LETHBRIDGE CHAMBER of COMMERCE®

Telecommunications and the Canadian Economy (2020)

Issue

Telecommunications are the backbone of Canada. Technological advances have birthed a knowledge economy where ideas and information matter more than physical resources. Participating in the information age has enabled Canada and other members of the Organization for Economic Co-operation and Development (OECD) to maintain a strong economy. The continued prioritization of fibre and broadband services are essential to Canada preserving its market position.

Background

A Brief History of Telecommunications in Canada

Prior to 1993, the telecommunications sector was governed under the 1906 Railway Act (Middleton, 2017). The 1993 Telecommunications Act recognized that telecommunications have an essential role in the maintenance of Canada's identity and sovereignty and laid federal legislation to govern the telecommunications sector. Decisions in the 1980s and 1990s opened the market to further competition. In 2006, as a result of an extensive review of telecommunications policy in Canada (Telecommunications Policy Review Panel, 2006), the federal government issued a policy directive to the CRTC further entrenching the role of the market in delivering telecommunication services. This policy required the CRTC to:

- Rely on market forces to the maximum extent feasible as a means of achieving the telecommunications policy objectives, and
- When relying on regulation, use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives (Governor in Council, 2006)

The 1993 Telecommunication Act imposed strict Canadian ownership requirements for operating a telecommunications carrier in Canada. 80% of voting shares and board of director seats were to be held by Canadians (Canada, 1994). These restrictions were touted for being the most restrictive in the OECD (Organization for Economic Cooperation and Development, 2011).

In 2009, the Government of Canada announced that it intended to 'regain its leadership position in the digital economy' (Clement, 2009) and in 2010, the government held a consultation on the Digital Economy, receiving more than 250 submissions from organizations and individuals.

In recent years, the Government of Canada has introduced various programs and initiatives in an attempt to improve broadband across Canada and meet targets set out by the CRTC.

- In 2016, the CRTC created a $750 million fund, made up of contributions from larger telecommunications service providers, to support projects in areas where established targets were not being met. However, Telecom Regulatory Policy CRTC 2018-377, issued on 27 September 2018, lowered the target to now require that projects eligible for the fund provide access to download speeds of 25 Mbps and upload speeds of 5 Mbps instead of the original targets of 50 and 10 Mbps. The CRTC said this would allow "projects covering underserved areas [to] deliver a broadband Internet access service that the majority of Canadians use today." In 2019, in Telecom Notice of Consultation CRTC 2019-191, it issued a call for applications for funding from this Fund.
- In 2016, the Government of Canada announced that it was investing up to $500 million over five years to bring broadband Internet service to 300 rural and remote communities through the *Connect to Innovate* program.
- In Budget 2018, $100 million over five years was announced under the *Strategic Innovation Fund* (SIF) to support projects focused on low-orbit satellites and next-generation rural broadband Internet service.
- In Budget 2019, the Government committed to ensuring that 95% of Canadians have access to the CRTC's speed targets (50/10 Mbps) by 2026 and 100% by 2030, and it proposed various initiatives to achieve this, including $1.7 billion over 13 years in funding under the new Universal Broadband Fund.

However, four years in, an implementation plan for reaching these targets has yet to be developed.

With 86% of Canadians having a broadband connection at home (CIRA, 2019) and mobile subscriptions reaching nearly 32 million (CRTC 2019), Canadians are among the most frequent users of telecommunications technology in the world. However, despite these realities, as stated above, the sector is also one of the most highly regulated in the G7 both in terms of domestic and international investment and competition. Domestically, three providers administer the majority of telecommunications services and functions. Small players find themselves unable to enter the market and those who are truly competitive, are blocked.

Competition in the Telecommunications Sector

Mobile Virtual Network Operators (or MVNOs) are resellers of network capacity (Cutean, 2019). They lease or buy bulk in excess network capacity of large or mainstream providers and resell services to customers. Because the portion of spectrum that they lease is unused by large carriers, MVNOs can often offer services to consumers are more cost-effective rates.

MVNOs do not act as direct competitors to large carriers. Rather they rely on existing infrastructure and spectrum already owned by said network providers. However, while oftentimes services are not as extensive as they are via traditional carriers, their ability to compete on cost can be substantial. In some cases, MVNOs have been known to offer comparable services at rates that can be up to 75% lower than large carriers (Cutean, 2019).

Recognizing that truly competitive MVNOs were not permitted in Canada, in March 2018, the Federal Government urged the CRTC to revisit their competition policies and regulations. The CRTC reaffirmed, however, that it would stand by its original decision of not allowing competitive MVNOs entry into the Canadian telecom market, noting that their entry would undermine infrastructure investments already made by the main carriers, while simultaneously "introducing regulatory uncertainty into the market"

(Behar, 2018). This has meant that even today the majority of network and wireless services continue to be administered by the big three telecommunications providers: Rogers, Bell and Telus.

At the same time, challenges also exist on the international front. This is so much so that Canada has the highest foreign direct investment regulatory restrictions of any G7 country (Zhenzhen, 2019), with the telecommunications sector being one of the most strictly guarded. Significant legal and economic barriers prevent direct investment (QUOTE). Until 2012, foreign entry into the Canadian telecommunications sector was limited investments where 80% of the business' members or board of directors are Canadian (Cutean, 2019). Amid growing controversy over consumer prices, the Government of Canada (2012) introduced a new policy to allow foreign ownership of small companies representing less than 10% of the market share. However, even with this change, international investment remains difficult in this space, as incumbents have the advantage of still owning existing infrastructure.

The COVID-19 pandemic has shown that digital connectivity is critical to resilience and business continuity in times of crisis. Smaller, competitive telecommunications service providers have recently argued that there are "artificial time and cost barriers to broadband build-out by those competitors in the small-town and rural markets they serve. Those barriers appear to be driven largely by the incumbents' desire to suppress competition in those smaller markets." (Gallant, 2020). As we move toward recovery, it makes economic sense to have policies in place that accelerate development and keep broadband available, accessible, relevant and affordable. By allowing new entrants like competitive MVNOs or SpaceX, the Canadian telecom sector will be able to achieve just that. This will undoubtedly lead to a bolstering of economic return to Canada from the telecommunication infrastructure.

With this in mind, the Canadian Chamber of Commerce recommends that the Government of Canada:

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1. Solicit a competition-based, pro-consumer plan that is supportive of Mobile Virtual Network Operators. Along this line, we suggest setting aside spectrum for new entrants to the Canadian market and to consider removing foreign investment restrictions in this sector.

2. Engage in a price benchmarking exercise every 18-24 months to ensure competitive rates are available to all Canadians.

3. Request that the timeline for the 50 Mbps and 10 Mbps goals laid out in the Universal Broadband Fund be moved up to 2025 rather than 2030.

4. Support SpaceX in their bid for a Basic International Telecommunications Services (BITS) license.