wireless devices are now indispensable business and consumer tools. Wireless technology contributes to productivity by allowing for streamlined information flow, reduced operating costs and direct customer outreach. As more Canadians continue to use more wireless connections to do more, the industry will need to continue to invest to enable and satisfy this demand on its networks.

Spectrum investment benefits Canadians

13. Wireless networks need spectrum to provide world-leading speeds to Canadians – some of the world's most data-hungry users. The Government of Canada has responded by making available significant amounts of spectrum over the past few years to help providers meet demand. But that spectrum comes at a cost. As mentioned above, spectrum auction investments since 2008 total more than $12.3 billion.

14. Because auction fees are recorded by the government over the term of the spectrum licence, the Government currently benefits from <u>more than $1 billion per year in direct revenue</u> from wireless industry investments for the right to use spectrum.[6] This is more than double the $500 million in funding that the Government committed in 2016 to invest over five years to extend and enhance rural broadband service.

15. The wireless industry will continue to need spectrum to meet demand, and encourages the Government to continue to allocate spectrum for commercial mobile use. The Department of Innovation, Science and Economic Development is currently 185 MHz away from achieving its target of having 750 MHz of spectrum allocated for commercial mobile by the end of 2017. Consumers, the wireless industry and the Government will all benefit if this target is met.

Network investment can be stimulated through changes to the income tax system

16. Under the Income Tax Regulations there are currently several classes of depreciable assets that relate to telecom network equipment, including broadband networks, 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.

17. To further enable the ongoing investment in wireless network infrastructure, CWTA recommends that Budget 2017 increase the CCA – from current rates to 50% – for these classes of assets. Such a change to the income

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[5] Nordicity: *The Benefit of the Wireless Telecommunications Industry to the Canadian Economy in 2015.*
[6] Combination of spectrum auction investments and annual spectrum licence fees.

tax system would return significant benefits to Canadians and the national economy. It is projected that increasing the CCA rate for Class 46 to 50% would increase total telecommunications investment by more than 5%, or $122 million per year in the near term. If the CCA rate is increased permanently to 50%, the increased investment would total as much as $225 million per year.[7]

18. The direct impact of the increased telecommunications network infrastructure investment enabled by these proposed CCA rate changes would be a $163 million increase in GDP, and an additional 1,660 jobs. Beyond the direct impacts, additional investment in telecommunications infrastructure would help more Canadians maximize their contributions to economic growth, particularly by enabling businesses across the country to expend, prosper and service customers in Canada and internationally.

19. CWTA was pleased to see changes to CCA rates for classes 8, 42 and 46 recommended in the Committee's report in advance of the 2016 budget.[8] We strongly encourage the government to act on this recommendation in Budget 2017.

Increased R&D tax credits will facilitate additional telecommunications investment and innovation in Canada

20. Telecommunications equipment companies that operate in Canada benefit from access to a highly-skilled workforce, a competitive telecommunications marketplace and a favourable tax regime. However, recent changes to the Scientific Research and Experimental Development program reduced the overall SR&ED tax credit rate from 20% to 15% and eliminated the deduction for capital expenditures. The SR&ED tax credit reductions were somewhat offset by an increased emphasis on direct funding for R&D activities. Direct subsidies or loans, however, are less predictable and present a higher administrative burden compared to refundable tax credits, which are neutral, accessible and attractive to innovative companies.

21. Wireless technology innovation and R&D is evolving rapidly as companies develop the 5G network technologies that will keep Canada's digital economy at the global forefront. Canada can capture much of this innovation if it provides a competitive environment for facilitating telecommunications innovation and investment. CWTA therefore submits that the Government review the SR&ED program with the goal of reinstituting some of the competitive tax credits, including those for capital expenditures.

Address the competitive advantage provided to foreign suppliers of digital products and services in Canada

22. Mobile video is expected to account for 77% of mobile traffic in Canada by 2020 – up from more than 60% today – as Canadians continually turn to mobile devices to be entertained and to access news media.[9] However, if the current Goods and Services/Harmonized Sales Tax (GST/HST) legislative framework is not amended, Canadian providers of digital products and services will continue to be burdened by an up to 15% price disadvantage compared to their foreign competitors.

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[7] Conference Board of Canada: From Landline to Mobile Broadband. Tax Drivers of Investment for Canada's Telecom Industry. December 2015.

[8] Final Report of the House of Commons Standing Committee on Finance Regarding its Consultations in Advance of the 2016 Budget. Recommendation 43.

[9] Cisco.

23. Currently, foreign suppliers of digital products and services – such as online news and entertainment services, music, movies and software – are not required to collect or remit GST/HST, while similar Canadian firms are. The competitive advantage given to foreign suppliers by this policy undermines Canadian investment and innovation by encouraging Canadians to spend money outside of the Canadian economy.

24. This policy has been held over from when sales of such products and services were relatively miniscule and effective taxation was more trouble than it was worth. However, Canadians' growing preference for digital-based products and services make closing this loophole more important than ever. Indeed, as consumer preferences increasingly shift from physical goods to digital options, Canadian firms will be further disadvantaged and the revenue loss suffered by federal and provincial governments will continue to grow.

25. CWTA therefore strongly recommends that Budget 2017 commit to ensuring taxation parity among all suppliers of digital goods in Canada, removing the competitive advantage currently enjoyed by foreign firms. This would bring Canada's regime in line with the OECD's International VAT/GST Guidelines and the approach adopted in many other Value Added Tax jurisdictions such as the EU, Norway, Japan, Korea, Australia and New Zealand.

Conclusion

26. Wireless network infrastructure investment supports many of the objectives identified by the Committee as a focus for this consultation, including helping Canadians and Canadian businesses, in all regions, maximize their contributions to the economy, and assisting businesses in meeting their expansion, innovation and prosperity goals. Indeed, no single measure could better contribute to all of the objectives identified in the Budget consultation than facilitating wireless network infrastructure investment. CWTA therefore recommends the government employ policies to facilitate additional investment in wireless network infrastructure and ensure a balanced playing field within the creative and digital economy, thereby supporting innovation and economic development across Canada.

27. CWTA appreciates the opportunity to share its views as part of this important process.

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