



November 3, 1999

Mr. Maurizio Bevilacqua, MP  
Chairman, Standing Committee on Finance  
House of Commons  
Room 603 Wellington Building  
OTTAWA, Ontario  
K1A 0A6

Dear Mr. Bevilacqua:

I am pleased to submit the attached position document of the Canadian Wireless Telecommunications Association (CWTA) to the Standing Committee on Finance as part of the pre-budget consultations process for the year 2000 budget.

We look forward to making our formal oral presentation to the committee on Thursday, November 18, 1999. We would be pleased to expand on our views and answer the Committee's questions.

Sincerely,

For Peter Barnes

Attachment

Copy: Hon. John Manley, Minister of Industry



## Pre-Budget Consultations

Submitted to the  
Standing Committee on Finance  
in preparation for  
The Year 2000 Budget

Dated October 28, 1999

## **Executive Summary**

The wireless telecommunications industry has contributed significantly in enhancing the productivity of Canadian businesses and individuals through the introduction of ubiquitous low-cost mobile communications. Mobile communications have become an essential element for Canadian business productivity and international competitiveness.

We agree with the Government's thrusts, as outlined in the Throne Speech, that moving forward we must continue to improve Canada's information infrastructure to support the exchange of ideas and the conduct of business over computer networks, connect Canadians to the information highway and accelerate the adoption of electronic commerce.

Wireless telecommunications will increasingly become the most important component of the global information infrastructure. For Canada to remain competitive, it is imperative that the Government take the necessary steps to ensure that Canada remains a centre of excellence for wireless telecommunications. We outline below some of the key issues for the wireless telecommunications industry warranting attention in the upcoming budget. These issues, if properly addressed, will provide an opportunity for the industry to remain a global centre of excellence.

Wireless telecommunications is also an important enhancer of public safety. It is therefore very satisfying to see attention devoted in the Throne Speech to promoting safer communities. We concur with the government that Canadians are justifiably proud of having built communities where citizens feel safe. The wireless industry is also proud of its record in this area.

It is worth emphasising that while demand for voice service will continue to grow, the emerging drivers of mobile phone demand will be wireless data, mobile access to the Internet and wireless e-mail. These are emerging as key components of e-commerce.

We recognize the Prime Minister's challenge to all sectors of Canada to work together toward the goal of capturing 5 per cent of the world share of e-commerce for Canada by the year 2003 and to do over \$200 billion of business this way. The wireless telecommunications industry has already begun to deliver the tools that will be necessary to reach this goal.

The major mobile phone manufacturers are already delivering "Internet ready" phones that will allow Canadians to browse the net, purchase airline tickets, take care of their banking needs and conduct other forms of e-commerce while they are on the move. Canadian wireless carriers have introduced services to accommodate

our appetite for mobile access to the Internet. And, we are pleased to inform you that our members report market responses that have exceeded all expectations.

Yet in the midst of these successes, in a period of dynamic growth and innovation, the industry collectively lost over a billion dollars in 1998.

The wireless telecommunications industry is not unique in facing dramatic upheavals associated with global competitiveness and technological change. However, many of the costs, such as taxes, fees and the cost of regulation, are beyond the industry's control. CWTA members contribute more than \$130 million annually in licence fees to the Government's general revenue fund.

The CWTA represents a multi-billion dollar industry, which has been largely unregulated. However, in many ways, the success of the industry makes it too attractive to ignore. That attraction is drawing potential new taxes or regulatory impositions on all carriers in the industry by many levels of government.

The Government, the Prime Minister and the Finance Minister continue to state their commitment to reducing taxes as the finances of the nation improve. The Prime Minister has indicated that in the next budget the Minister of Finance will outline a multi-year tax reduction strategy to ensure that Canadian families have more income in their pockets and that Canadian businesses are better able to compete in the global based knowledge economy.

**We support swift action by the Government in implementing its tax reduction strategy. In addition, we urge the Government to not lose sight of cost recovery and other fees when it formulates its strategy. The theme of "tax relief as the finances extend down to the Departmental level within government and a moratorium on cost recovery programs should occur, at least until Treasury Board completes and acts upon a comprehensive review of the current programs.**

The CWTA also concurs with the government's view that a skilled workforce and a capacity to innovate continuously are crucial building blocks of a successful 21<sup>st</sup> century economy. Access to a skilled and capable workforce is critical to the success of the wireless industry.

**While the industry will continue to address the shortage of high-end workers through its own initiatives, the CWTA believes the government must also continue to promote a highly skilled and better-educated workforce. The Government**

**should be applauded for taking initiatives such as increasing funding to the federal councils that finance research at universities. The Association is encouraged by the government's indication in the Throne Speech that it intends to continue to address the level of skilled technical workers in Canada and to support industry initiatives in this area.**

Clearly related to the skilled labour shortage is the difficulty faced by the wireless industry in retaining qualified skilled professionals. At least one carrier member of the CWTA has stated publicly that nearly one-third of employees leaving the industry move to take positions in the United States.

**We believe that the government can play a very prominent role in addressing this issue and we are please to see that the issue will be engaged in the Government's tax reduction strategy. The difficulty in retaining skilled employees can significantly be attributed to high Canadian taxes. Canada must address the high-level of personal income taxes in order to ensure that skilled professionals remain in Canada.**

Wireless can give Canada a competitive edge as we strive to excel in the world of e-commerce.

**An onus must also be placed on policy makers to monitor the tax and fee burden of the wireless telecommunications industry. As wireless carriers today face a tax bill that approaches their total compensation to employees, we believe the tax and fee burden is both excessive and inconsistent with both the federal and provincial initiatives to reduce taxes and build a dynamic economy for the 21<sup>st</sup> century.**

Pre-Budget Consultations on  
The Year 2000 Budget

**Introduction**

The Canadian Wireless Telecommunications Association (CWTA) is pleased to provide input as part of the pre-budget consultation process of the House of Commons Standing Committee on Finance. The consultation process is an important opportunity for industry to provide the government with recommendations for the 2000 Budget.

The CWTA is the voice of the wireless telecommunications industry in Canada. Our members offer an array of productivity enabling services to Canadians including cellular and PCS, mobile radio, paging, mobile satellite and the newly emerging broadband fixed wireless services such as Local Multipoint Communications Systems (LMCS). Wireless communications is an integral component of the new economy – delivering real time information anywhere, anytime. Broadband wireless communications will be a principal driver of the new economy as Canada enters the new millennium.

**The Wireless Telecommunications Industry**

The wireless telecommunications industry has contributed significantly in enhancing the productivity of Canadian businesses and individuals through the introduction of ubiquitous low-cost mobile communications. Mobile communications have become an essential element for Canadian business productivity and international competitiveness.

Today, you can receive a call on your mobile satellite phone anywhere in the world or receive a message on your satellite pager. Cellular and PCS phones are commonplace with a penetration rate in Canada of more than 20 per cent. Newly emerging technologies will provide businesses with mobile data capability enabling an abundance of new productivity offerings from information services such as stock market trading, banking, telemetry applications to mobile point-of-sale terminals. High-speed mobile access will provide a new dimension to the Internet including accessing e-mails on the go as well as facilitating the growth of electronic commerce. With the introduction of fixed broadband wireless networks offering high-speed, Canadians can enjoy wide-band communications – voice, data and access to the Internet. A worldwide explosion in these services is occurring and Canadian firms continue to be at the forefront of innovation providing global leadership.

Canada is extremely well served by its wireless communications industry. With five major carriers providing service, mobile telephony reaches 94% of the Canadian population – a tremendous achievement given our vast geography and sparse population. Providing these services to Canadians requires a significant amount of information infrastructure. In 1998, over \$1 billion was invested in wireless infrastructure in Canada. Since 1987, investments have totalled more than \$9 billion.

Communications have always been an important enabler of the Canadian economy. While true in many countries, telecommunications infrastructure is critically important to Canada's economic engine because of our vast geographic size and dispersed population and industrial base. We agree with the Government's thrusts, as outlined in the Throne Speech, that moving forward we must continue to improve Canada's information infrastructure to support the exchange of ideas and the conduct of business over computer networks, connect Canadians to the information highway and accelerate the adoption of electronic commerce.

Wireless telecommunications, and in particular broadband wireless telecommunications services be they fixed services like LMCS or third-generation mobile services, will increasingly become the most important component of the global information infrastructure. For Canada to remain competitive, it is imperative that the Government take the necessary steps to ensure that Canada remains a centre of excellence for wireless telecommunications.

Wireless telecommunications is also an important enhancer of public safety. It is therefore very satisfying to see attention devoted in the Throne Speech to promoting safer communities. We concur with the government that Canadians are justifiably proud of having built communities where citizens feel safe. The wireless industry is also proud of its record in this area. Our members have undertaken numerous initiatives to make our communities safe. For example, the "Support Link" program established in 1998 by Ericsson and Rogers Cantel is a program that provides high-risk victims of domestic violence and sexual assault with wireless phones that provide one-button access to emergency services. Other initiatives include the provision of mobile phones free of charge to communities for neighbourhood watch type programs and services that allow customers to dial police free of charge to report drunk drivers.

All of this is in addition to allowing customers to place calls to 9-1-1 free of charge. Unfortunately, we fear that free 9-1-1 calls will soon change as new fees to support wireline companies are expected to be imposed on wireless carriers this fall and will have to be passed on to consumers.

Wireless telecommunications is *the* method of communicating in many countries. In Canada, while our penetration rates lag behind those in many other countries, we have been able to lead the world in terms of price, coverage and quality.

In order to operate our leading-edge networks, wireless carriers directly employ more than 13,000 Canadians. Suppliers of products and services to the wireless industry generated another 12,000 jobs for the economy. The vast majority of these 25,000 positions require highly skilled labour.

Pricing of wireless services in Canada is the most competitive in the world, and innovative new packages are being launched regularly. A recent study by the Yankee Group showed that worldwide wireless prices have decreased by an average of 38 per cent since 1996, while prices in Canada have decreased by 180 per cent.

Globally, the International Telecommunications Union (ITU) predicts that the number of wireless phone users will most likely surpass the number of wired customers by the year 2007.

Overall, the industry has been a huge success for Canada. Our customer base has grown at 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 four years as prices continue to plunge and new services such as wireless e-mail take hold in the market. IDC forecasts the mobile phone market to grow to 16.6 million subscribers in 2003 from 6.7 million in 1999.

It is worth emphasising that while demand for voice service will continue to grow, the emerging drivers of mobile phone demand will be wireless data, mobile access to the Internet and wireless e-mail. These are emerging as key components of e-commerce.

We recognize the Prime Minister's challenge to all sectors of Canada to work together toward the goal of capturing 5 per cent of the world share of e-commerce for Canada by the year 2003 and to do over \$200 billion of business this way. The wireless telecommunications industry has already begun to deliver the tools that will be necessary to reach this goal.

The major mobile phone manufacturers are already delivering "Internet ready" phones that will allow Canadians to browse the net, purchase airline tickets, take care of their banking needs and conduct other forms of e-commerce while they are on the move. Canadian wireless carriers have introduced services to accommodate our appetite for mobile access to the Internet.

Cleartnet introduced an Internet ready phone in June of this year that allows its subscribers to make dial-up connections to the Internet using their PCs or PDAs. More examples of the services that our members are offering include Bell Mobility's "to Go" and Microcell's "FidoData". And we should not lose sight of the

increasing use of automatic wireless e-mail delivery services using alphanumeric paging or Short Messaging Services (SMS). Earlier this year, Rogers Cantel and Research In Motion (RIM), a small Waterloo, Ontario, maker of wireless modems, launched e-mail services that use Cantel's packet data network and an innovative pager-size computer from RIM to deliver full-length e-mail.

We are pleased to inform you that our members report market responses to these new service introductions that exceeded all expectations.

There is a strong argument to be made that much of wireless success has come from simplicity. Canadian wireless carriers have introduced innovations such as no-contract and pre-paid services, per second billing, innovative local calling areas, global roaming services and single-rate plans to encompass North American and some international calling. All of this has occurred in an environment where both Industry Canada and the Canadian Radio-television and Telecommunications Commission (CRTC) historically determined that market forces should be the driver, not excessive regulation.

Yet in the midst of these successes, in a period of dynamic growth and innovation, the industry collectively lost over a billion dollars in 1998.

The wireless telecommunications industry is not unique in facing dramatic upheavals associated with global competitiveness and technological change. However, many of the costs, such as taxes, fees and the cost of regulation, are beyond the industry's control. CWTA members contribute more than \$130 million annually in licence fees to the Government's general revenue fund.

Regulatory intervention in dynamic markets continues to pervade policy thinking as it applies to various sectors of the communications and IT industries in general - even though government is convinced it is engaged in a process of deregulation.

We wish to raise three issues that warrant attention in the upcoming budget:

- Taxes and other Government fees placed on the industry.
- Access to highly skilled and educated labour.
- Retaining in Canada, the skilled labour force that has been developed.

### **Taxes, Government Fees and Cost Recovery**

The CWTA represents a multi-billion dollar industry, which has been largely unregulated. However, in many ways, the success of the industry makes it too attractive to ignore. That attraction is drawing potential new taxes or regulatory impositions on all carriers in the industry by many levels of government.

Since its inception, the wireless industry has been characterized as having a lighter form of regulation, that is, lighter than the monopoly telephone companies. However, the fact remains that there are substantial regulatory commitments involving spectrum fees, R&D requirements and roll out commitments as determined by Industry Canada. As noted above, in 1998 the industry paid over \$130 million in spectrum fees to Ottawa.

The CRTC also imposes its own burdens. While the PCS/cellular players have been de-tariffed since 1994 and paging services have been entirely exempted from the requirements of the Telecommunications Act, the CRTC has recently imposed the requirement on the four PCS/cellular carriers of the payment of long distance contribution to the wireline telephone companies, effective January 1, 1998. Payments in this category were about \$14 million in 1998 and will continue to grow as usage of wireless services increases.

If that wasn't sufficient, the industry is faced with potential new taxes from all sides including federal, provincial and municipal sources. In addition to the long distance contribution we commenced paying in 1998, the CRTC has an ongoing public process, which proposes the introduction of a cost recovery program for all Canadian carriers, with few exceptions. This would include paging companies as well. The program would require wireless carriers to pay Telecom Fees, which would be assessed based on the revenues of carriers, in order for the CRTC to recover its operating costs.

The CWTA is a member of the Business Coalition on Cost Recovery, a group that earlier this year released a comprehensive study of federal government implementation of cost recovery entitled *Where Does the Buck Stop?* The purpose of the study was twofold. First, it examined the serious difficulties that our businesses, as clients of federal departments, have encountered with cost recovery, and particularly fees for mandatory services. Second, the report sought to identify workable solutions to address these problems. This work was based on the underlying principle that, for the most part, Canadian businesses accept the concept of paying reasonable cost recovery fees, on the understanding that:

- We receive value for our money;
- The regime is fair;
- The government engages in service improvements; and
- Proper processes are in place to ensure accountability and transparency.

Unfortunately, the Coalition study showed that this is not the case. It showed that Canadians in general, and industry in particular, are not receiving value for the money spent on cost recovery. For example, from 1994/95 to 1997/98, regulatory fees increased by 47 per cent across the board for business. And these fees

continue to grow each year; one of the fastest growing costs for business in Canada.

An assessment of the economic costs suggest that the \$1.67B in regulatory fees charged to business in 1996/97 could reduce GDP by \$1.37B, reduce employment by almost 23,000, and net the federal government only \$230M in additional funds.

It is worth noting that in response to the study, on February 5, 1999 the then President of the Treasury Board the Honourable Marcel Massé wrote to the Coalition indicating that the government, under the direction of the Treasury Board, would be conducting a review of the cost recovery policy. However, to date little progress has been made in getting the review underway. And disturbingly, departments continue to propose the introduction or expansion of cost recovery programs.

We believe it is imperative that the government not lose sight of cost recovery within the budget framework. It is the view of the CWTA that a moratorium on new cost recovery programs is warranted, at least until the Treasury Board completes and acts upon a comprehensive review of the current programs.

The CRTC has also issued a new public notice to look at the current long distance contribution regime. This is a critical issue, as some parties are suggesting that all telecommunications carriers should pay a revenue tax for long distance contribution, as well as a similar tax to fund services to high cost serving areas, that are typically remote and rural communities.

This form of regulatory taxation looks to be increasing from all levels of government. At the provincial and municipal levels, we are seeing an increasing movement to new forms of taxation, primarily in areas such as safe driving legislation, tower location, gross receipts taxes and charges for rights of way. These are all examples of the various government levels seeking just a small percentage of revenues for good causes.

This new focus of regulation and taxes simply does not look at the commitments the wireless carriers already make in the form of spectrum fees, R&D requirements and capital required for network roll out commitments; and voluntary commitments to programs such as the industry's safe driving campaign.

Today, wireless carriers pay almost as much in taxes and fees as they pay in total compensation to employees.

The wireless industry is making every effort to bring the latest products and services to the Canadian consumer at competitive prices. In today's highly competitive markets, where margins are razor thin, regulatory taxes have to be absorbed

through cost cutting or lower returns. Cost cutting in turn can lead to slower rollout of services or reduced coverage areas. In our market today, you cannot lower returns, but only increase losses. Therefore, the direct hit may well be on investment and jobs.

The Government, the Prime Minister and the Finance Minister continue to state their commitment to reducing taxes as the finances of the nation improve. The Prime Minister has indicated that in the next budget the Minister of Finance will outline a multi-year tax reduction strategy to ensure that Canadian families have more income in their pockets and that Canadian businesses are better able to compete in the global based knowledge economy.

We support swift action by the Government in implementing its tax reduction strategy. We also urge the Government to not lose sight of cost recovery and other fees when it formulates its strategy. The theme of "tax relief as the finances of the nation improve" must extend down to the Departmental level within government and a moratorium on cost recovery programs should occur, at least until Treasury Board completes and acts upon a comprehensive review of the current programs.

### **Access to Highly Skilled and Educated Labour**

It is perhaps useful to reflect on some of the statements made in the Throne Speech pertaining to skills and knowledge for the 21<sup>st</sup> century. We concur with the government's view that a skilled workforce and a capacity to innovate continuously are crucial building blocks of a successful 21<sup>st</sup> century economy. Access to a skilled and capable workforce is critical to the success of the wireless industry.

Wireless carriers directly employ more than 13,000 Canadians. Suppliers of products and services to the wireless industry generated another 12,000 jobs for the economy. The vast majority of these 25,000 positions require highly skilled labour.

Such is the demand for skilled workers in Canada that it has begun to influence the curriculum in our high schools. Nevertheless, there is a shortage of skilled workers that affects not only the wireless telecommunications industry, but all high-tech sectors of the economy.

The wireless industry, through a series of initiatives, has attempted to address the chronic shortage of skilled workers graduating from our universities.

In 1996, the Centre for Wireless Communications (CWC) at the University of Waterloo was created. The establishment of the CWC was facilitated by a \$1 million donation from Ericsson Communications Canada over a period of five years. The CWC aims at developing a comprehensive graduate research program in

wireless communications and networking, and training research personnel to meet the demand created by the rapid growth of the wireless telecommunications industry.

More recently, in Montreal, the International Institute of 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 percent of the \$12 million required to create the Institute, which opened its doors in September 1999.

Similar to the specialized program at Waterloo, the Communications Engineering program at Carleton University was created in response to developing those who will engineer the integrated, convergent systems of the 21st century. The first generation of Communication Engineers will graduate in 2002. Students study wire, radio and optical transmission systems, as well as the design of voice, data and image networks, data network protocols, traffic analysis and transmission line theory in a single program.

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

Perhaps the most recent example was announced in October of this year, when Canada's first advanced communications lab opened at Carleton University. The university, with support from Texas Instruments and Nortel Networks, opened Canada's first elite digital signal processing laboratory. The laboratory gives students, faculty and industry the opportunity to collaborate on the development of new technologies for wireless communications, high-speed data and voice over Internet protocol transmission.

We believe the forgoing initiatives are in keeping with the emphasis in the Throne Speech on forging partnerships to foster skills and learning for the 21<sup>st</sup> century.

While the industry will continue to address the shortage of high-end workers through its own initiatives, the CWTA believes the government must also continue to promote a highly skilled and better-educated workforce. The Government should be applauded for taking initiatives such as increasing funding to the federal councils that finance research at universities. The Association is encouraged by the Government's indications that it intends to continue to address the level of skilled technical workers in Canada and to support industry initiatives in this area.

### **Retaining the Skilled Labour Force That Has Been Developed**

Clearly related to the skilled labour shortage is the difficulty faced by some wireless carriers and other high-tech firms in retaining qualified skilled professionals. At least one carrier member of the CWTA has stated publicly that nearly one-third of employees leaving the industry move to take positions in the United States. Similar challenges face high-tech suppliers to the industry.

To be specific, the types of workers Canada is losing from the wireless telecommunications industry are switching, radio frequency and Internet engineers as well as product development experts with engineering and marketing skills. The loss of workers with these skills seriously guts the ability of Canadian industry to develop new products and services.

Demand for knowledge workers is growing globally and competition for talented people is intense, particularly in the US, where the financial rewards are substantial. Earlier this year the Chairman of Nortel Networks, Mr. John Roth, reported that almost half the employees who left Nortel Networks in the Ottawa region in the first quarter of 1999 went to the United States, and one-third of them had highly prized "scarce skills."

"Taxation is testing the allegiance of some of Canada's best and brightest," Roth said. "The people we need are being forced out. They're highly paid and are faced with a huge gap between what their talents and skills can bring them in Canada versus what they command elsewhere."

Roth gave the example of a skilled engineer in Ontario making Cdn\$140,000 and taking home Cdn\$83,000 after taxes and an engineer in Texas with the equivalent salary of US\$94,000 taking home US\$72,000, or about Cdn\$108,000. "That's like getting a Cdn\$25,000 pay increase - a 30 percent increase in purchasing power - just for crossing the border," Roth pointed out. "And salary has nothing to do with it. Tax makes all the difference."

For the wireless industry, the "brain drain" issue is of very real concern. While firms make every effort to create a favourable work environment in Canada, it is extremely difficult to attract and retain skilled workers despite our best efforts.

We believe that the government can play a very prominent role in addressing this issue and we are pleased to see that the issue will be engaged in the Government's tax reduction strategy. The difficulty in retaining skilled employees can significantly be attributed to high Canadian taxes. Canada must address the high-level of personal income taxes in order to ensure that skilled professionals remain in Canada.

## **Conclusions**

Government's role is to set the stage for our industry to evolve and prosper for the benefit of all Canadians. The Canadian wireless telecommunication industry is at a critical phase in its evolution, which will lead to a period of development and growth superior to that experienced by the computer industry in the 1970s. In the global competitive world, the Government needs to support its industry if we are to remain in the lead group.

The dual policy initiatives of de-regulating the telecommunications industry and opening the Canadian telecommunications market to competition are a tremendous success story. However, the wireless industry is still in a fragile stage of its development with penetration rates that lag behind those of many other countries. An opportunity exists for wireless telecommunications to give Canada a competitive edge as we strive to excel in the world of e-commerce. As such, our industry is worthy of tangible support (from various government and regulatory bodies), in order to ensure that the industry continues to evolve in the knowledge-base economy.

An onus must also be placed on policy makers to monitor the tax and fee burden of the wireless telecommunications industry. As wireless carriers today face a tax bill that approaches their total compensation to employees, we believe the tax and fee burden is both excessive and inconsistent with both the federal and provincial initiatives to reduce taxes and build a dynamic economy for the 21<sup>st</sup> century. While there has been much discussion about the Government's tax reduction strategy, we believe it is also imperative that the government not lose sight of cost recovery within the budget framework. It is the view of the CWTA that a moratorium on new cost recovery programs is warranted, at least until the Treasury Board undertakes a comprehensive review of the current programs.

Finally, while we often focus on the global chase for customers, we should not forget that the demand for knowledge workers is growing globally and competition for talented people occurs at the international level. The government must address personal income tax rates, capital gains, and stock option rules that currently make the premium for living in Canada too high for knowledge workers, who earn less and build up much less equity than their counterparts in other high-tech centres.

In closing, we thank the Committee for the opportunity to contribute our views.