



Pre-Budget Consultations
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Executive Summary

The Canadian wireless telecommunications industry has contributed significantly in enhancing the productivity of Canadian businesses and individuals through the introduction of low-cost mobile communications. Mobile communications have become an essential element for Canadian business productivity and international competitiveness. With a proper balance between government fiscal policies and private sector initiatives, commonly held goals of job creation and raising the quality of life for Canadians can be achieved.

The Canadian wireless telecommunications industry supports the direction taken by the Government in focusing on promoting the development of the Knowledge Based Economy as outlined in its 2001 Speech from the Throne.

To retain Canada's competitiveness it is imperative that the Government takes the necessary steps to ensure that Canada remains at the forefront of the New Economy. Efforts need to be taken to ensure that Canada will continue to develop capabilities for electronic commerce (e-commerce). As part of those efforts, the Government needs to continue to focus on reducing fiscal burdens on industry, maintaining a policy of debt reduction, continuing to strategically invest in research and development, and maximizing the benefits of wireless in the New Economy.

The wireless-Internet revolution will accelerate the development of e-commerce and the Knowledge-Based Economy, creating jobs and raising the quality of life for Canadians. The Canadian wireless industry is well poised to assist in meeting the Prime Minister's challenge to all sectors of Canada to work together toward the goal of capturing 5 per cent of the world's share of e-commerce for Canada by the year 2003 and to conduct over \$200 billion worth of business in this way. The wireless telecommunications industry has already begun to deliver the tools that will be necessary to reach this goal.

Wireless technologies will also play an important part in dealing with digital divide issues and attaining the goals outlined in the National Broadband Task Force and the G8 Digital Opportunities Task Force.

The major mobile phone manufacturers are already delivering 'Internet ready phones and other wireless devices that will allow Canadians to browse the Net, purchase airline tickets, take care of their banking needs and conduct other forms of mobile commerce (m-commerce) while they are on the move. For their part, Canadian wireless carriers have and are increasingly introducing services to accommodate mobile access to the Internet. The evolution of the wireless-Internet will be further enhanced as additional spectrum becomes available, which will allow the development of even more wireless applications over the Internet. The Canadian Wireless Telecommunications Association (CWTA) supports the release of additional spectrum, and looks forward to working with the Government to promote the evolution of the wireless-Internet and to accelerate the use of m-commerce in Canada.

Yet challenges for the wireless industry still remain. In order for the wireless telecommunications industry to continue to do its share to achieve the Government's economic and social objectives, the proper fiscal policy environment needs to be maintained and developed. The New Economy is facing new fiscal challenges as part of the current global economic uncertainty, which has led to reductions in jobs and investment.

The Federal government needs to recognize the current economic uncertainty coupled with the particular financial situation of the wireless industry, could affect the development of the New Economy in Canada. The Canadian wireless telecommunications industry collectively lost approximately \$1 billion in 1999. The fiscal pressures exerted by the federal government accentuate these losses. Last year alone, CWTA members paid over \$150 million in licence fees to the Consolidated Revenue Fund (CRF). While licence fees will constitute a similar amount this year, the industry will also have to finance the \$1.5 billion paid in bids resulting from the 2001 PCS spectrum auction. Furthermore, the CRTC's recent decision to increase the contribution of wireless carriers to the contribution subsidy program from \$14 million to over \$200 million reduces the industry's flexibility to deal with the current market conditions and further develop Canada's New Economy.

The Canadian wireless telecommunications industry recognizes the difficult task that the Government faces to balance economic and social priorities. However, the industry is also conscious of the existing surplus situation in federal public finance and has developed its proposals conscious that the Government's choices in the next budget have the potential to contribute to economic and social growth in Canada for years to come. Notwithstanding this surplus situation, the CWTA believes that fiscal stability and responsibility need to be maintained as cornerstones in Canada's budgetary process to maintain a positive economic environment to support consumer and corporate confidence in this time of economic uncertainty.

For the 2002 Budget the Canadian wireless industry proposes that the Government should:

- 1) Continue to reduce the financial burden- By reducing personal, corporate and pay roll taxes the Federal Government would be providing financial stimulus in the economy to maintain and strengthen consumer and corporate demand, which will lead to further investments and job creation. In order to specifically encourage the development of the New Economy, a review of the treatment of exercised stock options and a reduction in duplication between regulatory agencies and their associated costs will go a long way in promoting the development of the New Economy in Canada.**
- 2) Accelerate reducing the national debt- Debt reduction will promote a positive economic environment of low interest and inflation rates in Canada. For the Knowledge Based Economy generally and the wireless industry specifically, low interest rates are essential. Accessing capital markets to finance research and development, infrastructure and network development is essential for growth. Low interest and inflation rates will reinforce corporate and consumer**

confidence, which will translate into investments and jobs for the Canadian economy.

3) Investing to support Research and Development- Through private and public research and development initiatives, Canada will remain a world leader in the development of the New Economy. It is important for the Federal Government to recognize the growing importance of wireless in its program such as Canada Foundation for Innovation, or in its programs through the National Research Council. Canada's research and development tax credit should be further enhanced to provide Canada with a competitive edge in the New Economy.

4) Maximize the contribution of Wireless as the next wave in the New Economy- As a means of developing jobs and growth for the future of Canadians, the "Connectivity" programs, such as Community Access Program, should recognize the value of wireless technologies in meeting their connectedness objectives. Government On Line should include wireless portals, which would facilitate wireless access to the information highway. The recommendations of the National Broadband Task Force should be implemented along with the recognition that wireless technologies will play an increasing role in meeting the stated objectives.

Also, the Government should harmonize its spectrum allocation for 3rd Generation with the Americas. Only by harmonizing spectrum with the Americas can the benefits of mobile commerce be fully realized. The maximization of the economic and social benefits of wireless contributes to raising the quality of life for Canadians.

Introduction

The CWTA is pleased to provide input to the Standing Committee on Finance, as part of the pre-budget consultation process. The CWTA values this opportunity because it has the potential to result in the formulation of public policy that will have a positive impact on the development of our industry, leading to job creation and generally boosting the quality of life for Canadians.

The CWTA is the voice of the wireless telecommunications industry in Canada. Our members offer an array of productivity enabling products and services to Canadians including cellular and PCS, mobile radio, paging, mobile satellite and fixed wireless services. Wireless communications is an integral component of the New Economy-delivering real time information anywhere, anytime.

The Canadian Wireless Telecommunications Industry

The wireless telecommunications industry has contributed significantly in enhancing the productivity of Canadian businesses and individuals. More than 9.5 million Canadians use mobile phones in their everyday lives. Internet access, basic telecommunication services and

other applications yet to be created will be accessible through wireless devices. This wireless revolution will transform how we will work and play in the years to come.

Canada is well served by its wireless communications industry. Mobile telephony reaches over 94 per cent of the Canadian population. We are expecting to reach 50% penetration of the Canadian population by 2004. Providing these services to Canadians requires a significant amount of investment in telecommunications infrastructure. Since 1987 the industry has invested over \$12 billion in wireless telecommunications infrastructure alone. Over 25,000 Canadians are directly and indirectly employed by the industry.

By providing secure Internet access and introducing third generation (3G) network technology, the industry is already providing opportunities for Canadians to become full participants in such new, value added services as mobile (m –commerce). However, to build these networks and to introduce the exciting new wireless applications that will accelerate the Government's connectedness agenda, a fiscal and monetary environment needs to be created which encourages consumer and corporate confidence to invest in the New Economy.

As a relative newcomer to the Canadian communications scene, the wireless industry has played a significant role in advancing the government's connectedness and e-commerce objectives. In fact, we are very proud of what the industry has achieved thus far. Wireless firms have moved from voice-only services to include new and innovative solutions. Internet-based solutions have been introduced and recently licensed fixed broadband wireless service providers are beginning to connect Canadians to the information highway using high-speed broadband wireless technologies.

Wireless telecommunications services, be they fixed wireless or third-generation (3G) mobile services, will increasingly become an essential component in developing Canada's Knowledge Based Economy and furthering the goals of "Connecting Canadians", and supporting many of the objectives outlined in the report of the National Broadband Taskforce. For Canada to remain competitive, it is imperative that the Government encourage the development of new wireless services as a means of creating new jobs and growth, and further developing Canada's Knowledge-Based Economy.

Wireless telecommunications have the potential to improve the social quality of life for Canadians. The technology will increasingly connect Canadians in rural and remote communities. Wireless networks will provide new competitive alternatives for Canadian business and consumers. The recently licensed Multipoint Communications System (MCS) service providers Inukshuk and Sasktel, are expected to demonstrate how fixed wireless technology can make telecommunications services and the Internet accessible to all Canadians. The promise of MCS and other frequencies expected to be released by Industry Canada in the near term is to facilitate the development of a high-quality, low-cost information infrastructure. Such an infrastructure has the potential to make ubiquitous service a reality for urban and rural communities across Canada. Wireless services of this type will provide Canadians with access to basic telecommunications, data transfer and Internet access, among other things, reducing the digital divide that presently exists between urban and rural Canadians.

Similarly, licences for spectrum recently auctioned in the bands 24 and 38 GHz to several operators, including AT&T Canada, Stream Intelligent Networks, TELUS and TeraGo promise to result in the deployment of fixed broadband wireless networks. These networks could be especially important in rural areas and second-tier cities, which do not have a fibre optic infrastructure for the provision of broadband communications services to users.

Improving the ability of rural and remote communities to connect to the global information highway will bring the benefits of the new economy to all Canadians and allow these communities to grow and prosper. Access to tele-health capabilities, long distance education and new e-commerce job opportunities, to mention a few, will permit these regions to be more active participants in the Canadian society and economy.

Wireless telecommunications enhances public safety. There are over 3 million calls placed to 9-1-1 from mobile phones in Canada each year. Our members have undertaken numerous initiatives to make our communities safer. For example, the “Support Link” program established in 1998 by Ericsson and Rogers Wireless Inc. is a program that provides high-risk victims of domestic violence and sexual assault with wireless phones and one-touch dialling access to emergency services. Other initiatives include the provisions of mobile phones free of charge to communities for neighbourhood-watch type programs, as well as services that allow customers to dial police free of charge to report drunk drivers.

The wireless industry in Canada is a significant success story and is already making a notable contribution to the “connectedness” of Canadians. The incredible potential for growth represented by very high penetration rates for wireless telecommunications in other countries suggests that, given the right incentives and healthy economic and fiscal operating environment, the rate of progress and development can be sustained or accelerated.

The Canadian wireless industry is leading the world in price, coverage and quality. Prices for Canadian wireless services are among the most affordable in the world. Competition in the wireless telecommunication industry is intense and will only intensify with greater technological convergence. A recent study by the Yankee Group showed that worldwide wireless prices have decreased by an average of 38 per cent since 1996. In the same period, prices in Canada decreased by 80 per cent.

This has led to a price advantage for Canadian users of cellular/PCS telecommunications vis-à-vis such users in the United States (U.S.). Comparison of a large Canadian city such as Toronto, with U.S. cities such as Chicago, Los Angeles, Miami, Boston and New York reveal that Canadian rates per minute on average are approximately 15 cents, while those in the U.S. cities are over 26 cents per minute.

Overall, the industry’s development is a Canadian success story. The Canadian wireless industry’s customer base has grown over 20 per cent per year for the last four years. According to a report by International Data Corp. (Canada) Ltd., more than half of Canadians will be using mobile phones within the next three years as prices continue to decrease and new wireless-Internet services evolve. This growth is especially encouraging for the

prospects of e-commerce in Canada. However, in order to ensure that such progress and development is sustained, the Government needs to strike the right balance between economic and social policy objectives in its upcoming budget.

The Government needs to address the new challenges being faced by the wireless industry and as a means of attaining the common goals of creating jobs and investments and raising the quality of life of Canadians. To those ends the CWTA proposes the following policies, which would help develop the industry, Canada's New Economy, and raise the quality of life for Canadians.

1. Continuing to reduce the financial burden.

The Canadian economy, as part of the global economy, is going through a challenging period. Growth rates for countries and sectors have been revised downwards over the last few economic quarters. Specifically, the New Economy has experienced particular downward pressure within this economic cycle.

The Federal Government needs to maintain its focus on reducing the fiscal burden on industries, especially in this time of economic uncertainty. In order to accomplish this the CWTA recommends that the Government reduce personal, corporate and payroll taxation rates, review its treatment of exercised stock options, and reduce duplication between its regulating agencies.

By reducing personal, corporate and payroll taxation rates, the Canadian Government will be encouraging confidence in the Canadian economy at this particularly sensitive time. By reducing taxation rates consumer and corporate confidence will be maintained, encouraging further market demand, investment and job creation.

The CWTA also recommends that the Government review its current treatment of exercised stock options, which now figure prominently and routinely in the New Economy. A review of the treatment of stock options is essential in retaining highly skilled workers in Canada.

The retention power of stock options in Canada is constrained by their less attractive tax treatment compared to the U.S. The Government should adjust the treatment of stock options to allow a deferral of taxation until the time of sale of the stock. By allowing the benefit associated with stock options to be taxed only when shares are sold, as opposed to when the option is exercised, the Government will help Canadian industries such as wireless keep high-technology talent in Canada.

Another key element in reducing the fiscal burden on the New Economy is to reduce costs and duplication in programs of regulatory agencies of the government.

The Canadian wireless industry currently pays approximately \$150 million in licence fees to the Central Revenue Fund each year. Recently, the Canadian Radio-television and Telecommunications Commission (CRTC) has imposed other mandated fees or taxes, for purposes that duplicate the intended goals of spectrum licencing agreements made with

Industry Canada. The basis for these additional fees imposed on the Canadian wireless industry originates from a revised method for collecting the funds thought necessary to subsidize residential local wire-line telephone services in high cost areas. In 1999, Canadian wireless carriers contributed approximately \$14 million in subsidies to support local service in high cost serving areas. However, as the result of the revised mechanism implemented by the CRTC, the Canadian wireless industry will contribute in excess of \$200 million in 2001. In the same year, Industry Canada's PCS spectrum auction required the wireless industry to finance the \$1.5 billion in bids committed in the auction. The CWTA suggests that the confluence of such extraordinary charges occurring in the same year, in an industry that has yet to see profitability, suggests a need for closer coordination on the part of the two federal regulatory agencies charged with overseeing the Canadian wireless industry.

In implementing changes to the method and mechanism for collecting these fees, the CRTC appears to have had little regard to the impact the increased tax would have on the Canadian wireless industry generally. While relieving the long distance companies of the sole burden of the tax, the CRTC shifted the financial burden onto Canadian wireless carriers and other competitive service providers. The significance of this change is substantial for an industry that has yet to achieve profitability. In addition, the CRTC prohibited those subject to the tax from expressly identifying the new charge on their bills to end customers. The CRTC, it would appear, believes that an open and transparent application of the tax would be confusing to customers. While the objectives of ensuring high quality and affordable telephone service to all Canadians is important and laudable, achieving that objective is difficult while distorting subsidies remain the cornerstone of the mechanism.

While broadening the tax base was an expedient way for the CRTC to maintain the subsidy, it was not informed by the somewhat duplicative requirements on the wireless industry imposed by conditions of licence to deliver high quality and affordable wireless services to the broadest range of Canadians.

Given the current economic slow down, coordination and reduction of duplication in costs and policy directives between departments and agencies, such as Industry Canada and the CRTC, would encourage the development of Canada's wireless industry and the New Economy.

- The CRTC should focus on methods of eliminating the high cost subsidy requirement rather than sustaining and prolonging it.
- Telecom users should not have to subsidize purchases of telecom services by those that live in higher cost areas. If this is the policy objective, the subsidy should be paid out of public funds by the taxation system.
- Residents of seasonal homes and cottages should not be entitled to the subsidy.

2. Maintain the policy of debt reduction.

Currently, the national debt is approximately \$570 billion, which costs the federal government about \$40 billion per year to service. We commend the government's debt reduction efforts to date. We would suggest that the Government should accelerate this process in order to continue to promote low interest and inflation rates as a means of supporting the development of the New Economy. By reducing the debt and the costs associated with servicing it, the government will be in a better position to continue to reduce taxation and provide strategic investments in research and development initiatives to support the development of the New Economy.

A positive economic environment is essential for the wireless industry. The industry requires access to capital at a reasonable cost in order to invest in infrastructure, raise resources for spectrum auctions, and develop new services and products. By way of example, the Canadian wireless industry has invested over \$12 billion in mobile telecommunications infrastructure since 1987. Most of the capital for this investment was derived from equity and debt markets. These investments have in turn created over 25,000 jobs and contributed to building Canada's information highway and New Economy, which in turn has raised the quality of life for all Canadians.

3. Strategically invest to support Research and Development.

The CWTA supports the investments made by the federal government to date in enhancing Canada's innovation and research activities. The partnership approach taken between the Federal Government, through the activities of the granting councils, Canada Foundation for Innovation, and Technologies Partnership Canada and the private sector is the appropriate method for financing research and development activities in Canada.

The Knowledge Based Economy generally, and the wireless industry specifically, is heavily dependent on research and development activities in order to create new services, applications and products. The Canadian wireless industry is a significant investor in research and development in Canada. The wireless carriers invest over \$100 million per year in research and development as part of their licensing requirements. These funds provide a source of research funds that assist development of new technologies.

The Canadian wireless telecommunications industry is a key supporter of research and development activities in Canada, providing venture capital to assist new companies in the information and communications industry. It is also supporting multimedia-learning programs, which provide young Canadians with opportunities to develop skills and knowledge that are instrumental in the New Economy.

Furthermore the Canadian wireless telecommunications industry has been working with Canadian educational institutions in developing programs and initiatives that promote research and development and complement the Government's efforts. For instance, in Montreal, the International Institute for Telecommunications was established with 4 educational institutions and 15 private industry contributors to offer training programs based

on the latest technologies. The founding companies will invest 60 per cent of the \$12 million required to create the Institute, which opened its doors in September 1999.

Similarly, the Communications Engineering program at Carleton University was created to develop those who will engineer the integrated, convergent systems of the 21st century. The first generation of engineers will graduate in 2002. Students study wire, radio and optical transmission systems.

Yet another example occurred in January 1998, when the Telecommunications Learning Institute opened for business in Toronto. Created with funds and direct input from the industry, it is unique in Canada. It offers more than 300 courses focusing on five areas: wireless communications, customer service, performance management, broadband communications, and call centre operations.

These efforts will assist the industry in developing the skilled work force it needs to compete, and to develop products, services and applications that will assist Canada in developing the knowledge based economy, which in turn will develop jobs, growth and increase the quality of life for all Canadians.

In order to facilitate more research and development, the Canadian wireless industry would encourage the federal government to maintain and expand its research tax credit system. By supporting these efforts, the federal government would be supporting the development of the new economy and the creation of new jobs.

4. Maximize the contribution of Wireless as the next wave in the New Economy.

As a key member of Canada's technology sector, the Canadian wireless industry supports the efforts of the Federal Government in developing the New Economy. The wireless industry is part of the new economy. Over 25,000 Canadians are employed directly or indirectly in our industry. Wireless devices are increasingly becoming productivity-enhancing tools for all sectors and participants in the Canadian economy.

In order to maximize the economic and social benefits derived from wireless, the CWTA recommends that the Government consider how wireless technologies could be incorporated into its "Connecting Canadians" programs and, in implementing the recommendations of the National Broadband Task Force.

Connecting Canadians programs such as Community Access Program, School Net and Government On Line, should recognize the growing importance of wireless technologies in the development of the new economy. Wireless portal access is required to ensure access to governmental information through mobile units. This form of access will increasingly become important as the Government seeks to address digital divide issues facing rural Canadians.

The CWTA would encourage the federal government to accept and implement the recommendations made by the National Broadband Task Force as a means of developing the new economy and addressing access issues for rural and Aboriginal Canadians.

The wireless industry is moving towards the convergence of wireless and Internet capabilities. This capability will provide a new series of technological tools to address issues such as access to rural and remote communities for essential services. Wireless capability will increasingly provide solutions to access issues through such services as tele-medicine and tele-learning capabilities.

The wireless telecommunications industry would recommend to the Standing House Committee on Finance that the Government assist in the provision of affordable access by all Canadians to basic telecommunications services, including those located in rural and remote regions. As wireless technology becomes more available and economical, it will increasingly be able to provide realistic and practical solutions to the communications needs of rural/remote communities. We suggest that the Government replace the present contribution regime managed by the CRTC with a much more efficient direct Government subsidy program.

The CWTA would also propose that the Federal Government encourage the CRTC to allow rates to move closer to the underlying cost of local wireline telecommunications services and, if still necessary, cover any remaining shortfall through a direct subsidy program financed from the Consolidated Revenue Fund (CRF) and aimed exclusively at high cost areas. This would provide the federal government more direct control in financing the connectivity of rural and remote regions, while limiting competitive market distortions and providing the Federal Government with an increased visibility in those rural/remote regions. A direct subsidy from the CRF to high cost rural and remote service areas would also support the Government's Rural Partnership initiative, which is seeking to address social and economic concerns of rural Canada.

As identified in the National Broadband Task Force report, wireless capabilities will contribute to reducing the digital divide that exists within Canada. These same capabilities will also contribute to reducing the digital divide that exists between industrialized countries and the developing world. The capabilities of Canada's wireless telecommunications industry could assist in meeting the commitments made by Prime Minister Jean Chretien in the follow up work to the Digital Opportunities Task Force Genoa Plan of Action.

As a means of addressing digital divide issues and the development of Canada's information highway, the CWTA recommends that wireless technologies and telecommunications infrastructure be included in any broadband infrastructure initiative. The tripartite Canada Infrastructure Works program, which involves the federal, provincial and municipal governments in building and maintaining Canada's traditional infrastructure system, could be a model for any future program seeking to address digital divide issues for rural and remote communities.

The wireless industry notes the Government's stated intention to make additional spectrum available for 3G services in the 2002-2003 timeframe. Spectrum is an essential resource for the development of the wireless industry and the development of mobile commerce. We look forward to working with the Government in evolving to 3G services, which will further develop Canada's "Connectivity" agenda.

A key component in maximizing the potential economic and social benefits of 3G in Canada is to harmonize and coordinate spectrum as identified by the World Radio Conference (WRC) in May 2000 in Istanbul. The WRC had concluded that 3G spectrum could be allocated in, *inter alia*, the 1700 MHz band, which could facilitate global roaming. The Canadian government's position that the 1700 MHz band is the preferred spectrum for implementation of 3G services in the Americas. We would encourage the Canadian Government to continue its efforts in encouraging the United States to allocate 3G spectrum in the bands identified at the WRC 2000 and particularly the 1700 MHz band.

As part of the 3G spectrum harmonization in the Americas, we would recommend that proceeds from the future 3G spectrum auctions be set aside for future reallocation of current spectrum users in the identified 3G bands.

Conclusion

The CWTA would reiterate its position that the federal government maintain its focus on reducing debt, taxation levels and duplication in licensing agencies and associated costs, while maintaining a strategic focus on investing to promote research and development opportunities in Canada.

These measures will go a long way in maintaining consumer and corporate confidence and aid in developing the New Economy in Canada. With these measures the federal government will provide the necessary economic environment for sectors like the wireless industry, to continue to create investment and jobs in Canada, while raising the quality of life for Canadians.