Canadian Telecommunications Association | Association canadienne des télécommunications

February 9, 2024

The Honourable Chrystia Freeland
Minister of Finance
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5

Via email: Budget2024@fin.gc.ca

Re: Pre-Budget Consultations 2024

Dear Minister Freeland,

The Canadian Telecommunications Association is an industry association dedicated to building a better future for Canadians through connectivity. Our members include service providers, equipment manufacturers, and other organizations in the telecommunications ecosystem, that invest in, build, maintain and operated Canada's world-class telecommunications networks.

Through our advocacy initiatives, research, and events, we work to promote the importance of telecommunications to Canada's economic growth and social development, and advocate for policies that foster investment, innovation, and positive outcomes for consumers.

In advance of Budget 2024, the Federal Government has launched the pre-consultation period, giving Canadians from across the country the opportunity to share their ideas and priorities for how the Government can build an economy that works for everyone. The Canadian Telecommunications Association is pleased to participate in this consultation and provide its recommendations for Budget 2024.

Delivering Economic, Environmental and Societal Benefits through Connectivity

The telecommunications sector plays an important role in the Canadian economy, contributing almost $77B in direct GDP and supporting over 724,000 jobs across industries in 2022.[1] This level of economic contribution was made possible largely through private sector investment that has built what is widely regarded as among the best telecommunications networks in the world.

[1] Connecting Canadians through resilient networks-The impact of the telecom sector in 2022 and beyond

But there is more work to be done. First, additional investments are required to expand and enhance telecommunications services in underserved communities, and to strengthen network infrastructure in the face of more frequent and intense severe weather events and natural disasters. Secondly, industries around the world are transforming themselves using industrial Internet of Things (IoT), artificial intelligence (AI), cloud computing, and other digital technologies to streamline processes, automate operations, and make better use of data. Nations that embrace what is commonly referred to as Industry 4.0 and help facilitate this digital transformation are expected to see increases in productivity, efficiency, and competitiveness, delivering significant economic, environmental, and societal benefits.

For Canada, the benefits of accelerating the growth of connectivity-powered digitization include:

- Economically, an estimated increase of $112B to Canada's GDP by 2035;[2]
- Environmentally, advanced connectivity will support the use of data and technology by industries to become more productive, while reducing waste and GHG emissions; and
- Socially, enhance Canadians' quality of life by improving the delivery and access to critical social services such as healthcare, education, and transportation.

To help realize these benefits, Budget 2024 should include measures that:

- encourage ongoing investment in the expansion and enhancement of advanced telecommunications infrastructure and research and development;
- help protect telecommunications infrastructure from severe weather, natural disasters, theft and vandalism; and
- drive adoption of connectivity-powered digital technologies by government and industry.

A. Encouraging investment in telecommunications infrastructure

1. Accelerated Investment Incentive

Telecommunications is one of the most capital-intensive businesses in the world, requiring network operators to take on enormous capital risk with the hope of making a reasonable rate of return in the future. This capital requirement is ongoing.

In 2018, the Government of Canada introduced the Accelerate Investment Incentive. The incentive provided businesses with a larger deduction (capital cost allowance or CCA) for

[2] Ibid.

some of their capital costs in the year of acquisition. While this did not increase the amount of CCA deduction over the life of the property, it shifted the majority of the CCA into the beginning of the life of the asset. This incentive has made capital investment more attractive and provided tax savings that can be reinvested into the business.

The Accelerated Investment Incentive has helped enable network operators to make capital investments needed to meet the increasing connectivity demands from businesses and consumers. From 2018-2022, the telecom sector invested an average of $12.1B of capital per year to expand and enhance network infrastructure (not including an addition $12.3B for spectrum licenses over the same period). [3]

This level of investment represents approximately 18.6% of average revenue, which is higher than the 14.2% average across peer telecoms in the USA, Japan, Australia, and Europe and, notably, 4.6 percentage points higher than the USA and 7.1 percentage points higher than Australia.[4] This higher level of capital intensity is due in large part to the higher cost of building telecommunications networks in Canada, which is attributable to factors such as geography, higher population dispersion, harsher climate, higher spectrum and labour costs, and smaller economies of scale.

These investments made by Canada's facilities-based carriers have resulted in some of the best performing networks in the world, with Canada leading the G20 in terms of mobile network quality[5] and fixed broadband networks that are 64% faster than the average of remaining G20 countries.[6] With respect to coverage, as of the end of 2022, 99.7% of the Canadian population has mobile wireless coverage[7], and 93.5% of Canadian households have access to high-speed internet, defined as 50/10 megabits per second service with unlimited data.[8]

Despite these achievements, additional significant investment is needed to expand coverage to all Canadians, to increase network capacity to meet the ever-increasing demand for data and services, and to transform network capabilities to support Industry 4.0 and enable industries to digitize their operations, increase productivity and remain competitive. In addition, the increase in frequency and intensity of natural disasters and severe weather, as well as the growing risk of cybersecurity threats and acts of vandalism and sabotage, all require additional investment to strengthen our networks and protect Canadians from malicious acts.

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[3] Connecting Canadians through resilient networks-The impact of the telecom sector in 2022 and beyond
[4] Ibid.
[5] PwC, Understanding the cost and quality of networks across the G20, September 2021
[6] Ookla, Speedtest Global Index, November 2023
[7] https://crtc.gc.ca/eng/publications/reports/PolicyMonitoring/mob.htm
[8] Ibid.

The scheduled phase out of the incentive beginning in 2024 threatens to undermine the telecom sector's investment capacity and impede Canada's ability to benefit from the economic, environmental, and societal benefits that can be derived from accelerated investment in telecommunications networks. Accordingly, it is critical that the incentive be made a permanent part of the CCA rules.

Such an approach was taken by the UK government which made full expensing permanent as part of its 2023 Autumn Statement. In reviewing the impact of permanent full expensing, the Tax Foundation estimated that it "would increase GDP, investment, and wages in the long run".[9]

To further promote investment in telecommunications infrastructure, the Government of Canada should also increase the first year CCA rate to 125% for those assets classes closely associated with communication networks, including, Class 43 – fibre optics, wire and cable, i.e. telephone and data communications equipment and Class 46 – data network infrastructure equipment. This would treat communications network equipment in the same way as manufacturing and processing equipment and clean energy equipment investments, and would be similar to the 130% first year super deduction that the UK introduced in 2021.

Recommendations:

A.1.0 That the Government of Canada make the Accelerated Investment Incentive a permanent part of the CCA rules.

A.1.1 That the Government of Canada increase the first year CCA rate to 125% for asset classes related to broadband telecommunications networks to support further investment and to align the telecommunications sector with comparable sectors.

2. Scientific Research and Experimental Development (SR&ED) tax incentives

Throughout the history of telecommunications, Canadians have been at the forefront of innovation, and leaders in revolutionizing the way the world communicates. This tradition continues to this day. The telecom sector is among the largest R&D investors in Canada, with the three largest telecommunications providers investing $5.6 billion in R&D between 2020 and 2022, and Canadian-based equipment and software vendors investing hundreds of millions more.[10] These investments support thousands of jobs for highly

[9] https://taxfoundation.org/blog/uk-full-expensing-permanent/#:~:text=The%202023%20Spring%20Budget%20eventually,same%20way%20they%20deduct%20wages.
[10] Research Infosource Inc. :: Top 100 Corporate R&D Spenders List

skilled Canadians, as well as academic research in areas such as 5G, AI and cybersecurity, which together result in made-in-Canada Canadian intellectual property and solutions.

While the Government of Canada has long- championed innovation as a catalyst for future growth, changes made to the Scientific Research and Experimental Development (SR&ED) program, such as reducing the overall SR&ED tax credit from 20% to 15% and changing the eligibility rules by eliminating deductions for things like lab hardware and software, have reduced the incentives for investing in R&D. This impacts the entire telecommunications ecosystem, many of whose members are small and medium-sized Canadian companies.

In the Federal Budget 2022, the government announced plans to review the SR&ED program with a focus on improving Canada's ranking on R&D. While we support of review of the program, it is important that any changes support investment in R&D and innovation in communications technology.

Recommendations:

A.2.0 That the Government of Canada restore the SR&ED tax credit rate to 20% and expand the scope of investments eligible for tax credits to increase R&D spending.

A.2.1 That other tax support initiatives that the government may be considering, such as a "patent box" regime, be in addition to and not replace the SR&ED program.

B. Protecting Critical Infrastructure

1. Funding network resiliency in the face of climate change

Severe and destructive weather events and other natural disasters are becoming more frequent, with hurricanes and other high wind events, snow and ice storms, flooding, and wildfires being just some of the natural catastrophes that have struck communities across Canada in recent years. These events pose significant risks to critical infrastructure like communications networks and have caused millions of dollars in damage.

Service providers are aware that Canadians depend on them to stay connected, especially during an emergency and while recovery efforts are underway. That is why the telecommunications sector has made it a priority to strengthen their network infrastructure and processes to mitigate the risk of extreme weather and natural disasters.

Some of the measures taken to enhance network resiliency include upgrading core network facilities to support robust backup systems, improving generator capacity, increasing resiliency of network infrastructure, and using AI to identify potential network

risks.[11] These efforts are ongoing, but fully meeting Canadians expectations for network reliability, especially in rural and remote areas, will require collaboration between the government and the private sector.

While in the past the Government of Canada has created funding programs supporting risk reduction and resilience initiatives, such as the Disaster Mitigation and Adaptation Fund, the telecommunications sector was not eligible to participate in such programs. With the need to protect critical infrastructure now more important than ever, the government should allocate new funding for infrastructure resilience which includes funding for telecommunications providers to strengthen their networks against the effects of climate change and natural disasters.

Recommendation:

B.1. That the Government of Canada make available additional funding to support risk reduction and resilience initiatives for critical infrastructure, including telecommunications facilities.

2. Protecting telecommunications infrastructure from criminal acts

The security of telecommunications infrastructure faces serious threat from acts of theft and vandalism. Since January 2022, there have been hundreds of incidents of vandalism and theft across the country, many of which have negatively impacted the critical telecommunications infrastructure supporting emergency services, hospitals, governments, and financial services.

In many cases, the target of these crimes is the copper wires that form part of the network and that can be sold as scrap metal. While copper is the target, these acts often damage other parts of the network, including fiber optic cables.

Although the *Criminal Code* contains the offences of theft and mischief, they are often viewed as a less serious crime with insufficient penalties that do not reflect the extent of damage and threat to the safety and security of Canadians that these acts cause. In March 2023, the Canadian Telecommunications Network Resiliency Working Group (Resiliency Working Group), a sub-committee of the Canadian Security Telecommunications Advisory Committee (CSTAC) issued a report[12] in which it recommended that the federal government:

[11] PwC, Connecting Canadians through resilient networks: The impact of the telecom sector in 2022 and beyond, November 2023
[12] Telecommunications Network Resiliency in Canada: A Path Forward, March 2023

> Create an article of federal law that specifically protects CTSP's [Canadian telecommunication service provider's] critical and ancillary infrastructure and maximizes criminal penalties in the event of willful or negligent damage to, and/or acts of vandalism or theft of critical network infrastructure.[13]

We support this recommendation. Amending the *Criminal Code* to create a new offence that targets damage to, and theft of critical telecommunications infrastructure would send a powerful message of deterrence, dissuading individuals from engaging in such acts and help protect Canadians from these disruptive acts.

It is important to note that the above referenced incidents should be treated separately from the offence of sabotage that is being considered by the Department of Justice in its consultation on Reforming the Law of Foreign Interference.

Recommendation:

B.2 That the Government of Canada create specific offences under the existing Criminal Code provisions for mischief and theft that specifically target acts against telecommunications facilities and telecommunications services and to carry with them harsher sentences.

3. Amending Bill C-58 to ensure that telecommunications infrastructure is protected from potential negative impacts resulting from a labour strike or lockout.

In November 2023, the government introduced Bill C-58, *An Act to amend the Canada Labour Code and the Canada Industrial Relations Board Regulations, 2012* (Bill C-58). If passed in its current form, Bill C-58 would prohibit the use of replacement workers in federally regulated industries, such as telecommunications. Such a prohibition would impair telecommunications service providers' ability to maintain and repair its critical infrastructure should service-impacting events coincide with a strike or lockout. The resulting negative consequences for Canadians – from the inability to call 9-1-1 to the financial losses suffered by impacted individuals and businesses – could be significant.

The ban on replacement workers would disrupt the long-standing balance of bargaining power between employers and employees that has been effective in ensuring well-functioning relationships in unionized federally regulated work settings. As the government's own Discussion Paper[14] acknowledges, the majority of studies indicate that a prohibition on the use of temporary replacement workers results in longer and more frequent strikes, an increasingly confrontational labour relations environment, and an

[13] Ibid. Section 1.2 – recommendation #1.
[14] https://www.canada.ca/en/employment-social-development/services/labour-relations/replacement-workers/discussion-paper.html

increased use of back-to-work legislation. The proposed legislation also runs counter to the Government's focus on the importance of ensuring the availability and security of critical telecommunications systems, which are fundamental to the safety and well-being of Canadians and to Canada's economy.

As tabled, Bill C-58 requires amendment to ensure that the telecommunications infrastructure that Canadians rely on is protected during a labour dispute. Without amendment, Bill C-58 puts the safety and economic security of Canadians at risk.

Recommendation:

B.3 Bill C-58 should be amended before passage to ensure that telecommunications infrastructure is protected from potential negative impacts resulting from a labour strike or lockout.

C. Driving growth and prosperity through digital transformation

As referenced in the introduction to this submission, digital transformation is expected to deliver significant economic, environmental, and societal benefits. Other countries have recognized this and have targeted funding to incentivize the transition to Industry 4.0 and the adoption of connectivity-powered use cases in industries critical to economic growth.

For example, South Korea is investing approximately $20 billion to create smart city pilot projects focusing on the development and adoption of new technologies and services in areas such as transportation, energy management, public safety, and healthcare.[15]

Canada should take a similar approach by introducing tax incentives, subsidies or grants to incentivize the adoption of connectivity-powered digital transformation use cases in key industries such as manufacturing, agriculture, healthcare, energy, mining, oil and gas.

Recommendation:

C1.0 That the Government of Canada introduce tax incentives, subsidies and/or grants to incentivize the adoption of connectivity-powered digital transformation use cases in key industries.

Conclusion

[15] https://canadatelecoms.ca/wp-content/uploads/2023/10/Canadas-Next-Sustainability-Frontier-Powering-Digital-Transformation-with-Connectivity.pdf

The telecommunications sector is a key driver of the Canadian economy and the foundation for advanced connectivity-powered technologies and services that will help Canadian business become more productive while reducing waste and GHG emissions. Resilient and reliable telecommunications services are also critical to the safety and security of Canadians, and for improving the delivery and access to critical social services such as healthcare, education, and transportation.

Ensuring that telecommunications services continue to meet the needs and demands of Canadians requires sound policies, regulations and programs, such as those set out in our recommendations above, which will encourage investment in the expansion and enhancement of telecommunications infrastructure as well as research and development, help protect telecommunications networks from severe weather, natural disasters and acts of vandalism and theft, and drive the transition to Industry 4.0 and the adoption of connectivity-powered digital technologies and services.

Sincerely,

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Robert Ghiz
President & CEO,
Canadian Telecommunications Association

cc: The Honourable François-Philippe Champagne, P.C., M.P., Minister of Innovation, Science and Industry
The Honourable Dominic LeBlance, P.C., M.P., Minister of Public Safety
The Honourable Seamus O'Regan, P.C., M.P., Minister of Labour Employment and Social Development Canada
Christ Forbes, Deputy Minister, Finance Canada