Intelligence MEMOS

From: Benjamin Dachis

To: Canadian Telecommunication Watchers

Date: March 26, 2021

Re: **THE MANDATED ACCESS DANCE FACED BY THE CRTC**

Policy decisions coming soon from the CRTC, the federal telecommunications regulator, are going to shape major investment decisions with critical impacts on our economy.

Failure to get the right balance between investment and sustainable competition will jeopardize efforts to get communities digitally connected and hence Canada's ability to participate in the increasingly digital world economy.

The next generation of technology investment – "5G" – is critical to the economy's future. For example, it will be key to commercializing innovations in precision agriculture. It will enable rural economic development, such as automated hauling at mine sites, and underpin further developments in telemedicine. 5G is essential for autonomous vehicles and other robotic functions.

Investment in telecoms infrastructure has been strong in recent years, especially in Canada. Capital expenditures on wireline and wireless infrastructure by companies increased at a compound annual growth rate of 5 percent between 2014 and 2019.

In terms of infrastructure investment, Canadian telecommunications providers have been outpacing their international peers. The Boston Consulting Group **found** that between 2005 and 2015 Canadian telecommunications infrastructure investment was US$255 per capita. That is well above the OECD country average of US$156. Canadian per capita investment is greater than in all other members of the G7, while Canadian companies' return on capital invested was similar to their peers around the world. **Analysis** by the consultancy PwC indicates that capital expenditures as a share of revenue by Canadian telecommunications providers are 5.3 percent higher than in comparable countries.

Even so, several factors cloud the path forward. An upcoming CRTC proceeding will address rates for mandated access to wholesale broadband. Its ruling will affect the ability of service providers to use others' facilities. A central issue is how much relative newcomers should pay for access to the infrastructure built and owned by incumbents?

The backdrop to this coming ruling include government's pledge in the **mandate letter** to the Minister of Innovation Science and Industry that if cell phone services do not decline by 25 percent within two years relative to early 2020 prices, it will expand mandated access to existing infrastructure. These looming policies create confusion and uncertainty about Canada's long-term direction for telecommunications. Needless to say, investment shrinks from confusion and uncertainty.

"Facilities-based providers" are those that own or operate their own telecommunications systems. Think Bell, Rogers, Shaw, Eastlink, or Telus. Without a regulatory framework that provides certainty, they will likely hesitate to make the long-term investments 5G requires. They are currently projecting $26 million in spending on the Canadian 5G rollout.

What does international experience with mandated access suggests? Boston Consulting Group's global **review** showed that capital intensity could fall by up to 25 percent. The result would be an investment gap in wireline and wireless capital expenditures of $2 billion in 2021. In a separate study looking just at Canadian implications of the same decision, TD Securities has **estimated** a similarly sized drop in investment in wireline investment.

If the rollout of next-generation broadband and wireless infrastructure ends up being delayed, Canadian consumers and businesses will lack access to these world-leading digital technologies, which means we risk stumbling in the global economic race with other countries.

Expedient deployment of the next generation of digital infrastructure is therefore an economic imperative. The federal government must provide facilities-based telecom companies with a clear and predictable regulatory framework that balances vigorous and sustainable price competition with incentives for continuing investments to improve network and service quality.

Benjamin Dachis is Director of Public Affairs at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.

A version of this Memo first appeared in The Financial Post.