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August 12, 2011

Guyanne Desforges
Clerk, Standing Committee on Finance
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Dear Ms. Desforges

Subject: Pre-Budget submission to the House of Commons Standing Committee on Finance

Executive Summary:

BCE is pleased to make its recommendations to the House of Commons Standing Committee on Finance regarding its pre-budget deliberations. BCE is Canada's largest telecommunications company, with 57,000 employees. BCE's approximately $3 billion in annual capital investments is greater than any other Canadian company outside of the oil and gas industry. At approximately $800 million annually, our spending on research and development (R&D) ranks us as one of the largest investors in innovation in Canada.

Though the economy remains fragile, we support the federal government's focus on fiscal prudence and sound policy initiatives designed to create an environment that incents high levels of business investment and that ultimately leads to economic recovery and job growth.

It is clear that much will depend on investment by the business sector. In the telecommunications sector, investment in state of the art digital and wireless infrastructure will be key to driving innovation and productivity as well as addressing the urban and rural digital divide.

To that end, BCE is encouraged by the recent Speech from the Throne and the priority placed by the government on the digital economy as a means to improve Canada's productivity and enhance our economic competitiveness. Likewise, in his speech at the 2011 Canadian Telecom Summit, The Honourable Christian Paradis, Minister of Industry, stated: "What government must do is foster an environment that inspires the private sector to invest and grow.

That means having a predictable regulatory framework that ensures an appropriate balance between competition and investment. One that encourages innovation and creativity and promotes the growth of successful telecom companies."

Within this context BCE makes three policy recommendations, intended to encourage increased capital investment in next generation networks and that benefits all Canadians in urban and rural Canada.

1. **Accelerated capital cost allowance (CCA) rates for broadband network investments**
2. **Enhancing Canada's incentives for innovation by modifying the Scientific Research and Experimental Development (SR&ED) tax credit to recognize and include a portion of the hardware and software costs at the initial trial stage as part of the scientific methodology.**
3. **Supporting an open auction in the deployment of 700 MHz and 2500 MHz spectrum, ensuring all Canadians in rural and urban Canada benefit**

1. Accelerated capital cost allowance (CCA) rates for broadband network investments

According to the CRTC, 96% of Canadian households have broadband access, that said there remains the concern of the urban-rural digital divide and access to high-speed networks. The business case for investing in broadband networks, outside of urban Canada, remains a challenge. Modest temporary tax mechanisms can lead to increased private sector investments and can assist in the government's goal of encouraging investment in next generation networks in both rural and urban Canada.

In Budget 2012, BCE recommends that the government includes a temporary increase to the capital cost allowance (CCA) rate to 50% for the classes of assets most closely associated with broadband networks as an incentive to accelerate digital infrastructure investments. As well, for capital investments in those areas identified by Industry Canada as "underserved" as part of the Broadband Canada initiative, a temporary CCA rate of 100% should be introduced to encourage investment in rural areas.

As noted by The Canadian Wireless Telecommunications Association (CWTA) in their pre-budget submission:

"Under the Income Tax Regulations there are several classes of depreciable assets that relate to telecom network equipment, including broadband networks, each with different capital cost allowance (CCA) rates:

a. Class 8: radio-communication equipment (CCA rate is 20%)
b. Class 42: fibre optics (CCA rate is 12%)
c. Class 46: data network infrastructure equipment and systems software (CCA rate is 30%)

BCE supports the CWTA recommendation for a temporary increase in CCA rates as follows: From current rates to 50% for capital investments in most areas, and 100% in those areas identified by Industry Canada as 'underserved' during its broadband availability survey conducted as part of the $225 million Broadband Canada initiative. Moreover, the current "half-

year" rule should be suspended during the period of accelerated depreciation for these classes, to achieve maximum benefit of the measure during the proposed incentive period.

The rationale for accelerating the rate of depreciation is to support the government's objectives for the digital economy and to bring forward valuable and significant capital investments during the critical economic recovery phase and beyond.

2. Research and Development: Enhancements to the SR&ED program

In the June 2011 Speech from the Throne, the government states that "in order to improve Canada's productivity, enhance economic competitiveness and increase standard of living, our Government will continue to make targeted investments to promote and encourage research and development in Canada's private sector.... It will look for ways to support innovation while ensuring that federal investment in research and development is effective and maximizes results for Canadians."

In telecommunications, research and development is a critical component of innovation, leading to state of the art networks and the creation of high quality jobs. BCE is encouraged by the importance placed by this government on R&D through its commitment to the scientific research and experimental development (SR&ED) program. To that end, BCE recommends only a minor modification to the SR&ED program rules in order to maximize our ability to sustain our R&D activities in Canada.

BCE's next generation wireline and wireless products and services are based on ever more complex and distributed network and application capabilities. Lab testing and trial environments cannot completely identify design, scale or integration issues. As part of the scientific methodology used by BCE for product development, controlled trials outside the lab are integral and necessary activities to verify our hypotheses and to overcome technical issues in a true production or real-world commercial delivery situation. The risk of unforeseen problems causing interruptions to new services are significant.

Due to the subsequent commercial use of this equipment, costs for the new equipment used in an initial commercial trial are not eligible for SR&ED Income Tax Credits (ITC) per the Income Tax Act (ITA) Paragraph 248(1) part (i). This section reads "*scientific research and experimental development means systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis ... but does not include work with respect to ... (i) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process...*".

BCE proposes that the ITA clause be modified slightly to recognize certain hardware and software costs for the initial production trial environment or first application integration test and should be eligible for SR&ED ITCs. BCE believes that these costs are part of the development cycle used in our scientific methodology required to prove an initial hypothesis and fully test a new product or service in today's network.

Minor enhancements to the scientific research and experimental development (SR&ED) tax incentives will encourage innovation, help create high quality jobs, and contribute to the sustained recovery of the Canadian economy.

3. A Fair and Open Spectrum Auction

Canada is a world leader in wireless on all fronts. Despite the significant dual challenge of an enormous geography and a small population base, as of 2010, 96% of Canadians had access to world-leading wireless networks. This achievement has resulted from billions of dollars of infrastructure investment by the Canadian wireless industry, with hundreds of millions of dollars in R&D and network improvements and enhancements invested annually. A report prepared by OVUM Consulting titled *The Benefits of the Wireless Telecommunications Industry to the Canadian Economy* found that the Canadian wireless industry generates a total economic value of $39 billion for the Canadian economy – over $16 billion in terms of direct contribution to gross domestic product (GDP), an additional $14 billion benefit due to the economic flow through to contributing suppliers in the supply chain and close to $9 billion in consumer surplus.

We are witnessing the transformation of telecommunications capability, and in particular wireless technology, into an instrument of national competitiveness and productivity. Wireless spectrum is the essential ingredient which, if properly employed, can enable Canada to fully exploit the opportunity and promise of the wireless broadband economy. The critical issue for Canada is to ensure that we seize this opportunity and not squander it.

BCE recommends that the government hold auctions for 700 MHz and 2500 MHz spectrum at the same time, and as soon as possible, so that Canadian wireless providers may proceed with their plans to build next generation 4G/LTE wireless networks. BCE also recommends that the government design the upcoming auction(s) with no set asides or caps. Canadian wireless operators should be permitted to participate in open auctions, with a view to ensuring that finite spectrum resources are deployed to their highest value uses.

In particular, 700 MHz spectrum is in very limited supply, and is absolutely key to enabling national wireless carriers to build-out next generation 4G/LTE networks in both urban and rural areas, given its technical characteristics. For its part, 2500 MHz spectrum is well-suited for wireless providers who focus on urban and regional areas. This is why a joint auction eliminates any need for set asides and caps and allows continuation of existing business models for all wireless providers to better serve Canadians consumers.

In short, BCE recommends the government establish an auction framework that provides fair access to spectrum to any provider who seeks to bid. An open auction supports investment, and will generate maximum government proceeds, while set asides ultimately undermine investment and lead to urban-only deployments. Providers with a commitment to serving all Canadians, with a track record of investing in Canada, creating jobs in Canada and introducing technological innovations to all Canadians in all parts of Canada, including rural Canada, must be given a fair opportunity to access 700 MHz spectrum.

As part of the consultation on spectrum the government has also signalled it will address potential changes to the foreign investment restrictions that apply to the telecommunications sector. BCE urges the government to ensure a symmetrical approach. Changes to the *Telecommunications Act*, but not to the *Broadcasting Act,* achieves nothing and limits who can benefit by these changes. Asymmetrical foreign ownership changes which solely benefit new wireless entrants will lead to unintended negative consequences. For example, with key business decisions being made outside Canada, foreign investors will focus on urban areas at the expense of rural consumers. If changes to foreign ownership rules are imminent, BCE supports a symmetrical and fair approach of increasing foreign ownership levels from 20% to 49% for both broadcast and telecom.

Conclusion

BCE is of the view that while fiscal prudence is in order, Canada's path to economic recovery can be supported by policies and measures that help Canadians and Canadian businesses in urban and rural Canada prosper. A state of the art telecommunications infrastructure can promote innovation, increase capital investments and lead to high quality jobs.

Canada's digital infrastructure is a national strength upon which to build a successful digital economy. Modest improvements to scientific research and experimental (SR&ED) tax incentives would encourage innovation by business, create high quality jobs, while introducing a temporary accelerated capital cost allowance (CCA) rates for broadband network investments will encourage investment in rural areas and support the government's objectives for the digital economy. Policy measures such as ensuring an open spectrum auction for the deployment of 700 MHz and 2500 MHz spectrum will support investment, introducing technological innovations to all Canadians in all parts of Canada, including rural Canada.

With modest modifications to existing tax mechanisms as well as sound policy initiatives, Budget 2012 can be a catalyst to increased capital investment in support of economic recovery essential for Canada's long term success.

Yours truly,

Wayne Tunney
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