



## 2016 Top Markets Report **Media and Entertainment** Country Case Study

### Brazil

Brazil is the wealthiest nation in Latin America, although this year Mexico and Argentina have registered higher GDP per capita, and the current recession is curbing the economic growth among the Brazilian middle class. In 2015, Brazil boasted a \$48.4 billion M&E industry, which is expected to grow to \$71 billion in 2019. It is twice as large as Mexico's M&E industry. The August 2016 Olympics (and the 2014 World Cup) spurred growth for entertainment venues and companies providing live music, animation and media tools, but the current political and economic situation will curb growth.

Overall Rank

5

#### Ranking of the Brazilian M&E Sectors 2016

1. **Filmed Entertainment**
2. **Music**
3. **Publishing**
4. **Video Games**

Brazil ranks fifth on ITA's list of top M&E export markets in 2016. U.S. exporters are expected to be particularly competitive in filmed entertainment and music but will have to remain vigilant to protect copyrights and market share. Brazil is still developing its international licensing system, and while opportunities abound as Brazilians are just as eager to share their creative talent as they are to learn about U.S. M&E trends, trade barriers make market entry a challenge.

Exporters are advised to have a local attorney who speaks Portuguese to provide tax and licensing law expertise and to help navigate the copyright laws, which have been in flux in recent years. Fraudulent payment systems and scams are other concerns for U.S. businesses in this marketplace.

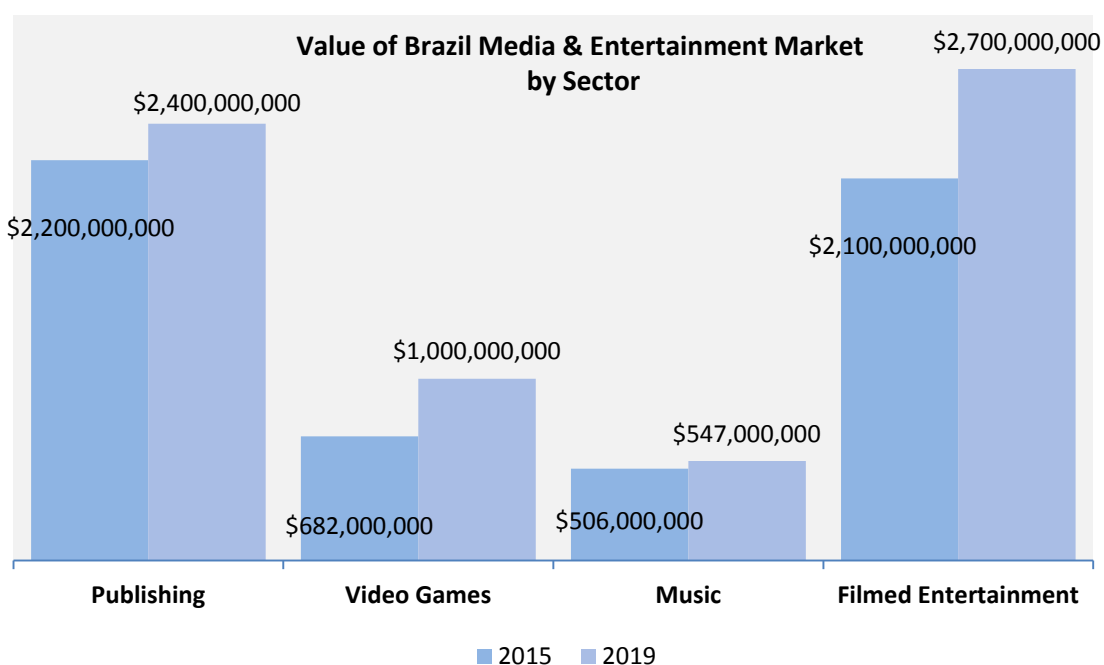
Nonetheless, it is a vibrant entertainment marketplace. The film industry is well developed, while television is more localized, and games are growing both for digital consoles and online. Music is

a vital cultural force in Brazil, and there is demand for American jazz and electronic/trance, among other genres, in the Brazilian marketplace.

#### **Overview of the M&E Market**

Brazil is Latin America's largest media market and the only Portuguese-speaking country on the continent. Brazil has thousands of radio stations and hundreds of TV channels, both very influential media with highly concentrated ownership that are tightly regulated by the government.<sup>15</sup>

The government is implementing its digital TV transition and was slated to switch off analog in 2016, but the government has decided to hold off until 2018, after the Olympics has concluded.<sup>1</sup> Presently, more than 30 percent of Brazilian households subscribe to pay-TV. Globo, Brazil's cable giant, counts almost half of the country's population as its viewership and offers pay-TV stations, magazines, radio, film production and newspapers, although the bulk of Globo's \$6.3 billion (2013) fortune comes from its broadcast network, which airs telenovelas (soap operas) that are popular throughout the continent. Globo is not only the largest Brazilian media company but also the largest in Latin America.<sup>16</sup>



Steve Solot, President of Rio Film Commission, confirms that despite the country’s general economic deceleration, the film and, especially, TV industries are surging, boosting demand for content in all audiovisual segments. The Brazilian government has announced its support for the film industry, and box office receipts are growing rapidly but could be at risk due to weak economic development and the major sporting events that take place during the time of year typically associated with high movie attendance in Brazil.

The Brazilian music industry is very diverse and localized, and certain genres of foreign music are more popular than others for export purposes, such as jazz, trance and lounge, rock, and folk, especially as many Brazilians begin to listen to and purchase music in foreign languages. American music is popular in Brazil, but Brazilian music is the most popular, as many still prefer to listen to music in Portuguese. Brazilians are digitally savvy, with 91 million people online. Consumers are easy to reach via online marketing campaigns. Among social media trends, YouTube is extremely popular.

#### Challenges Facing U.S. M&E Exporters

Copyright industries doing business in Brazil face significant Internet piracy, as do products in the

entertainment sector, such as CDs; DVDs; and other media carrying pirated music, movies, TV programming and video games. Circumvention devices that allow access to video game consoles are a problem for all copyright sectors.

That said, the industry faces roughly the same amount of Internet piracy as is found in any other middle income country, and Brazilians consume pirated DVDs and engage in illegal downloading. The activity is driven by high costs and taxes on entertainment and lack of a full catalogue offering to the public, some of which is a governmental problem, and some of which is caused by the industry. Problems with enforcement for illegal downloads are being addressed this year in a pending and long-awaited new copyright law. Brazil has significantly improved enforcement against hard goods piracy over the past five years, which includes DVDs/CDs. The new copyright bill will likely also contain express “fair use” exceptions and limitations.

#### Opportunities for U.S. Companies

U.S. companies willing to invest in the Brazilian market and build personal relationships with businesses in Brazil stand a fair chance at doing repeat business in this relationship-driven economy. The creative industry has always been vibrant in

Brazil, and now the country is focused on building a world class M&E sector, a process that was intensified by the FIFA World Cup 2014 and in anticipation of the 2016 Rio Olympics. The 2016 Olympics offer opportunities for M&E companies with entertainment and event services, theme parks and related entertainment, live music acts, apps, and filmed entertainment.

### Filmed Entertainment

The Brazilian filmed entertainment sector is slated to reach \$2.7 billion by 2019, up from \$2.2 billion in 2015, at a robust 6.1 percent growth rate.<sup>ii</sup> Box office revenues will reach \$1.16 billion, growing 8.5 percent during the same five-year period.<sup>iii</sup> The Brazilian government reports box office revenue grew for the ninth consecutive year in 2015 to reach \$773 million (8.5 percent) while admissions will increase to 195.4 million in 2019, a significant rise from 152.0 million in 2014.

It may be challenging to translate English content into Portuguese, although many movies are also dubbed. The fastest growth will be in electronic home video, which will rise at an impressive 15.4 percent to \$676 million in 2019 (from \$330 million in 2014), which will represent 24 percent of total filmed entertainment revenues.<sup>iv</sup> Over-the-top (OTT) streaming will experience a large increase in revenues to \$191 million in 2019, a marked revision downward from last year's prediction of \$363 million in 2018 but still strong.<sup>v</sup> Through-TV-subscription revenues will almost double to reach \$485 million by 2019 (up from \$250 million in 2014).<sup>19</sup> Content for TV and DVD, along with digital streaming and subscription services, still offers good growth opportunities in Brazil, especially for content that is localized or offers new genres.

The Brazilian government has dedicated many resources to grow the domestic filmed entertainment sector. In 2014, then President Rousseff announced \$470 million in film and TV incentives aimed at cinema expansion under a project titled "A Cinema Near You." This project is funded by the federal government and managed by the National Film Agency, Ancine, and its Audiovisual Sector Fund (FSA) in cooperation with the National Development Bank (BNDES). Both Rio and Sao Paulo governments also offer film funding and marketing for the domestic industry, via RioFilme and SPcine.

While this bodes well for the local economy, it can also open doors for U.S. producers to partner with Brazilian producers of television series and films for TV, who will have access to additional production funds, which in turn could be beneficial in terms of translation of subtitles on content and generally for contractual interpretation.

Brazil's audiovisual regulatory environment is complex and favors national content and production. Although there is a vast array of production incentives for national content in every format, there is no specific foreign production incentive. However, U.S. producers can partner with a Brazilian company to access local production funds. Federal regulations for audiovisual projects overseen by Ancine have been criticized by local producers as overly bureaucratic and slow, hindering the production process.

Despite rapid growth of transactional and, especially, subscription-based video-on-demand (VOD) services (both foreign and national), the federal government has issued a levy on VOD services that may restrict expansion of services catalogs to mostly highly commercial films which can cover the cost of the levy. The Ancine Regulatory Agenda 2015-16, published March 13, includes this item.<sup>20</sup>

### Television

Subscription TV offers excellent growth opportunities for companies that are willing to navigate the quota and taxation requirements levied on foreign providers.<sup>21</sup> In 2012, the Brazilian government implemented a domestic quota for pay-TV (Law 12.485), which mandated new local content quotas for pay-TV channels and thereby created enormous demand for independently produced national content to be acquired or co-produced by channels in order to fulfill the quotas. While U.S. producers can partner with local companies to produce series and TV movies, this represents a serious trade barrier.

Pay-TV penetration was only 29.5 percent in 2014 in approximately 19 million homes, according to The National Telecommunications Agency (Anatel,) and is expected to grow 36.7 percent through 2019, dominated by Net Serviços (cable) and Via Embratel (satellite).<sup>vi</sup> Both are backed by Telmex, a dominant Mexican telecommunications provider with a strong

presence across Latin America. PwC analysts suggest the satellite TV sector will see robust growth from 16.5 percent to 20.7 percent of television households, and IPTV is expected to expand beyond approximately 600,000 households in 2013 to 2.3 million in 2018, representing excellent opportunities for U.S. exporters. It is worth noting the latter will represent about 3.1 percent of TV households.

### Music

When working with the music business in Brazil, it is important to understand the local culture and how the industry is represented in two distinct communities. One represents the traditional music industry, including the major labels, music publishers and radio. The other represents the independent sector, which is strongly influencing the direction of the emerging and new Brazilian music industry, represented by young managers, do-it-yourself (DIY) artists, indie labels, indie music festivals and social media.

Exporters will need to know which segment they are targeting when entering the market and plan on meeting with buyers in person to build the relationship. For Brazilians, this is very much a relationship industry. Fortunately for U.S. exporters, most people working in the music industry speak English and often Spanish in addition to their native Portuguese. Radio is still the most powerful medium to expose new music and gain attention for new releases in Brazil, and television is also a very important medium, with social media and online tools following closely behind TV.

Music sales across Latin America grew by only 1.4 percent in 2013, and digital sales accounted for 35 percent of revenues. Brazil and Mexico dominate the market and together account for 70 percent of recorded music income in the region, although 2013 brought declines in both Brazil's and Mexico's music markets.<sup>22</sup> By 2014, Brazil recorded \$500 million in revenue, with a 1.8 percent forecasted growth rate to reach \$547 million in 2019, signaling better times in the future. Recorded digital music sales peaked in 2014 at \$295 million and could fall by as much as 1.9 percent through 2019 to \$267.<sup>vii</sup> Digital streaming music will be an important part of the industry's future over the forecasted period with the launch of Spotify in 2014 joining other companies in the streaming music business.<sup>viii</sup> In 2014, the digital

streaming market was \$62 million, which had risen 30 percent from 2013 and is forecasted to grow to \$83 million at a rate of 6.2 percent through 2019.<sup>ix</sup> These developments signal strong opportunities for U.S. labels across a broad swath of genres. Subscription services are on the rise. While mobile music (with ring and ring-back tones in particular) sets the tone for early digital music development, it is now in decline with competition from new music services and wider broadband penetration, especially in urban centers. Illegal file sharing remains problematic as Brazil's copyright law is being revised but may not gain significant ground, possibly for years to come, due to changing political players and multiple agencies involved with law making.<sup>23</sup>

The Ministry of Culture has publically announced the Copyright Bill will be released this year. As mentioned previously, Spotify and similar services are flourishing (and for perspective, so is Netflix, representing another creative content sector), and experts believe Brazilians are likely to halt illegal downloads and file sharing once costs become more reasonable. Licensing of digital music and participation in music festivals hold the highest potential for music exporters in the short run, until the industry is better protected by more robust anti-piracy laws.

### Video Games

Brazil has the second largest game market in Latin America after Mexico, worth \$484 million (2015), and is expected to grow 11.9 percent over the coming years to \$746 million by 2019.<sup>x</sup> It will then boast 38.9 percent of the region's total video games consumers, surpassing Mexico's video game market by a small margin.<sup>xi</sup> Sales of game consoles will increase at a rate of 11.6 percent to reach \$324 million in 2019 (from \$188 million in 2014) despite the almost 90 percent import taxation on consoles, which encourages illegal trade and stifles growth in legitimate video games and consoles.<sup>24</sup> In addition to taxes, there are high tariffs, and given the downturn in the Brazilian economy, no improvements are expected in the immediate future to reduce the fiscal and regulatory burdens across many sectors.

Social media is accredited with being a major driver for this sector, and online games are tremendously popular. The apparently sudden growth in traditional

gaming, when other markets are witnessing a decline, especially in console gaming, has to do with the import tax situation. Consoles and console games are significantly more expensive in Brazil than in other territories and could retail for \$60 in the United States but over \$100 in Brazil, and they arrive in the store long after their release date. The increase in digital formats bypasses the traditional tariff and taxation channels altogether. This has led to a sudden opening up of the market, meaning earlier availability of more affordable, comparably priced games and services for Brazilian consumers. Free-to-play mobile and online games will grow, thanks to the high cost of video games, which will also lead to high advertisement revenues in the market place.

New technologies will help stem piracy in the console sector, such as consoles with improved methods for detection and blocking that prevent play of pirated games on consoles, along with next-generation consoles equipped with anti-piracy software and newer games that offer in-game downloads and multiplayer gameplay, which must connect to official servers to verify legitimacy before allowing access to the games.

Lastly, the Brasil Game Show (BGS) will take place in Sao Paulo from September 1 to 5, 2016. More information is available at: <http://www.brasilgameshow.com.br/>.

### Publishing

In 2015, total book publishing revenue was worth \$2.2 billion and will experience a modest growth trajectory to reach \$2.4 billion by 2019.<sup>xiii</sup> While e-books will expand during the forecasted period, print books will remain the most popular way to read a book. The Brazilian government is promoting reading through programs such as the National Reading Incentive, which will help drive the popularity of both print and e-books.<sup>xiii</sup>

As with most top markets, the e-book markets will witness the most impressive growth with consumer e-books at 35 percent, more than quadrupling in size from \$44 million in 2014 to \$197 in 2019.<sup>xiv</sup> Educational e-books will grow at a rate of 23.2 percent from \$2 million to \$4 million but will represent only 0.6 percent of the total revenues for educational books due to a low tablet penetration rate of the market.<sup>xv</sup> Professional e-books will grow

11.5 percent through 2019 to reach \$63 million.<sup>xvi</sup> Major international publishers like Penguin Random House recognize the important growth potential of Brazil as an emerging economy and have invested in local publishers. For the time being, brick-and-mortar stores will continue to play the most important role in the Brazilian publishing sector. One important consequence of the reliance on brick-and-mortar stores is that small and medium sized publishers are afraid of putting themselves out of business by pricing their digital books much lower than their print books and undercut themselves. Therefore, the Brazilian market is unique in that it is seeing publishers price their digital books at a similar price to their print books, which is not necessarily the best way to encourage growth in e-books.<sup>xvii</sup>

### **Guidance and Resources for Exporters**

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in Brazil.

- Typical buyers, licensors and distributors of M&E in Brazil might include state and federal government, small and medium sized private companies, and large domestic or multinational corporations.
- Preferred business strategies to enter/expand in the market might include finding a distribution partner and setting up an office in country with local partners to comply with local import regulations.
- Common trade barriers to enter/expand in the market might include that most businesses have set up their own regional or local office in country. It is a cost of doing business in the local market and required by law. There are high taxes on FDI and complex licensing procedures in Brazil.
- U.S. Department of Commerce Country Commercial Guide: <http://www.export.gov/ccg/brazil090732.asp>  
Other Market Research: <http://www.mpa.org/the-brazilian-film-industry-thoughts-on-innovation-and-regulation/#.VzCD8sv2bIU>
- American Chamber of Commerce in Brazil: <http://www.amcham.com.br/en>
- Government Agency: Ministry of Culture, Fundação Biblioteca Nacional – <http://bn.br;enwww.cultura.gov.br>



## Industry Trade Associations

### *Film/TV*

- *Brazilian TV Producers Association*  
<http://braziliantvproducers.com/en/>
- *Rio Film Commission*  
<http://www.riofilmcommission.com/>

### *Music*

- *Brazilian Association of Independent Music*  
<http://abmi.com.br/website/index.php>

### *Publishing*

- *Brazilian Book Chamber* - <http://www.cbl.org.br>
- *National Union of Book Publishers (SNEL)* –  
<http://www.snel.org.br>
- *Brazilian ISBN Agency* - <http://www.isbn.bn.br>

### *Video Games*

- *Brazilian Association of Video Game and Audiovisual* - <http://ubveq.org.br/>
- *ACI Games* - <http://www.acigames.com.br/>
- *ABRAGAMES – Brazilian Association of Electronic Game Developers* - <http://www.abragames.org/>

## Trade Shows

### *Film/TV*

- *Rio Film Festival*

<http://www.festivaldoriorio.com.br/en/>

- *Rio Content Market*  
<http://riocontentmarket.com/>

### *Music*

- *Rio Music Buzz*  
<http://www.abmi.com.br/circulares/RELATORIO%20Rio%20Music%20Buzz%202015.pdf>

### *Publishing*

- *14<sup>th</sup> Paraty International Literary Festival (FLIP)*,  
Date: June 29 – July 3, 2016, Paraty, RJ, Brazil  
[http://www.flip.org.br/?idioma\\_new=](http://www.flip.org.br/?idioma_new=)
- *Bienal Internacional do Livro de São Paulo 2016*,  
August 26 – September 4, 2016, Sao Paulo, SP,  
Brazil  
<http://www.bienaldolivros.com.br/en/Home/>
- *Bienal Internacional do Livro Rio 2017*, August  
31 – September 10, 2017, Rio de Janeiro, RJ,  
Brazil <http://www.bienaldolivro.com.br/en/>
- *Bienal do Livro de Minas 2018 Juiz de Fora /*  
Belo Horizonte MG, Brazil  
<http://www.bienaldolivrominas.com.br/>

### *Video Games*

- *Brasil Game Show (BGS)* -  
<http://www.brasilgameshow.com.br/>

<sup>i</sup> Rapid TV News: Brazil delays analogue switch-off until after the Olympics <http://www.rapidtvnews.com/2016010841254/brazil-delays-analogue-switch-off-until-after-olympics.html#axzz488nu40wy>

<sup>ii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>iii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>iv</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>v</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

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<sup>vii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>viii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>ix</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

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<sup>xii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>xiii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>xiv</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>xv</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>xvi</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.

<sup>xvii</sup> Pricewaterhouse Coopers, “Global media and entertainment outlook,” <http://www.pwcmediaoutlook.com/dataexplorer>, accessed 1/11/2016.