Canadian Wireless Telecommunications Association
Association canadienne des télécommunications sans fil

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**Canadian Wireless Telecommunications Association submission to the Standing Committee on Finance, pre-budget 2012 consultations**

**Summary:**

- Canada's wireless sector is a major driver of economic activity across all sectors of the economy and in all regions of the country. In 2009, wireless communications generated a total economic value of $41 billion for the Canadian economy.

- Traffic on Canada's wireless networks is growing exponentially, requiring a constant cycle of capital investment on the part of Canada's wireless carriers.

- To facilitate the ability of the wireless industry to make necessary continued capital investments in Canada's wireless networks, CWTA makes the following recommendations:

    - Include a recommendation in the Pre-Budget 2012 Report that the Government should set out a timetable for bringing the administrative licence fees paid by Canada's wireless carriers into line with comparable fees paid by wireless carriers in other G7 countries.

    - Introduce in Budget 2012 a temporary Accelerated Capital Cost Allowance for broadband-network related assets, increasing the current CCA rates of depreciation to 50% for most areas, and to 100% for the hardest and most-expensive-to-serve areas of the country (as identified by Industry Canada);

    - Include a recommendation in the Pre-Budget 2012 report that Industry Canada should eliminate out-dated regulations and conditions-of-licence that impose an unnecessary degree of regulatory overhead on both licensees and the Government (for example, the current condition-of-licence requiring all wireless carriers to devote 2% of adjusted revenues to a specific range of pre-approved R&D activities).

*Introduction*

1. CWTA is the voice of the wireless industry in Canada. Its membership reflects the growing imprint of wireless technology on the Canadian economy and society: wireless carriers, domestic and international manufacturers of wireless handsets and equipment, content and application creators, and business-to-business service providers who combine to deliver a world-class wireless ecosystem that provides an increasingly important technological backbone for all aspects of life in Canada.

2. The growth of the wireless industry in Canada since its launch over twenty-five years ago has prompted a communications revolution that impacts all Canadians. In a country as vast as Canada, any technology that brings us closer makes us stronger. This has never been truer than today, when Canada boasts more of the fastest advanced wireless networks than any other country in the world.

3. Canada's wireless industry makes a remarkable contribution to the country's economy. The total value of direct GDP contribution, output multiplier and consumer surplus is a significant economic value of $41 billion. Over 260,000 people are employed as a result of the wireless industry.

4. In 2012 Canada and the rest of the world will continue to experience the ubiquitous convergence of the two most important enabling technologies of the 21st century so far: wireless communications and broadband Internet. The result will be – and is already – the enabling of significant productivity and innovation gains across all aspects of the Canadian economy and society.

5. The move to next generation networks is already well underway in Canada, the product of massive and unprecedented private-sector investments in an infrastructure no less critical to Canada's future than investments in railways, roads, bridges, airports and seaways in previous centuries.

6. Since 2008, as other sectors of the economy were retrenching during the recession, wireless carriers were investing: an estimated $1.8 billion in 2010, on the heels of $3.16 billion in 2009, $1.85 billion in 2008 (and in addition to $4.25 billion in 2008 AWS auction proceeds — $4.25 billion that went straight to the Government's consolidated revenue fund).

7. In other words, as other sectors were shedding jobs to stay afloat, the wireless industry was hiring in all regions of the country, while contributing billions directly to the Government of Canada's coffers.

8. The results of these massive capital investments are clear: Canada now boasts more of the fastest HSPA+ networks than any other country, and leads the world in mobile tablet use. Of course, more Canadians using more advanced wireless devices creates more traffic on Canada's wireless networks, spurring the need for further network investment. This investment will result in increased network speeds and capacity, enabling even more

Canadians to use even more advanced wireless devices, creating even more traffic on Canada's wireless networks, spurring the need for even more network investment, and so on and so on.

9. This continual cycle of network investment/increased traffic and network pressures/network investment will only accelerate in coming years. Some Canadian network operators are reporting 5% wireless data traffic growth on their networks *per week.* Overall, wireless data traffic in Canada is conservatively expected to double each and every year for the next decade, and beyond. To put that in perspective, if the rate of vehicle traffic in Canada was growing at the same rate as wireless data traffic, the Trans-Canada Highway would have to expand from 4 lanes to 64 lanes, over the next 4 years.

10. Some analysts are predicting that network operators will need to invest $100 billion in telecom infrastructure over the next ten years, in order to keep up with Canadians' demand for more and faster wireless and broadband services.

11. This is why CWTA, through its participation in the Government's ongoing *Digital Economy Strategy* process, has been advocating that Government should be looking for ways to reduce and remove policy and regulatory barriers to network investment. There are three areas in particular that have bearing on the Standing Committee on Finance's Pre-Budget 2012 Report process.

***Administrative Spectrum Licence Fees***

12. Wireless carriers in Canada (and ultimately their customers), have to absorb disproportionately high regulatory costs. These costs act as a drag on the amount of capital available for required network investment and innovation.

13. To cite one example, Canada's wireless carriers currently hold licences for less than 2% of licensed radio spectrum in Canada, yet pay roughly half of all administrative spectrum licence fees collected by Government for use of radio spectrum –nearly $130 million in 2010. To put that in perspective, as Industry Canada allocates the $225 million earmarked in Budget 2009 for broadband expansion in rural and remote areas over three years, it will collect over $390 million from the industry in administrative spectrum licence fees during that same period.

14. In 2010 the Senate Committee on Transport and Communication recommended that Industry Canada be guided by the approaches in other countries, particularly the U.S., in setting administrative licence fees. If the 2009 U.S. licence fee model were employed, Canadian carriers would have paid $4 million in administrative licence fees last year. Again, they paid over $130 million.

15. Among CWTA's July 2010 Digital Economy Strategy recommendations was that the Government should avoid any increase to the already excessive administrative licence fees paid by Canadian wireless carriers (currently the most expensive in the G7). In November 2010, the Minister of Industry announced that these fees would be capped at

current levels, "for the time being." In March 2011, Industry Canada released a document confirming the Minister's earlier statement as it pertains to licences awarded in the 1980s, 1990s and early 2000s.

16. While CWTA appreciates these steps in the right direction, we respectfully submit that the Pre-Budget 2012 Report should include a recommendation that the Government should set out a time-table for bringing existing administrative spectrum licence fees paid by Canada's wireless carriers into line with the fees paid by wireless carriers in other G7 countries, and that Industry Canada should not introduce excessive administrative licence fees when renewing licences in any bands not currently subject to them.

***Accelerated Capital Cost Allowance (ACCA)***

17. Canada's wireless carriers are preparing for at least two expected spectrum auctions over the next 12 to 24 months –auctions that will see another massive wave of capital investment as carriers put the newly released spectrum to use, building and extending wireless broadband networks, and buying new hardware and software to power those networks. This timeframe coincides with what will likely be the full implementation of the Government's *Digital Economy Strategy*, and marks an ideal time for Government to introduce temporary measures to stimulate investment in Canada's broadband networks.

18. 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 (CCA) rates:
    - Class 8: radiocommunication equipment (CCA rate is 20%)
    - Class 42: fibre optics (CCA rate is 12%)
    - Class 46: data network infrastructure equipment and systems software (CCA rate is 30%)

19. To coincide with the next wave(s) of network investment expected between 2012-2015, CWTA recommends that Budget 2012 include a temporary (24-36 month) ACCA for these classes of assets: from current rates to 50% for capital investments in most areas, and 100% in "underserved" areas (as identified by Industry Canada during its broadband availability survey conducted as part of the $225 million Broadband Canada initiative).

***Eliminate out-dated regulations and conditions-of-licence***

20. In Canada, mobile spectrum licensees typically carry a condition of licence (COL) requiring them to dedicate 2% of adjusted annual revenues to a narrow range of pre-defined R&D activities. This COL may have made sense when the wireless industry was in its infancy, and there was little or no wireless R&D infrastructure in Canada – a situation far from reality today, with numerous wireless innovation clusters across the country. Today, this COL contributes little to actual R&D innovation, while generating large amounts of paperwork for carriers who need to file compliance reports, and for Industry Canada, which has to process these reports.

21. Accordingly, in the interest of generating cost savings to Government and industry alike, and consistent with the 2007 *Cabinet Directive on Streamlining Regulation*, and further reflective of a specific 2010 recommendation of the Senate Committee on Transportation and Communications, CWTA recommends that the Pre-Budget 2012 report include a recommendation that Industry Canada eliminate the current condition-of-licence requiring all wireless carriers to devote 2% of adjusted revenues to a specific range of pre-approved R&D activities.

***Conclusion***

22. In conclusion, CWTA reiterates that the continued contribution of Canada's wireless sector to the Canadian economy as a whole will require a continual cycle of capital investment over the next several years, and beyond. To ensure that Government plays a facilitating role and is not a barrier to necessary investment, CWTA proposes that the Pre-Budget 2012 Report include (i) a recommendation that the Government set out a timetable for reducing administrative spectrum licence fees relating to the use of spectrum in Canada, and (ii) a recommendation that Budget 2012 include a temporary Accelerated Capital Cost Allowance for the asset categories most closely associated with continued broadband network investment, and (iii) a recommendation that Industry Canada eliminate the out-dated COL requiring wireless carriers to spend 2% of their revenues on a narrow range of pre-approved R&D activities.

23. CWTA looks forward to answering any questions the members of the Finance Committee may have, during the Committee's upcoming Pre-Budget 2012 consultations, in either Ottawa, Moncton, or Toronto.

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

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