

The Mexican film industry
and its participation
in the global value chain

Jorge Mario Martínez Piva

Ramón Padilla Pérez

Claudia Schatan Pérez

Verónica Vega Montoya



NACIONES UNIDAS

CEPAL

ECLAC Subregional Headquarters in Mexico
Mexico, D.F., October 2011



This paper was prepared by Claudia Schatan Pérez and Jorge Mario Martínez Piva, respectively, Chief and Officer of Economic Affairs in the International Trade and Industry Division at the ECLAC Subregional Headquarters in Mexico, and by Ramón Padilla Pérez and Verónica Vega Montoya, respectively, Officer of Economic Affairs and consultant in the Economic Development Division at ECLAC in Mexico. Authors wish to express its appreciation for the assistance of Patricia Rodríguez and the English translation of Laura Joosse. Part of the material was previously published in N° 17 of the Mercosur Economic Research Network Series: Service exports in Latin America: The cases of Argentina, Brazil and Mexico.

The opinions expressed herein are the sole responsibility of the authors and do not necessarily coincide with those of the United Nations.

United Nations Publication
ISSN: 1680-8800
ISBN: 978-92-1-323468-6
E-ISBN: 978-92-1-054516-7
LC/L.3274-P/Rev.1
LC/MEX/L.981/Rev.1
Sales number: S.10.II.G.79
ORIGINAL: SPANISH

Copyright © United Nations, October 2011. All rights reserved
Printed at the United Nations, Mexico City

Member States and their governmental institutions may reproduce this work without prior authorization, but are requested to mention the source and inform the United Nations of such reproduction.

Contents

Abstract	5
Introduction	7
I. Conceptual framework	9
A. Trade and services	9
B. Disincorporation of links in the Global Value Chain	11
II. Audiovisual services and the film industry: definition and main international trends	13
A. Creative industries	13
B. Audiovisual services	15
C. The film industry	16
III. The film industry in Mexico	23
A. History and recent evolution of the Mexican film industry ...	23
B. Co-production and Mexican production	26
C. Productions funded by foreign capital	30
D. Post-production	32
E. Distribution, exhibition and other mechanisms for the exploitation of intellectual property (video sales, TV and related items)	33
1) Distribution	33
2) Exhibition	34
IV. Conclusions	39
Bibliography	43
Serie estudios y perspectivas, México: números publicados	46

Index of Tables

Table 1	SELECTED COUNTRIES: AUDIOVISUAL SERVICE AND RELATED EXPORTS, 2000-2008	16
Table 2	THE LATIN AMERICAN FILM INDUSTRY, 2008	19
Table 3	SELECTED COUNTRIES: COMPARISON OF TAX INCENTIVES FOR FILM PRODUCTION.....	31
Table 4	STRENGTHS AND WEAKNESSES OF THE MEXICAN FILM INDUSTRY	41

Index of Box

Box 1	THE INDIAN FILM INDUSTRY	18
-------	--------------------------------	----

Index of Graphs

Graph 1	AVERAGE ANNUAL GROWTH RATE OF SERVICE EXPORTS PER REGION, 1998-2008	13
Graph 2	MEXICO: FILM PRODUCTION, 1983-2008	25
Graph 3	MEXICO: DIRECT EMPLOYMENT THROUGH THE FILM INDUSTRY, 2007	27
Graph 4	MEXICO: IMPACT OF THE FILM INDUSTRY ON THE NATIONAL ECONOMY (VALUE ADDED)	28
Graph 5	COUNTRIES SCREENING GREATEST NUMBER OF MEXICAN FILMS, 2002-2008	29
Graph 6	MEXICO: MARKET SHARE PER DISTRIBUTOR, 2009	34
Graph 7	LEADING COUNTRIES IN THE WORLD ACCORDING TO MOVIE ATTENDANCE, 2009.....	35
Graph 8	MEXICO: MARKET SHARE PER EXHIBITION CIRCUIT, 2009.....	36
Graph 9	SELECTED COUNTRIES: AVERAGE MOVIE ATTENDANCE PER CAPITA, 2008	36
Graph 10	LEADING COUNTRIES IN THE WORLD ACCORDING TO BOX OFFICE EARNINGS, 2009	37
Graph 11	MEXICO: MEXICAN FILMS' SHARE OF TOTAL BOX OFFICE EARNINGS, 2004-2009	37

Index of Figures

Figure 1	CLASSIFICATION OF CREATIVE INDUSTRIES	14
Figure 2	GLOBAL VALUE CHAIN OF THE FILM INDUSTRY	21

Abstract

In Mexico, the service sector has become increasingly important both for gross national product and exports, and the film industry seems to be a relevant sector to explore in the effort to diversify export niches. This sector has a long and varied history, having become very prominent during certain periods (the Golden Age of the 1940s and 1950s) and less so in others, because of the various problems faced (for example between 1995 and 2005). The strengths and weaknesses experienced by the film industry throughout its existence can serve to orient future public policies.

Mexico has important productive and creative capacities in the film industry that permit it to produce completely domestic films (domestic pre-production, production and post-production). Its proximity to the United States, the varied national scenery, and the skills of producers, directors, artists, and technicians with years of experience favor Mexico's insertion into certain niches of the international film production chain. Furthermore, Mexico is one of the largest markets in the world for film exhibition, although the Mexican film industry rarely takes advantage of this.

Industry production is limited, however, by scant financing, major competition from Hollywood productions, the lack of joint initiatives and partnerships among members of the Mexican industry, weak legal regulation in the industry, the absence of integrated public policies to promote film production, and restrictions on distribution and internationalization. National infrastructure and technology capabilities, as well as training of personnel in new digital technologies, must be strengthened to achieve better results in the film industry.

Other countries' experiences have shown that the Mexican film industry could have much greater potential. The dynamism of this sector on a global level, the potential for the creation of a large number of high-quality jobs, and the possibility of Mexico's integration into the global production chain with greater added value, should be strong incentives for solutions to be found to the problems that this industry is facing.

Introduction

Over the last decade, international trade and foreign direct investment (FDI) in the service sector experienced higher growth rates than trade or FDI in goods (Matto and others, 2008). The service sector is just as important in world production, since it makes up three-fourths of GDP in developed countries and half of GDP in developing countries, which influences job creation: 70 and 35 per cent of jobs were in the service sector in developed and in developing countries, respectively (Martínez and others, 2008).

The growing importance of this sector has not always been registered adequately by statistics or by studies of its dynamics and economic impact. This is partly due to the difficulty of quantifying the creation and movement of intangibles such as services, and is partly because the sector's dynamic evolution is difficult to register in surveys and censuses. Some progress is being made, as shown by the fifth edition of the International Monetary Fund (IMF)'s Balance of Payments Manual, which classifies three groups within cross-border trade in services: transportation, travel, and other services. The latter is the most diverse, and includes the longest list of services: communications, construction, insurance, financial, cultural, and recreational services, among others.

Within the very wide range of activities included in the services sector, and in an effort to identify niches that could help diversify Mexico's service exports, we have chosen the film industry, which belongs to the audiovisual service sector for this study.¹ Among the reasons for selecting this industry in this study is the fact that it is historically important in Mexico; it has been considered a strategic sector

¹ According to the United Nations Conference on Trade and Development (UNCTAD) classification, audiovisual services include radio and television, cinema, and music recordings.

and a number of public policies were designed to support it. Although its presence in the Mexican economy has varied, in recent years it has strengthened. It has great potential, not only in terms of its contribution to economic activity, but also in exports, since Mexico enjoys recognized static and dynamic comparative advantages in the film production. A good part of these advantages were created over the span of many years, which allowed for the development of specialized human resources and associated facilities and services. Other advantages are Mexico's wide variety of landscapes, relatively low costs and, perhaps most importantly, its proximity to the United States, one of the largest producers and consumers of films in the world.

Mexico thus finds itself in a privileged position in the globalization process of film production chains. Currently, thanks to the development of new technologies, the Mexican film industry has improved its possibilities for becoming more sophisticated and deepen its involvement in the industry's global value chain (GVC). It must also be said that the film industry is expanding globally, which encourages the activity in this market niche. Audiovisual exports are exhibiting greater growth trends than that of other creative industries, both in developed and developing countries. In the former, said exports grew by an average rate of 10.1 per cent annually between 2002 and 2008, while in the latter, the annual rate was 16.3 per cent over the same period. The international film industry practically doubled in value between 1996 and 2004 (from US \$354 million to US \$653 million), which translates into an annual growth rate above 10 per cent² (Dos Santos-Duisenberg and Laurencin, 2006).

At the same time, it must be recognized that the Mexican film industry, though promising, faces enormous challenges related to: a) the difficult coexistence between foreign productions and the insertion of Mexican cinema into national and international markets; b) the concentration of means of distribution; c) the concentration of means of exhibition; and d) the limited financial support for the industry. These challenges require special attention, since if they are overcome, the sector may be better able to realize its potential.

This paper's specific objective is to explore how the Mexican film industry participates in the GVCs of the global film industry, as well as the possibilities of increasing its contribution to service exports through better and greater insertion into GVCs.

To this end, we will examine the available information on the Mexican film industry, particularly production and service exports, and will emphasize the way that Mexico participates in the GVC, in order to evaluate its (static and dynamic) comparative advantages, areas of opportunity, and economic impact. It is important to mention that the study faced difficulties regarding the availability of information which enabled the authors to cover all the ground foreseen. This study also includes policy recommendations for removing some obstacles so that this sector can be further developed and opportunities in the global, regional and national markets can be better taken advantage of.

This document forms part of a collaborative project between the Economic Commission for Latin America and the Caribbean (ECLAC) and the Mercosur Economic Research Network, in particular CENIT in Argentina and the Economics Institute at the Federal University of Rio de Janeiro, Brazil, which focus on the study of service value chains in Latin America.

In Chapter 1 of this paper we present the conceptual framework, where we define the areas covered by this study, especially services and the creative industries, as well as global value chains. In Chapters 2 and 3, we define and present the main characteristics of the global creative industry, particularly the film industry. In Chapter 4, we offer the case study of the Mexican film industry, in which we analyze its participation in the GVC in both domestic and international productions, and its strengths and weaknesses. The paper ends with our conclusions and directions for future research.

² These numbers, however, do not fully represent film exports because they do not include license payments, copyrights, marketing or distribution.

I. Conceptual framework

A. Trade in services

Services have been defined as economic activities that add value, whether that be to a person or to a good that belongs to someone else; that is, they are activities that change the condition of a person or good, and are agreed upon by producer and consumer. Furthermore, services are usually considered to have three main characteristics: a) they are intangible (although sometimes they are incorporated into tangible products); b) they are perishable and cannot be stored, and are therefore consumed at the same time that the economic activity is carried out; and c) they imply interaction between the producer and the consumer of the service (Stephenson, 1999).

Within the framework of international commerce, trade in services refers to the exchange or sale of an economic activity with the aforementioned characteristics, through one of the four modes of supply described in the General Agreement on Trade in Services (GATS):

a) An inhabitant of one country supplies a service to a resident of another country in what is called cross-border trade. The user of the imported service may receive it through telecommunications or by mail. In the film industry, this mode is exemplified in the purchase of a movie over the Internet or in selling the copyright to a production.

b) The residents of one country consume a service in a foreign country, for example, through tourism, education, medical attention, or foreign film productions in which one of the stages of the value chain is carried out (filming, post-production).

c) The service is bought locally, but from a foreign company established in the country. For example, a foreign-funded company for producing or screening films that will be bought locally.

d) The service is provided by a foreign consultant in the country of consumption as an independent provider of a service. An example of this would be the presence of a foreign actor or director working on a domestic film production.

For many years, economic theory and international trade theory showed little interest in trade in services. Among other reasons, this was because it was an economic activity that was difficult to conduct internationally, apart from transactions related to transportation, travel, and some financial activities like insurance. In the last 20 years, however, there has been a significant change, especially in information and communication technology (ICT), which has brought international trade in services to the fore. These changes are interrelated, but in order to better analyze them, we can identify four:

a) The liberalization of international trade in services through the GATS,³ which enabled its rapid expansion. With the GATS and regulatory reforms, it became considerably easier to enter the market, which drove competition and strengthened the international exchange of services in some markets (i.e. telecommunications and energy).

b) The development of new technologies (especially ICT) permitted services to be supplied worldwide, making them more marketable across borders (mode 1 of international trade in services).

c) FDI has grown considerably through trade and new, globalized forms of production, which has allowed for an increase in international trade in services through the establishment of service providers in foreign countries (mode 3 of international trade in services).

d) Since the end of the 1990s, as a response to a globalized strategy of business development, a disincorporation process very similar to that undergone by the manufacturing industry two decades before permitted parts of services to move to different locations. This meant that the service production chain became globalized, and its links were divided up so as to be produced in different parts of the world (mode 1 of international trade in services).

For a statistical classification of international trade in services, we will use the fifth edition of the IMF's Balance of Payments Manual, which establishes the classification of cross-border trade in services that is used in most studies and statistics. The categories of services that the general statistics include are travel, transportation, and other services. However, we will perform a more detailed analysis, since currently many different types of services are covered under "other".

The "other services" category includes cultural and recreational services, which themselves include creative industries and audiovisual services. The current dynamism of these services is due to growth in electronic media, which has encouraged production, transportation, storage, and the relocation of production.

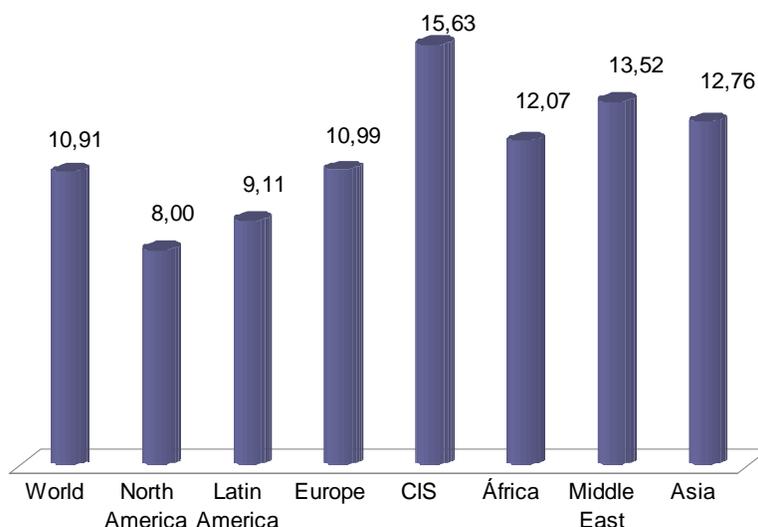
In the case of Mexico, the audiovisual services industry has historically been very important, and in the current decade, it is fourth in international trade in services in Mexico, only behind transportation, reinsurance, and telecommunications. Mexico's film industry participates in the trade of audiovisual services through the filming and post-production of foreign films in the country, and through the exportation and exploitation of Mexican films.

Growth in global service sector exports has been higher than in goods exports, especially since 2000. From the 1990s, the FDI in this sector has also been higher than in other sectors (Matto and others., 2008). In the 1980s and 1990s, global service exports consistently expanded by an annual average of 5.8 per cent and 5.7 per cent respectively. This sector dynamism was even greater over the 2000-2008 period, reaching an annual rate of 12 per cent. In 2008, world service exports made up 19 per cent of total world exports.

³ This was one of 15 agreements adopted in the Uruguay Round, which ended in 1994 and also created the World Trade Organization (WTO).

As a group, Latin American countries do not have a very significant share of total world service exports, and this share has tended to decrease. Although this group of countries has the second-lowest growth rate in services exports in the world (see Graph 1), the sector's behavior is very different in each country. Mexico's share of international service exports has decreased, going from 1.18 per cent in 1980 to 0.49 per cent in 2008; the same is true for Argentina (from 0.48 per cent to 0.31 per cent) and Chile (from 0.33 per cent to 0.28 per cent). However, Brazil and Costa Rica increased their share from 0.45 per cent to 0.76 per cent and from 0.05 per cent to 0.11 per cent, respectively, over the same period.

GRAPH 1
AVERAGE ANNUAL GROWTH RATE OF SERVICE EXPORTS PER REGION, 1998-2008



Source: Prepared by the authors, based on data from WTO (2009).

In contrast, service exports in other countries have high growth rates. Between 1998 and 2008 Russia's average annual growth rate was 15 per cent; India's, 25 per cent; and China's, 20 per cent. China is first in service exports among developing countries. In Latin America, Brazil stands out, as its service exports increased by 15 per cent over the same period.

Mexico's service exports have shown weak growth and certainly insufficient to compete with countries like India or China. However, it is important to remember what various institutions and researchers have pointed out (Martínez and others, 2008; OMC, 2008; Cave and Giovannini, 2007) about the statistical problems for obtaining accurate data on Mexican service exports.⁴ These statistical problems could partly explain the weak growth observed in service exports. However, other services (professional, advertising, and above all, the film industry) have shown strong growth.

B. Disincorporation of links in the Global Value Chain

Although the causes of the recent growth in trade of services are varied, several authors agree that there is a fundamental reason for its recent strength: the globalization process and the consequent disincorporation of production links (ECLAC, 2007, Martínez and others, 2008, López and others, 2009).

⁴ One of the main problems for measuring trade in services is that large corporations' subsidiaries in foreign countries are not obliged to report their trade in services (Foreign Affiliates Trade in Services, FATS) with those corporations. This problem mainly presents itself in mode 3 of trade in services (WTO, 2008).

Competition in international markets, together with opportunities created by the GATS, free trade agreements, and information technologies have motivated companies to attempt to reduce costs and become more efficient. Companies are reorganized so as to allow headquarters to focus on central activities and encourage outsourcing. One way to study the phenomenon of production relocation is through the GVC.

The GVC analysis focusses on the division of the different activities in the production chain among different companies or the subsidiaries of one company located in different places. This perspective helps explain how a country participates in an industry on a global level and its role in the distribution of profits derived from the different activities in the chain (Padilla and others, 2008). Through an analysis of the value chain it is possible to identify the links and networks, at a company or industry level, that determine where valuable activities lie. For example, at the company level, it help identify those activities with a competitive advantage and thus gives indications on what segments to back within the value chain to create greater value within the industry (OECD, 2008).

The globalization of value chains, due to the relocation of services worldwide, has modified the organization of production and has brought about changes in the relationships between companies throughout the production chain. Currently we are seeing increasing relocation in production of goods and services, in which large companies and transnationals from developed countries take a leadership role, while small and medium enterprises (SMEs) and developing countries have opportunities that have yet to be fully explored (OECD, 2008).

Initially, in order to reduce costs, the disincorporated services of large companies were often the simplest and most labor-intensive, in order to digitally re-export the services to the parent company. This meant that the links with less added value were transferred to developing countries, while the most intensive activities in terms of knowledge, skills and value remained at the headquarters of the parent company. However, it is becoming more and more common to decentralize sophisticated services performed with information and communication technologies. New technologies and international agreements on the protection and subsequent exploitation of copyrights have allowed for a decentralization of the value chain in creative industries, including the film industry. In addition to the purely technological phenomenon, global consumption patterns, regulations and international agreements on the production of this type of services (co-productions and binational cultural programs, etc.) are becoming homogenized.

The nature of service decentralization has different effects from those that result from the same phenomenon in the manufacturing sector. For example, since many services incorporate specific knowledge or skills, the movement of people (both producers and consumers) has increased, which has strained traditional methods of managing migration. Likewise, the value that said knowledge or skills represent often constitutes very valuable links in the production chain, meaning that new forms of appropriating that value have become important (copyrights, patents, brands, exclusivity agreements, etc.).

The film industry is an excellent example of the previous points, due to its long value chain particularly based in services. These services have slowly become decentralized, making it important to identify the links in the chain and analyze what the process of decentralization has been. It is also important to study how the different links are integrated internationally; that is, how they cross borders and what parts of the chain concentrate most of the value added.

II. Audiovisual services and the film industry: Definition and main international trends

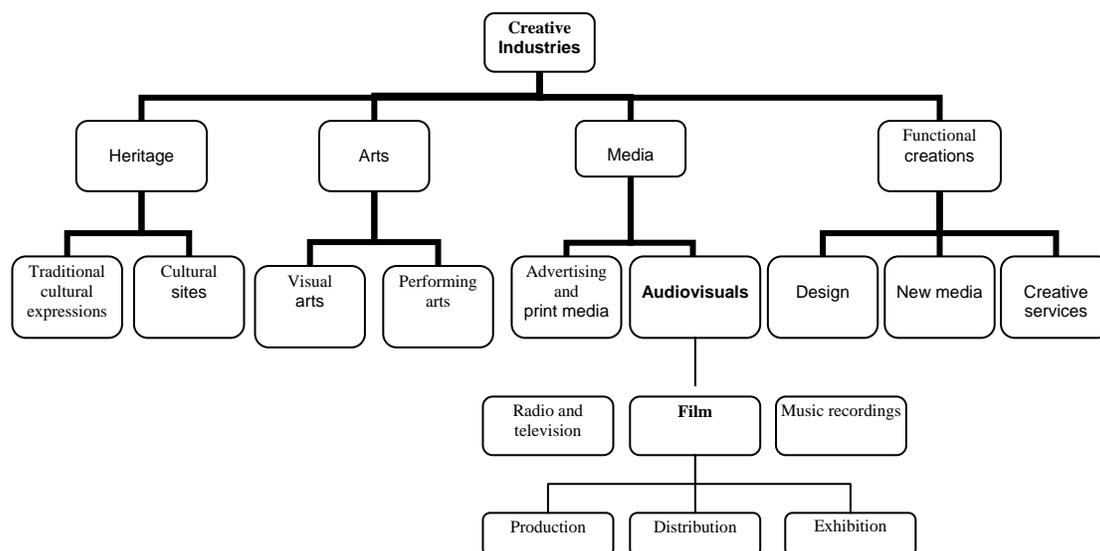
A. Creative industries

Creative industries are classified into four groups: a) heritage, which includes traditional cultural expressions (art, crafts, festivals, and celebrations) and cultural sites (archaeological sites and libraries, etc.); b) arts, including visual arts (painting and sculpture, etc.) and performing arts (music, theatre and dance, etc.); c) media, such as advertising and audiovisuals (film, radio and TV, and music recordings); and d) functional creations, made up of design, new media and creative services (UNCTAD, 2008a) (see Figure 1).

Many sectors in the creative industries are new and dynamic in world trade. They are characterized by the use of creativity, talent, individual skills and intellectual capital as the raw material for the creation, production and distribution cycles of goods and services. They include a group of activities based on knowledge, focused on but not limited to the arts, that create jobs and significant income derived from production and trade and from the exploitation of intellectual property rights. They cover tangible products and intangible artistic and intellectual services with creative content and economic value (UK Department for Culture, Media and Sport, 2001; UNCTAD, 2008a).⁵

⁵ See <http://www.culture.gov.uk/reference_library/publications/4632.aspx>.

FIGURE 1
CLASSIFICATION OF CREATIVE INDUSTRIES



Source: Prepared by the authors, based on data from UNCTAD.

It is important to distinguish between creative goods and services. The former are tangible, and include creative content, for example, yarns, antiques, magnetic tapes with recordings, books, videotapes, videogames, furniture and jewelry. Creative services, on the other hand, are intangible activities based on creative development, for example, photography, live entertainment, advertising, production, distribution and exhibition of movies, software, and design.

Creative industries include activities from arts and crafts to sectors that use technology intensively and create high added value, like design and audiovisuals. It is mainly developed countries that carry out and export activities with high added value, while arts and crafts are more important for developing countries (UNCTAD, 2004).

World creative service exports grew at an average annual rate of 17.1 per cent between 2002 and 2008, faster than exports of creative goods (11.5 per cent over the same period). In monetary terms, in 2008 exports of creative goods (US \$407 billion) were greater than service exports (US \$185 billion). In 2008, international trade in creative goods and services made up 2.7 and 4.8 as percentage of world trade, respectively;⁶ service exports, specifically, made up 1.7 per cent. Exports of creative goods from developing economies accounted for 37 per cent of world exports of creative goods in 2002 and reached 43 per cent in 2008. Latin America contributed only 2.2 per cent of creative goods exports worldwide (UNCTAD, 2008a, 2010).

According to WTO data (2009), in 2005 the main creative service exporters were the United States, Germany, the United Kingdom, Japan, and Canada, in that order. For creative service exports that same year, Mexico was 33rd in the world and ninth among developing countries. Mexico, Argentina and Brazil are the only Latin American countries among the main world exporters of creative services.

⁶ Percentage of creative goods in total world merchandise trade, and percentage of creative services in total world trade in services, respectively

Among the different factors that have promoted growth in the trade of creative services, the following stand out (UNCTAD, 2008a):

- 1) The development of information and communication technologies (ICT), which has allowed for the establishment of links the world over, making access to and circulation of digital content simpler;
- 2) The growth of real income in industrialized countries;
- 3) The reduction in real prices of some of these products due to technological advances;
- 4) Changes in patterns of cultural consumption, due to higher education levels, ageing of the population and concentration in urban areas.

B. Audiovisual services

Audiovisual services are defined as "services and associated fees related to the production of motion pictures or videotapes, radio and television programs and musical recordings" (WTO, 2009, p. 168). They form part of the so-called creative industries, which include a wide range of activities such as advertising and visual and performing arts, among others.⁷

Audiovisual services are one of the most complex sectors, as well as one of the most sensitive to policies (taxes, restrictions on foreign investment, telecommunications and licenses for diffusion and regulation, etc.) and have greater added value within the creative industries (UNESCO, 2005). They have a significant impact on other sectors such as education, the goods market and promoting certain exports (like tourism) (UNCTAD, 2002). Nevertheless, data on this sector is scarce, and with the information available it is impossible to estimate its real contribution to global trade and the world economy. Because of this, the quantitative analysis of this sector faces various challenges similar to those of other service areas, since its value cannot be measured in the same manner as the value of goods. This is because its production process generally entails high sunk costs (for property protection rights), but the process of reproduction has low costs (UNESCO, 2005).

Developed countries dominate the international audiovisual services market: between 2000 and 2008, around 90 per cent of exports originated from them. The United States is far and above the leader in international trade of these services: in 2008 its exports exceeded US \$13 billion. The United Kingdom, Canada, and France follow in the list of main exporters of these services. For several years Mexico was the only developing country among the ten main audioservices producers, with a US \$372 million production, but by 2008 it had been considerably surpassed by Argentina (US \$447 million) and China (US \$418 million) falling to the 21st position (see Table 1).⁸

The audiovisual industry offers important opportunities for developing countries, due to its high added value and high profitability, because it entails the promotion of culture and local products in external markets, and because it uses a significant amount of specialized human resources. Furthermore, it allows for the creation of chains comprising diverse sectors such as computer science and telecommunications, which facilitates the use of the sector as an engine for development through the buying and selling of technology (Pablo and others, 1998).

⁷ For more information on creative industries, see UNCTAD (2008a).

⁸ Most recent numbers available.

TABLE 1
SELECTED COUNTRIES: AUDIOVISUAL SERVICE AND RELATED EXPORTS, 2000-2008
(In millions of dollars)

Position by 2008	Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	United States	6 379	6 618	6 534	7 137	7 549	6 958	12 823	14 422	13 598
2	United Kingdom	1 479	1 309	1 565	2 089	2 857	2 861	2 665	2 303	2 520
3	Canada	1 324	1 221	1 138	1 169	1 661	1 880	2 073	2 021	2 102
4	France	1 121	975	1 022	1 287	1 639	1 424	963	1 018	1 167
5	Hungary	155	540	463	803	1 143	1 235	1 035	1 309	949
6	Germany	395	523	534	1 007	978	1 175	942	1 147	1 065
7	Spain	205	246	257	309	424	461	552	717	751
8	Belgium	n/a	n/a	240	297	385	444	470	326	540
9	Netherlands	194	151	179	n/a	n/a	597	480	396	498
10	Argentina	18	37	958	118	144	192	242	305	447
11	China	11	28	30	33	41	134	137	316	418
12	Italy	268	210	228	180	336	328	360	360	414
21	Mexico	328	318	400	293	358	373	383	308	87

Source: Prepared by the authors, based on data from UNCTAD (2008a, 2010).

C. The film industry

The global film industry is structured as an oligopoly, in which a small group of large companies heads the production and distribution of films. Nevertheless, in some activities and niches the barriers for entry are low, which allows a large number of independent, smaller companies to participate in each activity in the industry (UNESCO, 2005).

The global film industry is currently undergoing important changes due to technological developments and new business strategies. These changes have also affected the Mexican film industry. The most important among these are:

a) Movie launch and attendance patterns have changed. Due to the large number of movie premieres every year and the growing number of screens, the number of seats available is generally greater than the potential audience each weekend, and each film's time in the theater has been drastically reduced. The premieres of big productions rarely compete with each other for the same weekend; rather, there is an orderly process of premieres one after the other. Consequently, a movie's first weekend tends to generate the largest box office income, with a sharp fall in profits afterwards (The Economist, 2007a).

b) Alternative channels (The Internet and Video on Demand) for showing films have grown to threaten the conventional channels (movie theaters and movie rentals), even when it comes to premieres. Opportunities have also arisen for showing independent productions without the support of big distributors (The Economist, 2009d; The Economist, 2010a).

c) In recent years DVD sales have decreased, after having been a major source of income for producers. Furthermore, the growth in Blu-Ray sales has not been sufficient to compensate for falling DVD sales (The Economist, 2007a; The Economist, 2009c; The Economist, 2010a; European Audiovisual Observatory, 2009).

d) There is growing market polarization, in terms of profitability of productions, between major successes and niche films. The enormous number of productions offered means that most movie-goers choose films that have invested a great amount in marketing. On the other hand, independent or art films and documentaries, which invest less, are seen by small groups. The productions that invest a large

amount, but fail to attract the audience to cover their production and distribution costs are trapped in the middle (The Economist, 2009a; The Economist, 2009c; The Economist, 2009e; interviews carried out for this study).

e) The large American studios have a permanent dominance. On average, these studios invest US \$100 million in the making and selling of each movie. They have global networks and an army of people devoted to marketing (The Economist, 2007b). Innovative films and those that are not supported by the major distribution chains must make a big effort to reach their potential audience (European Audiovisual Observatory, 2008).

f) Access to new, low-cost and high-quality filming technologies, as well as equipment and software for editing, has lowered the barriers for entry for independent, low-budget producers (The Economist, 2009d).

g) The transition towards digital technologies and the diffusion of information and communication technologies such as the Internet and cell phones have facilitated and expanded the production and diffusion of films. The use of modern professional digital equipment, accessible at lower prices, allows for a reduction in costs and production, while shortening the post-production required period (González and others, 2009). Furthermore, the reduction in cost for making digital copies has helped independent producers to distribute their work more easily. The production cost of a movie in digital format⁹ ranges from US \$100,000 to US \$500,000, while that of a 35 mm costs no less than US \$500,000¹⁰ (González and others, 2009).

h) It is hoped that the increase in 3D movies will attract new audiences to and theaters. This new technology allows cinemas to offer an experience that cannot yet be replicated by advanced home theater systems, and to charge a higher price. Just like digital movie showings, 3D movies create the possibility of charging different prices. This is already having a positive effect on revenue in this distribution channel (European Audiovisual Observatory, 2009; The Economist, 2009b; The Economist, 2010b).

i) Thanks to technology and new trends in cinema, the industry can increase its activities and ways of exploiting the intellectual property rights it creates, generating new related industries or branches (i.e. digitalization, 3D, animations, special sound effects, and new forms of marketing). Consequently, the number of companies and economic actors linked to the sector increases, which opens up opportunities for relocating some links in the industry chain and allows new industries and players (countries) to participate in an activity that previously was concentrated in one country or region.

Although it is not the market with the greatest box office income, the leading producer of films worldwide is India: in 2008, it produced 1132 movies. Box 1 summarizes some interesting characteristics of the Indian industry. The United States was second (896 movies in 2008) and was the largest marketer of movies in the world (European Audiovisual Observatory, 2009), which affords it tight control over production, distribution and exhibition in over 100 countries (De Izcue and others, 2009). Among the European Union countries, which altogether produced 1145 movies in 2008, France (145), Italy (128) and Spain (124) were the leaders in the region (European Audiovisual Observatory, 2009). Mexico produced 70 films in 2008 (see Table 2). This is consistent with the difference in per capita production between developed and developing countries: two to six productions per million inhabitants in the former, and less than two productions per million inhabitants in the latter (European Audiovisual Observatory, 2009).

In terms of exhibition infrastructure, there is a significant gap worldwide between developed and developing countries. In the former, the United States, Canada, and France have 130, 79 and 87 screens per million inhabitants (2008), respectively. Mexico, Argentina, Brazil, and India have 37, 26, 12, and 9 screens per million inhabitants, respectively (European Audiovisual Observatory, 2009).

⁹ In Argentina, Brazil, and Mexico, the main producers in Latin America, between 30 per cent and 40 per cent of films are made in a digital format (González and others, 2009).

¹⁰ Costs vary among countries.

BOX 1 THE INDIAN FILM INDUSTRY

The Indian film industry is the world's largest producer of films and attracts the largest audience. In 2009 it produced 819 films, in 26 local languages; 2.9 billion people visited 10,120 screens, making an average movie attendance of 2.1 times per person. It employed more than 2 million people and, unlike in Latin America, most Indian productions are for domestic consumption: more than 90 per cent of the audience is local.

The Indian film industry has a long history: the first showing was in 1896 and was of six short films via a projector belonging to the Lumière brothers in Bombay's Watson Hotel. Harishchandra Bhatva was responsible for the first Indian production, strictly speaking, in 1899. By 1920, India had a considerable number of filmmakers and companies, making it possible to speak of a consolidated industry. Over more than 100 years, the predominant themes have changed and the organizational structure of the industry has been transformed. Currently, Indian filmmaking has some of the world's best technology and has become internationalized, and its films are shown regularly in the Caribbean, Fiji, Eastern Africa, South Africa, the United Kingdom, the United States, and the Middle East.

The specific characteristics of Indian cinema explain its great success domestically and abroad: a) melodramatic themes, mostly dealing with love and the search for happiness, although they also include some action and suspense (Hurtado, 2007); b) short dialogues, with more attention given to characters and non-verbal language, as the picture reflects the plot; c) characters' roles are based on behaviours, gestures, values and traditions from Indian society (respect for parents, the institution of marriage, and the family, etc.); d) traditional dress made from silk, with luxurious accessories (IVEX INDIA, 2007).

The industry's development has been accompanied by factors such as corporatization, the growth of the television industry (which allows both rich and poor to have access to the same movies and programs), the increase in advertising products, and technological changes. This last element has benefited the industry, as it serves as a marketing instrument and has generated high revenues, especially over the Internet (IVEX INDIA, 2007).

In India there are clusters of film producers and providers of equipment related to the industry especially in the states of Karnataka and Maharashtra. There are more than 25 film studios and three Film Cities, including Hyderabad, the biggest in the world (IVEX INDIA, 2007).

The public sector does not directly finance the production of films, but it is an important regulator. The film sector contributes significantly to tax revenue, since there is a generalized tax of 60 per cent on the sector's earnings. Furthermore, the Ministry of Information and Broadcasting supports movie exports and negotiates co-production agreements with other countries, which helps Indian films to be competitive at an international level.

Source: Prepared by the authors, based on: Cruz (2007), IVEX INDIA (2007), Hurtado (2007), European Audiovisual Observatory (2010).

Mexico stands out in the area of film exhibition infrastructure. In Latin America, Argentina, Brazil and Mexico are the biggest film producers and have the largest markets for this entertainment (see Table 2), recording also the largest number of premieres per year. In fact, in 2008 Mexico was the leading cinema market in the region, with an income of US \$662 million, followed by Brazil, with US \$395 million, and the Bolivarian Republic of Venezuela, with US \$128 million. Likewise, Mexico had the largest number of movie-goers, with 178 million. Foreign productions, particularly those from the United States, dominate film screenings in Latin America; domestic film screenings made up less than 12 per cent in all countries in the region (see Table 2).

The performance of Latin American films outside the region is modest. Although European countries are one of the main markets for Latin America cinema, between 1998 and 2008 this region exported only 131 locally-produced films to Europe, of which more than 86 per cent came from Argentina (52), Brazil (33) and Mexico (28). There have been better results in co-productions between countries in the region and countries in the rest of the world, of which 309 films were exported; 82 per cent of co-productions came from Argentina (139), Mexico (67) and Brazil (46).¹¹

De Izcue and others (2009) analyze the strengths and weaknesses of the Latin American film industry. Among its strengths are: the well-known productive and creative abilities of its filmmakers; the increasing number of training centers for the sector; the knowledge of international sources of investment, subsidies, and methods for co-production; the existence of national legislation that aims to support the film industry and favors the creation of agreements for cooperation and co-production with other countries; and the size of the population, which represents a large potential market for the domestic and regional film industry.

¹¹ See <<http://lumiere.obs.coe.int/web/search/index.php>>.

TABLE 2
THE LATIN AMERICAN FILM INDUSTRY, 2008

Country	Productions	Domestic film screenings (%)	Audience (in millions)	Box office (in millions of dollars)	Latin American premieres
Argentina	85	11.9	30.8	115	Total (2007): 6 Mexico: 5 Peru: 1
Brazil	82	9.8	89.6	395	Total (2007): 14 Argentina: 8 Mexico: 4 Chile: 2
Mexico	70	7.0	178.0	662	Total (2005): 7 Chile: 4 Argentina: 3
Chile	22	7.9	11.9	60	Total (2007): 15 Argentina: 7 Mexico: 5 Brazil: 2 Cuba: 1
Venezuela	14	2.4	22.0	128	Total (2006): 34 Argentina: 11 Chile: 7 Mexico: 6 Colombia: 3 Brazil: 2 Bolivia: 1 Peru: 1 Cuba: 1 Paraguay: 1 Dominican Republic: 1
Colombia	10	10.3	21.5	73.0	Total (2007): 10 Argentina: 5 Mexico: 3 Peru: 2

Source: Prepared by the authors, based on the European Audiovisual Observatory (2009) and De Izcue and others (2009).

Among its weaknesses are: the limited financing available for feature films, which must compete with the high technical and artistic quality of movies largely from the United States; carrying out co-productions with countries that have larger film industries, which tends to reduce control over production and return on investments; the dependence of local film markets on recovering production costs; the low purchasing power of the population; the "majors" control, with their million-dollar investments attracting audiences accustomed to Hollywood-style movies; and the absence of systems for federal oversight, information, and statistical data.

As the production of feature films is very costly, strategies such as co-production have been sought,¹² making easier the access to financial resources to produce films. However, most co-productions in Latin American countries are carried out with European countries, and only to a lesser extent with other countries in the region (De Izcue and others, 2009).

The GVC of the film industry includes three links: production, distribution and exhibition (see Figure 2). Within production there are three components: pre-production, production, and post-production. In the first link of pre-production, the selection of the team that will work on the film is made. Pre-production begins the moment an idea arises, and ends when filming begins. The main activities are:¹³

- a) Purchase of copyright to write the script.
- b) Supervision and correction of technical script.
- c) Creation of project budget for obtaining financial resources.
- d) Selection of locations for filming and completion of necessary paperwork for constructing and using sets and locations.
- e) Hiring of technical, artistic, editing, costume and makeup personnel.
- f) Processing of list of props and furniture needed, which specifies which people, material and media will be needed for each moment of shooting.

At the end, a daily work plan of activities is set up with enough flexibility to be adapted to the changing needs of the production team.

The shooting of the movie takes place as part of the production activities. This is the stage in which the ideas that arose and were planned in the pre-production stage are carried out. It is at this point when the work of the cameramen, sound technicians, artistic direction and decoration, lighting technicians, makeup and wardrobe teams, etc. takes place. This phase of the project comes to fruition through the recorded material.

The key people in the production process are:¹⁴

- a) The producer, who is in charge of preparing a provisional budget, hiring a manager and the heads of the different departments, finding locations and determining when shooting will begin.
- b) The director, who is responsible for filming and supervising activities such as set decoration, costumes and other necessary tasks for successfully producing the film. Furthermore, he or she is in charge of writing and revising the script, making changes considered necessary, casting the actors, and choosing his or her assistants and other professionals that will participate in the project.
- c) The line producer, who is a key member in the production team, since he or she is in charge of studying the feasibility of the project, making sure the budget is used adequately, coordinating the location, photography, and costume departments and managing times and movements.

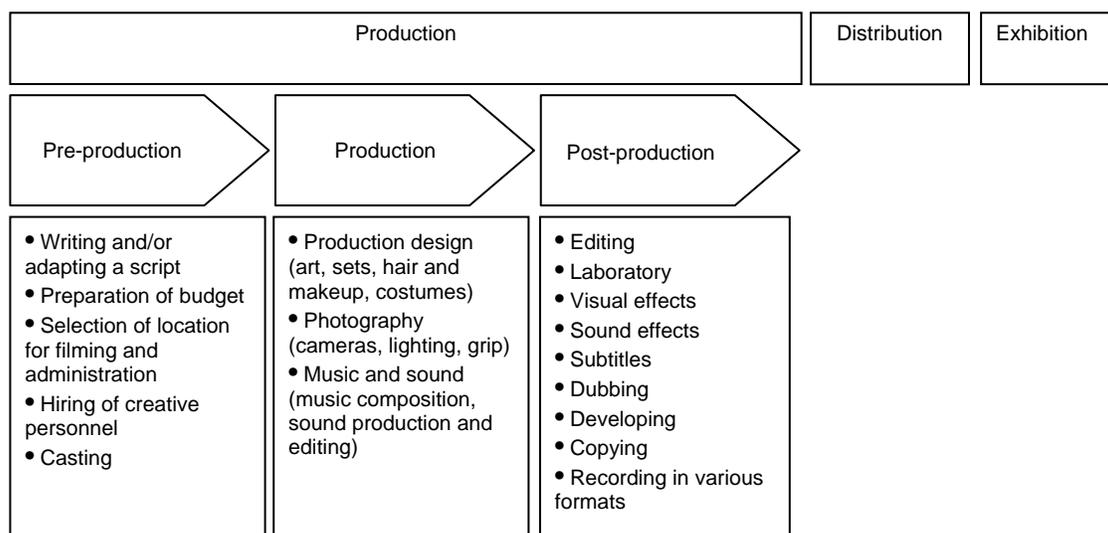
Post-production consists of selecting recorded material and creating the final product, which will later be copied and distributed. Among the activities carried out in this link are: editing; titling, subtitling and credits; creation of computer-generated graphics; creation of animations and special effects; as well as developing and processing of film and laboratory activities.

¹² Co-productions have become a very important strategy, as they allow for the integration of various agents. Organizations in charge of the film industry, culture and foreign relations also participate in projects, with the aim of establishing contracts that contain all conditions (De Izcue and others, 2009).

¹³ Prepared by the authors, based on: < http://es.wikipedia.org/wiki/Producci%C3%B3n_audiovisual > (revised Feb. 15th, 2010).

¹⁴ See <<http://recursos.cnice.mec.es/media/cine/bloque10/index.html>>.

FIGURE 2
GLOBAL VALUE CHAIN OF THE FILM INDUSTRY



Source: Prepared by the authors.

In animated films, actors and settings are substituted by illustrations, articulated figures or computerized shots. In filming an animated movie, the computer-generated images allow for the creation of three-dimensional beings and objects. The first stage usually takes place in the real world, with sketches and then models of these in plaster or clay; in the second stage, they are scanned and given three dimensions with a mesh structure that functions as a digital skeleton; in the third stage, the movements are established image by image, and elements for giving the sensation of movement are added. For this purpose, images are often captured of real actors' movements.¹⁵

The second link, distribution, takes place when it becomes necessary to have an intermediary between the producer and the film exhibitor. The role of distributors became increasingly important since the 1950s, when international independent film producers began to exert pressure to acquire space in movie theaters for their films.¹⁶

Distributors provide the producers with mechanisms for showing their films –in cinemas, television, and other media such as DVDs and airplane showings– and for competing for screen quotas and box office earnings. They are responsible for advertising and contracts with movie theaters both in the domestic and in the international market. Although distributors assume the economic risk of a movie's success or failure, once they have agreed to distribute a film, they are also the first to be reimbursed, even before the director and producer.

The third and last link, the film exhibitors, represents the means by which film productions are consumed. There are other forms of exploitation of intellectual property rights, like videogames, rentals and sales, related promotional items, and broadcasting on pay and non-pay TV, among others. However, an analysis of this for the Mexican industry is beyond the scope of the present document.

¹⁵ See <<http://recursos.cnice.mec.es/media/cine/bloque7/index.html>>.

¹⁶ See <<http://recursos.cnice.mec.es/media/cine/bloque5/pag3.html>>.

III. The film industry in Mexico

Mexico's film industry has a long history. Over more than 100 years, it has gone through periods of large growth, when it has been nationally and internationally popular, and others of weakness and great challenges. A variety of political factors, the industry's growing globalization, and the constant emergence of new technologies have had a strong impact on Mexico's film industry.

The five sections in this chapter include first an overview of the history and evolution of Mexico's film industry and the rest of the sections analyze the participation of such industry in the GVC, i.e., co-productions and Mexican productions; foreign productions; post-production, distribution and exhibition; and finally, the industry's strengths and weaknesses. The distinction is due to the fact that the participation and control of the activities in the value chain vary widely between domestic and foreign production. This is because in the former, there is Mexican participation and control in each link of production, while in the latter, Mexican participation is generally limited to one link in the chain: production. Mexican companies also participate in post-production, distribution and exhibition. Thus, we will analyze how the value chain's structure impacts film production.

A. History and recent evolution of the Mexican film industry

Since 1896, when the first filmmaker arrived in Mexico –the first in Latin America (Maza, 2006)–, Mexico has gathered a large amount of experience in the film industry. That year, the French made around 35 short films (about a minute long) in Mexico. In 1898, the first Mexican filmmakers emerged, although they only produced short films. The first

feature-length film was made in 1906. The Mexican Revolution, which started in 1910, thrust the film industry, as different campaigns and some battles were documented in movies. Among these, Salvador Toscano's *Memories of a Mexican* stands out. It is considered Mexico's first important movie. In the second half of the 1910s, because of the fall in film production in the countries at war and the subsequently low number of films being imported, Mexican cinema experienced a boom. This paved the way for the creation of the first entirely Mexican film company (Maza, 2006).

With the introduction of sound in movies in the 1930s a new era in Mexico's film industry began. In the second half of that decade the so-called Golden Age of Mexican cinema began with the first export of a Mexican film: Fernando Fuentes' *Allá en el Rancho Grande* (Maza, 2006).

The consolidation of a national strategy for strengthening the film industry played a very important role in its success during its Golden Age.¹⁷ First of all, President Lázaro Cárdenas established "screen time" in 1939, which was an agreement with the exhibitors to designate a certain number of days per year in which only Mexican films would be shown. Second, in the second half of the 1940s, the Cinematográfica Latinoamericana, S.A. (CLASA) company was established with public funds with the purpose of supporting the film industry. Third, in 1942 the Mexican government decided to join the Allies in the middle of World War II, which favored the Mexican film industry in terms for obtaining blank film, money for productions and spare parts for equipment. Fourth, the Banco Nacional Cinematográfico (National Film Bank) was created in 1942, with the goal of supplying credit to independent producers and modernizing the technical and administrative apparatus of the Mexican film industry. Furthermore, laws permitting exemptions on exhibition taxes on domestic films and on imports of material and equipment were enacted. Fifth, in the 1940s two distributors were created: Películas Mexicanas in 1945, and Películas Nacionales in 1947, both with the objective of expanding the Mexican film market. Sixth, the Comisión Nacional de Cinematografía (National Film Commission) was created in 1947 in order to promote Mexican production, and in 1949 the decree for the Film Law was published. The decree was later reformed in 1952 and 1992, and it established screen time for Mexican cinema. Lastly, a very important factor was a decrease in foreign competition, especially from the United States, the industry leader then. At the time, such country was only interested in the subject of war, so this left ample space for other themes to be developed in films produced in Mexico. By the end of the 1940s the film industry was the fourth biggest industry in the country (García, 1971, quoted by Gómez, 2005).

The end of World War II, the emergence of television and the boom in American cinema caused the Mexican industry to decline, and its old technological infrastructure and few financial resources unabled it from offsetting the downturn. This led gradually to the end of the Golden Age around the end of the 1950s, and to the closing of three of the most important film studios: Tepeyac, Clasa Films and Azteca. This sparked a crisis in the industry, causing the government to take control in 1960 (Maza, 2006).

In the 1970s, the federal government implemented a series of financing policies in order to encourage film production, and created infrastructure to promote the industry, for example: the Centro de Producción del Cortometraje (Center for Short Film Production) (1971), the Cineteca Nacional (National Cinematheque) (1973), the Centro de Capacitación Cinematográfica (Center for Film Training, CCC) (1975), the Corporación Nacional Cinematográfica (National Film Corporation) (1974), and the Corporación Nacional Cinematográfica de Trabajadores y Estado (National Film Corporation of Workers and the State) (1975). Furthermore, in 1972 the government reestablished the Academia Mexicana de Artes y Ciencias Cinematográficas (Mexican Academy of Film Arts and Sciences) and the presentation of the Ariel award.¹⁸ This infrastructure permitted the State to participate in all parts of the value chain: production, production services, distribution and exhibition, and even training, promotion and advertising (IMCINE, 2009). These changes allowed for the production of high-quality films (Maza, 2006).

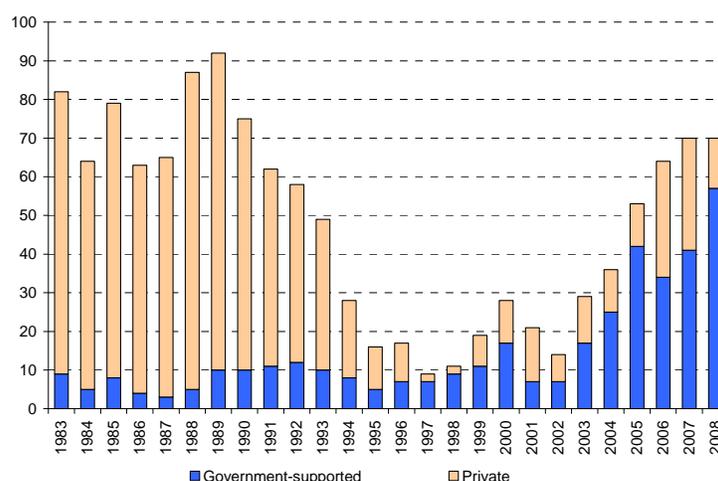
¹⁷ See IMCINE (2009), Cordero (n.d.) and Maza (2006).

¹⁸ The Ariel is an award created by the Academia Mexicana de Artes y Ciencias Cinematográficas in 1946 to publicly recognize the producers, creators, actors and technicians of Mexican films. Its objective is to stimulate and increase the excellence of Mexican cinema, and to promote industry growth, relationships, and the strengthening of the national film community. See <<http://www.ariel.org.mx>>.

At the end of the 1970s and beginning of the 1980s, the film industry was dismantled when State support was taken away and the Banco Nacional Cinematográfico was dissolved (IMCINE, 2009). In this way, the national strategy that had been developed since 1939 disappeared.

For some years, the Mexican film industry became completely privatized and was characterized by low costs and lesser quality. However, in 1983 the Instituto Mexicano de Cinematografía (Mexican Film Institute, IMCINE), under the Secretaría de Gobernación (Governance Ministry), was created in order to once again promote film production in all its facets: production, production services, promotion and advertising, distribution, exhibition, and training. In 1988, the Consejo Nacional para la Cultura y las Artes (National Council for Culture and the Arts, CONACULTA) was created, and in 1989 IMCINE became part of CONACULTA. From 1989 until 1993, various state-run companies were closed, merged or sold, including Conacine, Conacite, Estudios América, Publicidad Cuauhtémoc, Películas Mexicanas, Continental de Películas and the Compañía Operadora de Teatros. Only the Centro de Capacitación Cinematográfica and Estudios Churubusco remained. Between 1989 and 1997, national film production continued to decline (see Graph 2).

GRAPH 2
MEXICO: FILM PRODUCTION, 1983-2008
(Number of productions)



Source: IMCINE (2009).

In view of the profound changes mentioned, and in order to reduce the negative impact on the industry, in 1987 the Fondo de Fomento a la Calidad Cinematográfica (Fund for the Promotion of Quality Cinema, FFCC) was created using resources from the exhibition sector. This allowed for 40 full-length films to be made between 1988 and 1993. In the mid-1990s, Mexican cinema was severely affected by the economic crisis and suffered from reduced resources for production: between 1994 and 2000, the FFCC only financed 19 projects.

Although Mexican cinema did receive support in the 1990s, this support did not reach previous levels. The 1994-1995 economic crisis and legal reforms to the sector discouraged the film industry. In regards to regulations, it is important to emphasize that the Federal Film Law was reformed in 1992, and the screen time reserved for domestic films gradually diminished, going from 50 per cent to 10 per cent by 1997 (Gómez, 2005).

In the 1990s a new effort was made to strengthen the Mexican film industry. In 1995, the Círculo de Calidad (Circle of Quality) program was established to support domestic and foreign film exhibition, and the Comisión de Filmaciones changed its name to the Comisión Nacional de Filmaciones México (National Film Commission of Mexico, CONAFILM) in order to promote film production, a variety of programs and commercials within the country. In 1997 the Fondo para la Producción Cinematográfica de

Calidad (Fund for Quality Film Production, FOPROCINE) was created, was administered by IMCINE, and had an annual budget of 135 million pesos to finance Mexican individual producers or production companies. Similarly, in the same year the Fondo Iberoamericano de Ayuda (Latin American Aid Fund, IBERMEDIA) was created¹⁹ to offer resources from the member countries' government contributions to develop, co-produce, distribute and show Latin American films, and to train professionals for the industry. In 1998, the Federal Film Law was reformed and a new fund was created, the Fondo de Inversión y Estímulos al Cine (Fund for Investment and Stimulus for Cinema, FIDECINE), with the purpose of promoting commercial cinema production, from the start to the end of the value chain (IMCINE, 2009).

In the first decade of the new century, legal reforms related to the film industry continued to be implemented. Among these, a rule was introduced that established the so-called "box office peso", which meant that from each ticket sold, one peso would be set aside for the production of Mexican cinema. This measure was later eliminated, however. In 2007, article 226 of the Law on Rent Tax was modified, with the purpose of allowing private companies to deduct up to 10 per cent of their rent tax if used to finance Mexican film production (the government would cover the unpaid tax put towards this activity). This is also called the Estímulo Fiscal a Proyectos de Inversión en la Producción Cinematográfica Nacional (Tax Stimulus for Investment Projects in National Film Production, EFICINE 226) and began with 500 million pesos (with a maximum of 20 million pesos per film), which helped in the production of 106 movies between 2007 and 2008 (IMCINE, 2009). However, many films produced under this scheme never made it to the screen, either because they lacked the support for promoting, distributing and exhibiting them, or because they lacked sufficient quality.²⁰ In order to ensure the quality of the film production supported in article 226, in 2010 an Interinstitutional Committee was created, formed by a representative from CONACULTA, one from IMCINE, and one from Mexico's Secretariat of Finance and Public Credit. Without this filter, there are companies that could see this tax stimulus more as a business opportunity than one for genuinely supporting Mexican filmmaking.

As shown in Graph 3, from the end of the 1980s Mexican film production fell steeply until it reached its lowest level in 1997, with only 9 productions. Starting in 2003, there has been significant growth, although it has not yet reached the level of the Golden Age (136 productions in 1957) (Gómez, 2005). The composition of financing for productions has changed significantly: at the beginning of the 1990s, less than 20 per cent were financed with public funds, while in 2008 the number was 80 per cent of all productions. Although it is beyond the scope of the present study, it would be important to analyze to what extent public funds can displace private capital in this industry.

B. Co-production and Mexican production

In this paper, a Mexican production is defined as one in which 100 per cent of capital is of domestic origin, since the producers then tend to have total control over decision-making related to the various activities that make up the value chain. Likewise, Mexican producers possess the intellectual property rights to exploit fully the movie through different channels (cinema, television, video and associated promotional products). In 2008, the Mexican film industry produced 70 movies; 57 were supported by public funds, and the rest, completely through private capital.

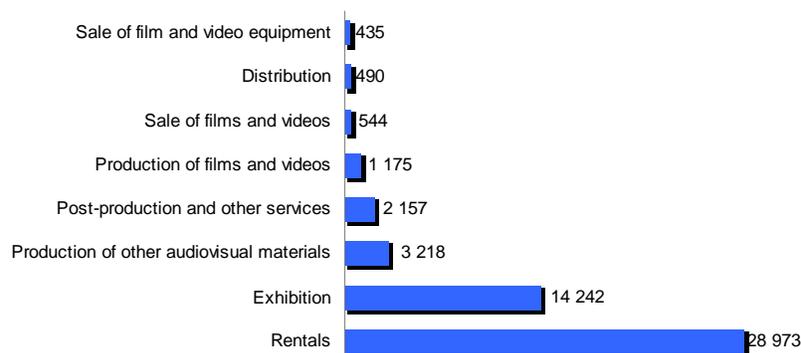
Although film production has a direct economic impact on the producer's finances, the industry creates a large amount of indirect income through the value chain. According to estimates from IMCINE (2010), in 2007 the Mexican film industry created 51,234 direct jobs, of which 84 per cent were in activities related to exhibition and rentals (see Graph 3). Activities directly related to production and post-production employed a little over 3,300 people.

¹⁹ This agreement is made up of Argentina, the Plurinational State of Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, Spain, Guatemala, Mexico, Panama, Peru, Portugal, Puerto Rico, the Dominican Republic, Uruguay, and the Bolivarian Republic of Venezuela (www.programaibermedia.com).

²⁰ Opinion of various interviewed specialists.

GRAPH 3
MEXICO: DIRECT EMPLOYMENT THROUGH THE FILM INDUSTRY, 2007

(In number of persons employed)



Source: IMCINE (2010).

According to the 2004 economic census, the film industry contributed 1.5 per cent of total GDP. Total gross production reached 9,454,979,000 pesos, with an added value of 2,539,644,000 pesos (INEGI, 2004). Movie and video production only made up 3 per cent of added value (83,194,000 pesos) in the industry, even though it created 5.5 per cent of direct jobs in the industry (see Graph 4).

Mexico has the ability to participate in all activities in the film industry value chain. In the pre-production link, there is a large number of producers, directors and screenwriters. The Mexican Association of Filmmakers has registered 26 film production companies in Mexico City and 5 in Guadalajara. It also has 33 associate suppliers, of which 27 are domestic. At present, there are also around 5 internationally-recognized line producers in Mexico. As for directors, apart from those that are recognized internationally and work in foreign productions, such as Guillermo del Toro, Alejandro González Iñárritu, and Alfonso Cuarón, there is a large group that continuously works on domestic productions.

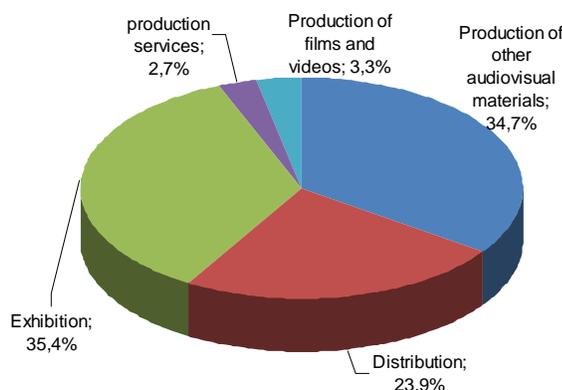
There is also a complete set of resources for the production link as well: technical services, locations, laboratories, costumes, makeup, carpentry, etc. Estudios Churubusco Azteca and Baja Studios stand out in this sense. Estudios Churubusco Azteca is a company dedicated to cinema, television, video and music, and offers production, laboratory and sound services. Within its 12,200m² facilities, it has broad infrastructure made up of 9 backstage areas, which allow for set and warehouse construction; production offices with telephone and Internet service; theaters; a conference/multi-use room; two digital rooms for re-recording and mixing; a photochemical laboratory certified by Kodak; and a dubbing room.

Baja Studios was built in 1996 for the production of the movie *Titanic*, and has numerous projects have been developed since.²¹ The studios consist of 35 hectares and 2,000 feet, with a view of the Pacific ocean, near Rosarito, Baja California. Their infrastructure makes them one of the biggest and most important in the world. It consists of a 20 million gallon water tank; a plant for filtering 9,000 gallons of seawater a minute; an unobstructed view of the ocean; three other tanks, two of which can be used full or empty; and a collection of offices, backstage areas, dressing rooms, and complete facilities for filming. Furthermore, they offer numerous hotels, condominiums, and restaurant services.²²

²¹ Among the movies and other projects are: *Tomorrow Never Dies*; *In Dreams*; *Deep Blue Sea*; *The Weight of Water*; *Pearl Harbor*; *Kung Pow: Enter the Fist*; *Master & Commander: The Far Side of the World*; *Ghost of the Abyss*; *USA Network: The Expendables* (TV movie); and *Tremors* (TV show).

²² Although it is one of the biggest and most costly studios in the world, Baja Studios is in crisis due to different factors, including the security situation and a lack of government support.

GRAPH 4
MEXICO: IMPACT OF THE FILM INDUSTRY ON THE NATIONAL ECONOMY
(VALUE ADDED)
 (Percentages)



Source: Estimates from IMCINE (2010), based on INEGI's 2004 Economic Census.

In post-production, there are companies that offer a wide range of services, such as manufacturing copies, sound editing, titling, special effects, and image correction. Among the main companies are NewArt Digital, Labofilms, Cinecolor Mexico (which belongs to Chilefilms), and Estudios Churubusco Azteca.

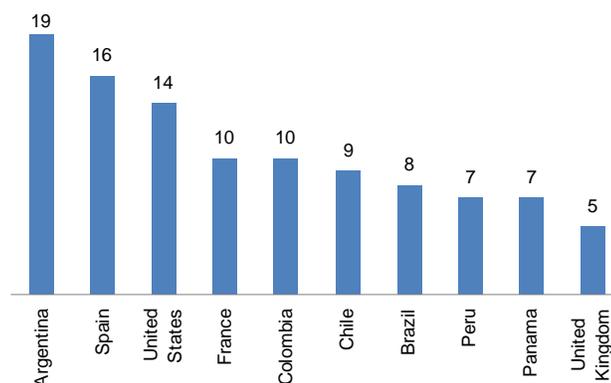
Furthermore, there are high-quality film study centers, such as the Centro Universitario de Estudios Cinematográficos (University Center for Film Studies, CUEC), which offers specializations in production, scriptwriting, cinematography, artistic direction (set design, settings and costumes), sound, editing and production; and the Centro de Capacitación Cinematográfica (CCC), which offers screenplay and general film studies courses. The National Autonomous University of Mexico (UNAM) coordinates the CUEC, and the IMCINE coordinates the CCC, thus forming part of CONACULTA in the Centro Nacional de las Artes (National Center for the Arts). There are also other independent film schools, such as the Universidad del Cine (Film University), which is dependent on the Asociación Mexicana de Cineastas Independientes (Mexican Association of Independent Filmmakers), whose goal is to train those in the profession in scriptwriting, directing, production, cinematography, art direction, sound, and editing. The general perception among the experts interviewed for the present study is that these centers characteristically offer training in artistic areas like directing or scriptwriting. However, it is necessary to strengthen these centers' capacities for creating technical teams that work in other links in the value chain, particularly with new digital technologies.

Despite the significant number of annual productions, it is difficult for the Mexican film industry to find opportunities for film exhibition on an international level. From 2002-2008, around 60 Mexican films, less than 20 per cent of the total number produced, were exported to other countries. The countries that screened the greatest number of Mexican films during that period were Argentina (19), Spain (16) and the United States (14) (see Graph 5). Mexican cinema has not been able to penetrate the market in the United States (IMCINE, 2010), despite the growing Hispanic population living there.

Mexican films also generally have a limited presence in European markets. The largest audiences have been for *Pan's Labyrinth*, with 3.8 million movie-goers; *Y tu mamá también*, with 985,000; *The Devil's Backbone*, with 860,000; *Amores perros*, with 842,000; and *El crimen del padre Amaro*, with 400,000 (IMCINE, 2010). There is a strong correspondence between co-productions and film exports to other countries, which suggests the importance of this strategy for Mexican cinema in the international market.

GRAPH 5
COUNTRIES SCREENING GREATEST NUMBER OF MEXICAN FILMS, 2002-2008

(In number of films)



Source: IMCINE (2010).

According to various industry experts interviewed for this study, the reasons for the limited Mexican film exports and, in general, their internationalization are:

- a) Limited access to financial support, which affects quality and the capacity for commercialization;
- b) The themes of Mexican films, which often seem to be more appropriate for local consumption and may be unattractive to potential audiences in other countries. It is thus necessary to strengthen the ability for writing higher-quality and more varied scripts;
- c) Lack of resources for distribution, including advertising, trailers and exploring new associated markets (videogames, soundtracks, etc.).

The limited financial resources for making movies has been an important factor in talent drain in this area, mainly to the United States, but also to Europe, which has undermined the film industry's capabilities. The magnitude and impact of this phenomenon open up an area for future research.

It is important to point out that beyond the economic impact mentioned above, the cultural value of cinema is very important. The latter is an instrument for strengthening identity within a country and stimulating cultural links between countries, serves to display culture, and is a mechanism for national promotion. For this reason, it is possible and important to differentiate public policies that support commercial cinema, on the one hand, and cinema whose value is mainly cultural, on the other.

Co-production is a process in which two or more countries share the costs, credit for and revenue of a movie. The activities in the value chain are carried out in the countries involved, and their distribution depends on the agreements between the producers, as well as the conditions imposed by the usage of public funds. Most Mexican co-productions are carried out with Argentina, Brazil, and Spain. Out of the 70 Mexican films produced in 2008, 62 were 100 per cent Mexican, and only 8 were co-productions.

Co-productions are usually done with countries that also offer public funding for making movies. Since each country in the co-production is able to attribute its nationality to the movie, it is able to attract financial resources, as well as ensure the film's presence in the movie theaters (especially if they are legally guaranteed screen time) in all partner nations involved. Co-productions have afforded Mexico the possibility of inserting itself into different activities in the film production chain that use foreign capital, and thus the possibility of attracting foreign investment.

Mexico has co-production agreements with 26 countries, including the IBERMEDIA program for co-productions between Latin American countries²³ and the Fondo de Coproducción Minoritaria (Fund for Minority Coproductions). As mentioned previously, the public funds that support filmmaking allow funding for co-productions that use foreign capital as well.

The funds and incentives for film production in Mexico have been instrumental in increasing the number of Mexican films in recent years. FOPROCINE supports documentaries, experimental films and those with a certain narrative risk, with an annual fund of 70 million pesos. FIDECINE promotes film projects that are commercially viable and are supported by a commercial producer, distributor and a plan, and has around 50 million pesos available each year. EFICINE allows for a deduction of up to 10 per cent on tax returns, if the money is used for film production.

The total fund to support filmmaking through EFICINE may not exceed US \$500 million a year, and each project cannot exceed a maximum 20 million pesos. The maximum amount that a company can deduct from its income taxes is 50 million pesos per year.

IMCINE, on its part, offers financing to strengthen the development of creative ability through its Programa de Estímulos a Creadores Cinematográficos (Stimulus Program for Film Creators). This helps producers and directors that are developing a film project, which has a potential for attracting investors, to apply for financing in order to consolidate a project. It also provides support for scriptwriting. Finally, in 2010 Mexico's federal government announced the Programa para el Fomento de la Producción Fílmica (Program for the Promotion of Film Production), which is described in the following section. It is the first program to offer incentives both to domestic and foreign companies for producing films in Mexico.

Public financing has allowed for the strengthening of the capabilities of the Mexican film industry. The economic task still pending is to increase the industry's capacity for marketing the final product both in Mexico and abroad, in order to make the industry profitable and a major source of foreign currency. According to exhibitor data, out of 66 movies shown in 2009 in domestic cinemas, only 16 reached or exceeded the predicted revenues and most recorded losses. A stronger marketing of movies within Mexico and abroad would also strengthen the industry's cultural impact.

C. Productions funded by foreign capital

Mexico's film industry participates in links in the value chain of foreign-funded film productions. The type, duration and cost of the activities vary widely among projects. Mexico's contribution takes place in the production link, as it can offer locations, technical services, costumes, settings, and actors; in post-production, it offers editing, special effects, sound and soundtracks, titling, and movie distribution. Although the participation in this type of GVC service activities differs from the domestic productions analyzed in the previous section, there are significant interactions between the two types in terms of shared human resources, infrastructure, equipment, and knowledge.

In Mexico there are world-renowned line producers who have participated in big international productions such as *Titanic*. These producers are in charge of studying the feasibility of the project, of handling the budget, and coordinating locations, cinematography, and costume departments, among others. There is a group of approximately five line producers that the insurance industry in the United States describes as “bondable”,²⁴ which means that, based on their experience and past record, they have the proven ability to finish a project within the established time and adjust to the pre-established production budget.

In the middle of the present decade, Mexico regularly hosted five to six big foreign productions a year, mainly from the United States. According to industry experts, in recent years that number has been significantly reduced due to the security situation and the lack of tax incentives for carrying out this type of activity.

²³ This agreement is made up of Argentina, the Plurinational State of Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, Spain, Guatemala, Mexico, Panama, Peru, Portugal, Puerto Rico, the Dominican Republic, Uruguay, and the Bolivarian Republic of Venezuela (www.programaibermedia.com).

²⁴ That is, they are able to obtain a performance insurance policy on a production.

Mexico competes with various countries to attract the production of foreign films. However, despite its proximity to the United States and the lower filming costs that it offers (human resources, rental of facilities and equipment, associated services), Mexico has not been able to achieve as important a role as Canada has. This country, apart from its geographic advantage, is also English-speaking, and has better tax incentives and infrastructure than Mexico, besides its high security standards. It has been able to significantly increase the number of foreign movies made in the country. Other countries such as New Zealand, England, Germany and Spain, and some states in the United States, offer attractive benefits for the production of movies. Table 3 summarizes the main tax incentives that certain countries offer for filming in their country. This highlights the international competition for attracting this type of activity.

After recognizing that the incentives offered for foreign-funded productions are very different from those offered for domestic production, in March 2010 Mexico's federal government started the Programa para el Fomento de la Producción Fílmica (Program for the Promotion of Film Production). Its purpose is to encourage the production of commercial films (both domestic and foreign) through the incentive of a cash refund of up to 7.5 per cent of the billed local expenses (products and labor). Its goal is to attract productions of at least 70 million pesos, or post-productions of 2 million pesos. The program's budget is US \$20 million, but there is a plan to increase it to US \$40 million.

TABLE 3
SELECTED COUNTRIES: COMPARISON OF TAX INCENTIVES FOR FILM PRODUCTION

Mexico	Refund of 7.5 per cent of billed expenses in local products and domestic labour. Refund of 15 per cent of value added tax (VAT).
United States	On a federal level, immediate deduction of 100 per cent of taxes on project production costs, up to US \$15 million (incentive offered until December 31, 2008). Various state tax incentives; for example, California offers a tax credit of up to 25 per cent, and Georgia, up to 30 per cent.
Canada	Refundable tax credit of 16 per cent on local labour expenses. Various local tax incentives; for example, Toronto offers an 18 per cent tax incentive.
United Kingdom	20 per cent tax credit on local expenses, if above 20 million pounds, and 25 per cent if below this number.
France	Refundable tax credit of 20 per cent on local expenses.
Australia	Cash refund of 15 per cent on money spent in the country.
New Zealand	Cash grant of 40 per cent of local expenses.
Puerto Rico	Transferable tax credit of 40 per cent of local expenses.

Source: Prepared by authors, based on Olsberg-SPI (2008), Panorama Diario (2009), Blocman (2010), and the Presidency of the Republic (2010).

Furthermore, the program will facilitate the process for foreign productions to obtain the tax refunds they have traditionally been entitled to, like the VAT. This program will be administered by ProMéxico²⁵ and IMCINE.²⁶

Large productions bring significant spending into the country. For example, an American production with a US \$50 million budget destines approximately US \$20 million to filming. Besides this, around US \$5 million are for the American staff that comes to the country, and the rest is spent during a few weeks in the filming location. Revenue for the host country is created through contracting artistic and technical staff, renting equipment, paying for the use of studios and locations, set design and costume expenses, paying for equipment transportation, etc. Furthermore, there are gains in knowledge

²⁵ ProMéxico is the body of Mexico's federal government that is responsible for promoting export activity among companies established in the country and coordinating actions for attracting FDI.

²⁶ See <<http://www.presidencia.gob.mx/prensa/?contenido=53982>>.

derived from contact with foreign directors and technical staff. Nevertheless, the arrival of foreign productions has a negative aspect that is important to pay attention to: the pressure on production costs, since these productions (especially the American megaproductions) are able to pay higher prices for services in Mexico. This drives prices up, which eventually ends up affecting domestic film production.

In order to attract American film making, Mexican producers are currently doing co-productions with independent cinema (which are relatively smaller projects) and are making use of public programs (particularly EFICINE). Pre-production activities are carried out in the United States, while production activities are done in Mexico. In this scheme, Mexican producers are able to increase their participation in key decision-making, such as casting and the exploitation of intellectual property rights. In the traditional producer scheme line, their participation in decision-making is much smaller, and the participation in the exploitation of rights, nonexistent. Because of this, the smaller scale production scheme can be seen as offering greater value added within the global chain.

D. Post-production

The last link of the value chain in film production is post-production, which consists of working on and selecting recorded material to make the final product and proceed to the copying process. Among the activities carried out in this link are: editing; titling, subtitling and credits; creating computer-generated graphics; creating animations and special effects; creating the soundtrack; developing and processing film; and laboratory activities. This link in the production chain is very promising for virtual creation, since movies are containing ever-larger segments or are produced entirely through electronic creation.

This group of activities has high value added as it includes the participation of highly-qualified technicians. Post-production laboratories in Mexico, both public and private, offer services to domestic and international cinema, as well as advertising. There are actually many complementarities and a large amount of spillover between advertising activities in Mexico and the film industry. Advertising for different audiovisual media (television, cinema, the Internet) has allowed for the development of creative and technical capabilities, as well as access to additional (and in many cases larger) sources of income for film industry activities.

These services are mainly exported to the film industries in the United States and Latin America. Mexico has the ability to carry out all post-production activities, including copying and distribution to almost all movie theaters in Latin America, except in Argentina and Brazil, where the markets are protected by high tariffs. It is important to mention here that Mexico also has a law that protects the local market from the importation of copies of movies to be shown, in order to encourage the local reproduction of imported movies for their exhibition in Mexico. However, this law is poorly enforced.

Copying movies is a complex process. Certificates are required from the major companies that produce material for films (Kodak, Fuji, etc.), as well as specialized equipment and technicians, and high levels of security against piracy. Post-production laboratories also develop the films and copy movies in various formats: 16 mm and 35 mm film or digital formats. Furthermore, they carry out 2k and 4k HD film scanning; NTSC and PAL telecine; 2k and 4k HD color correction; editing; and copying and standard conversion to all formats. They also have a film laboratory and a THX Dolby 5.1 sound laboratory. Distributors, mainly, are offered dubbing and subtitling services and trailers in Spanish. NewArt Digital and Labofilms are two examples of Mexican companies that offer these services.

Final editing tends to be done in the film and director's country of origin. For this reason, Mexico's laboratories do not usually export this service, but rather perform it mainly for domestic productions.

Some post-production laboratories in Mexico have facilities in various cities in Mexico and the United States. All of these laboratories have working relationships— imports and exports of services and related material— with production and distribution companies around the world, and especially with the United States. For this reason, Mexico shares with the United States a work culture and quality standards that are very important for trade in this type of services.

The growing development of information and communication technologies allows for physical film formats to be replaced by digital formats. In the case of post-production, this dematerialization means that after editing, titling, color correction or producing copies, the film is sent electronically to clients. The quality and price of Internet connections were mentioned as an obstacle for post-production companies competitiveness in Mexico.

Post-production laboratories in Mexico, such as New Art, Labofilms, and Estudios Churubusco Azteca, are among the biggest in Latin America, and offer post-production services for Spanish-speaking cinema. The internal Mexican market has grown sufficiently so as to be able to export its services to the region. The recent growth of film activity in Mexico, however, has not been accompanied by all post-production capabilities necessary, which has driven up post-production costs and hence have made laboratories in Argentina and Chile comparatively more attractive. That is, in Mexican productions we can also see a disincorporation of the links in the value chain towards countries with comparative advantages in post-production services. The improvement of the Mexican industry's capabilities in this activity is both a challenge and an opportunity for adding value and strengthening its insertion in global chains.

E. Distribution, exhibition and other mechanisms for the exploitation of intellectual property (video sales, TV and related items)

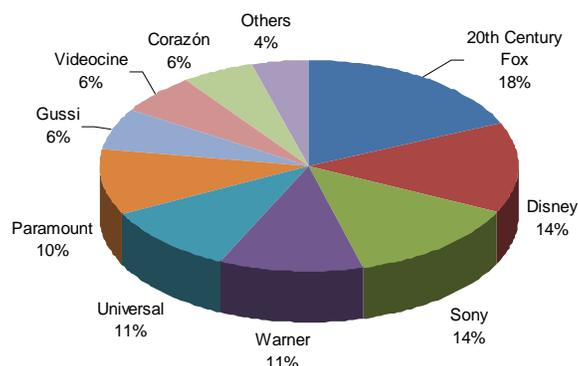
1) Distribution

The biggest production companies currently have their own distributors worldwide, which makes it difficult for smaller distributors to compete. This has created an oligopoly of the American "majors", which have captured 90 per cent of world film distribution. This presents a barrier for entry for distributors in the rest of the world and a problem for independent producers, which find themselves lacking spaces to show their work.

Movie distribution in the world is dominated by 6 large international companies: 20th Century Fox, Disney, Sony, Warner Brothers, Universal and Paramount. In 2009, movies controlled by these distributors made up 73 per cent of box office earnings in Mexico, which means that the existing space for other movies not produced or distributed by the "majors" is reduced. The tastes of moviegoers are molded according to Hollywood, and the exhibition companies' potential for profit means that distributors of foreign or Mexican independent film, like Videocine and Corazón, share amongst themselves only the remaining 27 per cent of box office earnings in Mexico (see Graph 6). Currently, movie distribution companies have evolved and have found opportunities for commercialization apart from the traditional cinemas: television, video, DVDs, computers, the Internet, and new storage and reproduction devices. These new forms of screening films have also opened up spaces for competition and opportunities for companies all over the world, which must compete for those spaces with the already-established transnational companies. Competition, however, is not always possible, due to concentration in these spaces (few television channels) and the growing problem of DVD piracy.

One aspect that significantly affects the profitability of independent productions is the limited revenues that producers receive from the box office. The distributor markets movies through various means for a percentage (around 30 per cent) of box office earnings, and the producer begins to receive money once the distribution and promotion costs are covered. This is even more dramatic when one takes into account that the exhibitor usually keeps 50 per cent or 60 per cent of box office income, leaving only a small percentage for the producer.

GRAPH 6
MEXICO: MARKET SHARE PER DISTRIBUTOR, 2009
 (Percentages)



Source: CANACINE (2010).

2) Exhibition

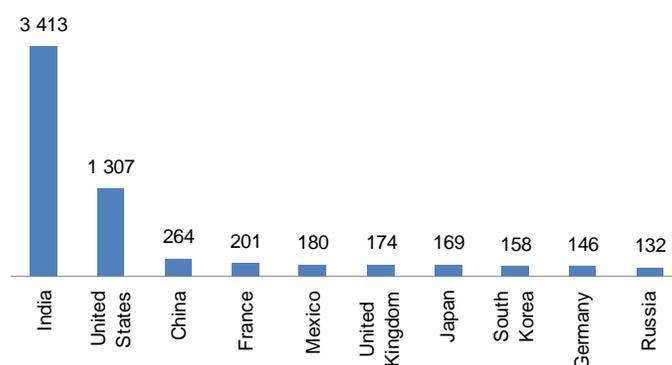
Between 1905 and 1910, the large producers at that time (Loew, Zukor, and Fox, among others) built the first permanent movie theaters, which gradually became large, luxurious spaces of up to 3,000 seats. This caused theater circuits to develop, which for many years were the final link in the industry's value chain. The exhibition link has adapted to the new media and technical resources that have arisen and has caused cinemas worldwide to be constantly remodelled. Internationally there are some circuits that stand out due to their activity and size, such as Cineplex-Odeon and the United Artist Theater Circuit; Loew's and AMC in the United States and Canada; Odeon and ABC in the United Kingdom; Pathé, Gaumont and UGC in France; Cinesa or Yelmo-Cineplex in Spain; and Cinépolis, Cinemex and Cinemark in Mexico. From 1990 on these circuits changed their characteristics into minicinas (new theaters or old ones that are restored), multiplexes and megaplexes, which allowed more films to be shown at the same time and increased the number of screens available.²⁷

Mexico is a large and growing market for film screenings. In 2009 it was fifth worldwide in terms of movie attendance, with 180 million tickets sold (see Graph 7), only behind India, the United States, China and France. In Latin America it is in first place, above Brazil (113 million tickets sold), despite having approximately half the population. In other countries in the region the number of tickets sold is far below Mexico: Argentina (33 million), Colombia (23 million) and Chile (12 million). The size of this market in Mexico creates great interest and competition from distributors and many opportunities that have contributed to the growth of companies in post-production, titles and subtitles in Spanish, dubbing, developing, and copying movies. It is worth mentioning, however, that without a policy that actually guarantees the exhibition of Mexican films in the country's cinemas, Mexican producers must compete with a large number of foreign films in order to attract the substantial domestic audience (approximately 400 foreign films arrive in Mexico annually).

Mexico also participates in the film industry's global chain through the movie theaters in diverse Latin American countries. The success and large expansion that the Mexican chains have had in the domestic market has served as a stepping stone for their internationalization. Cinépolis is the largest film exhibitor in Mexico and Latin America, and the fourth largest in the world. It is present in 67 cities in Mexico, as well as in Guatemala, El Salvador, Costa Rica, Panama, Colombia, and India. Furthermore, operations are planned in Peru and Brazil. It currently operates Cinépolis, Cinépolis VIP, Multicinas and Xtreme Cinemas.

²⁷ See <<http://recursos.cnice.mec.es/media/cine/bloque5/pag3.html>>.

GRAPH 7
LEADING COUNTRIES IN THE WORLD ACCORDING TO MOVIE ATTENDANCE, 2009
(In millions of people)



Source: CANACINE (2010).

As in other countries, Mexican exhibitors have developed an aggressive commercial strategy, dividing large theaters into smaller ones that are comfortable and have the best modern projection and sound technology. Furthermore, they have increased the number of theaters across the country, covering now almost every town with more than 20,000 inhabitants. At the beginning of 2000, there were 2,320 theaters in Mexico; by 2009, there were 4,575.

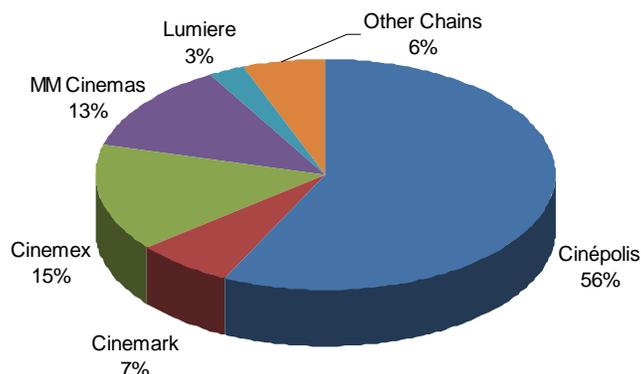
The growth in the number of cinemas in Mexico has gone together with sector concentration. There are currently four groups controlling more than 90 per cent of the Mexican exhibition market (see Graph 8). In 2009, the Cinépolis group attracted 57.3 per cent of Mexico moviegoers, followed by Cinemex (15.1 per cent), MM Cinemas (12.5 per cent) and Cinemark (6.8 per cent).²⁸

However, it would be worthwhile to explore new distribution strategies, since in Mexico, cinemas are currently concentrated in cities, and only 20 per cent of the population with higher earnings goes to the movies regularly. Mexicans go to the cinema on average 1.7 times a year, while in other countries, especially developed countries, this number is almost triple that (see Graph 9). It is important to explore alternative methods of reaching the part of the population with lower earnings, through lower-cost options, better geographic coverage, and even the dubbing of movies, as in European countries (for example, Spain and France).

In terms of box office earnings, Mexico is the fourteenth-largest market in the world and the largest in Latin America, with receipts of US \$578 million in 2009 (see Graph 10). This is largely due to the penetration and scale that the exhibition industry has achieved in that country. In Latin America, Brazil comes in second place, with earnings of US \$486 million, followed by Colombia (US \$127 million) and Argentina (US \$110 million). Ticket prices in Mexico are lower (only US \$3.72) than in countries like the United Kingdom (US \$9.51), the United States (US \$7.18) and France (US \$8.79), and even Brazil (US \$4.41) and Argentina (US \$3.75).

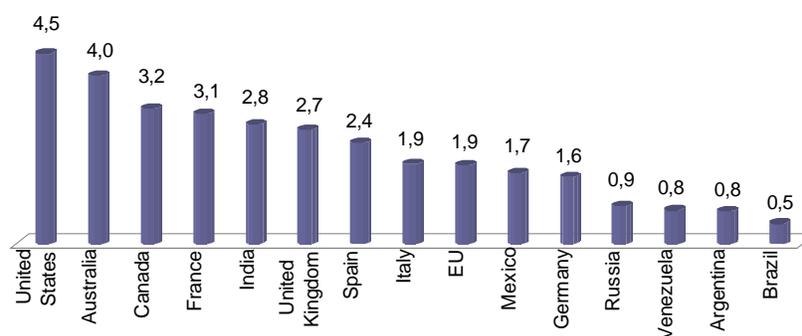
²⁸ See <www.cinepoliscorporativo.com.mx>.

GRAPH 8
MEXICO: MARKET SHARE PER EXHIBITION CIRCUIT, 2009
 (Percentages)



Source: CANACINE (2010).

GRAPH 9
SELECTED COUNTRIES: AVERAGE MOVIE ATTENDANCE PER CAPITA, 2008

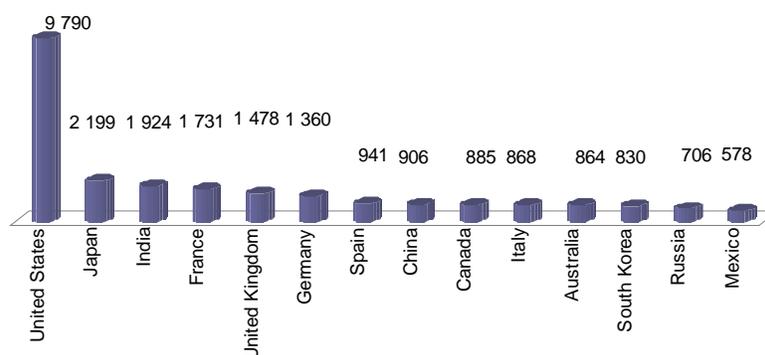


Source: Prepared by the authors, with data from the European Audiovisual Observatory (2009).

Despite the significant development of the exhibition and production industries in Mexico, revenues from screening Mexican films remain low: in 2009 they added up to US \$31.8 million and made up 5.5 per cent of total box office earnings in Mexico, compared with 8.9 per cent in 2008 (see Graph 11). This decrease also coincides with a period of high film production, resulting from the various public support given. In 2009, 66 Mexican films produced, and among the 10 movies with the greatest audience, there was only one Mexican film (*New Moon*), with 5.6 million movie-goers. The American movies attracted the largest audience; the three biggest movies were *Ice Age* (11.7 million movie-goers), *Harry Potter and the Half-Blood Prince* (6.7 million), and *2012* (5.9 million).

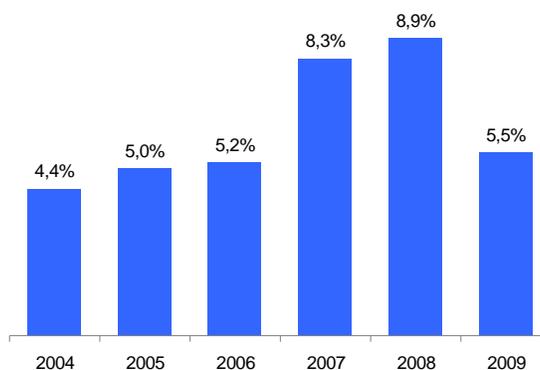
Apart from those already mentioned, there are various reasons for the weak presence of Mexican films in that country's movie theaters. One important reason is the strong competition from the United States, which has not only been able to influence the audience's preferences as to style and form, but also has a system of concentrated distribution, and attractive and very effective advertising, while local or other international films do not enjoy the same characteristics.

GRAPH 10
LEADING COUNTRIES IN THE WORLD ACCORDING TO
BOX OFFICE EARNINGS, 2009
(In millions of dollars)



Source: CANACINE (2010).

GRAPH 11
MEXICO: MEXICAN FILMS' SHARE OF TOTAL BOX OFFICE EARNINGS, 2004-2009
(Percentages)



Source: CANACINE (2010).

That is, despite the sizable market for showing films and the high average movie attendance in Mexico, there is a marked displacement of domestic by American productions, whose strong financing is combined with the oligopolistic power of its distributors.

Mexico's public does not demand domestic films with the same intensity as in other countries, and the law that guarantees space on Mexican screens is not effective: there are no sanctions for law-breakers, administrative oversight is difficult, and clarity is lacking as to the variable that should be used to measure the minimum of 10 per cent mentioned before (days, number of screens, etc.).

The industry experts interviewed for this study mentioned that Mexican films tend to penetrate the domestic market through piracy. This is never described as a virtue of the market, but it is indicative of the room available for a greater formal market for Mexican productions and of the need to find alternative mechanisms for reaching the public: DVD inserts in magazines or local newspapers, the Internet, alternative and lower-cost movie circuits, etc.

The support given to Mexican cinema should help Mexican productions administer their distribution, marketing and advertising systems more equally. Likewise, the lack of regulation in the competition of distribution and film exhibition in Mexico, unlike in the United States or some European

countries, is something that must still be solved. The absence of this type of regulation makes it easier for some movies to capture a large share of screens, while others are excluded.

It is important to note that there are other means of capturing an audience apart from cinemas. In some countries, above all in Europe, national television stations must broadcast their country's film productions. However, Mexican television does not have this obligation, hence the share of Mexican films as a share of total films shown on television is very small. What is more, Mexican producers receive a significantly lower amount of money for broadcasting their movies on non-pay or pay television compared to what their foreign counterparts do.

Another method for transmission is the rental and sale of videos, but rental companies usually choose the number of copies per movie bought, and this depends on box office results. Since movie theaters decide how long to show a movie according to the number of people going to see it, promotion and commercial tactics are important for the movie to be successful at the box office, and consequently in movie rentals and sales. In the cases where movies go straight to video, their success depends on distribution and promotion. It is also important to note that the violation of copyrights in Mexico (piracy) has had a large impact on movie sales and has decreased the profitability of productions, including Mexican ones. In 2010, the Industry Property Law and the Federal Penal Code were reformed to prosecute sellers of falsifications of products protected by the law, including physical formats of films. The challenge, just as with screen time and the imports of copies for the local market, is for the law to actually be enforced.

Finally, it would be advisable to explore the formats that new technology could provide to distributors, in order to analyze their potential impact on the film industry. Research should be done on the potential of the Internet, digital television, digital formats other than DVDs, among others.

IV. Conclusions

In the last 20 years, but especially in the last 10, the service sector has gone through a profound transformation in production worldwide. The main characteristic of this process is the disaggregation of certain links in the value chain. The disincorporated activities have moved to different companies and different countries, which has created opportunities for participating in the services value chain. Among the various services exports, the creative services are the most dynamic, which include advertising, design, music recordings and film productions.

Mexico participates in the film industry GVC in various ways. This country has significant capabilities for producing and showing films, but also for offering services to foreign producers that are seeking to film in Mexico or carry out post-production activities. The long trajectory of the Mexican film industry, together with a large film domestic market as compared to other developed countries, has allowed for the development of human talent, physical facilities for filming and associated service companies, post-production laboratories, and international exhibition chains, among others. Additionally, there are a number of static comparative advantages that make Mexico an attractive location for carrying out diverse activities related to the film production process: geographic proximity to the United States, relatively low costs, and a large variety of scenery and locations.

Nevertheless, in quantitative terms, the information gathered for this study indicates that the Mexican film industry still has only a modest share in the production link within the global value chain: a) only 20 per cent of Mexican productions are exported, with a marginal presence in European markets and in the United States, and b) large productions went from five or six per year at the beginning of the decade to one or none in the 2007-2009 period.

Despite this, it must be noted that post-production and exhibition services have grown. Although there is no quantitative data on exports of post-production services, the interviews done for this study indicate that Mexican companies' participation has increased in editing, titling and copying services for American productions destined for the Mexican and Latin American markets. Likewise, the strategy for internationalization of Mexican exhibition chains has been successful.

In Mexico, public policy for supporting the film industry has gone through various stages. During the period of import substitution and a strong State presence in economic activity, the film industry was considered strategic and was supported by comprehensive financial and organizational resources. In the 1990s, public support was reduced in the context of the new *laissez-faire* economic model that gave market forces a central role. In recent years, public policies supporting the sector have been reactivated, and have given priority to creativity.

Public funds have been effective, which shows in the increasing number of productions, but few of these have been profitable. The funds are rather small for supporting commercial productions that directly compete with the predominant American films, and for promoting and marketing movies. Quality requirements and other criteria for receiving funding have been lax, which makes it even more difficult for Mexican productions to successfully compete with the numerous productions that enter the country. The incoming films frequently receive higher subsidies in their home countries than do the Mexican films, thus making it difficult for the latter to capture the large Mexican audience and to be marketed abroad. Legislation and its application, furthermore, do not guarantee screen time in cinemas for local productions, nor open up spaces for broadcasting on non-pay television.

Table 4 summarizes the main strengths and weaknesses of the Mexican film industry as identified in this study.

There are ample opportunities for strengthening the film industry's insertion in the GVC. The following are the main strategies arising from this study:

a) Strengthen associations and the ability to develop joint efforts by those who contribute to the different components of the value chain within the Mexican film industry. Benefits are produced when agents of one productive activity are concentrated or agglomerated geographically and joint actions are taken to develop individual and collective capabilities. In this area, the first task is to clearly define a common project so that the Mexican film industry can carry out agreements and group actions. The second task is to strengthen interactions between companies, universities, and the government, for designing and implementing common initiatives in order to strengthen and internationalize the industry.

b) The public sector must have an active role. We suggest designing, executing and evaluating policies that increase the ability of Mexican producers to carry out higher-quality projects with the potential to be marketed abroad, since currently there is only a small number of productions that are successfully exported and that are profitable in economic terms.

Public policies must take into account that, apart from the direct economic profits for producers, the film industry has many direct and indirect effects on employment, investments and acquisition of goods and services. It also has intangible value as a mechanism for strengthening national values, culture, and identity, and for cultural diffusion and promotion abroad. However, meeting the film industry's economic and cultural objectives would be facilitated by an expansion of film audiences in Mexico and abroad.

To strengthen the industry and its insertion in the global value chain, we suggest formulating and executing comprehensive policies. This requires an active industrial policy that may help meet the needs of the different links in the value chain in a coordinated manner, as well as strengthen domestic capabilities through training human talent, establishing and improving facilities, improving access to and acquisition of new technologies, and so on. Public policies must take into account that, given the characteristics and needs of each link in the value chain, the support needs to be differentiated and specific.

TABLE 4
STRENGTHS AND WEAKNESSES OF THE MEXICAN FILM INDUSTRY

Strengths	Weaknesses
A long history, which has allowed for the construction of capabilities: human talent, filming facilities, training centers, associated services, and post-production laboratories. All of the links in the value chain can be carried out in Mexico.	Insufficient financing for full-length films that must compete with high technical and artistic quality, especially compared to the budgets of the competition from the United States.
Filmmakers have strong productive and creative abilities.	Reduction in the number of foreign productions arriving in Mexico due to the security situation and the lack of tax incentives.
Geographic proximity with the United States, the leading film producer in the world (in terms of box office earnings).	Lack of specialized human resources in technical aspects of the industry, particularly in new digital technologies.
Competitive costs for attracting foreign investment in production and post-production activities.	Co-productions with countries that have a larger film industry tend to reduce control over production, Mexican participation in post-production, and the share of the return on investment.
Presence of a group of bondable line producers.	Public incentives are insufficient for making films easily marketable. Furthermore, the often low quality of domestic scripts and their extreme concentration on national or local themes make them unattractive for much of the potential foreign public.
Public incentives for film production in Mexico: FOPROCINE, FIDECINE, EFICINE, Nuevo Programa para el Fomento de la Producción Filmica.	Dependence on local film markets -- the box office -- to recover production costs of domestic films.
Existence of agreements for cooperation and co-productions with many countries.	Distribution controlled mainly by the "majors", and a public accustomed to Hollywood-style movies.
Size of the population, which represents a large potential market for the national and regional film industries, linked to a large market for showing films in Mexico, which has also facilitated the creation of post-production companies.	Administrative weakness in the enforcement of laws such as obligatory screen time for Mexican productions, local reproduction of movies imported for exhibition in Mexico, and the intellectual property law.
There is a thriving, modern industry for film exhibition that even exports services to various countries through its commercial presence.	High costs and low relative quality of telecommunication services for the dematerialized flow of film productions.
	Talent drain to other countries (mainly the United States) that have more resources for film production.
	Lack of integrated public policies that promote production, distribution and internationalization, as well as formation of national capabilities (human talent, technology, infrastructure) to strengthen production quality.
	Extended piracy affects the profitability of productions, including those from Mexico.

As for public funds, the two main recommendations are to concentrate resources in fewer productions and to create stricter criteria for selecting productions that receive public financing.

c) Another area in which the government could help reinforce the industry is through the application of the laws designed for its support. Three clear examples are: complying with screen time for Mexican productions, protecting intellectual property (combating piracy), and avoid importing copies of movies for exhibition in the domestic market.

d) In line with the former point, greater exhibition in movie theaters and non-pay television must be guaranteed for domestic productions, so that the internal market can serve as a stepping stone for internationalizing the industry. For this, public incentives for production must be accompanied by strengthening institutions in order to permit Mexican productions to compete in a local (and international) market dominated by the oligopoly of the distributors and the strong presence of million-dollar-budget American movies.

It is important to recognize that in the effort to find more spaces for Mexican productions, cinemas should not be forced low quality films, since this would affect the profitability of exhibition companies and would damage the reputation of Mexican cinema.

e) There must be greater incentives for attracting large foreign productions: tax incentives similar to those offered in countries that compete with Mexico (it is worth recognizing that the federal government's new program is headed in this direction), an improvement in the security situation and comprehensive efforts to strengthen the industry's capabilities.

f) Mexican productions must still explore ways of making a movie profitable beyond box office income. The film industry is very dynamic, and new technologies have accelerated this dynamism. This industry adds value links in the value chain almost constantly, which opens up opportunities for more companies and countries to participate. The experience elsewhere is that movies can be linked to other services such as those of soundtracks, videogames, and items related to the film, among others, which requires appropriate use of copyrights. Another opportunity for Mexican cinema is found in the search for alternative channels or formats for exhibition more in line with the preferences and possibilities of a greater percentage of the population; for example, creating alternative circuits of Mexican cinema, using new information and communication technologies, improving agreements for broadcasting on non-pay television, lower-cost options and dubbed movies, etc.

Finally, this paper has included various branches of analysis that are closely related to the study of the film production industry's value chain. It would be useful if future research study the linkages with other audiovisual industries, especially those in television (commercials, short films, soap operas), new formats for film services (the Internet, USB keys, new e-readers and screens), regulations for competition and market access, and the improvement of statistics for the sector.

Bibliography

- Blocman, Amélie (2010), “France: International tax credit comes into force”, European Audiovisual Observatory, IRIS 2010-1/22.
- CANACINE (Cámara Nacional de la Industria Cinematográfica y del Videograma) (2010), “Resultados 2009 de la industria cinematográfica nacional”, Meeting of Board of Directors, 2010.
- Cave William and Enrico Giovannini (2007), “The statistical measurement of services: recent achievements and remaining challenges”, *Metroeconomica, International Review of Economics*, published online, June.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2009) “International Trade in Latin America and the Caribbean 2009: Crisis and Recovery”, *Report 2009* (LC/L.3184-P), Santiago de Chile, December.
- _____ (2007), *Latin America and the Caribbean in the World Economy 2006: Trends 2007*, Santiago de Chile.
- Cordero, Alejandra (n.d.), “Ley Federal de Cinematografía: una breve revisión”, UNAM, accessed Feb. 2, 2010, (<http://www.tuobra.unam.mx/publicadas/010808212545-Title.html>).
- Cruz, Bárcenas Arturo (2007), “India, nueva potencia mundial en cine”, *La Jornada*, Mexico.
- De Izcue, Nora (coord.) (2009), “Producción, coproducción, distribución y exhibición del cine latinoamericano en América Latina y otras regiones, Cuba”.
- Dos Santos-Duisenberg, E. and E. Laurencin (2006), “Capturing the creative economy in developing countries”, UNCTAD, Geneva (<http://www.oecd.org/dataoecd/53/33/37795228.ppt#257,1>).
- Franco, Reyes Salvador (2009), “Baja Studios, la quimera del cine”, online, accessed Apr. 8, 2010.
- Gómez, García Rodrigo (2005), “La industria cinematográfica mexicana 1992-2003: estructura, desarrollo, políticas y tendencias”, *Estudios sobre las Culturas Contemporáneas*, vol. XI, number 022, Colima, Mexico, December, pp. 249-273.

- González, Roque y otros (2009), *Cine latinoamericano y nuevas tecnologías*, Cuba.
- Hurtado, Andrés Felipe (2007), “Bollywood: cine y cultura de la India” [online] (<http://www.icesi.edu.co/india/contenido/pdfs/ponencias/cine.pdf>).
- IMCINE (Instituto Mexicano de Cinematografía) (2009), *Múltiples rostros, múltiples miradas. Un imaginario fílmico. 25 años del Instituto Mexicano de Cinematografía*, México D. F.
- Instituto Valenciano de la Exportación India (IVEX INDIA) (2007), *Sector cine en India*, Spain.
- López, Andrés, Daniela Ramos and Iván Torre (2009), “Las Exportaciones de Servicios de América Latina y su Integración en las Cadenas Globales de Valor”, Project Document (LC/BUE/W.37), Buenos Aires, Argentina, Economic Commission for Latin America and the Caribbean (ECLAC), January.
- Martínez, Jorge Mario, Ramón Padilla and Claudia Schatan (2008), “Comercio internacional: de bienes a servicios”, *Estudios y perspectivas series*, N° 97 (LC/L.2882-P), Mexico D. F., Economic Commission for Latin America and the Caribbean (ECLAC), March.
- Matto, Aaditya, Robert M. Stern and Gianni Zanini (ed.) (2008), *A Handbook of International Trade in Services*, New York, Oxford University Press.
- Maza, Maximiliano (2006), “Más de cien años de cine mexicano”, accessed Feb. 3, 2010 [online] (<http://cinemexicano.mty.itesm.mx/front.html>).
- OECD (Organization for Economic Cooperation and Development) (2008), “Enhancing the role of SMEs in global value chains”, Paris.
- European Audiovisual Observatory (2010), *World Film Market Trends*, Global Rouge, France.
- _____ (2009), *World Film Market Trends*, Global Rouge, France.
- _____ (2008), *World Film Market Trends*, Global Rouge, France.
- Olsberg - SPI (2008), “A comparison of the production costs of feature films in ten locations around the world”, a Report for the Office of the British Film Commissioner, UK Film Council.
- WTO (World Trade Organization) (2009), *International trade statistics 2009*, Geneva.
- _____ (2008), “Measuring trade in services. A training module”, produced by WTO in collaboration with the inter-agency task force on statistics of international trade in services, December [http://www.wto.org/english/res_e/statis_e/services_training_module_e.pdf].
- Pablo, Martí Federico, and Carlos Muñoz Yebra (1998), “Algunas reflexiones sobre el sector audiovisual desde la perspectiva de la economía industrial”, *Cuadernos de Ciencias Económicas y Empresariales*, N° 35, pp. 7-15
- Padilla, Ramón and others (2008), “Evolución reciente y retos de la industria manufacturera de exportación en Centroamérica, México y República Dominicana: una perspectiva regional y sectorial”, *Estudios y perspectivas Series*, N° 95 (LC/L.2868-P), Mexico D. F., Economic Commission for Latin America and the Caribbean (ECLAC), Feb.
- Panorama Diario (2009), “Puerto Rico extiende 10 años ley de incentivos al cine” [online] (http://www.panoramadiario.com/finanzas/articulo/articulo/2/puerto-rico-extiende-10-anos-ley-de-incentivos-al-cine/?no_cache=1) (accessed Mar. 30, 2010).
- Presidency of the Republic (2010), “El Presidente Calderón en el Decreto para Fomento de la Producción Fílmica” [online] (<http://www.presidencia.gob.mx/prensa/?contenido=53982>) (accessed Mar. 10, 2010).
- Stephenson, Sherry M. (1999), “Approaches to Liberalizing Services”, World Bank, Policy Research Working Paper 2107.
- The Economist (2010a), “Hollywood and the Internet. Coming soon”, Jan. 7.
- _____ (2010b), “The box office strikes back”, May 6.
- _____ (2009a), “The future of entertainment. Middle-class struggle”, Nov. 26.
- _____ (2009b), “3-D: It’s nearly there”, Sept. 3.
- _____ (2009c), “Hollywood in the recession. One-dimensional”, July 9.
- _____ (2009d), “Distributing independent films. Saved by the box”, May 21.
- _____ (2009e), “Media. A world of hits”, Nov. 26.
- _____ (2007a), “The film industry. Endless summer”, Apr. 26.
- _____ (2007b), “The film industry. Hollywood’s new model”, Mar. 15.
- UNCTAD (United Nations Conference on Trade and Development) (2002), “Audiovisual services: improving participation of developing countries” (TD/B/COM.1/EM.20/2), Geneva.
- _____ (2004), “Creative industries and development” (document TD(XI)/BP/13), Geneva.
- _____ (2008a), “Creative economy report 2008. The challenge of assessing the creative economy: towards informed policy-making” (UNCTAD/DITC/2008/2), New York.

- _____ (2008b), “UNCTAD Handbook of Statistics 2008” (TD/STAT.33), New York, United Nations Publication, Sales N° : E/F.08.II.D.18.
- _____ (2009), Handbook of Statistics database on line ([http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx?IF_ActivepathName=P/V.per cent20International per cent20trade per cent 20in per cent20services](http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx?IF_ActivepathName=P/V.per%20cent20International%20trade%20in%20services)).
- UNDP and UNCTAD (2010), Creative Economic Report, 2010, UNCTAD/DITC/TAB/2010/3 ISBN: 978-0-9816619-0-2.
- UNESCO (United Nations Organization for Education, Science and Culture) (2005), “International flows of selected cultural goods and services, 1994-2003. Defining and capturing the flows of global culture trade”, Montreal.

Websites consulted

- <http://www.programaibermedia.com>
<http://www.ariel.org.mx/>
<http://recursos.cnice.mec.es/media/cine/bloque10/index.html>
es.wikipedia.org
<http://lumiere.obs.coe.int/web/search/index.php>
www.culture.gov.uk/
www.cinopolis.com.mx
www.unctad.org
www.wto.org
www.oecd.org
<http://www.todocine.com/mov/inp00215.htm>
<http://cineuropa.org/aboutpartners.aspx?lang=es&treeID=882>



NACIONES UNIDAS

Serie

SEDE
SUBREGIONAL
DE LA CEPAL EN
MÉXICO

CEPAL

estudios y perspectivas

Issues published

A complete list as well as PDF files are available at

www.cepal.org/publicaciones

www.cepal.org/mexico

- 131 Retos de la Unión Aduanera en Centroamerica, Óscar Funes, LC/L.3401, LC/MEX/L.1036, octubre de 2011.
- 130 Impacto asimétrico de la crisis global sobre la industria automotriz: Canadá y México comparados. Perspectivas para el futuro, Indira Romero, LC/L.3400, LC/MEX/L.1034, octubre de 2011.
- 129 El estado actual de la integración en Centroamérica, Andrea Pellandra y Juan Alberto Fuentes, LC/L.3360, LC/MEX/L.1017, agosto de 2011.
- 128 Las instituciones microfinancieras en América Latina: factores que explican su desempeño, Rodolfo Minzer, LC/L.3341, LC/MEX/L.1012, junio de 2011.
- 127 Understanding the business cycle in Latin America: Prebisch's contributions, Esteban Pérez Caldentey y Matías Vernengo, LC/L.3333-P, LC/MEX/L.1011, N° de venta: E.11.II.G.51, junio de 2011.
- 126 El desarrollo de cadenas de valor agroindustriales en Costa Rica, El Salvador y Nicaragua. El caso de estudio de la industria láctea, Guillermo Zúñiga-Arias, LC/L.3332-P, LC/MEX/L.996/Rev.1, N° de venta: S.11.II.G.50, mayo de 2011.
- 125 El comercio internacional de servicios de salud en México: fortalezas, oportunidades, debilidades y amenazas, Eduardo Portas, LC/L.3331-P, LC/MEX/L.1009, N° de venta: S.11.II.G.49, mayo de 2011.
- 124 Efectos del alza del precio del petróleo en la competitividad de las exportaciones manufactureras de Centroamérica, México y la República Dominicana, Carlos Guerrero de Lizardi y Ramón Padilla Pérez, LC/L.3305, LC/MEX/L.1001/Rev.1, N° de venta: S.11.II.G.48, mayo de 2011.
- 123 Cambio climático y retos para el sector turismo de Centroamérica, Claudia Schatan, Mauricio Montiel e Indira Romero LC/L.3275-P, LC/MEX/L.952/Rev.2, N° de venta: S.10.II.G.80, diciembre de 2010.
- 123 *Climate change and challenges for tourism in Central America*, Claudia Schatan, Mauricio Montiel and Indira Romero, LC/L.3275-P, LC/MEX/L.952/Rev.2, Sales Number: E.10.II.G.80, December 2010.
- 122 The Mexican film industry and its participation in the global value chain, Jorge Mario Martínez-Piva, Ramón Padilla, Claudia Schatan y Verónica Vega, LC/L.3274-P/Rev.1, LC/MEX/L.981/Rev.1, Sales number: S.10.II.G.79, 2010, October 2011.
- 122 La industria cinematográfica en México y su participación en la cadena global de valor, Jorge Mario Martínez-Piva, Ramón Padilla, Claudia Schatan y Verónica Vega, LC/L.3274-P, LC/MEX/L.981, N° de venta: S.10.II.G.79, 2010.

- Readers wishing to obtain the listed issues can do so by writing to: la Biblioteca de la Sede Subregional de la CEPAL en México, Presidente Masaryk N° 29 – 4° piso, 11570 México, D. F., Fax (52) 55-31-1151, biblioteca.mexico@cepal.org.

Name:

Activity:

Address:

Postal code, city, country:

Tel.: Fax: E-mail: