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Brazilian Market for Television and Cinema

By RIO TVA

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Canada

BRAZILIAN TELEVISION AND CINEMA MARKET RESEARCH REPORT

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1. EXECUTIVE SUMMARY

The purpose of this study is to act as a guide to the Brazilian cinema, television and audiovisual market segments for all professionals in these areas, focusing on the favourable conditions for the exhibition, audience, profits, production, and joint production.

- Brazil, with very marked regional cultures, almost 8.5 million Km^2 in size, and a population of close to 180 million people, offers many opportunities and segments for international partnerships. In 2004, 90 million Brazilians were part of the Economically Active Population, while family consumption reached C$427 billion[1] in general terms.

- The total income of Brazilians increased by 1.5% in 2004, with family consumption also increasing. According to *Target*, Focus on the Brazilian Media Annual Publication (*Target, Anuário de Mídia Brasil em Foco*), Brazilians spent C$4.83 billion in Culture and Leisure, with the Southern and South-eastern Regions accounting for most of this spending.

- The Federal Government plans to invest C$524 million in cultural programs in 2005. Of this amount, C$305.67 million will come from the budget of the Ministry of Culture and C$218.34 million will come from tax incentives. The Bank of Brazil (*Banco do Brasil*) alone plans to spend C$20.08 million on cinema, theatre, lectures, and cultural exhibits.

- In 2004, Brazil was the Latin-American country that attracted the most direct foreign investment: C$15.08 billion, an 80% increase from 2003.

Television

- 97% of Brazilians have a TV set, with 90% of these being in color. Brazilian television broadcasting covers 99.69% of the national territory, with a total of 240 stations and six large networks. *TV Globo*, the largest Brazilian network (that is celebrating its 40th anniversary in 2005) has a 99.69% national coverage that reaches an average audience of 54% of the population and had generated revenues of C$2.84 billion in 2004, a 29% increase over the previous year and 80% of the total for all 'open' TV stations.

- Among the many communication media presently available, open TV occupies 1st place. Open TV revenues in 2004 reached C$3.58 billion. In the so-called "Television Country" the use of this media is essential in all undertakings that want to reach the general population given its extensive coverage.

- The growth of Pay TV in Brazil, which had not exceeded 1.2% annually since 2000, increased by 2.1% during the first three quarters of 2004, reaching a level of 3.66 million subscribers. This is the reason why the Pay TV sector foresees expenditures in excess of C$833 million on equipment, services, and expansion by 2006. This sector offers good investment opportunities for projects that want to supply materials, components, and equipment.

- According to research conducted by FGV[2], spending for Brazilians with Internet and Pay TV will increase from 0.60% to 1.69% of the monthly domestic household budget.

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[1] C$1 = R$2.29 - US$ 1 = C$1,20 – Central bank rate, March 17, 2005. IBGE – *CRCVisão Consultoria – O Globo* 1/04/05

[2] *Fundação Getúlio Vargas* – 2004 (*Getúlio Vargas* Foundation)

- The DVD market increased sales from 3 thousand units in 1996 to over 3.5 million by 2004. For 2005, sales in excess of 6.0 million units are predicted. Total revenues doubled for this sector in 2004, reaching C$296.94 million. A total of 15,743,850 permanent private homes in Brazil have video cassette players, with 58 million people living in those homes.

- The *pay-per-view* TV market has increased significantly in the last two years, covering mainly national and international sports such as soccer, boxing, tennis and basketball, as well special programs, such as reality-shows and adult movies. There were 600,000 subscriptions in 2003 – 2004.

- The *spin-off* and licensing markets for TV and cinema are in the order of C$873 million per year. For example, the Printing House *Editora Martins Fortes*, which has the rights for *The Lord of the Rings*, sold 500,000 books, with revenues of C$4.36 million. The company *Solymar*, responsible for licensing products related to the film in Brazil, estimated to have moved almost C$1.25 million in 2003.

- *Copyrights* are protected in Brazil as long as they are registered with the INPI – Intellectual Property National Institute (*Instituto Nacional de Propriedade Intelectual*). In spite of this, piracy is a serious problem in Brazil. Government programs are being implemented to deal with this crime. In 2004, Pay TV operators recorded a decrease in illegal linkages although there are still almost 300,000 pirated links.

- Each marketing insertion in prime time soap operas (2100 h) of the *Rede Globo* costs C$262,000, without taking production fees into account. Since 2003 this type of advertising has been able to cover the production costs of a soap opera: close to C$19.21 million. There were 107 insertions in the soap opera "*Senhora do Destino*" ("*Lady of Destiny*") broadcasted in 2005.

Cinema

- In 2004, the 1,817 movie theatres of Brazil registered 114 million admissions, an 11% increase over 2003. Revenues reached C$334.93 million, an increase of 18% compared to 2003.

- The movie market ranks number 8 among the communication media most preferred by the public in Brazil.

- The market for art films is growing, with 131 theatres dedicated to this niche market. During the last two years, the number of Film Clubs in Brazil reached 200.

- In 2003, the market share of imported feature films was 79.6% while the market share of Brazilian productions was 21.4%. In 2003, the audience for Brazilian films increased by 205% in comparison to the previous year. Studying the data of the IBGE 2000 Census, it is noted C$232.58 million representing 5% of the general spending of Brazilians on recreation and culture was for movie admissions.

- There are 17 large organizations in the Brazilian audiovisual sector, representing over 13,000 companies and more than 200,000 professionals.

- The creation of ANCINAV - the National Film and Audiovisual Agency (*Agência Nacional do Cinema e do Audiovisual*) – has generated a debate regarding the market regulations proposed by the government but which the artistic class and the film distributors, who did not agree with the 4% tax on productions, rejected. That figure would result in additional taxes of C$74.23 million/year on production and exhibition.

- Internet Movie piracy is increasing. In 2004, 500,000 films in Brazil were copied on the Internet. A pirated copy of national movies, of any niche, including adult movies, is sold at C$4.36 on the informal street markets.

- The 2004 Brazilian film figures, provided for ANCINE, which almost tripled in comparison to 2003, highlight the investments made through the Audiovisual Act. The year 2004 saw the largest number of Brazilian films launched since 1988. There were 48 feature films in total. The movie projects that benefited from the Audiovisual Act and the Rouanet Act captured approximately C$39.78 million.

2. GENERAL MARKET OUTLOOK

2.1 –Macroeconomic outlook

A Country of Opportunities

Brazil is a continental country. It has an area of 8,498,330 Km^2 with a population of 179,141,000[3] people, of which 147.28 million live in urban areas and 32.2 million in rural areas. Its GDP[4] was C$772.48 billion in 2004[5] (C$1.492 trillion in PPP according to other sources), having grown 5.2% over the previous year. Total income increased by 1.5% and so did family consumption, which reached C$427.01 billion in the same period.

Brazil is a vast country, divided into five geographic regions, united by the same language. The Brazilian high school curriculum included, until 1990, both French and English as second languages. However, since that time, English and Spanish have been the dominant second language options in Brazil.

Cultural Diversity

In Brazil, cultural identity is strongly determined by regioal cultures that establish local traditions and behaviours. Brazilian people tend to absorb foreign cultures as long as these are in tune with their own traditions. There are no restrictions in that regard. Miscegenation is another important characteristic of the population. Throughout the world, the so-called “humanistic Brazilian democracy” is well known.
Integration of political and social characteristics and cultural goods became more intense with the fast growth of open TV, which covers 99.69% of the national territory.

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3 *Target, Brasil em Foco 2004*
4 GDP – Gross Domestic Product
5 GDP 2004 = R$1.769 trillion -IBGE – *CRCVisão Consultoria – O Globo Economia* 1/04/05

Demographics

With a growth rate of 1.35% and a density of 21 inhabitants/km^2, the Brazilian population has been experiencing significant changes. The female population is in the majority with 91.5 million, or 51.1%, in comparison to a male population of 87.5 million. Brazil is considered a young country, but the number of people over 50 years of age has already surpassed 31.1 million, and continues to grow due to the improvements in life expectancy.

Ages	Number of inhabitants
0 to 9 years-old	32.846 million
10 to 19 years-old	35.293 million
20 to 29 years-old	31.482 million
30 to 49 years-old	48.410 million
Over 49 years-old	31.110 million

Trade and exports

The per capita consumption of the urban population is C$1,793.77/year (apx. US$1,458.46/year). The per capita consumption of the rural population is C$315.55/year (apx. US$ 256.56/year). During recent years, in a country where trade and service companies have a preponderant strength, there was significant growth in exports that surpassed, in 2004, the landmark figure of C$83.33 billion, largely driven by the agribusiness sector.

Number of companies:

- Trade: 2,125,579 companies
- Services: 1,642,482 companies
- Industry: 584,799 companies
- Agribusiness: 55,054 companies
- Bank branches: 17,183
- Total number of companies: 4,407,914

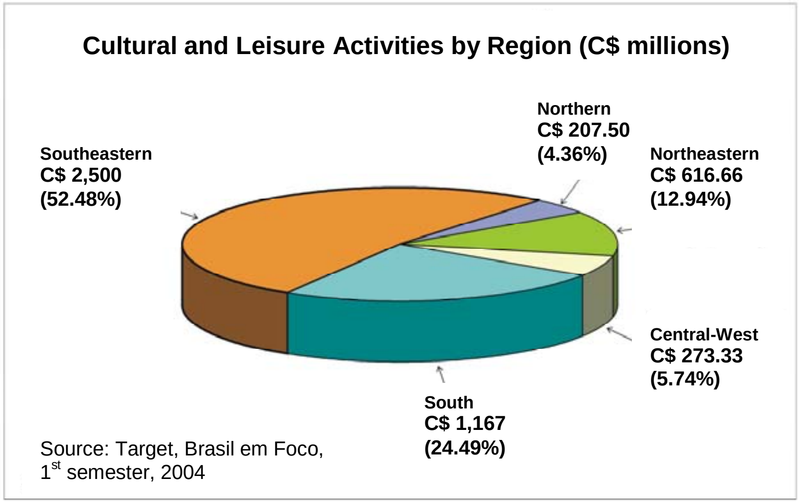
Social Classes and Salary Levels

In spite of good economic growth indexes, Brazil has a minimum wage of C$115.28/month (approximately US$100/month) and its social classes are stratified by salary levels.

Social Class	Monthly income
Class A1	Over 45 times the minimum wage
Class A2:	From 25 to 45 times the minimum wage
Class B1:	From 15 to 25 times the minimum wage
Class B2:	From 10 to 15 times the minimum wage
Class C	From 4 to 10 times the minimum wage
Class D	From 2 to 4 times the minimum wage
Class E	Up to 2 times the minimum wage

Culture and Leisure – National Consumption

According to *Target*, Focus on the Brazilian Media Annual Publication (*Target, Anuário de Mídia Brasil em Foco*), Brazilians spent C$4.83 billion on culture and leisure, with the Southern and Southeaster Regions dominating. This means that Brazilians spend 1.9% of their monthly consumption on these products, indicating great opportunities for the growth of the movie, television and audiovisual market.



2.2 – MACROECONOMIC PROJECTIONS

Brazil is among the 15 largest world economies with the service sector accounting for about 50% of the GDP. The economic engine of the country is well reflected by the Brazilian Stock Exchange in Sao Paulo - BOVESPA, (*Bolsa de Valores de São Paulo*) that alone moves more than all the other Latin American Stock Exchanges combined.

In 2004, inflation was 7% while GDP growth was over 5.13%. The expectations for 2005 are for a 3.17% growth level.

Industrial production in 2004 grew 6.0%, and business revenue experienced the highest increase in many years[6]. There is no doubt that there was significant employment creation and income recovery.

National Profile – Some relevant Indicators

Of a total of 49 million homes, 41 million are urban and 8 million are rural[7]. In general terms, the total income of Brazilians increased 1.5% in 2004 and so did family consumption. The regional map of Brazil offers some relevant data regarding the Brazilian market.

NORTH

- POPULATION**:** 14,071,193
- URBAN POPULATION: 9,879,194

NORTHEAST

- POPULATION: 49,864,895
- URBAN POPULATION: 35,027,710

[6] IBGE – *Instituto Brasileiro de Geografia e Estatística and IEDI – Instituto de Estudos para o Desenvolvimento Industrial*
(IBGE - Brazilian Geography and Statistics Institue and IEDI - Industrial Development Studies Institute)
[7] *Target, Brasil em Foco* 2004

- URBAN CONSUMPTION PER CAPITA/YEAR: C$ 1,019
- TOTAL NUMBER OF HOUSEHOLDS: 3,252,718
- TOTAL NUMBER OF COMPANIES: 147,937
- RECREATION AND CULTURAL EXPENDITURES: C$ 207 million

- URBAN CONSUMPTION PER CAPITA/YEAR: C$ 1,116
- TOTAL NUMBER OF HOUSEHOLDS: 12,460,294
- TOTAL NUMBER OF COMPANIES: 713,920
- RECREATION AND CULTURAL EXPENDITURES: C$ 617 million

CENTRAL-WEST

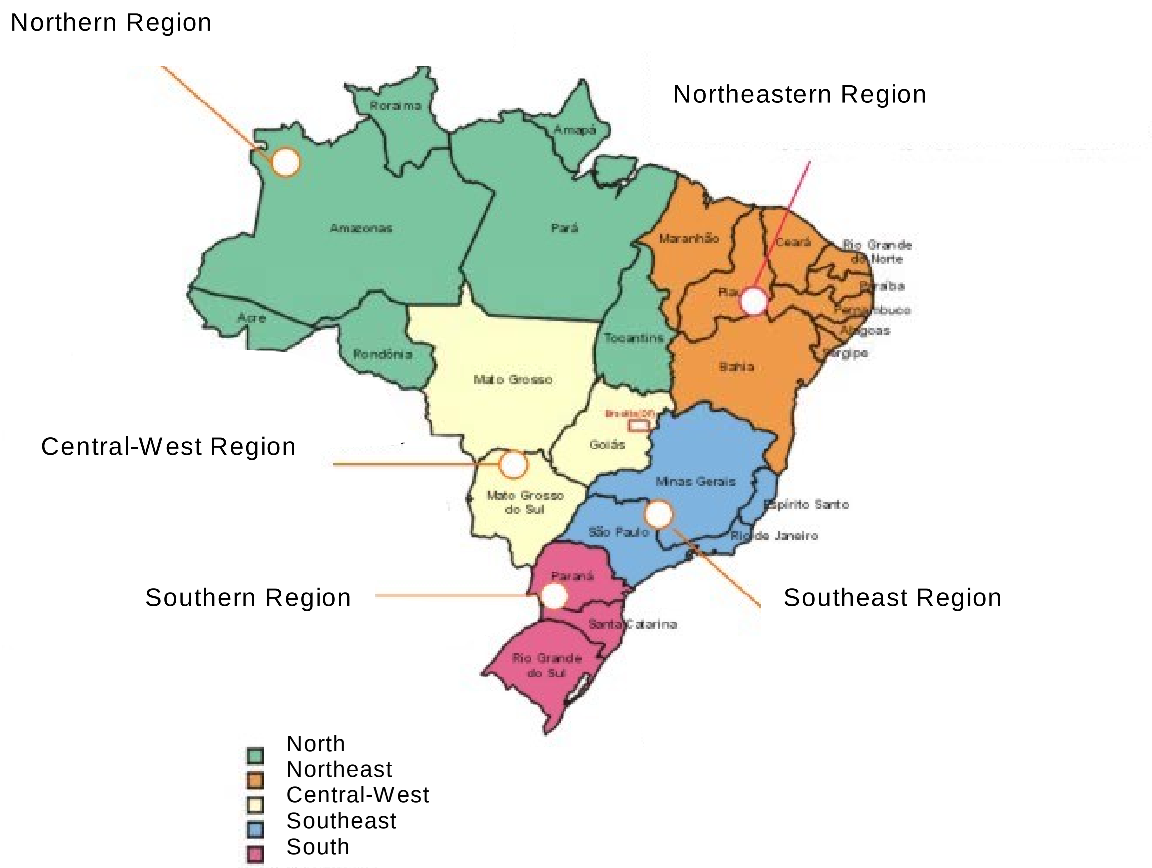
- POPULATION: 12,536,890
- URBAN POPULATION: 10,934,015
- URBAN CONSUMPTION PER CAPITA/YEAR: C$ 1,511
- TOTAL NUMBER OF HOUSEHOLDS: 3,593,373
- TOTAL NUMBER OF COMPANIES: 285,895
- RECREATION AND CULTURAL EXPENDITURES: C$ 274 million

SOUTHEAST

- POPULATION: 76,348,677
- URBAN POPULATION: 69,879,194
- URBAN CONSUMPTION PER CAPITA/YEAR: C$ 2,241
- TOTAL NUMBER OF HOUSEHOLDS: 22,369,316
- TOTAL NUMBER OF COMPANIES: 2,238,538
- RECREATION AND CULTURAL EXPENDITURES: C$ 2.592 billion

SOUTH

- POPULATION: 26,319,345
- URBAN POPULATION: 21,524,292
- URBAN CONSUMPTION PER CAPITA/YEAR: C$ 2,241
- TOTAL NUMBER OF HOUSEHOLDS: 7,927,173
- TOTAL NUMBER OF COMPANIES: 1,022,324
- RECREATION AND CULTURAL EXPENDITURES: C$1.148 billion



The Audiovisual Industry in Expansion

Since 1997, the Brazilian audiovisual industry has been experiencing quite significant growth, as shown by the statistics for this sector. There are currently 40,000 Brazilian professionals working directly and indirectly in the movies market, while the audiovisual industry provides employment for more than 200,000 professionals.

A FUNDACINE[8] survey indicates that cinematographic productions for the total Brazilian market may show growth of up to 300% in the next few years, based on the estimate that a feature film generates 112 jobs, and a short film, 81 jobs. There is a demand for training a specialized workforce in some functions including sound technicians, editing specialists, producers, and set and costume designers.

The audiovisual sector continues to act as a strong generator of employment and revenues. Today in Brazil more than 500 audiovisual production companies use a wide range of technological resources. Brazilian television stations employ close to 35,000 professionals, a number that rises to over 80,000 if indirect employment is also included.

[8] *Fundação Cinema Rio Grande do Sul* (Rio Grande do Sul Cinema Foundation)

Important markets, such as Rio de Janeiro, Sao Paulo, Porto Alegre and Curitiba have been showing cultural consumption rates in excess of 7% of income. For example, according to research done by FGV[9], the expenditures of Brazilians with Internet and Pay TV will increase from 0.60% to 1.69% of their total monthly domestic budget.

The Government and the Audiovisual Market

According to *Target*, Focus on the Brazilian Media Annual Publication (*Target, Anuário de Mídia Brasil em Foco*), the Federal Government plans to invest C$524 million in cultural programs in 2005: C$305.67 million from the budget of the Ministry of Culture and C$218.34 million from tax incentives. The Bank of Brazil (*Banco do Brasil*) alone plans to spend C$20.08 million in cinema, theatre, lectures and cultural exhibits.

In 2004, the Government, in partnership with *Petrobrás*, the largest oil company in Brazil, will spend C$2.53 million just on marketing independent production films. One of the two main governmental investments in the audiovisual sector is related to the exhibition and distribution of films, indicating that this has always been the main problem for Brazilian cinema. This is the reason that a credit line was opened for the construction, expansion and restoration of movie theatres around the country, including art theatres and road show movies, as well as the expansion of film clubs.

[9] *Fundação Getúlio Vargas* (Getúlio Vargas Foundation)

3. CINEMA - AN EXPANDING MARKET OPEN TO PARTNERSHIPS

(Appendix I – List of Festivals)

3.1. Growth Indexes

Going to the Movies accounts for 5% of the total Brazilian family spending on leisure and culture, based on the average 2004 admission price of C$1.81[10]. The trend for this index predicts continuous growth in the next few years.

Social Class	Cultural and leisure expenditures (C$ millions)	Expenditures on movie visits (C$ millions)
A1	C$ 414.23	C$ 2O.71
A2	C$ 1,118.79	C$ 55.08
B1	C$ 935.04	C$ 44.25
B2	C$ 928.93	C$ 43.91
C	C$ 916.57	C$ 43.33
D	C$ 461.81	C$ 22.25
E	C$ 62.11	C$ 3.08
Source: *Target em Foco* 2004 – final aggregated figures 2004		

In 2003, the audience of movie theatres in Brazil reached 100 million patrons, with almost 102.9 million admission tickets being sold, generating revenues of C$283.84 million. This represented a growth in audience of 13% in comparison to 2002 and a growth in revenues of 22%. In 2004, the total movie box office reached C$334.93 million[11]. The audience can be divided by age group as follows:

Movie Attendance by Age Group

Ranking	Age Group
1st place	20 to 29 years
2nd place	15 to 19 years
3rd place	10 to 14 years
4th place	30 to 39 years
5th place	40 to 49 years
6th place	Over 49 years

Aggregate Performance

In 2004, the Brazilian movie market continued to show solid growth. A total of 114 million admission tickets were sold[12] in comparison to 102.90 million in 2003. "The importance of Brazil is equivalent to Mexico", stated Rodrigo Saturnino, President of *Columbia Brasil*[13].

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[10] *Target – Anuário e Mídia 2005* = US$ 2,18

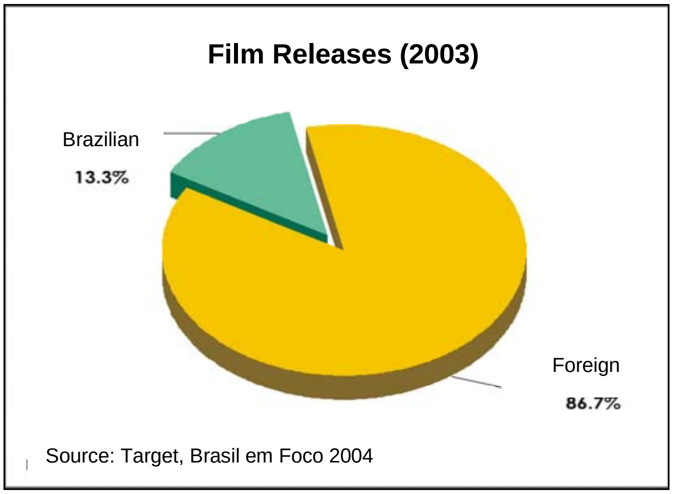
[11] *União Brasileira de Vídeos* (Brazilian Videos Union), *Exibitor relations* and Film B (Agregated data, March 2005)

[12] *União Brasileira de Vídeos* (Brazilian Videos Union), *Exibitor relations* and Film B (Agregated data, March 2005)

[13] In *Valor Econômico*, 18/02/2005.

In 2003, the market share of Brazilian productions was 21.4%, a level not reached since 1989, while the audience for foreign films registered a 4% drop due to fewer blockbusters in 2003 in comparison to 2002. The attendance at Brazilian movies in 2003 increased an astounding 205% in comparison to the previous year. In 2004 the *share* of Brazilian cinema dropped by 6% in relation to 2003, due to the good performance of major foreign productions and national titles that did not create public enthusiasm.

In 2004, international feature films performed very well in Brazil box offices. The top titles were "*Spider-Man II*" – 7.7 million tickets sold – and "*The Passion of Christ*" – 6.9 million tickets sold. Other large box office receipts came from: "*Lord of the Rings III*" and "*Troy*", both with audiences in excess of 4 million. "*Shrek II*" sold 4.6 million; "*Harry Potter and the Prisoner of Azkaban*" sold 3.3 million tickets; "*The Last Samurai*" sold 2.7 million; and *"Shark Tale"* sold 2 million tickets[14].



The total revenues of the 30 Brazilian films that opened in 2003 were C$58.51 million while the total revenues of the 195 foreign films that opened were C$224.236 million. In 2003, the film "*Carandiru*", directed by Hector Babenco and distributed by Columbia, was seen by almost 4.6 million people, with gross revenues of almost C$13.10 million. In 2002 the great success of "*Cidade de Deus" ("City of God"*) attracted more than 3.2 million people.

In terms of production, a record was achieved: 49 feature films, of which 31 were fiction and one was an animated film. Never before had so many documentaries been shown: 17 productions. In 2004, the short films sector also broke an historical record, with 100 short films.

Preferences by Type of Films[15]

The ranking of preferences of the Brazilian public by type of films is as follows:

1st place: action
2nd place: comedy
3rd place: suspense

9th place: science fiction
10th place: police/crime
11th place: children's

[14] *FilmB – SDRJ - Sindicato dos Distribuidores do Rio de Janeiro* (Rio de Janeiro Distributors Union)
[15] Research by the *IPSOS/Marplan* company.

4th place: no preference
5th place: romantic comedy
6th place: adventure
7th place: terror
8th place: drama

12th place: war
13th place: other types
14th place: musical
15th place: cartoons
16th place: erotic/porn

Female preferences:

1st place: comedy
2nd place: romantic comedy
3rd place: action
4th place: suspense
5th place: no preference
6th place: horror
7th place: adventure
8th place: drama

Male Preferences:

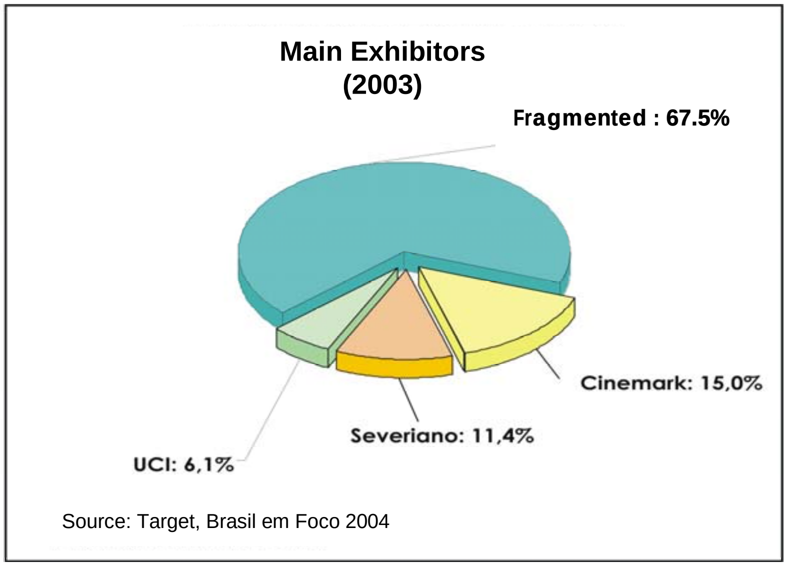
1st place: action
2nd place: comedy
3rd place: no preference
4th place: suspense
5th place: adventure
6th place: science fiction
7th place: horror
8th place: police/crime

Promising Scenario

The growth of the Brazilian movie market and the number of productions is due to a number of factors, including resurgence in the development of the exhibition sector; a well regularized production offer; and particularly, the investments made in marketing and sponsorships through tax incentive laws[16]. This situation can be evaluated through the following statistics:

- Number of movie Theatres: 1,817 – (2,000 movie theatres expected by 2006);
- Films opening in 2003: 225 - (30 Brazilian and 195 foreign films); (* Table)
- General Public – Movie market: 103 million (2003); 114 million, (2004)[17];
- Public - Brazilian films: 22 million (2003) – 18 million (2004)
- Public – Foreign films: 81 million (2003) – 96 million (2004)
- Gross revenues: C$283.84 million (2003) - C$334.93 million [18] (2004).
- Main exhibitors: *Cinemark* (15%); *Severiano* (11.4%); UCI (6.1%)
- Average admission price (historic prices for January[19]): C$2.74 (2003); C$2.82 (2004); C$3.02 (2005).
- Average admission price (2004), by region, only in the *Grupo Luiz Severiano Ribeiro* theatres: North/Northeast: C$3.93; South: C$4.36; Southeast: C$5.24 and Centre-West: C$4.80.
- Number of Video and DVD Rental Companies (2004): 2,800[20]

[16] Detailled in Chapter 4 of these document
[17] *União Brasileira de Vídeos* (Brazilian Videos Union), *Exibitor relations* and Film B (Agregated data for 2005)
[18] *União Brasileira de Vídeos* (Brazilian Videos Union), *Exibitor relations* and Film B (Agregated data for 2005)
[19] January: record box office month -SDRJ – *Sindicato Distribuidores Rio de Janeiro* – Research Study
[20] *Jornal do Commercio* March/2005



Sales abroad

The quality of national productions has led to an increase of 22% in the volume of sales of Brazilian films abroad. In 2003 the movie marketing market of the Brasilia Festival raised close to C$333,300 through the sale of 40 films. The title with the highest demand was "*O Homem que Copiava*" ("*The Man Who Copied*"). In 2004, during the 2nd Brazilian Films Market, which took place in Brasilia (with strong participation of French, Chinese and Italian buyers, as well as representatives of over 20 countries), 42 Brazilians films were negotiated, creating revenues of C$1.333 million until 2006.

Movie Theatres

The grand total of movie theatres under operation in 2004 was 1,817 including 60 multiplex complexes with 546 movie theatres and 131 art theatres. In 2003, 148 new movie theatres opened their doors, of which 70 were in the South-eastern Region; 29 in the Southern Region and 49 in the North-eastern. The average number of inhabitants per movie theatre at the 27 Brazilian regional capital cities is 44,353. The market for new theatres is still growing thanks to the incentives offered by the Government and governmental institutions. Currently, 213 cinemas are being built, mostly in shopping centers.

Financing Sources for expanding Movie Theatres

The National Bank for Economic and Social Development – BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*) has announced a line of financing to facilitate the construction of movie theatres in urban centers with populations with low purchasing power.

Exhibitors can also request loans directly from the Bank, starting at C$436,000. Aside from this, importing of cinema equipment has also received preferential treatment. Most of the machines are of foreign origin and represent almost 35% of the installation costs for a new movie theatre. The objective of BNDES is to turn around the decline suffered by the sector during the last few decades.

Movie Theatres in Shopping Centres – an Emerging Opportunity

Another great opportunity is related to the Shopping Centers sector that saw gross revenues of C$15.98 billion in 2004, according to Abrasce[21]. The result of the growth of Shopping Centers was an increase in the number of Multiplex complexes, which allowed an improvement in the quality of movie theatres as well as bringing the possibility of having a local cinema to the suburbs of the great urban centers. There are 131 shopping centers presently in Brazil, with market demand estimated to approach a level of 700 shopping centers. In all these shopping centers, movie theatres act as amusement, entertainment, art and culture anchors.

The main exhibitor in the country, Cinemark has over 27 multiplex movie theatres in shopping centers.

The *Grupo Severiano Ribeiro*, the second largest exhibitor in Brazil, has over two thousand seats in multiplex and 20 digital theatres, predicting investments in the order of C$21.83 million by 2006.

The Spanish *Espanha Cinebox*, in Brazil for the last two years, now has 48 movie theatres with plans for 78 by the end of 2005.

Marcus Araújo, owner of *Cinematográfica Araújo*, invested in partnerships with shopping centers and has today 70 movie theatres. He will soon open eight more in Cuiabá, Mato Grosso and the State of Goiás. The company hopes to close the year with about C$17.46 million in revenues from admission tickets and an audience in excess of 6 million, with an average admission price of C$2.72.

Proof that the market for movie theatres in shopping centers is growing is that, of 148 movie theatres inaugurated in 2004, 106 were installed in Shopping Centers in the North-eastern, South-eastern and Southern Regions.

3.2 Art Films

During the last ten or fifteen years we have observed the development of a demand for more refined art films such as: *Frida*, *Mindwalk, The Decline of the American Empire* and *The Barbarian Invasions*, among others. A good example is the great success achieved during the last Cinema Showcase of Sao Paulo by the Canadian author, actor and movie maker Robert Lepage. His film *The Dark Side Of The Moon* was very well received and will increase the interest in Brazil for a retrospective exhibition of works by this artist.

It is still too early to identify the factors behind the trend, but some are beginning to appear: the access of middle class to the Internet and the global awareness created by Pay TV, with its international news and variety channels. Another possible reason is the astounding growth of sophisticated shopping centers with multiplex theatres, restaurants and leisure options.

There is also an expansion in the number of art film showcases in museums and Cultural Centers, such as the Art Museum of Sao Paulo that regularly offers productions from classical directors such as Victorio De Sica, Fellini, Godard, and Orson Welles.

A highlight of this market is the existence of more than 50 festivals and showcases exhibiting both feature and shorts films with great emphasis in the art films market.

21 *Associação Brasileira de Shopping Centers* (Brazilian Association of Shopping Centers)

Searching for knowledge

A factor in the development of cinema in this segment can be measured by the increases in spending on education (6% of the domestic budget)[22]. This could mean an increased demand for educational, cultural and scientific products. At the same time, the country is increasing the level of education of its urban population and increasing the level of literacy, thus awakening the search for ways to take care of a growing desire for knowledge in significant segments of the population.

This even explains in part the increased audience of Pay TV – as its programming quality was substantially improved – as well as the strong growth in Internet use in Brazil. Presently there are 15 million users and this is expected to double by 2007. Among the participants in the last ENEM[23], students with Pay TV at home showed an increase in their marks by 14.1 points.

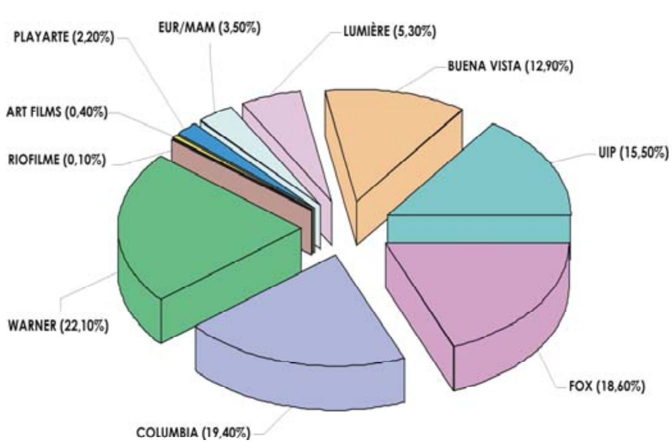
Cine Clubs and Art Theatres

Art film clubs in Brazil have today 131 theatres distributed in the urban centers with greater purchasing power, such as Sao Paulo, Rio de Janeiro, Brasilia, Rio Grande do Sul, Curitiba and cities in the interior of Sao Paulo State, among others (and without counting movie screens in auditoriums, film libraries, institutes, theme spaces and museums). The number of art films has reached 200 and the Federal Government celebrates those figures.

Distributors

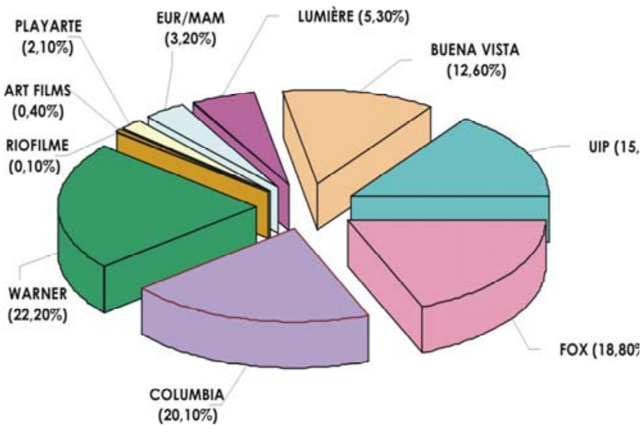
In the distribution market, *Columbia* had the largest share in 2004 regarding national productions. However, the overall distribution market leader that same year was *Warner*. with seven of the 20 most popular films. Its films attracted 25.4 million viewers. *Columbia* ranked second with 22.9 million. *Fox* was third with 21.5 million. Among the independents, *Lumière* had the highest market share with 5.3%, followed by the *Europa/MAM* consortium at, 3.5% and *Playarte* with 2.2%[24].

Distributor`s Market Share (2004) - Revenues



[22] FGV – Fundação Getúlio Vargas - (Getúlio Vargas Foundation) - 2004
[23] ENEM – *Exame Nacional do Ensino Médio*, (National Highschool Exams), Ministry of Education Program
[24] Boletim FilmB and SDRJ

Distributor`s Market Share (2004) - Audience



Source: SDRJ[25]

Major Exhibitors already on their way

Cinemark already has 11 movie theatres in Canoas in the State of Rio Grande do Sul; 9 in Taguatinga in the Federal District; and 8 more in Praia Grande in the State of Sao Paulo, among others. The *Severiano Ribeiro* group has a Multiplex in Nova Friburgo, a highland region of the State of Rio de Janeiro; and another in Vila Velha, in the State of Espírito Santo, for a total of more than two thousand seats in these cities. Diversification means better access to the Seventh Art.

The *Severiano Ribeiro* group launched the *Kinoplex* cinemas and is the second largest exhibitor in the country. It plans to invest more than C$21.83 million in new complexes between now and 2006. This group started in Sao Paulo two years ago and is now on its way to expand in the interior of that State, opening movie theatres in Osasco.

Another expanding company in this sector is *Cinebox*. In a span of two years this company has opened 48 movie theatres in Brazil. Their goal is to have 78 theatres by the end of 2005. *Cinebox* invests in poorly explored markets such as João Pessoa in the State of Paraíba; Campinas in the State of Sao Paulo; and Jaboatão dos Guararapes in the State of Pernambuco.

[25] SDRJ – Sindicato do Distribuidores do Rio de Janeiro

Exhibitors in Transition

The exhibitors market in Brazil recently came to a boil when the fight to purchase UCI became public. UCI has 6.1% of the market and has put its Brazilian operations[26] up for sale. After initial studies and audits, both *Cinemark* (an American company with 15% market share) and the *Severiano Ribeiro* group (a Brazilian company, with a market share of 11.4%) indicated their lack of interest.

The following data indicates the volume at play[27]

- *Cinemark* - 302 movie theatres, distributed in 35 Multiplex complexes.
- *Grupo Severiano Ribeiro* - 202 theatres, in 42 cinemas, with 19 of them being Multiplex complexes, 8 drive-ins, and 15 in other formats.
- *UCI* - 111 movie theatres in Multiplex complexes distributed around the country in the following shopping centers:

Movie Theatre Locations	State	Number
New York City Centre	Rio de Janeiro	18 theatres
Jardim Sul Shopping Center	Sao Paulo	11 theatres
Anália Franco Shopping Center	Sao Paulo	9 theatres
Ribeirão Shopping Center	Ribeirão Preto - SP	11 theatres
Aeroclube Shopping Center	Salvador - Bahia	10 theatres
Iguatemi Salvador Shopping Center	Salvador - Bahia	12 theatres
Recife Shopping Center	Recife - Pernambuco	10 theatres (*)
Tacaruna Shopping Center	Recife - Pernambuco	8 theatres (*)
Fortaleza Shopping Center	Fortaleza - Ceará	12 theatres (*)
Estação Shopping Center	Curitiba - Paraná	10 theatres
(*) Partnership with the *Grupo Severiano Ribeiro*		

Total Audience:

Cinemark

- In 2004: 27 million patrons.
- In 2003: 25 million patrons.

UCI

- In 2004: 10 million patrons.
- In 2003: 9.2 million patrons.

Severiano Ribeiro – Not published

Total Receipts:

Cinemark

- In 2004: C$131 million
- In 2003: C$108.2 million

Among the constrains mentioned by Luiz Gonzaga e Luca, Director of Institutional Affairs of the *Severiano Ribeiro Group*, is the fact that a superficial analysis indicates that the price of each movie theatre, following the UCI model, ranges between C$480,000 and C$567,000 giving a total estimate ranging between C$53.275 million and C$62.882 million.

[26] In O *Globo*, March 3, 2005.
[27] Data presented by the O *Globo* newspaper without indicating the source.

Comparative Global Market– Production

According to *Screen Digest,* the production of movies around the world increased by 1.7% in 2003 reaching a level of 4,087 feature films. World production levels have been rising consistently. There was an increase of 710 feature films during the period 1998-2003, a growth rate of 20.9%.

The United States production levels experienced a slight recovery in 2003, after three years of continuous decline. During this period there was an 18% increase in the number of feature films produced in South America, the highest level in 12 years.

World Production Trends by Region, in 2003

- Western Europe: approximately 900 feature films
- United States: approximately 600 feature films
- Latin America: approximately 150 feature films

World Investments in Production of Feature Films Trends by Region

- Europe: approximately C$5 billion
- Americas: almost C$12.5 billion

Average Production Budget per Film in 2003

- United States: C$20.52 million
- Brazil: C$850,000
- Argentina: C$300,000
- Mexico: C$1.43 million

Brazil – There were 30 feature films produced in 2003, a slight decrease from almost 50 films produced the previous year. Nevertheless, 2003 was a very good year for national cinema: the 40 films that opened captured 21.4% of the total box office, which is considered a record.

In 2004, 49 feature films were produced as well as a record 17 documentaries that used to be limited to Pay TV channels but are now beginning to be exhibited in open TV. Their budgets ranged from C$43,660 to more than C$2.18 million.

Brazilian Competitiveness

The growth of the Brazilian audiovisual market is a fact, and the country will become in the next five years the largest production hub in Latin America, according to the Government and audiovisual producers. There are several factors that stimulate producers, exhibitors and investors to bet on this market, whose potential opportunities are described in chapter five of this document.

A comparison with the Argentinean market indicates that investments in cinema and in the audiovisual market in general – based on the government tax incentives and private companies – are not only higher in Brazil, but also rising. The massive revenues of open TV broadcasting companies tend to reduce costs as well as expand the commercialization of productions for a market with a much larger audience than Argentina.

Furthermore, there is an immense market yet to be explored in Brazil as only 8% of the population has regular access to movies. The Government considers it crucial to expand this percentage to at least 20% in the next few years.

Brazilian Cinema on its way to Foreign Markets

Never in the history of the Brazilian audiovisual sector has the foreign market been so open to Brazilian cinematographic productions. In 2003, the Brazilian Cinema International Promotion Program (*Programa de Promoção Internacional do Cinema Brasileiro*) partnered the entry into foreign markets, being present at 122 events and exhibiting a total of 65 films.

Brazilians films opened last year in movie theatres of 14 different countries, including Mexico, Argentina, Portugal, France, England, Germany, Switzerland, Cuba, Japan, Singapore and Israel. The Program was active in the markets of 55 countries, generating almost 120 international copyrights sales contracts and forecasted to reach 247 festivals world-wide.

The agreement signed between *Ancine* and *Brazilian Cinema Promotion* creates certain expectations regarding the presence of Brazilian film-makers at international events, as well as increasing the number of events supported.

Created in 2000, *Brazilian Cinema Promotion* acts in a systematic way with the objective of promoting independent Brazilian productions. It is a non-profit organization that acts together with the *Grupo Novo de Cinema e TV* production company in the coordination of the Brazilian Cinema International Promotion Program, which counts on the support of the Export Promotion Agency of Brazil – APEX (*Agência de Promoção de Exportações do Brasil*); *Ancine* – the National Cinema Agency – *Ancine (Agência Nacional de Cinema)*; the Audiovisual Arts Development Secretariat of the Ministry of Culture; and partnerships with enterprises such as *Riofilme Grupo Fiat* and *Labo Cine*.

Regarding public policies it is important to highlight the creation of the Senior Cinema Council (*Conselho Superior de Cinema*) and the announcement of the creation of the National Cinema and Audiovisual Agency - *Ancinav* (*Agência Nacional do Cinema e do Audiovisual*) which represents a great step forward in the development and restructuring of the audiovisual sector. Another positive aspect observed during this period is the indication of a growing regionalization, helping to promote production diversity.

TV Stations enter into Feature Films Productions

Open TV channels, facing the success obtained by movie theatres in Brazil and a market with ticket sales that should exceed C$436 million by 2006, produced a marketing strategy targeting feature films production. It is one of the main marketing tactics of the audiovisual sector, and has already begun to be implemented through the aggressive actions of *Globo Films*.

With the entry in the market of *Band Films* and *SBT Films, Globo Films* is no longer the only open TV broadcaster in the country investing in the audiovisual sector.

In February 2005, *Band Films* launched, "*Garrincha - Estrela Solitária*" ("*Garrincha – The lonely star*") in 20 movie theatres across the country, and SBT, the second largest broadcaster in Brazil, joined the fray for open TV audiences, initiating its movie offensive in partnership with *Warner Brothers* and *Diller & Associados*. Since it opened in 1997, *Globo Films* has co-produced 31 feature films and has obtained, until now, the largest box offices for national cinema.

The Government stimulates competition

The Ministry of Culture welcomes enthusiastically the entry of broadcasters into the movie market. Mário Diamante, Special Advisor of the Audiovisual Secretariat of the Ministry of Culture, declared that: "The competition of TV broadcasters is a welcome initiative. All films have the right to be supported by the Federal Government and we are open to agreements to continue increasing production."

The low liquidity is due to the fact that 53% of the movie revenues (including taxes) stay with the exhibitor and 20% go to the distributor. According to the Audiovisual Act, a TV broadcaster can only be a co-producer of films and own no more than 49% of the undertaking.

Performance in the Movie Market of the Main TV Broadcaster

Globo Films, the movie production arm of *Rede Globo,* was responsible in 2004 for close to 80% of the national cinema market with an increase in revenues of 50% in comparison to 2003. For 2005 a further increase of 50% is foreseen.

By the end of 2003, *Globo Films* had co-produced 22 feature films, ten of which were launched in 2004. In 2004, the number of productions maintained the same level as 2003, while revenues for the production of feature films bearing the *Globo* seal to be shown in movie theatres[28] reached C$43.66 million.

These productions should also create revenues of C$10.91 million in DVD sales and C$6.55 million in television sales. The participation of the enterprise was crucial for the development of a market-oriented cinema.

Band Films, which is linked to the *Rede Bandeirantes de Televisão* network, also intends to produce feature films in the near future. Their first project is titled *"Um Homem Chamado Rondon" ("A Man called Rondon*"), a miniseries in 20 chapters that will be used in two feature films about the saga of Marshall Cândido Rondon. It is expected for 2006 at a cost of C$3.75 million, in a joint production effort with the local companies *Casablanca*, *Barra Films* and *Memória Civelli Produções Culturais*. The film has the characteristics of a feature documentary, a genre that is beginning to emerge in Brazil.

The SBT - *Sistema Brasileiro de Televisão* will enter this market with the film "*Coisa de Mulher"* ("*A Woman's Thing*"), a romantic comedy in the same mould as "*Sex and the City*". It will cost C$2.09 million, and is presently at the post-production stage and should open in 2005. It expects to attract about 600,000 viewers to the movie theatres.

The first *Record Films* production "*O Segredo dos Golfinhos"*[29] ("*The Secret of the Dolphins*"), was directed at children and had a cast from their own broadcasting station. As of February 2005 it had attracted an audience of 255,000.

3.3 Digital Films – The immediate future [30]

The high level of training in information technology helps Brazil to be at the cutting edge of establishing the largest digital movie network in the world and significantly reduces production and distribution costs for feature films.

[28] Valor Econômico - Robinson Borges.
[29] Folha de São Paulo
[30] Research undertaken by the Brazilian Festival Guide (*Guia Brasileira de Festivais*)) **www.kinoforum.org/guia/2005**

The Brazilian company *Rain Networks*, which operates 46 movie theatres in the country, developed a digital distribution system called *Kinokast,* and is planning to establish a network of 100 digital movie screens in the country at a cost of C$125,000 each. The company is already negotiating with American and British partners to export its system to other countries and is creating interest among national and foreign distributors.

The *Luiz Severiano Ribeiro* Company already has 25 digital movie theatres in Brazil.

Valmir Fernandes, President of *Cinemark do Brasil*, with 272 movie screens in the country, states "We are facing a new technological reality[31]". With the advances in digital reception technology, more and more audiovisual directors and producers support the advantages provided by this form of reception. The practicality of the format, particularly in the case of documentaries, determines new forms of expression and a significant increase in production. Shows may still depend mostly on film, but the new digital transmission and projection systems are starting to reach the market, including the main Brazilian festivals dedicated to cinema and video.

Offers and Licenses (*Spin-Offs*)

Another sector with strong opportunities is the one for licensed and promotional free gifts, which generates revenues of C$873 million, over four times the total amount generated by the toy market (data from *Forbes* magazine, Brazilian edition, June 2004).

Forty million items of free gifts linked to the entertainment industry are produced annually in Brazil. The largest manufacturer is the Australian company *Creata*, whose 100 outsourced factories in China produce C$655 million worth (annually) of action figures, key holders, and products/free gifts licensed by famous brands.

Companies such as *McDonald's, C&A, Blockbuster, Bradesco, Visa* and *Bic* are the leaders in free gifts and licensed products. For example, *Creata* has been in Brazil since 1998 years thanks to the *McDonald's* network. During this period, the company produced and distributed 200 million pieces exclusively for this North American fast food chain, which has 1,200 restaurants in Brazil serving an average of 655,000 customers a day in 21 states.

The company *Creata*, one of the largest promotional marketing agencies in the world, is considering the possibility of expanding in Brazil their production and distribution of free gifts and licensed promotional products to 80 million items/year, thanks to their new promotional and materials technologies.

Creata sales in Brazil are about C$14 million per year. Among their main clients for licensed free gifts are *Kellog's, Visa, Shell, Disney, C&A, 5 à Sec, Vivendi, Nestlé, M&M, Kraft* and *Coca-Cola*. Its target audiences are children, teenagers and young people. The basic license is for free gifts related to TV, movie, and entertainment characters.

Movie Directors

Afonso Brazza – http://paginas.terra.com.br/arte/brazza/
Arnaldo Jabor -
Ary Fernandes – http://aryfernandes.vilabol.uol.com.br/aryhoje.html
Cacá Diegues - www.cacadiegues.com.br
Carlos Reichebach – http://www.geocities.com/contracampo/carlosreichenbach.html
Glauber Rocha - www.tempoglauber.com.br

[31] The Christian Science Monitor, February, 2004

Hector Babenco – www.uol.com.br/hectorbabenco
Luiz Carlos Barreto – www.uol.com.br/lcbarreto
Mazzaropi - www.museumazzaropi.com.br
Murillo Salles – www.murilosalles.com
Nelson Pereira dos Santos –
Tata Amaral – www.uol.com.br/tataamaral/
Tizuka Yamazaki –
Zé do Caixão – www.uol.com.br/zedocaixao
Walter Lima Junior – www.geocities.com/walterlimajr
Walter Hugo Khouri -

3.4 Festivals

Gramado Festival – Brazilian and Latin Cinema

Made official by *Inacen,* the National Film Institute (*Instituto Nacional de Cinema*) in January 1973, the *Festival do Cinema Brasileiro de Gramado* started as showcases promoted during the Hydrangea Festival (*Festa das Hortênsias*), between 1969 and 1971. Starting in the 1980s, with artistic and cultural discussions increasing in priority at the Festival spaces, the event naturally became one of the main festivals of the genre in the country. By bringing together a large number of films and individuals that want to talk about movies, creations, and sounds, the Festival is today an essential space for marketing and discussing cinematography in Brazil. http://www.festivalgramado.com.br/

Sao Paulo's International Film Showcase

This showcase is an example of a non-profit cultural event organized by the Brazilian Association of International Cinema Showcase - ABMIC (*Associação Brasileira Mostra Internacional de Cinema*) and recognized by the International Federation of Film Producers Associations. The Showcase has three sections: international perspective, special presentations, and competition of new directors (for directors' first, second, and even third films). In 2004, a total of 329 films (268 feature films and 61 short films) from 66 countries were exhibited in 19 movie theatres around the city. www.mostra.org

Screenings & Seminars of the Festival of Rio de Janeiro

A great place to meet for those involved in the audiovisual business is at the *Festival do Rio*, taking place in September and October. Participants have access to Brazilian producers of short and feature films (documentaries, fiction or animated), as well as TV series in VHS and DVD. www.festivaldorio.com.br

Anima Mundi - Rio de Janeiro

The 2004 edition included 612 producers showing feature films, short films, clips, commercials, and serial episodes from 43 countries. There were 131 Brazilian works, of which 93 were in competition. The USA showed 59 titles, while and France and the UK screened 51 titles. A total of 90,000 admission tickets were sold during the ten days of the festival. www.animamundi.com.br

Brazilian Film Festival of Brasilia

The *Festival de Brasilia do Cinema Brasileiro* is the oldest in the country and is getting stronger every year, attracting more people, more press coverage, and more directors choosing the festival to exhibit their productions for the first time. The event was born as an initiative of the Cultural Foundation of the Federal District (*Fundação Cultural do Distrito Federal*) that in 1960 was celebrating the transfer of the Federal Capital. The Week of Brazilian Cinema was created with the backing of the students and teachers of the University of Brasilia (UnB). www.ficbrasilia.com.br and www.sc.df.gov.br

Cine Ceará - National Film and Video Festival

Cine Ceará is one of the recent Brazilian festivals that has grown faster during the last few years, being today one of the most important in Brazil. Taking place since 1991, the festival was born from an effort to exhibit videos produced by local directors. This event has now become a reference for film makers and a place to exchange ideas and experiences.

Competitions

Audiovisual Secretariat / Ministry of Culture
(*Secretaria do Audiovisual / Ministério da Cultura*)
Brasilia (DF)
Tel: (61) 316-2233 – Fax: (61) 225-3293
info@minc.gov.br ◆ http://www.cultura.gov.br/

Selection of Short Films Scripts / Petrobrás *Cinema*
(*Seleção de Roteiros de Curtas-Metragens / Petrobrás Cinema)*
Rio de Janeiro (RJ)
Tel: (21) 2534-4477 – Fax: (21) 2534-6981
info@minc.gov.br ◆ http://www.cultura.gov.br/
Cinema@petrobras.com.br ◆ www.petrobras.com.br

- ***Ceará***
  Ceará Cinema and Video Award
  (*Prêmio Ceará de Cinema e Vídeo*)
  Fortaleza – Ceará
  Tel: (85) 3452-9400
  Tel/Fax: (85) 3452-9410
  secult@secult.ce.gov.br ◆ www.secult.ce.gov.br

- **Minas Gerais**
  Short Films Incentive Award
  (*Prêmio Estímulo ao Curta-Metragem*)
  Minas Gerais - Belo Horizonte – MG
  Tel: (31) 9946-7544 / 9635-1026
  curtaminas@vsnet.com.br ◆ http://www.curtaminas.com.br/

- **Rio de Janeiro**
  Riofilme Short Films Competition
  (*Concurso de Curtas Metragens Riofilme - Rio de Janeiro (RJ)*)
  Tel: (21) 2220-7090 –
  Fax: (21) 2220-8949
  riofilme@pcrj.rj.gov.br ◆ www.riofilme.com.br

- **Rio Grande do Sul**
  Fumproarte - Porto Alegre (RS)
  Tel: (51) 3224-6855 (r. 40 e 46)
  Fax: (51) 3324-6855
  fumproarte@smc.prefpoa.com.br ◆

International Festivals and Markets

American Film Market
http://www.afma.com/
Festival of Venice
http://www.labiennaledivenezia.net/it/cinema/index.cfm
Festival of Cannes
http://www.festival-cannes.fr/
Chicago Latino Film Festival
http://www.latinoculturalcenter.com/
Miami Festival of Brazilian Cinema
http://www.brazilianfilmfestival.com/
NY Brazilian Film Festival
http://www.nybrazilianfilmfestival.com/
Paris Brazilian Film Festival
http://www.jangada.org/
Huelva Iberoamerican Film Festival
http://www.festicinehuelva.com/

Karlovy Vary Festival
http://www.iffkv.cz/
London Festival
http://www.lff.org.uk/
Mar del Plata Festival
http://www.mdpfilmfestival.com.ar/
Mifed
http://www.mifed.com/
Montreal Festival
http://www.ffm-montreal.org/
New York Festival
http://www.filmlinc.com/nyff/nyff.htm
Sundance Film Festival
http://www.sundance.org/
Rotterdam Festival
www.iffrotterdam.nl

3.5 - Contacts with Movie Distributors

Art Films *(*) Companies that buy most art films*	Mr. Ioussef Ali secretaria@artfilms.com.br Av. Rio Branco, 277 - Rio RJ Cep 20047-900 – Tel.(21)3221-0222 rodolfo@artfilms.com.br – www.artfilms.com.br
Buena Vista /Disney	Mr. Fernando Barbosa - USA- Miami (305) 567-2280 - www.disney.com.br- Tel. (11) 5504-9440 www.buenavista.it
Columbia TriStar Pictures do Brasil	Hélios Alvarez (11) 5503-9808; Mrs. Ana Lucia and Mr. André Sala (11) 5503-9867 - www.columbiapictures.com.br e www.columbiadvdvideo.com.br
Dreamworks	Mrs. Liza Kramer - USA – Burbank- (818) 695-6817
Europa Films	Mr. Matteo Levi (11) 4195-7020 - Alameda Itaperucu, 320 Alphaville – Barueri - SP – SP Cep: 06454-080 - www.europafilms.com
Grupo Estação (*)	Mr. Roberto Martins (21) 2539-1505 - Rua Voluntários da Pátria, 53 – Botafogo - Cep 22270- 010 trafego@estacaovirtual.com.br - www.estacaovirtual.com.br – grupoestacao@estacaovirtual.com
Grupo Novo de Cinema	Tel. (21)2539-1538 – internacional@gnctv.com.br www.braziliancinemapromotion.com.br
Curta o Curta (*)	Tel. (21) 2539-7016 contato@curtaocurta.com.br - www.curtaocurta.com.br
Films Clássicos	Tel. (11)3064-4792 filmsclassicos@zimail.com.br /www.filmesclássicos.com.br
Fox Film do Brasil	Mr. Elie Wahba (11) 3365 5205 - Rua Eduardo Souza Aranha, 387 Itaim SP – SP - Cep: 04543-121 www.foxfilm.com.br
Globo Films	Mr. Carlos Eduardo Rodrigues – Director (21) 2540-1540 Av. das Américas,700, Bloco 2, sala 301 –Barra- Rio - RJ Cep 22631-000
Imagem Films	Rua Brigadeiro Silva Paes, 225 – Campinas – São José Santa Catarina Cep: 88101-250
Hoyts General Cinema (*)	Sra. Elisa Machado Tel. (11)6425-0845/0650 guarulhos@hgc.com.br www.hgcinema.com.br
Lumière (*)	Sra. Marta Vieira Ramos (21) 2132-3200 lumiere@lumierebrasil.com.br /www.lumierebrasil.com.br
Mais Films *Espaço Unibanco*	Mr. Ademar Oliveira (11) 3266-5767 and 3262-5274 - e maisfilms@uol.com.br www.maisfilms.com.br
Paramout	Mr. Victor Berbara (21) 2580-3130 Rua General Bruce, 55 - São Cristóvão-

	Centro Rio - RJ - Cep 20921-030
Playarte	Mr. Otelo B. Coltro (11) 5051-6996 www.playarte.com.br e jairo@playarte.com.br
Rio Filme	Tel. (21) 2557-5899 - Praça Floriano Peixoto, 19, 13º Rio - RJ - Cep: 20031-050 www.riofilme.com.br
Severiano Ribeiro (Grupo)	Mr. Eduardo Simões Tel. (21)2220-6835 eduardosimoes@severianoribeiro.com.br General Tel. (21) 2524-2486.
Synapse	Mr. Julio Worcman - Rua Sete de Setembro, 43 Centro – Rio RJ (21) 2224-9434 Cep: 20050-000- synapsegroup@synapse-brazil.com.br www.synapse-brazil.com Tel. (21) 2537-1211
United International Pictures	Mr. César Silva Tel. (21) 2220-1599 Av. Rio Branco, 311 Centro Rio – RJ – Cep 20046-900 www.uip.com.br
Universal	Mr. Chris Philip – USA -(305) 531-1618 Tel.(11) 4197-5868/5800 http://www.universalstudios.com/
Warner Bros Brasil	Mr. David Guerrero - USA Miami (305) 461-8256 www.warnerbros.com.br
UIP	Mrs. Dalka Chouzal Tel. (21) 2210-2400 dalka_chouzal@uip.com e uip@uip.com.br

4. - TELEVISION: A FORCE THAT MOBILIZES BRAZIL

4.1 – Open TV

In Brazil, TV is extremely influential in comparison to other countries.

Open TV is the most important and efficient communication media in Brazil. It reaches all social classes, age groups, metropolitan areas, and rural regions. The fact that the segment attracts 60% of publicity spending is evidence of this.[32]

The impact of open TV is so large in Brazil that the soap opera "*Senhora do Destino"*, exhibited in 2005 by *TV Globo,* managed to capture a 70% share of viewers. The same happens with the reality show – "*Big Brother*", also from *TV Globo,* which has 40 million faithful viewers daily, reaching share peaks of up to 71%. Of each ten television sets connected, seven were watching this broadcaster.

Program Exports

Data presented by the United Nations indicates that Brazil is presently exporting a total of C$166.66 million in TV programs, which represents 30 thousand transmission hours. This means that aside from the domestic strength of Brazilian television, its quality is gradually beginning to compete in the world market. According to the United Nations, Brazil has significant potential as an exporter of audiovisual products.

The statistics regarding open TV in Brazil are impressive:

TV per number of inhabitants – Brazilian Profile

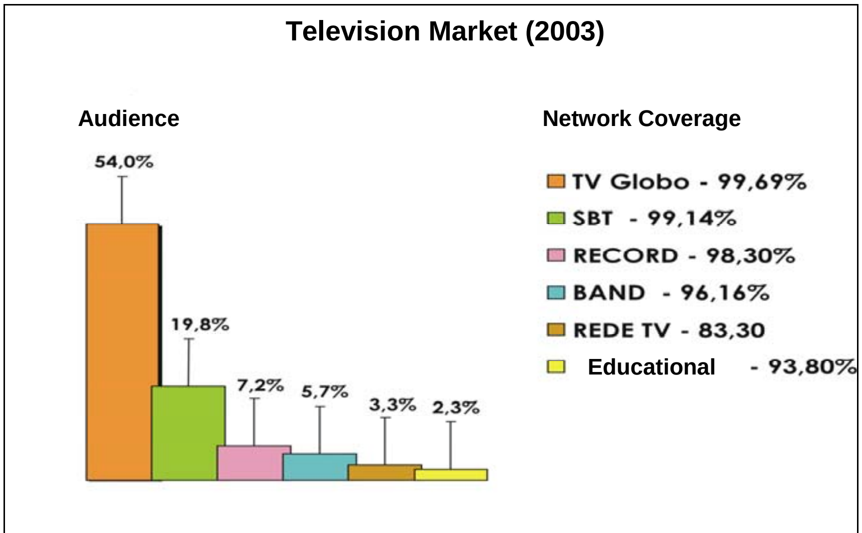
Total number of homes in Brazil: 49 million
Total number of permanent private homes: 44,776,736.
Occupants in these homes: 168,450,489
Private permanent homes that have a TV set: 36,060,190
Occupants in these homes: 146,389,034,

At the same time, among the communication media, open TV was among the most admired in 2004[33], second on Brand Prestige. There are 240 TV broadcasters in Brazil. The *Globo* TV Network (*Rede Globo de Televisão*) is the market leader with a BPI[34] of 70 points.

National Coverage

In terms of domestic coverage by open TV, the following data demonstrate the strength of television as a key factor for national integration[35]:

[32] Annual Media Publication of 2005 (*Anuário Mídia 2005*) and the M&M 2005 Magazine
[33] *Troiano Consultoria de Marca* (Troiano Brand Consultants)
[34] Brand Prestige Index
[35] IBOPE



Source: IBOPE

Open TV and the Advertising Market

Between 1999 and 2004 open TV generated almost C$12.50 billion in advertising revenues. The following are annual advertising revenues figures:

- 1999 - C$ 2.025 billion
- 2000 - C$ 2.514 billion
- 2001 - C$ 1.895 billion
- 2002 - C$ 1.627 billion
- 2003 - C$ 2.283 billion
- 2004 - C$ 2.398 billion

Participation of Regional Markets in Advertising Investments (2003)		
		(C$)
Sao Paulo and Metropolitan Sao Paulo	28.6%	517.9 million
South	15.4%	278.6 million
Sao Paulo - interior	12.6%	228.7 million
North East	11.9%	214.6 million
Rio de Janeiro	11.9%	216.4 million.
South East (excluding Rio and SP)	8.3%	149.6 million.
Centre-West	7.7%	139.2 million.
North	3.7%	79.25 million
Source: *Anuário Mídia 2005*		

Open TV Audience

The strength of television can be demonstrated by the following breakdown of domestic audience levels[36]:

Ranking	National Audience
1st place	Open TV
2nd place	Radio
3rd place	Radio FM
4th place	Outdoor
5th place	Magazine
6th place	Newspaper
7th place	Internet
8th place	Cinema
9th place	Pay TV

Open TV audience by Age Group

Ranking	Age Group
1st place	From 20 to 29 years old
2nd place	Over 49 years old
3rd place	From 30 to 39 years old
4th place	From 40 to 49 years old
5th place	From 15 to 19 years old
6th place	From 10 to 14 years old

Ten most preferred programming segments

1- Journalism	6- Children
2- Soap Operas	7- Sports
3- Films	8- Series
4- Feminine	9- Shows
5- Auditorium	10- Interviews
11 – Other subjects	

Consumer Preferences

Market Outlook for Children's Programming in TV [37]

According to a study coordinated by Professor Marcio Schiavo, a UNICEF (United Nations Children's Fund) consultant, children's programming is in general "*machista*" and prejudiced. These results are based on the analysis of 151 hours of children programming in the six main TV stations of Brazil, registering 308 sexual stimulants and references, which is the equivalent to one every 29 minutes. With the exception of *TV Cultura* the programs targeting children deal with sexuality in a fun and discriminatory manner, strengthening stereotypes. The excess of violence and the erotization of television are part of the parental complaints.

36 Research study by *IPSOS/Marplan*.
37 www.educacional.com.br

A study conducted by the Ministry of Justice and sponsored by UNESCO demonstrated that 75% of parents would like to see some type of control on what is exhibited. Of these, 64% would support classification by age group and time of transmission.

International Children's Day of Broadcasting (ICDB) [38]

UNICEF has instituted the International Children's Day of Broadcasting (ICDB). The goal is to stimulate the participation of children in media productions and make professionals working in broadcasting reflect about the programming they transmit.

This day is celebrated every year on the second Sunday of December. Close to 200 TV and radio stations normally join the project, providing space for children to express their thoughts and demands.

New Technologies Create a New Children's Audience [39]

In 1983, children's programming was limited to the purchase of canned cartoons. Today, the formula to conquer the children's audience is much more complex. According to the specialists, Pay TV has begun to compete with Internet, open TV, and the torrent of games for the attention of children and advertisers.

The arrival of Pay TV in Brazil, and other media was instrumental in changing this situation. Children today are not the same than when they were only exposed to open TV. "And that new menu of medias pulverized advertisers", said Dora Câmara, Director of *Ibope Mídia*.

The Director of *TV Record* is of the opinion that, although the majority of the audience has not migrated to Pay TV channels, those channels have nevertheless taken away important advertisers from open TV. Although only a minority of children watch Pay TV, this segment is precisely the one viewed by the children of those parents who can best afford purchasing toys.

Cartoons and Television Dramas

Cartoons – even the oldest ones – continue to be in high demand. In spite of the phenomenal success of the new crop of cartoons there is still place for children's dramas, as was proven by the remake of the "*Sítio do Picapau Amarelo*" ("*The Place of the Yellow Woodpecker*"), on *TV Globo.*

In 2005, the Education TV of Rio de Janeiro is preparing to launch "*Menino Maluquinho*", ("*Crazy Boy*") among other dramatic products.

A sign of the lack of creativity in children's programming is that the shows most watched by children from 4 to 11, according to *Ibope*, are programs targeting adults such as the national news, soap operas and the comedy shows of *Globo.* In a list of the 30 programs most watched by that age group, in August 2004, only 3 were really children's programs: "*Criança Esperança*", from *Globo* (11th place), "*The Flintstones*" (21st) and "*Festolândia*" (29th), from SBT.

Videocassettes vs. DVDs

Brazil has 28 million videocassette players (VHS), a product whose retirement is already announced. Only those machines that have both DVD and VHS will survive, as the ones being produced by *Gradiente,* which does not produce exclusively VHS players any longer.

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[38] www.multirio.rj.gov.br

[39] *Folha de São Paulo* - Ilustrated - 2004

- Permanent private homes with videocassette players: 15,743,850
- Occupants in these homes: 58,233,791

DVDs are a sales phenomena. Since 1997, sales have gone up from 3,000 per year to 3.5 million per year. Sales in 2004, reached C$296.94 million, almost double the previous year[40]. The sale of musical DVDs has increased 1,340% since 2000: from 500,000 units sold in 2000 to close to 7.2 million in 2004, according to a market estimate (2004 data has not yet been released by the Brazilian Record Producers Association *-Associação Brasileira de Produtores de Discos*)[41].

Radio vs. TV - Evaluation Parallels

As an example, it is worth comparing the market penetration of radio and its economic components with the strength of open TV. There are 6,218 radio stations in Brazil (2nd highest index in the world) and 240 TV stations. About 88% of all homes have a radio, while 90% have a TV. Around 74% of Brazilians listen to the radio every day while 70% watch TV every day. Total Annual revenues of open TV are more than ten times those of radio. Radio: C$349.34 million in 2004; TV: C$3.58 billion in 2004[42].

TV Digital - Brazilian Model

One of the great novelties in the market is the signing of agreements, by the Ministries of Communications, and of Science and Technology, with 27 research institutions for conducting feasibility studies for the Brazilian Digital TV model.

Those studies will analyze not only technical aspects but also the political, economic and social factors related to the project. The presidential decree of November 2003, that created the Brazilian Digital TV System program (*Programa do Sistema Brasileiro de TV Digital*), predicted that these studies would be finished by March 2005, 12 months after the System Development Committee was established[i].

Purchasing Channels

The main Brazilian programming directors for open TV and Pay TV, as well as movie exhibiters and distributors normally visit international fairs to purchase films for their programming chains and movie circuits. The fairs that attract most professionals from the audiovisual sector are: Cannes – *MipCom*, NATPE and the Los Angeles Screenings. Those festivals are also meeting places for movie makers and buyers. In addition, purchases of packages, TV series, and cartoons are also discussed directly with the international sale channels.

The following statistics represent the average price paid by land broadcasters in the key regions of Brazil, for programs selected from the United States.

AVERAGE COST FOR FILMS[43]			
BRAZIL		CANADA	
Feature Films	C$83,333	Feature Films	C$104,166
TV Movies	C$20,833	TV Movies	C$83,333
Dramas	C$11,250	Dramas	C$41,666

[40] *Jornal do Commercio*, March 2005
[41] *Folha de São Paulo* - 20 February, 2005 - Ilustrated
[42] *Folha de São Paulo* – March 2005
[43] *Variety*, US magazine

Sitcoms	C$3,333	Sitcoms	C$29,166
Documentaries	C$4,166	Documentaries	C$4,166
Children	C$3,750	Children	C$20,833
Musicals/Arts	C$9,166	Musicals/Arts	C$6,250

Prices vary, as in the case of dramatic productions where prices are charged by the hour while for sitcoms, documentaries and children's, music and art programs the price is based on each half hour. The prices charged for feature films vary significantly according to their gross box office revenues in the United States and/or in the most important markets.

Another important market for audiovisuals is the Rio Screenings & Seminars – the great point of contact for the sector during the *Festival do Rio*, which takes place in September. The participants have access to Brazilian short and feature films (documentaries, fiction, or animation), as well as TV series in VHS and DVD.

The main Brazilian open TV networks, *Globo*, SBT, *Record* and *Educativas*, buy independent programming. "In addition to a cultural necessity, diversification of programming is a clear trend of the television market. The independent Brazilian television productions are gradually conquering spaces. Producers such as *Comalt, O2, Griffa, Gyros* and others are gradually occupying spaces in the programming chain[44]".

Agreements and Partnerships

Rede Globo has a contract with Fox to exhibit feature films from their studios and has negotiated a package of new series such as *Boston Legal*, the award winning *Arrested Development*, *NorthShore* and the new *Point Pleasant*.

In 2005, *Globo Internacional*, representing *TV Globo* in New York, signed agreements to transmit live flashes, compact programs and documentaries of the Rio Carnival for several countries.

TV France 2, (France) transmitted nine hours of live TV, while the television stations of *Ecuavisa* (Ecuador), *Teledoce* (Uruguay) and *Artear* (Argentina) also showed some live flashes from the Rio Carnival (up to 15 minutes each) and will later exhibit a compact program about it being produced by *Globo Internacional*. Those TV stations, as well as *Lativi* from Indonesia, will show documentaries of the 2003 and 2004 Carnivals, co-produced by *Globo* and the Travel Channel (*Discovery*).

Silvio Santos, owner of *SBT*, wants to implement a radical change in that station. In 2005, Silvio Santos assembled *SBT*'s directors to go with him to NATPE, the National Association of Television Program Executives exhibition in Las Vegas (USA). John Ramage[45], one of the directors, purchased the Canadian film "*Time Machine*" directly from the *Hallmark* Company.

Roberto Buzzoni, Programming Director of *Globo*, bought in 2005 from NATPE the much disputed Oscars Academy Awards show for open TV.

There was a high demand for the Brazilian production companies present in Las Vegas to attend NATPE to deliver programs quickly, preferably dubbed into Spanish or English. All of them felt a strong market demand for programs already available. Generally however, independent Brazilian producers do not have sufficient volume to take care of this new market in the United States as all are looking for partnerships as a priority to make co-productions

[44] Newton Cannito - Director of the IETV - Television Studies Institute (*Instituto de Estudos de Televisionão*) – www.ietv.org.br
in www.revistadecinema.com.br
[45] jwramage@sbt.com.br

viable. In spite of not having closed any deals, many doors will open for all Brazilians exhibitors who were present at that event.

In 2005, Fernando Dias and Filipe Fratino[46], Partners and Directors of *Grifa Mixer* (whose portfolio includes more than 50 documentaries) felt – in contrast to what happened during *MipCom 2004* – that there was a lack of interest from independent international producers in seeking partnerships: "I was surprised however by the great interest in Brazilian documentaries; films with a more anthropological orientation were requested, and this is positive as it demonstrates interest in distributing this product also in Latin America and Europe".

Paulo Ricci, of *Mixer International*, took advantage of the event to introduce TNN (the *Travel News Network*), to the market. TNN is a bilingual channel (Portuguese/Spanish) about tourism for Pay TV. According to him, the receptivity in Latin America (and particularly in Mexico) was positive. A Chinese delegation also showed interest in this product.

Buenavista International Television for Latin America signed a contract for three years with *Rede Globo* to exhibit its contents in Brazil. The announcement was made at NATPE 2005 by Roberto Buzzoni, Central Programming Director of *Globo*, and by Fernando Barbosa, Senior VP of *Buenavista*.

Through this agreement, whose value has not been disclosed, *Globo* will have the open TV rights for cartoon series' from Disney studios, including "*Lilo &Stich*" and "*Hercules*", as well as blockbusters from *Disney, Touchstone, Hollywood Pictures* and *Patagonik*. This includes titles such as "*The Rock*" and "*The Count of Monte Cristo*", among others.

TV Record adapted for Brazil the American program "*Veggie Tales*" ("*Os Amigos Vegetais*"), produced through a partnership with *Top Tape* and *Universal Productions*.

4.2 - Direct Purchasing Contacts – Private and Public Networks

Rede Globo	Paula Miranda – Tel. (21) 2294-9149	paula.miranda@tvglobo.com.br
SBT	John Ramage - Tel. (11) 3687-3198	jwramage@sbt.com.br
Band	Goyo Garcia - Tel. (21) 2586-9411	goyo@bandrio.com.br
TV Record	Elisa Ayub - Tel. (11) 3660-4696	elisaayub@sp.rederecord.com.br
TV Cultura	Ivaneide Martinez – Tel. (11) 3874-3106	ivaneide@tvcultura.com.br
TV Educativa	Marcela Novais – Tel. (21) 3475-0154	mnovais@tvebrasil.com.br
TV Futura	Anderson Lara – Tel. (21) 2502-0022	canal@futura.org.br
Grifa Mixer Produtora Independente	Fernando Dias and Filipe Fratino Tel. (11) 3046-8044 Cell: (11) 9135-9352	filipe@grifamixer.com.br www.grifa.com.br

4.3. Pay TV

Market Composition

With the beginning of the Pay TV services in Brazil, at the end of the 1980s, the television market in the country changed, to be composed primarily of three large segments: open networks that offer free programming; programming companies, which produce contents both

[46] filipe@griffamixer.com.br – Cell phone (11) 9135-9352

for open and pay channels; and operating companies, that transmit programming in exchange for monthly fees, through cable, MMDS (microwaves) and DTH (satellite) technologies.

During the first phase of the transformation, concessions by the Ministry of Telecommunications allowed more than one license to be granted for the main Brazilian cities, such as Sao Paulo and Rio de Janeiro. In total, close to 100 concessions for Cable and MMDS systems were distributed and were considered by some corporate groups, such as *Organizações Globo*, *Multicanal, RBS* and the *Grupo Abril*.

In contrast to the United States, the legislative measures adopted in Brazil to regulate the market will allow practices that will lead to a market concentration including the possibility that the concessionaires of open TV may also operate and distribute Pay TV by any of the three available technologies: DTH (satellite) at the national level; and Cable and MMDS (microwaves) at the regional level.

Model Adopted

The lack of exclusivity in the concessions in the larger cities provoked a bar to offer differentiated content. Aside from generating their own programming, the two main competitors - *Globosat* and *TVA* – proceeded to purchase exclusive broadcasting rights to international channels and programs. With these activities the market became established as follows:

- Exclusive channels of *Globosat*: *SPORTV, Telecine, Multishow, GNT* and *GloboNews*;
- Exclusive channels of TVA: *ESPN Brasil, CMT, Bravo Brasil* and *Eurochannel*;
- Channels offered in all systems: *HBO, Cartoon Network, Discovery, ESPN International, Sony Entertainment, Warner, CNN International* and many others.

As a consequence of the practices that have been adopted since the appearance of Pay TV in the country, the Brazilian market has become one of the most concentrated in the world, with *Organizações Globo* capturing 63% of the aggregated market of Cable, MMDS and DTH subscribers. Therefore, independent operators compete directly or indirectly with the following companies:

- *TV GLOBO* – Has national coverage and offers radio broadcasting and open TV services through a network of affiliated stations that include generating stations, retransmission stations and repeaters.

- *GLOBOSAT* - Programmer, issuer of licences, and distributor of Pay TV programming, as well as holding broadcasting rights for *SPORTV, Multishow, Telecine, Globonews, GNT* and *ESPN Brasil e International*.

- *GLOBO CABO* – Controls Cable TV operations for the *Globo* organizations covered under the *NET* brand.

- *NET BRASIL* – Markets Pay TV channels and issues licenses for the *NET* brand.

- NET SAT – Responsible for the operation of all DTH services under the *SKY* brand.

Reach – Growth, Decrease, and Resurgence

The Pay TV market had, in 2001, 4.6 million subscribers. Between 2001 and 2004, there was a significant drop in the number of existing subscribers. Starting in 2004, the market picked up again.

From 3.54 million subscribers in 2003 the market increased to 3.66 million subscribers in 2004. Gross revenues for the sector (including both advertising and subscription revenues) increased from C$1.26 billion in 2002 to C$1.83 billion in 2004.

The growth of Pay TV in 2004 was leveraged by the DTH (satellite) operators. According to PTS[47], *Sky* grew by 12.9% and *DirecTV* by 10%. This suggests that the sector conquered new subscribers in locations without cable access.

NET, the largest cable operator in the country, disclosed growth of 4.9% in 2004, and is now reaching 1.419 million subscribers. MMDS (another Pay TV technology, with microwave transmission) grew 1.3%. According to PTS, TVA, one of the largest operators, had an increase of 3.3% in the number of subscribers.

The Pay TV market continues to be dominated by *NET* and *SKY*, in which *Grupo Globo* has shares. Combined, they have 63% of the subscribers. Operators associated with *Neo-TV* (such as *TVA* and *Ivax*) have 23% of the market while "independents", including *DirecTV*, have 14%.

The sector offers good opportunities for investment in projects to supply materials, components and equipment. This market should reach C$830 million by 2006.

- *Globosat* says it has exceeded all its sales goals in 2004.

- *Sony Entertainment Pictures*, a key programmer in the market, and owner of the Sony, AXN and *E!* channels, declared a sales growth of 25% in 2004 and a 30% increase in its advertising portfolio.

- *Turner*, a programmer for channels such as *TNT* and *Cartoon Network*, claimed that in 2004, *TNT* alone grew by 120% (surpassing all expectations) and that *Cartoon Network* grew by 20%. *TNT* is a channel that is already consolidated and is an audience leader in its segment according to Rafael Davini, Commercial Director of the company in Brazil. *TNT's* strengthening of its films and series was reflected in its audience increase.

- The *Cartoon Network* channel tried to approach both TV and Internet as a way to attract the youngest audience. The company has just undergone a transformation of its visual identity, in an effort to improve its image among young viewers.

- Programming companies also will try to adapt to the environment of TV viewers. In 2004, *Globosat* focused its programming profile towards the female and young adult's audiences, which are the segments targeted by their *Multishow* channel.

Audience by Market Niche

Among the 63 channels of Pay TV, 19 are movie channels and 10 are documentary channels, which when combined, represent almost 50% of the total number of channels.

22 channels – Pay TV (by genre)	
Movies	*TNT - Telecine Premium - HBO – FOX – Warner - Sony - HBO2 – AXN*
Children	*Cartoon Network, Fox Kids, Nickelodeon*
Documentaries	*Discovery, National Geographic, Animal Planet*
Sports	*SporTV, ESPN, ESPN Brasil*

[47]According to a study by the *PTS Survey* company

News	*GloboNews, BandNews, GNT*
Art	*People and Arts*
Shows	*Multishow*

Audience by Channel

Data from *Ibope Mídia* indicates that the Pay TV channels accounting for the most watched (among adults) 24 hours of programming in 2004 were: *TNT*, once again the leader as it was in 2002 and 2003, with 13.7%; *Multishow*, which finished second with 12.1%; and *SportTV* which finished third, with roughly 10.5%.

In 2004 *GloboNews* came out fifth. In the 2003 survey, the second position had been taken by *GloboNews* and in 2002, by the *Warner* Channel. In 2003 and 2004, three *Globosat* channels (*Multishow, SporTV* and *GloboNews*) finished among the top five positions[48].

Audience by Age Group

Data from *Ibope* compiled by *Globosat* shows that men watch more Pay TV than women. By age group, the top viewers of Pay TV are children; they dedicate half their time to channels such as *Cartoon Network, Nickelodeon, Discovery, Discovery Kids* and *Jetix*. According to *Ibope*, of the daily 5 hours and 2 minutes that viewers dedicated to TV in 2004, 2 hours and 1 minute were for Pay TV[49].

The Open TV and Pay TV Viewer

There was a growth of 12% in the total time dedicated to pay TV channels while the time spent watching open TV has also increased, but just by 2%. In 2004, subscribers dedicated 14 minutes more per day than in 2003 to watch Pay TV. In addition, in 2001, when *Ibope* begun to measure the Pay TV audience, subscribers to Pay TV channels watched only 30% as much Pay TV as open TV. This is rapidly changing.

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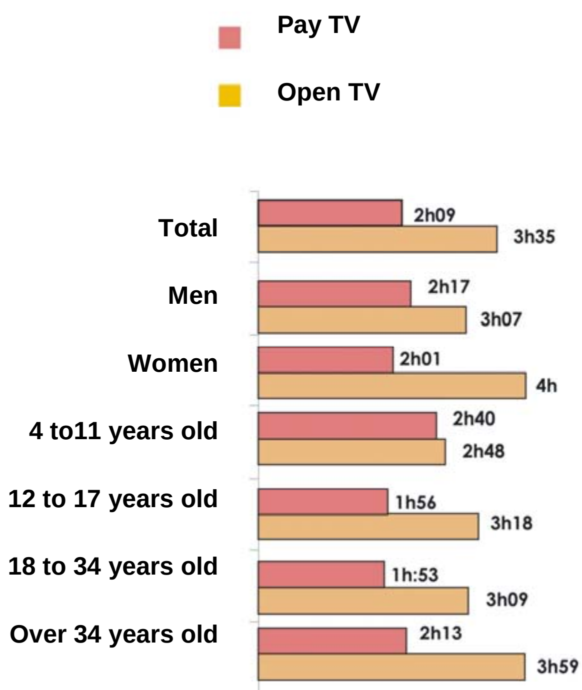
[48] *Tela Viva News*, February 2005
[49] *Folha de São Paulo*, February 2005, note.

AUDIENCES – Pay TV and Open TV (2004)



Source: Globosat

Most Watched Pay TV Channels:

- Cartoon
- TNT
- SporTV
- Nickeldeon
- Multishow
- Discovery Kids
- Universal
- Warner
- Telecine Premium
- Discovery
- Globo News
- Fox
- Sony
- AXN
- HBO

*During prime time

Pay TV – Expansion through media convergence

The offering of television and technology digital services is the great gamble of the sector to leverage its expansion. This segment is clearly going through a transformation with corporate acquisitions and mergers taking place in a tough, although very promising market.

In 2004, the Mexican company *Telmex* bought 30% of *NET,* giving new impetus to that company. Also in 2004, the Canadian company *Canbras* was purchased by *Horizon,* creating *Vivax*, a regional operator with strong penetration in the States of Sao Paulo, Rio de Janeiro and Amazonas. This company is investing C$13.10 million.

We are led to believe that in this environment, the industry will go through a new cycle of investment aimed at the convergence of different media: digital TV, high-speed Internet and telephone services. The sharp decline in subscribers is starting to slow down thanks to promotional marketing strategies adopted by the sector, as well as better patterns of consumer relations.

Cable operators, the most popular Pay TV segment, with a 59% share of the total number of subscribers, will implement a media convergence strategy (digital TV, high-speed Internet and telephone services) as its main competitive tool for 2005, stimulated by the advance of long wave, *NET* and TVA.

4.4 - Pay-per-view

The market for *pay-per-view* TV has increased considerably since 2003, covering in particular national and international sports programming – soccer, box, tennis, and basketball – and special programs such as reality shows and adult movies. In 2003 and 2004, 600,000 subscribed.

Sport channels, such as *SporTV* and *ESPN*, are the leaders with over 300,000 subscribers, representing an increase of over 300% since 2003. Another leading channel is *Sexy Hot* with a viewer profile of 82% men, of which almost 65% are between 18 and 49 years old, and 86% belong to the A and B social classes. The female viewers of this channel are mostly 25 to 34 years old.

From January to August 2004, 1.4 million persons watched the *Sexy Hot* channel, which is sold separate from any "Pay TV package" by *NET* or by *SKY*. The channel is among the 20 most popular Pay TV channels for male audiences. In 2005, the expectation is to achieve an average of 30,000 permanent monthly subscribers for pay-per-view.

By the end of March 2005, the *Multishow* channel had managed to become the leader in Pay TV, thanks to pay-per-view, and particularly through the inclusion in its new programming of the biggest reality show success of Brazilian television "*Big Brother Brasil"*, an open TV program form *Rede Globo*. It has 120,000 pay-per-view subscribers with the cost of the package at C$78.60 for three months.

The pay-per-view market is growing in Brazil by all indicators.

5. – OFFER AND REGULATIONS - TAXES, LICENSES AND SYSTEMS

(Appendix II – Export Credit Risks**)**

5.1 - Licensing of Imports [50]

As a rule, Brazilian imports do not need licences. Importers are only required to provide an Import Declaration to *Siscomex*[51] to initiate customs procedures at the local office of the Federal Revenue Secretariat (*Secretaria da Receita Federal – SRF*).

For some goods or operations subject to special control, licensing may or may not be automatic and should be obtained prior to shipping the goods abroad.

Today, drawback operations are the only ones subject to automatic licensing and are conducted before the import clearance by customs can take place. In any case, the importer must always consult Siscomex[52] to verify the administrative treatment to which the transaction is subject. As a general guideline, the interested parties should consult the Consolidated Decrees of the Foreign Trade Secretariat – Secex - Imports and Drawback (*Consolidação das Portarias Secex - Importação e drawback*)"[53].

The license combines information regarding the goods and the transaction in five file cards: one for basic information (regarding the importer, the country of origin and units of the Federal Revenue Secretariat,); one for the supplier; one for the goods; one for the negotiations; and a final one for supplementary information.

Access to *Siscomex Importação* is obtained through a connection with Serpro – the Federal Data Processing System (*Serviço Federal de Processamento de Dados*) to produce two electronic documents: Automatic or not Automatic Licensing (IL) and an Import Declaration (DI).

5.2 - Import Systems – Market Logistics

a) Television

There are two import modalities:

1- Temporary – Without exchange coverage – This is the most used modality. No taxes are paid but it is necessary to indicate a Period of Responsibility (the goods must be returned in 60 days or taxes, plus a fine, will have to be paid).

2 - Definitive – The following charges apply to this import modality: ICMS (14% of the CIF value); II – Import Tax (*Imposto Importação* - 16 % of the CIF); IPI (17.4 % of the CIF); COFINS (7.60 %) and PIS (1.65 %).

Note: The calculation of the CIF value is made as the total value of the invoice + the airway bill.

Normally the following values are declared on the invoice:

C$12.50 for Beta, 30 minutes length,

C$16.66 for Beta, 60 minutes length,

[50] *Ministério do Desenvolvimento e Comércio Exterior* (Ministry of Development and Foreign Trade)
[51] *Sistema Integrado do Comercio Exterior* (Integrated Foreign Trade System).
[52] www.receita.fazenda.gov.br
[53] www.desenvolvimento.gov.br

C$25.00 for Beta, 90 minutes length (the inspectors will not accept any lower amount).

Import Period – Over 2 weeks.

Each temporary shipment should not exceed C$1,666 per invoice (also to avoid problems with the inspectors).

b) Cinema

Temporary – The goods arrive to Brazil to be copied, which is compulsory done in national labs – Without exchange coverage - No taxes are paid but it is necessary to indicate a Period of Responsibility (the goods must be returned in 60 days or taxes, plus a fine, will have to be paid).

Internal Costs

Cost of Dubbing in Rio - *TV Globo*: Fluctuates between C$39.30 to C$48.03 per minute

Cost of Dubbing in Sao Paulo - *Álamo*: Fluctuates between C$25.00 to C$41.66 per minute

Dubbing Time: Negotiable with the lab – about two months.

Tariff Rates[54]

(Amounts are guidelines only, and subject to change without notice. Exporters must confirm with the appropriate authorities).

1- Clearance through the Import Declaration (DI) for the import of equipment: Percentage: 1.5 % of the CIF value; Minimum: C$115.28 (the equivalent to the monthly minimum wage in Brazil[55]); Maximum: 10x minimum wage.
2- Clearance trough the Simplified Import Declaration (DSI-Parcels): Fixed: 1.5x minimum wage.
3- Clearance for Temporary Admissions (DI or DSI): Percentage: 3 % of the CIF value; Minimum: 3x minimum wage; Maximum: 30x minimum wage.
4- Clearance of foreign technician's luggage: Fixed: Imports – 3x minimum wage. Exports: 1.5x minimum wage.
5- Mail Clearance (small ones, up to C$416.66 in value): Fixed: 1x minimum wage.
6- Exports and re-exports: Percentage: 0.5 % of the FOB value (value of the product to be exported): Minimum: 1x minimum wage; Maximum: 10x minimum wage.
7- Issue of Import Licences (LI): Fixed: 1x minimum wage.

Notes:

- A 5% will be added to the above-mentioned values regarding ISS.
- For import clearances (items 1 and 3) made during the first storage periods (5 working days after arrival), the minimum and maximum limits will be doubled.
- Services include issuing, sending, and accompanying documents to the location where the corresponding clearances will be processed until they are completed in Rio de Janeiro city.
- For clearances outside of Rio, transport, accommodations, meals, and other expenses of the officers are deemed necessary for proper operation of the process, but always upon previous authorization from their own Import Department.

[54] www.waiver.com.br

[55] (C$ 115.28) = Minimum wage in Brazil, February 2005.

- Together with the fees established for items 1, 2, 3 and 6, it is necessary to present a payment receipt in favour of the Customs Officers Union (*Guia de Recolhimento ao Sindicato de Despachante Aduaneiro*), in the name of the importing company, with a fixed value of C$115.28 – (which is equivalent to 1 minimum wage, increased by 10%, for refund purposes).

5.3 - Pre and Post Production Market

The main Brazilian pre and post production companies are located in the Rio - Sao Paulo axis as can be see in the following list that also indicates their respective market shares.

- *Álamo* / SP - 20.0 % of the market
- *Audionews* / RJ – 5.0 % of the market
- *BKS* / SP – 5.0% of the market
- *Cinevídeo* / RJ – 10.0% of the market
- *Dublavídeo* / SP – 10.0% of the market
- *Herbert Richers* / RJ – 20.0% of the market
- *Marshmallow* / SP – 5.0% of the market
- *Mastersound* / SP – 5.0% of the market
- *Sigma* / SP – 5.0% of the market
- *VTI* / RJ – 15.0% of the market

Outside of the Rio de Janeiro - Sao Paulo axis the largest market is Brasilia, which has surpassed other important centers such as Rio Grande do Sul and Ceará. Another market is Pernambuco, followed by Bahia, Minas and Paraíba.

Pre and Post Production Costs

The budget for a feature film produced in Brazil ranges between C$43,660 and over C$2.183 million, with an average price of C$436,000. This total also includes pre-production costs such as: cast, technicians, equipment rentals, catering, sound, mixing, editing, etc.

Pre-production – The cost per day of renting digital Beta camera equipment including its technical team is about C$1,375.00.

Post-production: *Álamo*, a Sao Paulo company whose prices are considered a market reference (as they are the largest mixing, sound and dubbing studios of Sao Paulo, with a 20% market share), charged the following post-production prices:

- **Mixing:** C$109.17 per hour, with a feature film normally needing 200 hours on average.
- **Narration or announcing**; C$65.50 per hour.
- **Dubbing:** C$29.16 – C$41.66 per minute. The administrative and technical costs represent 50% of the total cost, and the artistic costs (translator / dubbers / director) represent the other 50% of the total cost.

Infrastructure example for the dubbing market: *Álamo BrasContinental*

- Lot area: 1,750 m2
- Built area: 1,500 m2
- Dubbing studios: 9 units
- Mixing studios: 3 units
- Audio transcription structures: 3 units
- Consoles: *Control 24; Yamaha O2R; Soundtracks*

- Acoustic Boxes: JBL
- Recorders: DAT: DA-88; Beta Digital; Beta analog; 01”; ¼”; ½”; 16mm; 35mm
- Reproducers: 16mm / 35mm
- Optical: (mono): 16mm / 35mm

Technical and artistic staff

- Audio operators: 8 technicians
- Dubbers: 150 free lancers

5.4 - Piracy[56]

Piracy moves C$24.45 billion of products per year in Brazil, mainly in cigarettes, beverages, fuel, CD audiovisuals, and books. Present day piracy is linked to other Mercosur countries and it has become a national concern. There are 300,000 pirated connections to Pay TV in the country.

Piracy eliminated 2 million formal jobs in 2004 and causes an annual loss of C$3.67 billion in taxes damaging 40% of the national economy.

The National Council to Combat Piracy and Intelectual Property Crimes (*Conselho Nacional de Combate à Pirataria e Delitos contra a Propriedade Intelectual*), a consultative body integrated into the basic structure of the Ministry of Justice, has as its objective to develop guidelines for the formulation of proposals at the national level to combat piracy, the resulting tax evasion, and crimes against intellectual property rights.

Piracy means a violation of copyrights covered by Laws N° 9,609 and N° 9,610, both from February 19, 1998[57].

Pay TV Piracy [58]

The Anti-Piracy Commission of ABTA disclosed the aggregate numbers for Cable technology piracy in 2004. The information comes from the main Cable operators in Brazil, with 63% sectoral representation. The commission is working in this assessment to also involve those companies that operate DTH and MMDS systems. The following are the Cable piracy indexes for 2004:

12% - piracy on subscribers,
3.3% - estimated piracy on HPs (*home passed*),
26.6% - of the audited HPs.

Internet Piracy[59]

Pirated films satisfy the desire of some Internet users to see the most publicised productions before they open in cinemas. There are also users that browse the Internet film libraries when they can not find a feature film, series or cartoon available in video, TV or DVD in their own

[56] Published in *Jornal do Commercio* - March 2005
[57] Ministry of Justice
[58] ABTA – Associação Brasileira de Television por Assinatura (Pay TV Brazilian Association)
[59] Extracts from “*Films caem na rede*” -

countries. Those activities are enormous. It is estimated that 500,000 films are downloaded daily.

This marginal trend has also affected Brazilian cinema. "*Cidade de Deus*" ("*City of God*") became a hit in the informal market only three days after it had opened nationally. Pirate copies were sold at C$4.36 by street peddlers.

6. - ANCINAV AND TAX INCENTIVE LEGISLATION

(**Appendix III** – Legislation of Interest)

6.1 ANCINAV – An Audiovisual Legislation

The Ministry of Culture is presently discussing a law to create Ancinav, the National Film and Audiovisual Agency *gência Nacional de Cinema e Audiovisual*), to substitute Ancine, the National Film Agency (*Agência Nacional de Cinema*) in the regulation and implementation of development and support policies for cinema, cable TV, Internet and the audiovisual segment.

Key points of the draft proposal for the creation of ANCINAV[60]:

Foreign Capital

The Federal Constitution limits foreign capital participation in companies that do business in Brazil to 30%. However, this limit does not apply, for example, to telephone companies that were state owned at the time the law was issued but that were later privatized.

According to Article 8, it will be the responsibility of *Ancinav* to monitor and regulate, through bills sent to the National Congress, exceptional cases involving any company that distributes audiovisual products.

Copyrights

According to the project proposal, cinematographic or audiovisual products are now to be considered a work in their own right, preventing the charging of copyrights for their parts. *Ancinav* will only have the responsibility to regulate and control the application of such copyrights for the script writer, the director, and the sound track.

Their collection should be the responsibility of an audiovisual copyright organization. The law also establishes the collection of 2% of the gross revenues for direct and related copyrights (regarding the work).

Platforms and Content

The mandate of Ancinav will be supplementary to the mandates of the National Telecommunications Agency - *Anatel* (*Agência Nacional de Telecomunicações*) and of the Ministry of Communications, which are responsible for concessions, permits, and authorizations granted to television and radio broadcasters.

If *Anatel* authorizes a telecommunications company – may it be a television or phone company – to transmit audiovisual contents, *Ancinav* will have the responsibility to regulate and mediate between the producer of the audiovisual programming (creative agent) and the operator that will transmit it (economic agent).

[60] MinC – Ministry of Culture - www.cultura.gov.br

6.2 CONDECINE

Condecine, a Contribution for the Development of the Brazilian Cinematographic and Audiovisual Industry (*Contribuição para o Desenvolvimento da Indústria Cinematográfica e Audiovisual Brasileira*) will be charged on the following activities:

- Commercial exploitation of cinematographic and videographic productions;
- Financial transactions with foreign producers or distributors;
- Ticket sales in movie theatres;
- Sales and rentals of domestic videos in any format;
- Purchase or exchange of publicity spaces on the radio to announce a cinematographic or videographic production.

The product of *Condecine* collections will go to the Fund for the Supervision of Cinema and Audiovisuals - *Fiscinav* (*Fundo de Fiscalização do Cinema e do Audiovisual*) and to the National Fund for Cinema and Audiovisual Development – *Funcinav* (*Fundo Nacional para o Desenvolvimento do Cinema e do Audiovisual*). Thanks to this mechanism, the development of cinematographic and audiovisual activities will be financed by their own activities.

Incentives for National Cinema

The taxes charged for the commercial distribution of cinematographic and audiovisual productions apply mainly to foreign products. Taking into account criteria such as the origin and length of the production, and how will it be exhibited, the amounts charged range between C$131,000 and C$262,000.

For example, a foreign film distributed with more than 200 copies will pay the maximum C$262,000, while a domestic production would only pay 10% of that amount for the same number of copies.

The goal of this measure is to create a level playing field for Brazilian and foreign films, which do not presently compete on an equal basis. For example, a Brazilian movie rarely reaches 200 copies ("*Carandiru", "Cazuza - O Tempo não Pára"* and "*Cidade de Deus"* are the exception), while a film like "*Spider-Man II"* arrived in Brazil with 600 copies and revenues expected to reach C$18.34 million, while paying only C$1.31 million. This means that taxes amount to slightly over 1% of the expenses of a foreign film. The intention is to restrain, not to forbid, the predatory actions of foreign distributors in the Brazilian market.

After the creation of *Ancinav*, other measures will benefit national films:

- Tax incentives for television and radio broadcasters that announce Brazilian films or audiovisual products in their programming;
- Incentives for advertisers that sponsor a Brazilian films exhibition on television, to be considered as an operational expense with a direct reduction in income taxes;
- Three minutes daily reserved for *Ancinav* on all TV stations to advertise Brazilian films or productions related to national cinema. On the other hand, TV broadcasters will be able to use this as an operational expense deduction in their income tax;
- Investment, through *Funcinav*, in Brazilian distribution companies, in production, and in expanding the number of movie theatres – there are to date 1,817 movie theatres in all Brazil, limited to the large urban centers. This will cause a drop in admission prices as profits will now be achieved through the volume of admissions. Exhibitors, distributors, and the 92% of the Brazilian population presently without access to cinema will all profit.

Incentives for Independent Productions

Advertisements in radio or television will be charged 4% on the fees charged by the broadcasters.

The objective is to create a development fund for audiovisuals, directed not only at producing films but also at the production of programming specifically for television, expanding the available opportunities for independent and regional productions.

This also means more employment opportunities for technicians, authors and musicians.

In addition, *Ancinav* will promote closer links between communication companies and independent producers. A tax incentive will be granted for this purpose to television stations that invest in productions associated with independent producers, with tax deduction benefits.

The *Ancinav* project proposal also determines which copying, dubbing, inserting of subtitles and reproduction services for movies to be commercialized in Brazil should take place in domestic laboratories.

The measure tries to reverse the present situation where, for example, the best two Pay TV channels keep a large portion of their production structure outside of the country. With those types of operations, they do not generate employment in Brazil and take large sums of money out of the country.

The manner in which *Condecine* will generate resources is disliked by the owners of the broadcasting stations, who will face a 4% tax on their advertising invoices, and is also disliked by the owners of movie theatres and the distributors of foreign titles, who will have to pay C$262,000 for each foreign production having more than 200 copies exhibited in theatres.

In interviews with the magazine *Carta Capital*,[61] the Vice-President of the *Rede Bandeirantes*, Antônio Telles, said that: "It is a very simplistic idea to believe that all problems can be solved by new taxes". The General Manager of Columbia (film distributors), Rodrigo Saturnino Braga, stated that, "It is misleading to believe that a tax on the number of copies will benefit Brazilian cinema".

Pay TV companies, for example, to avoid a *Condecine* taxation of 11%, will have to reserve 6% of their international remittances for joint production investments (presently that reserve is 3%).

It is not only the tax increase that worries Pay TV operators. According to a media report, copying, dubbing, inserting of subtitles and matrix reproduction services for movies and audiovisuals that will be commercialized in Brazil will have to be done domestically. This is a major problem, as the production structure of foreign channels exhibited by Pay TV is abroad.

6.3 The Rouanet Tax Incentives Act [62]

Law N° 8,313/91 allows projects approved by the National Cultural Incentive Commission - CNIC (*Comissão Nacional de Incentivo à Cultura*) to receive sponsorships and donations from companies and individuals that may benefit from the following tax deductions:

Reduction of Income Tax Due by the sponsoring company or individual, though a tax deduction, partial or in full, for the amount of the sponsorship or donation to the cultural

[61] *Carta Capital* magazine – August 2004 – *Cartas na Mesa*
[62] sav@minc.gov.br

project as long as such project was previously approved by the analysis commissions of the Ministry of Culture[63]

1. The sponsor may deduct up to 30% of the amount given as sponsorship to the project, for a direct deduction of up to 4% of the income tax.

2. In some cases the sponsor may deduct up to 100% of the amount given as sponsorship to the project for a direct deduction of up to 4% of the income tax.

Individuals, companies, profit or non-profit cultural organizations, indirectly administered public cultural organizations such as Foundations, NGOs and Institutes with their own juridical personality, can be eligible to claim the benefits of this law.

At the beginning of February 2005 the CNIC approved 438 cultural projects that will benefit from the Rouanet Act. From this total, 98 were performing arts projects, 21 cultural heritage, 105 music, 52 audiovisual, 28 plastic arts, 110 humanities and 24 integrated art projects.

In addition to the approval of the above mentioned projects under the Tax Incentives Act, the results of the previous year were also disclosed at that time, indicating a total collection in 2004 of C$201.31 million, significantly exceeding the levels of 2003 (C$184.27 million) and 2002 (C$149.86 million). The number of projects received also increased. In 2004, from the 7,339 project proposals submitted, 5,783 were approved and 1,908 obtained financing[64].

6.4 Audiovisual Act [65]

Allows the reduction of the Income Tax of the investing company by allowing the deduction of the total funds invested in an audiovisual project as long as the project was previously approved by the analysis commissions of the Ministry of Culture.

The sponsor may deduct 100% of the amount invested in the project to reduce up to 3% of their Income Tax Due. The real amount of the sponsorship may also be used as an operational expense, with the consequent reduction of federal taxes.

6.5 - Capital attraction [66]

1. The market to attract capital is concentrated in Rio de Janeiro and Sao Paulo.
2. Once the film project is approved by the Brazilian authorities, the production company may benefit from the incentives granted by the legislation that governs the audiovisual market.
3. It is necessary for the interested company to establish a partnership with a financial institution for this purpose.
4. The value of the negotiating commission is calculated as up to 10% of the total value of the project, with 3% for the financial institution and 7% for the capital-attracting company.
5. This percentage must already be included in the total cost of the project, not being directly covered by the production company.

[63] Source: BrazilianCultural Production Guide, 2004 (*Guia Brasileira de Produção Cultural 2004*) Editora Zé do Livro (Zé Publishing House)– Authors Edson Natale and Cristiane Olivieri
[64] *Folha de São Paulo*, fevereiro de 2005
[65] Source: BrazilianCultural Production Guide, 2004 (*Guia Brasileira de Produção Cultural 2004*) Editora Zé do Livro (Zé Publishing House)– Authors Edson Natale e Cristiane Olivieri
[66] *Banco Máxima*

6. The average period required for attracting capital is two years for a budget between C$2.63 and C$4.36 million.

The Ten Top Cultural Sponsors – 2004

Sponsor	Support Amount (C$)
Petróleo Brasileira S.A. Petrobras	36,194,566.49
Companhia Siderúrgica Nacional CSN	6,247,659.37
Gerdau Aço Minas S.A.	5,938,448.32
Centrais Elétricas Brasileiras S.A. Eletrobras	5,923,712.58
Banco do Brasil S.A.	4,914,982.16
BR Distribuidora S.A.	3,934,469.25
Banco Nacional de Desenvolvimento Econômico e Social BNDES	3,192,345.58
Empresa Brasileira de Correios e Telégrafos	2,687,117.90
Usinas Siderúrgicas de Minas Gerais Usiminas	2,652,204.75
Banco Safra S.A.	2,428,591.32
Source: Website of the Ministry of Culture – www.cultura.gov.br	

7- NEW BUSINESS, TRENDS AND PARTNERSHIPS

(**Appendix IV** – Canadian Films Exhibited in Brazil)

7.1. The Audiovisual Economy

We can deduce, through the figures already presented, that the audiovisual sector is today one of the most promising in Brazil. This includes the traditional media, such as television and cinema; the new technologies and mechanisms that interact with them and aspects such as content, production creativity, pre and post-production, exhibiting, financing, regulations and the capture of internal and export markets. Significant changes are being experienced in several sectors of this market with many opportunities being offered in a country of continental dimensions such as Brazil.

Canada and Brazil – Good Partners

In November 2004, when the Canadian International Trade Minister, James Peterson, was in Brazil for a Canadian trade mission accompanying Prime Minister Paul Martin, he mentioned in an interview with the financial newspaper *Valor Econômico* that the telecommunications sector was an area in which Canada has much to offer to Brazil.

The growth of the Canadian movie and television industry, and the high costs of production in Canada, have led the government to search for partnerships in the international market through treaties and agreements with almost 60 countries. In this context, the Canada - Brazil Audiovisual Co-Production Agreement[67] opens a promising commercial cooperation opportunity for the industries of both countries.

Brazilian Potential

As the largest market in Latin America, Brazil offers an enormous potential for cinema and television joint productions as well as independent films, Pay TV programs, pre and post-production services and distribution partnerships.

The Canadian Presence

Over the last few years, a variety of Canadian films were exhibited in Brazil at the initiative of the Canadian Embassy, Consulates and Education Centers through showcases, cultural weeks, short film's festivals, exhibitions, and Canadian Film Weeks, among others.

The public at large became aware of the excellence of Canadian productions through the films of Denys Arcand, "*The Decline of the American Empire*" and, in particular, "*The Barbarian Invasions*", which was awarded an Oscar as the Best Foreign Movie in 2004. Between the end of 2003 and the beginning of 2004, that movie has been seen by 450,000 viewers in Brazil.

A film retrospective of the Canadian Director Denys Arcand was organized in 2004 in Sao Paulo, Rio de Janeiro and Brasilia, with the participation of actress Louise Portal.

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[67] Main issues – Appendix II

Art Films Distribuidora has the rights to exhibit the following Canadian films: Jean-François Pouliot's "*La Grande Seduction"*; Denys Arcand's "*The Decline of the American Empire"* and "*The Barbarian Invasions*"; and Émile Gaudreault's "*Mambo Italiano".*

André St-Pierre's film, *Manon*, participated in International Competition of the 10th edition of the Festival *É Tudo Verdade*, in Sao Paulo, which included 133 Brazilian and foreign titles[68].

The Cable and Pay TV operator, *Multishow* channel, exhibits weekly "*Cirque du Soleil"* shows, which are immediately identified by the public as a Canadian production. Episodes of the series "*Just for Laughs"* are also included in the Pay TV programming. The GNT transmits every week the Canadian program *"Talk Sex"* hosted by Sue Johanson.

TV Cultura, in Sao Paulo, shows the cartoons of "*Rupert the Bear"* and *"The Aventurous Mice*" from *Nelvana Productions* that in February 2005 were ranked by *Ibope* among the five most popular programs of the station. Also daily on this channel, other cartoons such as "*Caillou"*, of CINAR, "*The Seven Monsters"*, "*Cyber Chase"* and "*Tim Tim Adventures"*, are part of the children's programming together with several Canadian documentaries exhibited in the program *Ver Ciência*.

Rede Globo, with more than 99% national coverage and market share above 50%, has already exhibited in its children's program Canadian titles such as "*Arthur", "Little Lulu Show"* and *"Franklin".*

Mais Films Distribuidora imported in 2002, to be shown in the *Espaço Unibanco* in Rio de Janeiro, the Canadian feature films: Atom Egoyan's "*Ararat',* and Denis Villeneuve's "*Maelström"*.

Positive Changes

Over the last few years the Brazilian Government made the decision to give the country an audiovisual policy and some factors that harmed this market have begun to be corrected:

- The number of movie theatres will increase as a result of Government financing policies as well as market demand;
- The quality of Brazilian productions has substantially improved;
- There was a change in the market behaviour of the main open TV stations and today all of them are investing in movie productions.
- *Globo Films*, that previously a film importer for *Rede Globo*, turned into the principal producer of Brazilian films, stimulating the entry of the main national TV networks into the production of films.
- Tax Incentive laws are beginning to promote the large scale production of feature films, short films and documentaries.
- There has been an awakening of the talent of directors and producers. In the last ten years more than 200 directors showed their works for the first time.
- An export policy was adopted for Brazilian audiovisual cultural products, both for movies as well as for television (resulting in the success of Brazilian soap operas abroad and Brazilian films winning awards at international festivals).
- Audiovisual cooperation agreements with Mercosur and Latin America countries will, in the next few years, make Brazil the most important audiovisual hub in the continent.
- There is now a clear interest for entering into partnerships with international productions.

[68] www.etudoverdade.com.br

Brazil – The Impact of Opportunities

With these changes, the Brazilian audiovisual market has become very attractive for partnerships in several areas:

1. Co-productions, dictated by market demand (a market estimated at C$208.33 million/year)
2. Co-productions through tax incentives. (More than C$35.37 million/year [69])
3. Opportunities for professionals in several sectors of the audiovisual industry.
4. Incentivized co-productions for Pay TV programs: (documentaries, films, fiction series, short films, feature films; miniseries and programs in general). (More than C$21.83 million/year)
5. Opportunities in the digital cinema area. (Market to be explored)
6. Exploiting the Latin American market through partnerships made in Brazil with Brazilian production companies. (C$1.66 million fund created to encourage co-productions between Latin American countries, led by Brazil)
7. Marketing equipments and services for Pay TV. (potentially a C$833 million/year market)
8. Marketing equipment for movie theatres (a market in excess of C$152.83 million/year, assuming C$567,000 per movie theatre)
9. Partnering with the main TV stations and movie distribution companies (a market of more than C$65.50 million / year)
10. Spin-Offs market (accounts for more than C$873 million in marketing products)
11. DVDs and Home Theatre Market – (C$436 million in sales projected for 2005)
12. Participating in the short length video fostering program (market to be explored).
13. Investments in the audiovisual entertainment industry. (open market).
14. Educational electronic games program of the Audiovisual Secretariat. (open market).
15. Participation by companies and professionals involved in festivals, film clubs, cultural exhibits, university circuits and cultural exchanges. (open market).
16. Opening video rental stores: the initial investment is between C$30,560 and C$43,660, plus rent for the store. The monthly payment for subscribers is C$23.58 and the investment in videos is C$43,660.

7.2. – Television and Cinema – Opportunities in Specific Follow Ups

Children's and Youth Movies - a Fertile Market

Between 1998 and 2002 close to 3,400 Brazilian feature films were produced. Only 2% of this total, approximately 70 films, was for the children's market.

Before Television, the defining characteristic of children productions was the rural "interior-of-the-country" ambient. Today productions are directed towards urban children. They follow two main trends: they treat children as persons who make decisions that determine their own path, relegating adults to a passive role; or they put adults at the center of their stories, with children playing a subordinate role. For example, the films of the *Xuxa*[70] brand, which are the most popular among the audience in this sector, normally post box office numbers in excess of two million admissions.

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[69] Resources obrained by the Rouanet Act, without taking into account other Municipal and State incentives.

[70] TV *Globo*.s children hostess with the highest rate of success in TV and Cinema.

Ideal Children's Programming

According to a study from the IPSOS Research Institute, Brazilian children are the ones that spend the most time in front of the television, at an average of three hours per day while the average in other countries is two hours per day. There is a great need in Brazil to foster quality television programming for Brazilian children. The country is suffering form a lack of good programs for children and youth.

In 2004, the company *MultiFocus* organized a qualitative research study with the parents of children aged 4 to 17 years old from income groups A, B and C, as well as with children of those same age groups. Ana Helena Reis, the organizer of the study concluded that "the desire is clear among Brazilian parents to have high quality programming available in open television to allow the transmission of values as well as being able to attract the attention of their children thus also performing its entertainment role. The country is suffering form the lack of good programs for children and youth." Eight out of the 10 programs most watched by children and young people are directed to adults, such as soap operas and news programs. Nevertheless, children prefer programs made for them when that option is available.

The children's segment could attract more attention from the movie and audiovisual sector as well as from professionals interested in this market. The box office success of *Tainá* (800,000 viewers), an adventure movie for children and youth that is totally different from traditional Brazilian productions, did not break national and international records because its producers were surprised and had not prepared a proper marketing infrastructure for the movie.

Cultural TV – An opportunity in animation

An impressive development was the creation of "*TV Rá-Tim-Bum*", belonging to the *Fundação Padre Anchieta*, which funds the *TV Cultura* of Sao Paulo, considered to be the best Pay TV in the country for the children's segment. The channel already reaches close to 500,000 of the 3.6 million homes in Brazil that have Pay TV.

The great success of "*TV Rá-Tim-Bum*" has encouraged *TV Cultura* to begin establishing a production nucleus for cartoons in Sao Paulo. This represents a good opportunity for co-productions and for investing in this sector of *TV Cultura* that is producing an hour of cartoons a week. The first production will be an animated version of the series "*Castelo Rá-Tim-Bum*" ("*Rá-Tim-Bum's Castle*") that is presently being scripted.

The *Padre Anchieta* foundation is investing in C$349,340 in the purchase of equipments for the production of cartoons. A professional team from this station is already being trained in London.

The presence of Canadian productions in *TV Cultura* is significant and demonstrates the potential for Canadian productions in the Brazilian children's television market. In February 2005, in the programming schedules of *TV Cultura*, the Canadian productions "*Rupert the Bear*" and "*The Adventurous Mice*" were among their five most popular programs with a market share of 3% in Metropolitan Sao Paulo (400,000 viewers) according to data from IBOPE[71].

[71] Empresa especializada em pesquisas de mídia

Senior Citizens, a Forgotten Potential Audience

In the not too distant future Brazil will become an aging country. This reality motivated the creation of the Senior Citizen's Statute (Law 10,741/03 - *Estatuto do Idoso*) to ensure certain rights for the population older than 60, such as a discount of at least 50% in the admission costs to cultural, sport and leisure events, as well as preferential access to those venues. Senior citizens can dedicate many hours to watching the media, so the media ought to be more interested in this age group.

The 3rd Age in the Screen

The Cultural Centre of the Bank of Brazil - CCBB (*Centro Cultural Banco do Brasil*), of Rio de Janeiro, observed that the elderly are a captive audience for cinema and developed in 2002 a project called "The Third Age on the Screen" (*3ª Idade na Tela*). The event selected more than 30 films produced between 2000 and 2001 whose central theme was the elderly. It was a very successful pioneering initiative that will be continued.

Documentaries and shorts

In 2004, the segment *Filme de arte* from the Pay TV operator *NET* exhibited the award winning "*Barbarian Invasions*". In 2005, *HBO* exhibited for the first time in Brazil, the Canadian feature film "*Foolproof*", Directed by William Phillips.

Both *TV5* and *Multishow* exhibit in their programming Canadian products such as "*Anne Fortin*", "*Just for Laughs*" and "*Cirque du Soleil*".

An important partnership involves *O2*, one of the main production companies in Brazil that became associated with the Discovery Channel in the production of eight series. *O2* produced the film "*Cidade de Deus*" in joint production with *HBO*.

With the increase in the number of short films, (more than 100 in 2004) and of documentaries (17 productions in 2004) the technical and artistic quality of Brazilian production is also increasing, and this trend has been well received by audiences. The documentary "*Pelé - o Eterno*" ("*Eternal Pelé*") is among the ten biggest box office successes of 2004, with almost 300,000 viewers. More than 2.5 million viewers saw the 17 movies in 2004. This segment also offers excellent growth potential.

Important Incentives in the Films and Arts market

Encouraging the art's film market is part of the *Petrobras* cinema project initiative. This state company plans to invest more than C$43.668 million by the end of 2008. There are also other initiatives, such as the projects of *Itaú Cultural*, of *Canal Brasil* (a channel of the *NET* Pay TV company) and the various festivals and awards that have been created in several states.

Conspiração Films, one of the four largest film companies in Brazil, selected four of its main directors for the *Mandrake* project. It will be a series, the first one to be produced by HBO in Brazil, with eight episodes of 50 minutes each, with C$ 2.62 million in resources from *Ancine* incentives.

In December 2004, the traditional movie theatre *Cine Glauber Rocha*, in Salvador, was subject to major changes and became an *Arteplex*. The idea is to have screens exhibiting, in the same place, the latest North American *blockbuster* and the so-called art films (productions with smaller distribution). "Our objective is to attract 400,000 movie goers during the first year", said Cláudio Marques, who has been working on this project since the year 2000. According to him, the new *Unibanco Arteplex Glauber Rocha* movie theatre wants to exhibit films from all around the world: winners of festivals such as Cannes or Berlin, and showcases, retrospectives and homages to key directors in the history of cinema. The locale should even become the venue for future editions of the *Panorama Internacional* film festival.

There is increasing demand for art films in Brazil: classics as well as new productions. Brazilian directors and producers indicate that one of the reasons behind this is the sale of DVDs, given their high quality that resurrects the joys of watching film classics.

Brazilian Co-Productions in Foreign Countries

"It is easier to conclude co-production agreements abroad than in Brazil." This statement by Mario Diamante[72] (who has independently produced, launched, and exhibited his works on TV) shows the present cinematographic situation in Brazil.

This opinion is confirmed by the signature of an agreement between Brazil and Germany for audiovisual co-productions, including the making of films.

In Europe, there is a tax on the sale of home appliances that goes directly for the production of audiovisuals. In Brazil, production has been built on the basis of tax incentives.

This joint production is an attempt to break the currently problematic, distribution system in Brazil that shows a high demand for films but creates problems when products are being launched. According to Diamante, "some movie makers are starting to produce films with a new format, having television in mind". According to *Filme B*, (a company that collects data on movies) 225 films opened in Brazil in 2003, of which 195 were foreign productions and 30 were Brazilian.

TV stations may be able to participate in the formulation of public tenders through this agreement, with the power to choose and even to veto the approved projects. "Presently the Federal Government injects C$6.55 million in production from the Annual Budget", and this is growing. One of the best examples in the sector is *DocTV*, the Program for the Encouragement of Production and Television Showing of Documentaries (*Programa de Fomento à Produção e à Tele-difusão do Documentário*), which is in partnership with public TV stations and expanding opportunities for the production of television documentaries.

"Co-productions are a great solution". This is the opinion of Steve Solot, Senior Vice-President for Latin America of the *Motion Picture Association* (MPA), an organization that encompasses the main North American distributors. "In 2002, ninety two of the most popular Brazilian films were joint productions and distributions from MPA member companies." Among them, aside of *Carandiru*, Solot mentions "*Xuxa e os Duendes – II"* ("*Xuxa and the Elves- II*") - a partnership with *Warner Brothers*; "*Didi, o Cupido Trapalhão"* ("*Didi, the blundering Cupid*") and "*Deus é Brasileiro"* ("*God is Brazilian*") - both joint productions with *Columbia*; and "*Lisbela e o Prisioneiro"* ("*Lisbela and the Prisoner*") – a joint production with *Fox*. Those films represented over 90% of the audience and revenues for Brazilian films.

In addition, Brazil and Argentina recently reached an agreement to distribute Brazilian films in Argentina and vice-versa. Similar negotiations are going on with Italy and Mexico. According to Steve Solot, between 1999 and 2003, foreign companies invested close to C$26.20 million in joint productions with Brazil.

[72] Assessor Especial da Secretaria de Audiovisual do MinC (Ministério da Cultura)

Rio de Janeiro – Searching Foreign Partnerships

The *RioFilme* Commission was created in Rio de Janeiro to encourage partnerships and attract foreign productions to be filmed locally, taking advantage of the large number of Brazilian producers. "Up till now, our highest competition has been with French, Spanish, Mexican and German television", according to José Luiz Sabóia, Commercial Director of the *RioFilme* company.

Sabóia wants to establish a previously announced three-prong strategy which is starting to become a reality: to create a network of digital cinemas, to establish a TV channel, and to build a "Cinema City" in downtown Rio de Janeiro. "In addition, we want to create closer links with foreign production companies. Their idea is to reduce costs by filming their movies in Brazil, meaning to produce cheaper. To attract this investment, that generates more employment and business for Rio production companies, we have to offer services equivalent to 10 or 15% of the value of the investment: location, protection, and optimization services for logistics of the local film hub" – he explained.

Sabóia perceives opportunities to partner with German TV to develop seven films, each with a C$1.93 million budget. "They are negotiating and should even take our films to be marketed by the *ZDF* network, which has a film distribution company for all Europe and Asia" he is quoted as saying.

Latin-American Market

One of the great opportunities today is the Mercosur audiovisual cooperation that was discussed during the 4th Specialized Meeting of Cinema and Audiovisual Authorities of Mercosur - RECAM (*4ª Reunião Especializada de Autoridades Cinematográficas e Audiovisuais do Mercosul*). The idea is to expand film co-productions between Mercosur partners. The Audiovisual Secretariat has also strengthened links with Argentina, signing the Brazil-Argentina Protocol to Encourage the Distribution of Feature Films (*Protocolo Brasil-Argentina para o Fomento à Distribuição de Films de Longas-Metragens*), which will provide more access for Brazilian films in the Argentinean exhibition market, and vice-versa.

Brazil is in charge of coordinating the program, with investments of C$1.66 million, 80% of them managed by a fund created by Brazil with resources from the Ministry pf Culture. In addition, the Brazilian Audiovisual Secretariat and the Cuban Institute of Cinematic Arts and Productions (*Instituto Cubano de Artes y Producciones Cinematográficas*) will sign an agreement for the exchange of audiovisual works between both countries.

8 - CANADIAN COMPETITIVENESS MARKET OPPORTUNITIES

(Appendix V – Brazil – Canada Agreement)

In 2004 Brazil was the Latin American country that attracted the highest amount of direct foreign investment: C$15.08 billion, an increase of 80% in comparison to 2003[73].

According to the report of Cepal, Brazil attracts mostly investors searching for markets. "This investment has significantly contributed to Brazilian development and performance. However, the country should not limit itself to this type of foreign direct investment or to the operations of multinational corporations. In the meantime, the new approach of the investment attraction policies should be focused on physical infrastructure and services oriented towards exports[74].

Brazil is the largest partner and the largest export market for Canada in South America. Between 1992 and 1998 Canadian exports to South America grew by 200%. The main products were: potassium chlorate, wheat, paper, rubber, malt, fuel oils, and retransmission and reception devices and components.

The Canadian presence in Brazil has shown a trend of expansion during the last few years. A good example is *Desert Sun Mining* (DSM) that took over the activities of *Jacobina Mineração* with an investment of C$33.33 million. "We are here and we plan to stay for a long time" said Stan Bharti, President of DSM.

Canada, with a 2004 GDP of C$1.023 trillion, wants to show its already significant corporate presence in Brazil, exemplified by companies such as *Alcan, Nortel, Molson* (owner of *Kaiser* beer), *Brascan, SciCan, Synermed, Corel* and *Genetiporc*, which are not always associated with their Canadian origin.

8.1 Main Exports

The main products that Canada sells to Brazil include transmission and reception devices, paper and cardboard, fertilizers, oil, electric machinery, airplane equipment, and medical instruments.

The main export products from Brazil to Canada are partially manufactured iron or steel goods, iron ore and aluminium ore, coffee, sugar, cashew nuts, shoes, silica, pumps and compressors.

In November 2004, a Canadian Trade Mission integrated by 51 Canadian companies and headed by the Prime Minister of Canada, Paul Martin, visited Brazil for the purpose of increasing trade between the two countries. The Prime Minister mentioned energy, telecommunications and biotechnology as the most promising areas.

Canadian Investments

"Canadian investments in Brazil are increasing and amount to close to C$3.33 billion. Close to 60 Canadian companies are investing in Brazil. Canada chose Brazil as a strategic partner and is going to increase the dialogue" said the Canadian Ambassador Suzanne Laporte.

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[73] *Folha de São Paulo* 16/03/05
[74] Economic Commission for Latin America and the Caribbean (ECLAC)

Geographic, social and economic characteristics allow Canada to gradually take advantage of an important market niche for productions with the most refined content that also show similarities between both countries.

Brazil is one of the main destinations in the hemisphere for direct foreign investment from Canada. Statistics Canada gives an official value for such investments: C$5.56 billion in 2001. However, according to some informal estimates, the present value of Canadian investments in Brazil is of about C$7 billion.

Commercial and Cultural Events

The Canadian Embassy and the Canadian Consulate General in Sao Paulo have organized six major entrepreneurial and cultural events in the last eleven years. Past events attracted much attention from the media and the public, increasing visibility for the Canadian profile in Brasil.

Team Canada opened a Canadian Education Center in 1998. More than 5,000 Brazilians study in Canada every year.

There is a Brazilian Association of Canadian Studies (ABECAN - *Associação Brasileira de Estudos Canadians*), with 18 centers for Canadian studies throughout the country that encourage academic exchanges with several Canadian higher education institutions. The last international meeting of ABECAN took place in Belo Horizonte, 11 - 14 November, 2003.

8.2 Market Forces and Specialities for Partnerships

Open TV Market

- Canada could become an important partner for film co-productions in a market that open TV is beginning to enter, already with good results, as in the case of *Globo Films* (which has revenues of more than $C150 million/year).

- Opportunities to sell Canadian productions, particularly documentaries, children's programs, and inserts for Brazilian television electronic magazines (such as *Fantástico*, from *Rede Globo,* with a market share of more than 35%).

- Each marketing insertion in prime time soap operas (2100 h) of the *Rede Globo* costs C$262,000, without taking production fees into account. Since 2003 this type of advertising has been able to cover the production costs of a soap opera: close to C$19.21 million. There were 107 insertions in the soap opera "*Senhora do Destino*" ("*Lady of Destiny*"), broadcasted in 2005[75].

Pay TV Market

- Opportunities for Canada in the marketing of various socio-cultural, environmental and educational series (in excess of C$17.46 million)
- Opportunities to sell equipments and technological services for the expansion of Pay TV channels (an C$833 million/year industry)
- Opportunities for various co-productions (open market)

[75] Folha de São Paulo 17/03/05

Films Market

- Opportunities to obtain government financing for the instalation of movie theatres (a C$152.83 million/year industry, assuming a cost of C$567,000 per movie theatre).
- Art films market (open).
- Film restoration – Canadian technology (open market)

Electronic Games

- Opportunity to partner with the Ministry of Culture to establish in Brazil a production and sales infrastructure for electronic and educational games: an unexplored market with much potential.
- Partnership opportunities with the National Institute of Information Technology - ITI (*Instituto Nacional de Tecnologia da Informação*) and with *Finep*, the States and Projects Financing company (F*inanciadora de Estados e Projetos*)

Incentive Program for the Production and TV Broadcasting of Brazilian Documentaries

- Opportunity for a partnership with the Brazilian Association of Public, Educational and Cultural Broadcasters (*Associação Brasilieira de Emissoras Públicas, Educativas e Culturais*) to produce a series of projects and products for the Brazilian public television network.
- In 2004 the Program produced more than 2,500 hours of programming for the Brazilian public television network.
- Opportunity for the joint production, in partnership with government, of videos and short films in cities of up to 20,000 inhabitants, a project that is titled *"Discovering the Brazils*" ("*Revelando os Brasis*").

Festivals, Showcases, Circuits

- Opportunity to expand the presence of Canadian productions in festivals, showcases and Brazilian cultural circuits.
- Opportunity to expand the participation in events such as exhibitions and showcases of Canadian films in art movie theatres and film clubs.

Regional Production

- Opportunities for the co-production of short and feature films in regional markets outside of the Rio - Sao Paulo axis, such as Brasilia, Minas, Ceará or Rio Grande do Sul, where the audiovisual sector remains largely unexplored.
- Opportunity to establish a partnership with the *RioFilme* Commission to produce in Rio for sale in the international market.
- Participation in the project "Cinema City" (*Cidade do Cinema*) of Rio de Janeiro.

Financing

- Opportunities for movies and television co-productions with financing generated by the federal tax incentive laws, (such as the Rouanet Act), State laws (ICMS), Municipal laws (ISS), and the Audiovisual Act.
- Opportunities for co-productions from capital generated by the incentives granted by the National Film Agency - *Ancine* (*Agência Nacional de* Cinema), which in 2004 reached C$13.97 million and should surpass C$26.20 million in two years.

- Opportunities to reach the whole Latin American market.

Spin-offs

- Opportunities in the spin-off's market, estimated at C$0.873 billion/year.
- Spin-offs are an industry segment experiencing great expansion in Brazil, thanks to the strength of television and its influence over the national behaviour and mores.

8.3 Main Agreements Signed between Canada and Brazil[76]

Cinematography; March 10, 1982
Memorandum of Agreement (Cinematography).

Technical Cooperation Canada - Brazil; April 2, 1975.
Technical Cooperation Agreement between the Government of Canada and the Federative Republic of Brazil.

Technical Cooperation Canada - Brazil; September 4, 1984. Supplementary Adjustment to the Technical Cooperation Agreement of April 2, 1975, that deals with Technical Cooperation in Communications and Special Programs.

Audiovisual joint production; January 27, 1995
Audiovisual Co-production Agreement between the Government of Canada (represented by the Secretary of State for Latin America and Africa of the Foreign Affairs Department) and the Government of the Federative Republic of Brazil.

Income Taxes; January 23, 1986
Decree Nº 92.318 regarding the execution of a Convention between the Government of Canada and the Government of the Federative Republic of Brazil designed to avoid Double Taxation with respect to Income Tax.

Promotion and Protection of Foreign Investment; January 15, 1998
Declaration of Intention between the Government of Canada and the Government of the Federative Republic of Brazil regarding the negotiation of an Agreement for the Promotion and Protection of Foreign Investment.

It is appropriate to remember that to download films and to pirate them is a crime in Brazil. Those activities are in violation of Articles 184 and 186 of the Criminal Code regarding copyrights. The Association for the Defence of Intelectual Property (*Associação de Defesa da Propriedade Intelectual*) has tracked the downloads and sent the most serious cases to the police bureau that specializes in informatics.

[76] Website of the Canadian Embassy in Brasilia – www.dfait-maeci.gc.ca/brazil/br

9. TV AND MOVIE MARKETING CONTACTS

(see Appendix VI – Full List of Contacts**)**

- Canadian Contacts
- Useful Websites
- Computer Animation
- Resource Collection – Project Production
- Copying – Transcription – Transcoding
- Sound and Image Studios
- Movie Faculties
- Movie Directors
- Kinescopy - Transfer
- Movie Bureaus
- Producers – Rio de Janeiro
- Producers - Sao Paulo
- Multimedia Producers
- Pre and Post Production Services Company
- Dubbing – Subscripts – Translation
- Special Effects
- United States Box-office Results
- Movie Magazines
- On-line admissions
- Important Contacts
- Foreign Films and TV Programs Distributors
- Movie Exhibitors
- Main Movie Chains
- Ponto de Aluguel de Videos e DVDs
- Movie Theatres - Sao Paulo
- Film club
- Cinema from other countries
- Cinema - TV Importer (shipper)
- Main Open TV Networks
- Pay TV
- TV and Cinema Associations

10. – REFERENCES

(see Appendix VII)

APPENDICES

I List of Festivals

II Export Credit Risks

III Legislation of Interest

IV Canadian Films Exhibited in Brazil

V Canada – Brazil Audiovisual Agreement

VI Television and Movie Contacts

VII References