

Transparent renewal conditions foster an environment of sustained network investment



Key lessons

- **In 2021, Canadian regulator ISED renewed expiring licences in the 2500-2690 MHz band.**
- **This decision was based on the existing Framework for Spectrum Auctions in Canada and aimed to foster innovation and investment.**
- **The framework grants high confidence of renewal for operators meeting their spectrum licence conditions.**
- **Such clear visibility on renewal conditions has contributed to a favourable investment environment, with Canadian operators spending more network capex (as a percentage of revenue) than those in peer countries.**

Background

In 2011, following reorganisation of the 2500-2690 MHz (2.5 GHz) frequency range to the IMT band plan, Canadian regulator ISED offered flexible-use licences to incumbent users through a direct award. These licences, covering approximately two-thirds of the band, expired in 2021. The remaining spectrum in the band was auctioned in 2015, with licences expiring in 2035.

The Framework for Spectrum Auctions in Canada (FSAC) states that spectrum licence holders should have a “high expectation of renewal”, unless the licence terms have been breached or there is a strong case for repurposing the spectrum.

In 2020, ISED held a consultation proposing that directly-awarded licences in the 2.5 GHz band be renewed with no upfront fee where licence holders could demonstrate that they were providing a minimum level of population coverage – ranging from 15% to 50% in different regions of Canada. Among the regulators’ objectives was fostering innovation and investment.

The directly awarded 2.5 GHz spectrum was renewed for 14 years, matching the expiry of the auctioned licences and paving the way for the full band to be re-awarded in 2035. The licences are held by both national and regional operators. No new entrants registered interest in acquiring spectrum in the band during the renewal consultation process.

Challenges

Whilst licences were renewed without upfront fees, other costs are incurred by licensees:

- Licensees must continue paying annual, CPI-adjusted spectrum fees. Since 2020, these fees have increased by 20% while prices for mobile services have fallen (by up to 45%, according to a recent study).¹
- Licensees exceeding specified revenue thresholds must invest 2% of revenues generated from these licences into approved R&D activities. Mandatory R&D spending risks diverting capital from network investment, and tracking spending creates an administrative burden.

- Licensees must meet minimum population coverage requirements in remote areas (59 so-called Tier 3 areas across Canada). Given the associated lack of return on investment, these obligations drive challenging network rollout decisions and risk inefficiently allocating capital to areas with limited societal benefit.

The latter two conditions increase the cost of holding spectrum licences without providing incentives for efficient spectrum use. The operators challenged ISED on these conditions during the consultation, but no changes to the licence conditions were implemented.

Benefits from the policy

Three key elements of the renewal combine to provide investment certainty while promoting efficient spectrum use:

- The high expectation of renewal granted by the FSAC de-risks infrastructure investment – especially towards the end of a licence term.

- ISED's straightforward process, with no additional upfront renewal fees, frees capital for investment.
- Robust spectrum trading and sub-licensing processes reduce the danger of spectrum being "locked in" to inefficient use over a long licence term.



Stable framework aimed at fostering innovation



Expectation of renewal de-risks investment



Renewal gives certainty to support greater infrastructure spending

Final impact

ISED's renewal process enabled existing licence holders to retain spectrum in the 2.5 GHz band. Long licence durations with clear renewal expectations provide a strong investment environment. A 2024 report found that the Canadian telecom sector invested approximately 18% of revenue on network infrastructure in 2023, compared to less than 14% across peer countries.¹

ISED is currently using a similar framework to renew licences in the 2300 MHz band, looking to enable the benefits of providing long-term investment across multiple bands.

¹ PwC, "Driving Canada's productivity: The impact of the telecom sector and its role in improving productivity", June 2024

