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# IN BRIEF

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## Satellite Radio

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### INTRODUCTION

One of the biggest broadcasting stories of the past year was the arrival of subscription satellite radio services in Canada.<sup>(1)</sup> Satellite radio is “arguably the most revolutionary advancement in broadcasting history”<sup>(2)</sup> and the biggest technological development in radio since the introduction of FM radio almost 40 years ago.<sup>(3)</sup> One commentator ventured that satellite radio “will change the very nature of Canadian broadcasting from the ground up, as well as the tuning habits of Canadian radio listeners.”<sup>(4)</sup>

Like the distinction between basic, non-cable television and enhanced cable with high-definition digital programming, satellite radio offers greater variety and greater range for a greater price.

Digital audio programming is sent via satellite directly to cars, homes and public locations for subscribers who have special receivers. Unlike conventional radio, which can be received for free, satellite radio subscribers pay a fee of approximately \$14 per month for the service. In addition, the receivers needed to listen to subscription radio programming cost from \$70 to \$400. Much like satellite television, each broadcasting service has its own type of receiver which will receive only that broadcaster’s programming.

### THE TWO SATELLITE SERVICE PROVIDERS IN CANADA

XM Canada and Sirius Canada are the two satellite radio services now broadcasting in Canada. They are affiliated with XM and Sirius, the two services that have been available in the United States for several years. Each Canadian service carries over 85 channels of programming. The music channels on both services are claimed to be entirely commercial-free<sup>(5)</sup>

and the news, talk, sports and comedy radio channels have substantially fewer commercials than conventional radio.

### THE ADVANTAGES OF SATELLITE RADIO

The range or reach of satellite radio is significantly greater than that of conventional radio, which is generally local and emits signals that fade with distance and can be disrupted by mountains or other objects on the landscape. Satellite broadcasting technology allows a radio broadcaster to send a signal to a satellite located in orbit above the earth; the satellite then returns the same signal to a large area of the earth’s surface (the signal’s “footprint”). The technology allows a signal to be sent directly to any place that has a device for receiving it. It is thus possible to listen to the same channel during a drive from St. John’s, Newfoundland, to Ucluelet, British Columbia – a range of almost 5,000 miles. The satellite signal will be lost, however, when something is between the incoming signals and the receiver, such as a parking garage or a bridge. Weather conditions may also disrupt the signals from time to time.

Satellite radio is further distinguished from conventional radio by the variety and depth of programming offered. Music programming in particular is categorized and subcategorized. For example, programming is offered by decade (50s, 60s, 70s) and differing genres (urban, country, bluegrass, Latin, hip-hop, Christian, jazz and blues, classical, world, rock). Among each genre further divisions are found: for example, one service offers an all-Elvis channel, and “classic rock,” “progressive rock” and “deep classic rock” niches are represented. Each service also plans to broadcast exclusive concerts for subscribers. Channels dedicated to talk radio include politics, sports, advice, and lifestyle.

This ability to provide such niche programming means that satellite radio can offer subscribers far greater depth and variety than can conventional radio. In contrast, AM and FM radio is constrained by a comparatively limited number of channels. As well, each station must pursue its own target audience and thus cannot risk offering programming that is radically different. As a result, conventional radio is criticized as becoming increasingly homogenized. Moreover, the amount of commercial advertising on conventional radio may irritate some listeners.

### **THE DISADVANTAGES OF SATELLITE RADIO**

What satellite radio does not offer, however, is local news, traffic and weather; for that listeners must continue to rely on their conventional local – and free – AM or FM radio stations.

Satellite radio also does not offer exposure to “world music” as broadly as the radio channels available free of charge over the Internet (assuming the availability of a computer and Internet connection). Programming offered by satellite radio, while wide-ranging, is limited to broadcasts from North America.

The most significant drawback to satellite radio is that a new type of receiver and, more importantly, the radio content must be purchased. Convincing radio listeners to buy what they are accustomed to receiving free may be a challenge. Moreover, each service has its own type of receiver which receives only that broadcaster’s programming. Consumers must select and then stay with a particular service or else incur significant costs for switching.

### **CANADIAN AND FRENCH-LANGUAGE CONTENT ON SATELLITE RADIO**

The Canadian Radio-television and Telecommunications Commission (CRTC) requires that all conventional radio stations ensure that 35% of their popular musical selections are Canadian each week. Before granting licences to Canadian satellite radio services, the CRTC had to decide how much Canadian content each service must provide.

This issue was a matter of significant debate during the process to approve the services in Canada. Because the programming on satellite radio is mostly American-produced, there were concerns that there would be insufficient levels of Canadian and French-language content, and that what Canadian and French-language content was available would be overwhelmed and marginalized.

Many people, however, supported the arrival of satellite radio in Canada, praising the greater variety and reach of the service over conventional radio. Emerging and independent Canadian artists in particular were supportive, suggesting that satellite radio, with its niche markets, would provide greater exposure than does conventional radio’s mass market.

Ultimately, the CRTC decided that 10% of the satellite radio channels available in Canada must be Canadian-produced, and one quarter of that 10% must be French-language stations. These channels will be available to the entire North American market. Moreover, each satellite radio service must devote at least 25% of the Canadian musical selections it broadcasts to songs by emerging Canadian artists. Further, each service must contribute minimum sums for Canadian talent development; this money is to be divided equally between French- and English-language talent.

In late 2005, both Sirius Canada and XM Canada launched their programming. Ten of the 100 channels Sirius Canada offers are Canadian, with equal numbers of French- and English-language programming. Of the 88 channels on XM Canada, 8 are Canadian: 4 each in French and English.

### **SATELLITE RADIO AND THE “GREY MARKET”**

Prior to late 2005, no Canadian radio service was authorized to provide satellite radio programming in Canada. Some Canadians wishing to receive the service obtained it from one of the two U.S. providers via the “grey market.” Canadians would buy U.S. receivers and then subscribe to a U.S. service, using a false U.S. billing address. As many as 80,000 Canadians may have used this grey market avenue to obtain satellite radio service.<sup>(6)</sup> It was suggested that many of these grey market users signed up mainly to receive a particular channel featuring a U.S.-based radio personality.<sup>(7)</sup> (That channel and radio personality are included among those now heard on a Canadian-distributed satellite radio network.)

It was also suggested that the number of grey market users indicated a strong interest in receiving satellite radio and that if the service was not available in Canada, then Canadians would resort to the grey market. This, in turn, could cause the grey market to grow even larger.

Tied to these concerns about the size and growth of the grey market are fears of concomitant loss of revenues and opportunities for the Canadian music and broadcasting industries. Money spent on foreign broadcasting is money that will not be spent on Canadian broadcasting. Moreover, Canadian broadcasters are obliged under their terms of licence to devote a certain proportion of their programming to Canadian content; foreign broadcasters have no such requirement. Therefore, the grey market may represent both economic and cultural losses to Canadian listeners.

Now that satellite radio is being distributed in Canada, it will be interesting to see whether the grey market listeners will be repatriated to Canadian satellite radio services and what effect, if any, that may have on Canadian broadcasting and cultural industries.

## OTHER ECONOMIC CONSIDERATIONS

Satellite radio is now offered on many new cars, either as an option or already installed. Automakers have partnerships with different satellite radio service providers: XM with General Motors, the leading North American auto manufacturer, and Sirius with Chrysler in Canada and the United States. Sirius also has an agreement with Ford in the United States but not yet in Canada. Subaru offers both services, depending on the model of car.

With the growth and increasing acceptance of satellite radio as a viable alternative to commercial radio, there are concerns that the value of advertising time on conventional radio will decline. This is particularly so given that one of satellite radio's main selling points is that it is virtually commercial-free. This decline in the value of advertising time on conventional radio could, in turn, lead to losses of revenue for radio stations and their shareholders.

## FUTURE CONSIDERATIONS

Satellite radio hardware and programming were available in Canada in 2005 in time for the lucrative Christmas shopping season. Early reports suggest satellite radio will be a hit with Canadian consumers.<sup>(8)</sup> Whether it will result in greater exposure of Canadian artists in North America remains to be determined.

On 13 January 2006, the CRTC announced it will hold public hearings as part of a review of its Commercial Radio Policy. Among the issues the Commission has

identified for discussion is "what is the likely impact of other audio technologies, such as satellite radio, Internet radio, podcasting, file sharing and downloading, on commercial radio and the music industry?"<sup>(9)</sup>

In addition, the Commission wishes to assess the effectiveness of the requirement that satellite radio service providers allocate at least 25% of the Canadian musical selections they broadcast to songs by emerging Canadian artists.<sup>(10)</sup>

Undoubtedly these issues will be of significant interest to participants and observers.

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- (1) Greg Quill, "The year of digital satellite," *The Toronto Star*, 28 December 2005, p. E8.
  - (2) Joe Leary, "Stern a hot buy on 'grey market,'" *The Province* [Vancouver], 15 January 2006, p. C3.
  - (3) SpaceRef Interactive Inc., Press Release, "XM Satellite Radio Launches First U.S. Digital Satellite Radio Service," 25 September 2001, <http://www.spaceref.ca/news/viewpr.html?pid=6105>.
  - (4) Quill (2005).
  - (5) XM satellite radio, the U.S. version of XM Canada, recently added advertising to four of its music channels: Sarah McBride, "Four XM Music Stations Will Start Running Ads," *The Wall Street Journal*, 8 March 2006, p. B3. This may signal a change in approach, as one commentator suggested that "Analysts believe the company, and its partners, could one day generate significant revenue from advertising" (*ibid*). Any change in the U.S. services' approach to advertising may have a similar effect on the services in Canada.
  - (6) Greg Quill, "Thousands of Canadian Stern fans sign up for 'grey market' radio," *New Brunswick Telegraph Journal*, 5 January 2006, p. E6.
  - (7) *Ibid*. See also Leary (2006).
  - (8) See, for example, S. Tuck, "Satellite radio will be a hit with Canadians, report says," *The Globe and Mail* [Toronto], 12 December 2005, p. B5; and F. Anderson, "Satellite radios fly off shelves: Sales 30% higher than expected, electronics retailers say," *The Vancouver Sun*, 9 December 2005, p. H3.
  - (9) Broadcasting Notice of Public Hearing CRTC 2006-1, 13 January 2006, <http://www.crtc.gc.ca/archive/ENG/Hearings/2006/n2006-1.htm>.
  - (10) *Ibid.*, paragraph 87.