

Mechanisms to Attract International Investment and Partnerships to the Brazilian Audiovisual Industry

by Steve Solot*

I. Brazil – The New Center of Global Attention

The recent Rio+20 (2012), and the upcoming World Catholic Youth Day (2013), Soccer Confederations Cup (2013), World Soccer Cup (2014) and Olympic Games (2016), are focusing worldwide attention on Brazil, and on Rio de Janeiro in particular. The massive investment programs in infrastructure for the upcoming international mega-events, government policies focused on economic growth, plus a growing middle class have converged with the country's extended period of economic stability under President Dilma Rousseff to make Brazil more attractive than ever. Moreover, despite the global crisis and the recent modest slowdown of the Brazilian economy, Brazil continues to offer a safe haven for international investment, driving impressive rates of growth in the Brazilian economy and especially in the entertainment and media industry.

Brazil's growing prominence on the world stage symbolizes the shift in global economic power away from the G7 economies towards the developing world. According to the economic think-tank, the Centre for Economics and Business Research (CEBR-London), Brazil has overtaken the UK in 2012 to become the world's sixth-largest economy. Despite an international outlook still uncertain regarding consequences of the European public debt crisis, the projection is that the investments will continue to grow in and flow to Brazil, and barring a disintegration of the Eurozone, Brazil is expected to experience acceleration in economic growth by 2013.

II. The Brazilian Audiovisual Sector – A Convergence of Factors for Growth and Investment Promotion

This is an especially exciting time for audiovisual content producers, media platforms, advertisers and investors in many international markets, and specifically in Brazil. According to the PricewaterhouseCoopers (PwC) study, the **Global Entertainment and Media Outlook: 2012-2016**, the global entertainment and media market began to recover from a sharp decline in spending, driven by the global recession. In 2010 the market was worth U\$1,420 billion and is expected to grow at a healthy rate of 5.7%, reaching an estimated U\$1,870 billion in 2015.

Of the key global regions, North America will dominate, accounting for 34% of the total. However, it is the Latin American market, and particularly Brazil, that is growing the fastest, predicted to grow at 10.5% between 2011 and 2015, more than double that of the more mature North American, European, Middle Eastern and African (EMEA) markets. Brazil boasts an impressive growth rate of 11.4% in its entertainment and media market.

Worth U\$33 billion in 2010, it is expected to reach U\$57 billion in 2015, bypassing Italy, Canada and South Korea by 2014 to become the seventh largest in the world by 2014.

An analysis of the **Erro! Fonte de referência não encontrada.** total entertainment and media market in Brazil in 2010 shows that television advertising is the largest component, with U\$8 billion or 24%, the largest in South America. Payments for Internet access (both wired and mobile) represented 21% of the market, while TV subscriptions represented 16%.

Entertainment and media spending in Brazil: 2010

MARKET SEGMENT	US\$ MILLION	PERCENTAGE
Television Advertising	7.830	23.7
Internet access: wired and mobile	6.848	20.7
TV subscriptions and license fees	5.173	15.6
Newspaper publishing	3.667	11.1
Consumer magazine publishing	2.411	7.3
Consumer and educational pub.	1.787	5.4
Business-to-business	1.735	5.2
Filmed entertainment	1.368	4.1
Internet advertising: wired/ mobile	766	2.3
Radio	615	1.9
Out-of-home advertising	420	1.3
Videogames	392	1.2
Recorded music	235	0.7
TOTAL	33.104	100

Source: PwC Global Entertainment and Media Outlook, 2011-2015

In 2010, the filmed entertainment market was worth U\$1.4 billion, accounting for 4.1% of total entertainment and media spending in Brazil, and is expected to reach U\$2 billion by 2015. Brazil broke the all-time box office record in 2011, grossing U\$790 million (R\$ 1.41bn) from 141.6 million admissions which represent an increase of 12% in total sales and 5% in tickets sold. The theatrical exhibition sector in Brazil has been in constant expansion since 1997. The principal model for screen expansion has been that of multiplexes integrated into shopping centers.

The growing Brazilian middle class, and rapidly expanding lower middle-class (the “C” and “D” classes), have attained increased disposable income, and an increasing appetite to experience new access to film, television and new media markets, and thus generate new revenue streams for producers. For content distributors, the government’s plans to

expand the national broadband network and the relaxation of certain regulations create opportunities for providers to enter new markets.

Internet access has increased steadily in Brazil, growing from 19 million households in 2006, to a record 82.6 million by first quarter of 2012, out of a total population of 192 million, according to the research firm IBOPE. Mobile Internet usage has increased even more steeply, from just 0.5 million people in 2006 to 19 million people in 2010. By 2015, it is expected that 88 million people will subscribe to mobile Internet.

Brazil has the largest broadband universe in Latin America, at 14.8 million in 2010, and is projected to increase to 34 million by 2015. The federal government is planning an annual public investment of R\$5.3 billion (U\$3.2 billion) by 2014, as well as additional total investment of R\$5.7 billion (U\$3.4 billion) through the state-controlled telecom company Telebrás, to provide low-cost infrastructure to underserved areas.

The Pay TV subscription market was valued at U\$5.2 million in Brazil in 2010 and is projected to grow at a compound rate of 16.6% through 2015. There are currently approximately 15 million Pay TV subscriber households in Brazil. With the entry of telcos in Brazil, a large increase in the number of Pay TV subscribers is expected. Currently, less than 20% of the country's TV households have access to Pay TV (ANATEL, 2010), out of a total of 60 million (ANATEL, 2011). In Argentina, this percentage is 54%, Chile 25%, and Mexico, 23%.

The home video market was worth U\$580 million in 2010, and is projected to grow at a rate of 6.2 percent to 2015. The in-store rental market is also predicted to grow by 7.4 percent between 2011 and 2015.

According to the Cesnik, Quintino & Salinas law firm, since the early 90's, Brazil has promoted its entertainment industry through the direct and indirect use of public resources. Today the broad spectrum of support mechanisms to promote production, distribution and exhibition of audiovisual content across all windows and platforms is one of the most sophisticated in the world. This set of mechanisms is administered by ANCINE, Brazil's National Cinema Agency. Proceeds from tax incentives are intended exclusively to support independent Brazilian film production.

However, some of the funding mechanisms directly benefit foreign companies, such as film distributors and Pay Television programmers interested in co-producing with Brazilian independent producers. Those foreign companies may benefit from income withholding tax deductions (Articles 3 and 3-A of the Audiovisual Law), and exemption from the Contribution to the Development of National Film Industry (CONDECINE), in cases where these sums are applied to remittances of royalties (or foreign producer share) payable outside of Brazil. The foreign company taxpayer may also transfer the tax benefit to the Brazilian company that undertakes the remittance, which then becomes a co-producer eligible for all benefits associated with the investment. This benefit may also be applied to "project development, including the stages of research and script development", among other activities.

The CONDECINE benefit for Pay TV Programmers is a mechanism which grants an exemption to foreign Pay TV programmers from the CONDECINE on remittances of royalties outside of Brazil, for the licensing of content for transmission in Brazil, provided they invest up to 3% of their tax payable into co-productions of independent Brazilian audiovisual projects approved by ANCINE. Project formats may include: feature length, medium and short film, telefilm; miniseries; and educational and cultural television programs.

The approval of the long-awaited new Pay TV Law No. 12.485, in September 2011, now in force, should provide for a substantial boom in Brazilian audiovisual industry. The new law, besides regulating the entry of telecom companies in the supply of Pay TV services, should also stimulate the emergence of Brazilian channels, programmed by Brazilian companies, as well as the production of legally-eligible Brazilian content such as feature films, series, documentaries and animation, and to encourage independent production through quotas.

The new law was regulated on June 4 by Ancine through Normative Resolutions 100 and 101. It establishes tax benefits for co-production of Brazilian independent audiovisual content and should drive market growth for Pay TV in Brazil, which had previously shown a low rate of penetration compared to other countries - including those in Latin America. All audiovisual works produced with these fiscal benefits are classified as Brazilian works, and are eligible to fulfill the domestic content quotas imposed by the new legislation.

A 2010 study sponsored by ANCINE indicated the low incidence of domestic content in Pay-TV feature film channels of 14.6%. If Canal Brasil, a Pay-TV channel dedicated exclusively to Brazilian content, were to be excluded from the analysis, this percentage drops to only 1.4%, or to only 64 titles. As a consequence of quotas imposed under the new law, there should be an explosive increase in demand for independent content in the coming years, which will fundamentally change the industry's structure.

III. The Focus on Rio de Janeiro

While the film and television sectors are expanding throughout the country, much of the growth has been concentrated in Rio de Janeiro state, now recognized as the leading destination for international audiovisual productions in Brazil. Some of the factors leading to the predominance of Rio de Janeiro in the expansion of growth and investment opportunities in the audiovisual sector are:

- Rio de Janeiro is currently home to Brazil's major broadcast networks, several Pay TV and production service companies, the major independent producers, national and international film distributors, and to the industry's most important public institutions, such as ANCINE and the BNDES. It is also served by RioFilme, the Rio Film Commission and Rio Negocios.

- Rio hosts the most significant audiovisual events in Brasil: the Rio de Janeiro International Film Festival (September/October); the Rio Content Market (February/March), Anima Mundi (July) and the Brazilian Cinema Academy Awards Ceremony (Grande Prêmio do Cinema Brasileira, May).
- Rio boasts four film schools active in the city's thriving university systems.
- Rio hosted 51% of foreign film and television productions in Brazil in 2010, establishing itself as the nation's leading destination for international audiovisual production. Rio accounts for 90% of both the admissions and the revenue of Brazilian feature films. Seven of the 10 largest production companies that release most of the country's films are based in Rio. In addition, Rio is home to the largest conglomerate of production and distribution of content and media in Latin America, the Globo Enterprises, with net revenue of R\$ 10.4 billion.
- Rio is also the major hub for academic excellence in the Brazil. According to official international educational evaluation agencies, its universities house the largest number of Brazil's most esteemed undergraduate and graduate programs in key areas such as Engineering, Business and IT. The Federal University of Rio de Janeiro, the Catholic University (PUC-Rio), the Military Institute of Engineering and the Getúlio Vargas Foundation are among those institutions that produce professionals fully prepared to work on behalf of Brazil's self-sustaining development.
- The Research Center of Petrobras (CENPES), the highest expression of scientific development of the city, stands as one of the largest institutions of knowhow in the field of energy.
- There are seven technology parks based in Rio, including that of the Federal University of Rio de Janeiro (UFRJ), which has attracted more than U\$1 billion in funding during the last two years, through new centers supported by Petrobras, Schlumberger, Halliburton, FMC, GE, Baker Hughes, and Usiminas. By 2013, five thousand highly skilled jobs will be concentrated in this locale.
- Rio Negócios, the city's official Investment Promotion Agency serves a centralized, single point of contact to facilitate new business platforms. Established by the Mayor's Office in 2010 as a public-private partnership designed to attract investment to the city, this pioneering agency reflects the new Rio: modern, responsive and professional. Rio is the city that has attracted the largest direct foreign investment in Latin America and was ranked 4th in the world in 2010, according to the "Financial Times." Projections for 2012 are encouraging: new investments of R\$1 billion and 15 projects are under negotiation with a potential to create over three thousand jobs, with a concentration in research and technology centers, focusing on engineers, scientists and chemists in commercial research. Half of the current Brazilian capital market originates with companies based in Rio: giants such as Petrobrás, Vale, Eletrobras and EBX.

- New massive infrastructure projects are underway in various sectors such as mass transit, new infrastructure projects that include Bus Rapid Transit (BRT), Light Rail Transit (LRT) systems and extended metro and commuter rail service. Such investments are aimed at expanding Rio's infrastructure capacity to serve as host to, the many upcoming mega-events culminating with the 216 Olympics.
- The Filme Rio-Rio Film Commission (FR-RFC) provides "one-stop-shopping" for all audiovisual production needs within the state, including permits, locations and police assistance, as well as political, technical, legal, infrastructural and logistical support. Created in September 2009 in a joint effort of the State Government of Rio de Janeiro and Rio de Janeiro's City Hall, through the State Secretariat of Culture and RioFilme, the ultimate mission of the FR-RFC is to attract audiovisual productions in any format to both the city and the state of Rio de Janeiro. The FR-RFC is the only Film Commission in Brazil which offers an incentive in the form of a grant for projects originating outside the state (or country).
- RioFilme, the public investment company for the audiovisual sector administered as an organ of the Municipal government of Rio de Janeiro, has been the primary engine of growth in the development of the audiovisual industry in Rio. RioFilme's strategic objective is to firmly establish Rio de Janeiro as the primary center for audiovisual activity in Latin America. In 2012 RioFilme operates with a budget of R\$35 million, investment in 75 audiovisual projects, applied direct investments of R\$31 million, and estimated earnings of R\$10 million.

There has never been a more auspicious moment in the evolution of the Brazilian multiplatform film and television production, distribution and exhibition business. The positive climate for investment, growth, innovation and partnership is attracting worldwide attention and curiosity. The time is right for foreign investors, producers and industry executives to explore the new, multiple opportunities in the Brazilian audiovisual sector.

However, they should do so equipped with current market information and background on relevant legislation and industry players, all of which may be found in the new publication by the Latin American Training Center-LATC, in partnership with the Cesnik, Quintino & Salinas Law Firm, "**The Brazilian Audiovisual Industry: An Explosion of Creativity and Opportunities for Partnerships.**" This new publication presents a unique panorama of each sector of the multi-faceted, vibrant audiovisual industry in Brazil, and highlights opportunities for investment, content licensing, co-production and partnership in the current industry boom.

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