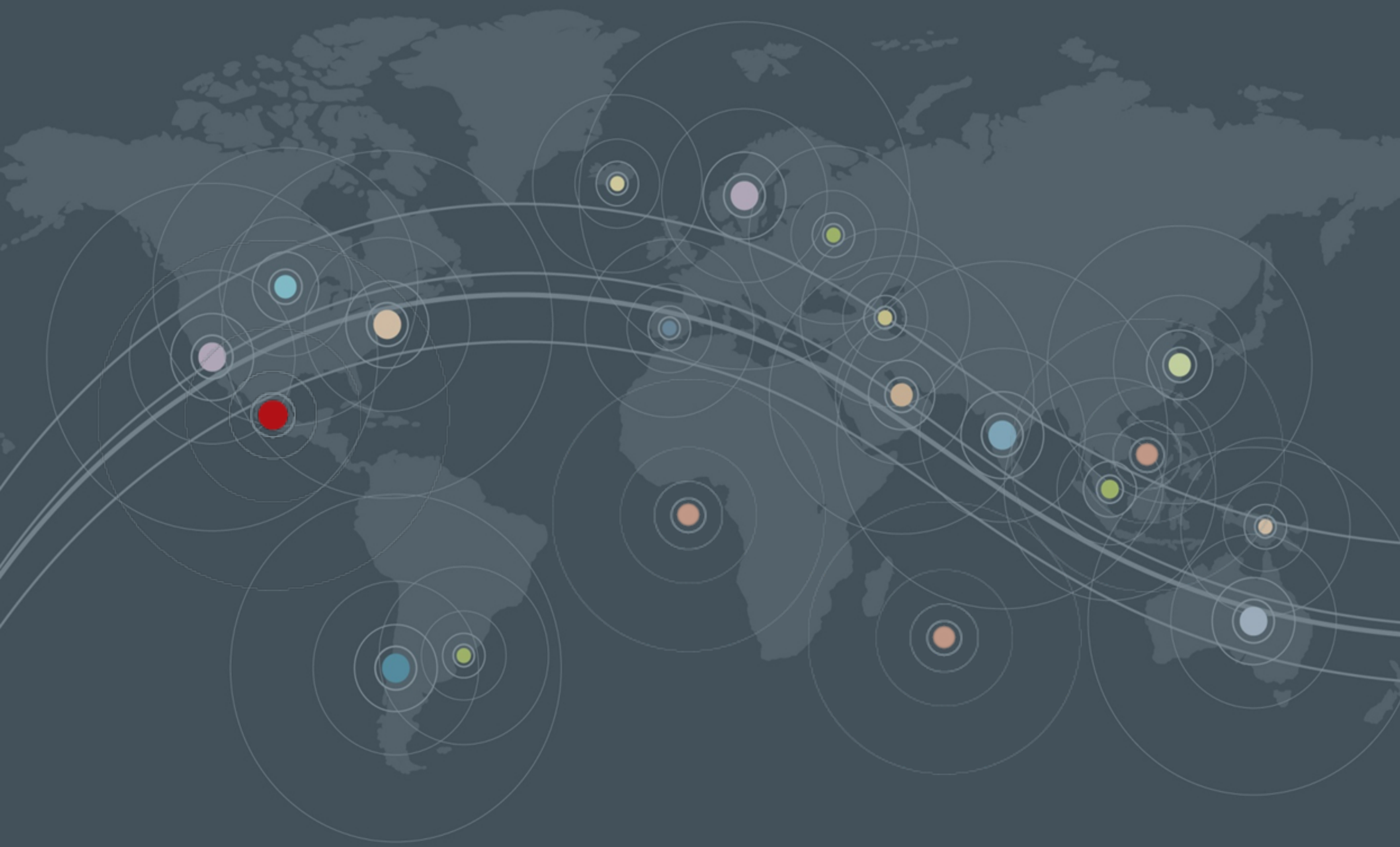
An Audiovisual Production Incentive for Mexico

Report by Olsberg•SPI



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1. EXECUTIVE SUMMARY

1.1. Study Overview

The production of audiovisual content is a highly valuable sector with global significance. Production incentives are a key driver of activity in the sector and have increased over the past decade as governments invest in these strategic policy interventions. As of November 2022, there were 107 audiovisual production incentives at national, state, and province level worldwide.

While Mexico is a significant and key market in the global audiovisual sector, it does not offer a production incentive of the kind that is now widely implemented.

Against this backdrop, creative industries consultancy Olsberg•SPI ("**SPI**") has produced this analysis (the "**Study**") to examine the current position of the Mexican audiovisual production sector globally, and to consider the potential for a new national incentive in the country.

The Study models how a new national audiovisual production incentive would be likely to stimulate production in Mexico, and create economic impacts for the country.[1] It also considers broader strategic impacts that a new incentive could deliver.

1.2. Key Findings

1.2.1. Global Growth of Audiovisual Production and Associated Incentives

Driven by high demand for all types of content by consumers and investors alike, there has been an unprecedented global increase in audiovisual production in recent years.

The sector showed remarkable resilience during COVID-19 and, following the height of the pandemic, audiovisual production has bounced back strongly with US$238 billion in global content expenditure in 2022. While global economic headwinds are putting pressure on the strong rate of expansion seen in recent years, growth is still predicted.

Audiovisual production is undertaken in jurisdictions around the world – delivering inward investment, employment, and other economic and strategic impacts. Legislators have responded by introducing or improving incentives in order to stimulate domestic and international audiovisual production.

While Mexico has no federal-level incentive of this type, their implementation has been increasing in Latin America and the Caribbean – including wave of state and municipal incentives, as outlined in the following figure.[2] This also explains how the incentive is formulated: cash rebates repay a specified amount of qualifying production expenditure back to a producer; tax credits set the incentive against tax owed by a production company. The latter can be refundable if the credit exceeds liabilities, or transferable – i.e. can be sold to third parties to utilize.

[1] This analysis has been undertaken at a high level and the detailed design of an incentive for Mexico has not been undertaken

[2] This year, the Governor of Jalisco also announced a new state incentive – a cash rebate worth 40% of expenses on audiovisual services and up to 20% of the expenses on audiovisual logistics services

Figure 1 – Existing Incentives in Latin America and the Caribbean

Source: SPI analysis. Correct as of April 2023

Production incentives can be a strong stimulant for production. As outlined in Section 5, a range of regional and global markets show strong expenditure growth in the years following the introduction of an incentive.

1.2.2. Production Demand in Mexico and the Potential for an Incentive

Global production investors are closely interested in Mexico as an audiovisual production hub. This is due to a range of positive factors, including Mexico's well-regarded talent base, its infrastructure, cost base, locations, and proximity to US decision-making hubs.

Mexico is very well-placed strategically because of the boom in Spanish-language audiovisual content. With over 62 million Spanish speakers in the US, and nearly 500 million Spanish speakers globally, content investors are closely focused on production in Spanish.

Because of these attractive elements, Mexico's audiovisual production sector has been very busy since the height of the pandemic – with national activity in 2021 surpassing pre-pandemic levels. According to IMCINE data, the number of features increased from 216 to 259 between 2019 and 2021. Meanwhile, the number of series produced or released reached 78 in 2021, an increase of 95% on 2020. These are likely to have increased further into 2022, although more recent national data were not available at the time of writing.

However, this growth trend disguises the fact that Mexico is in fact underperforming as a market when compared with growth in other key global audiovisual production markets (see Section 1.2.5).

Mexico's unique attributes and production capabilities mean that it would be primed for immediate further growth in response to the introduction of an audiovisual production incentive. This would include an upturn in larger budget productions.

Inflationary and other pressures in the sector are increasing investor focus on production markets with incentives, and there is potential for Mexico to see current levels of production reduce in the coming years – including the loss of productions to competitor markets. In the region, these include Colombia, the Dominican Republic and Argentina, as well as Spain, various US states such as New Mexico, California, and Georgia, and other global markets such as the UK. At the same time, some competitor markets are improving their incentive system to better attract productions. The lack of an incentive of the type offered by competitors is therefore a missed opportunity for Mexico.[3]

1.2.3. Potential Impacts of an Incentive for Mexico on Expenditure and Project Volume

As Mexico lacks robust data on audiovisual production expenditure at a national level, SPI has estimated that current audiovisual production activity was worth around US$673 million in 2022.[4, 5]

Based on this level of activity, three potential scenarios have been modelled to 2028 in this Study:

- **Full Adoption**, in which a globally competitive audiovisual production incentive is introduced in Mexico without a significantly capped annual budget.
- **Low Adoption,** in which an incentive is introduced, but it is of limited competitiveness with a capped annual budget.
- **Do Nothing**, in which no new national incentive is introduced in Mexico.

The first two scenarios assume a national incentive is introduced in 2023. These scenarios were based on a range of evidence – including from comparison research into patterns in other markets after the introduction of an incentive and insights from consultations into likely impacts in Mexico.

In terms of impact on Mexican production spend, results show that full adoption of an incentive could more than double production expenditure in Mexico to US$1.38 billion by 2026.[6] Conversely, doing nothing would lead to softening of Mexico's production sector while a limited-budget incentive would arrest this decline and lead to growth in the early period under consideration.

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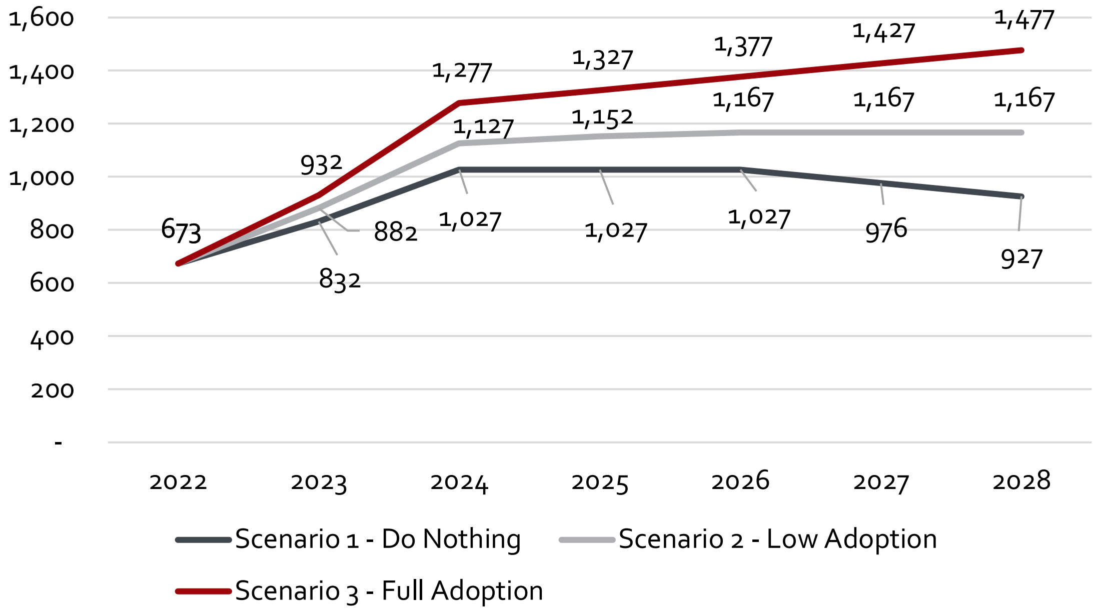
[3] It is noted that plans were announced in January 2023 for a Guadalajara Content City, as well as the introduction of state incentives in Jalisco. *Guadalajara Content City Planned by Micelio Media Group as Jalisco Announces New Incentives*. Variety, 25th January 2023. Accessible at: https://variety.com/2023/tv/global/guadalajara-content-city-jalisco-incentives-1235501661/

[4] Audiovisual production is defined as television series and film but excludes commercials, though it should be noted that commercials do contribute expenditure and other industry impacts and that Mexico services high-end commercials

[5] It would be possible to update the production expenditure baseline and projections if additional data becomes available in the future

[6] Note that this represents production expenditure only; there may be additional impact generated by an incentive in areas such as infrastructure and supply chain investment

Figure 2 – Forecasts of Audiovisual Production Expenditure Related to Three Incentive Scenarios, 2022-28 (US$ millions)



Note on assumptions and forecasts: this Study does not provide a detailed incentive design outline, or recommend the most feasible incentive model for Mexico, which would be a next step in establishing a federal incentive.

The analysis does not consider the necessary logistical and political steps to introducing an incentive, and neither does the Study consider how any positive or negative political or economic changes in the future in Mexico, such as the upcoming elections or provisions of the United States-Mexico-Canada Agreement (USMCA), might impact the projections. The scenarios outlined in this study assume no significant change to the status quo.

Analysis also examined the number of individual series and feature film projects that the incentive forecasts would attract to Mexico in relation to the expenditure above. SPI's research shows that average budgets of features and series are currently low in Mexico – around US$1 million for feature films and an estimated US$3.68 million for series. This reflects the challenges Mexico has in attracting large budget productions without an incentive.

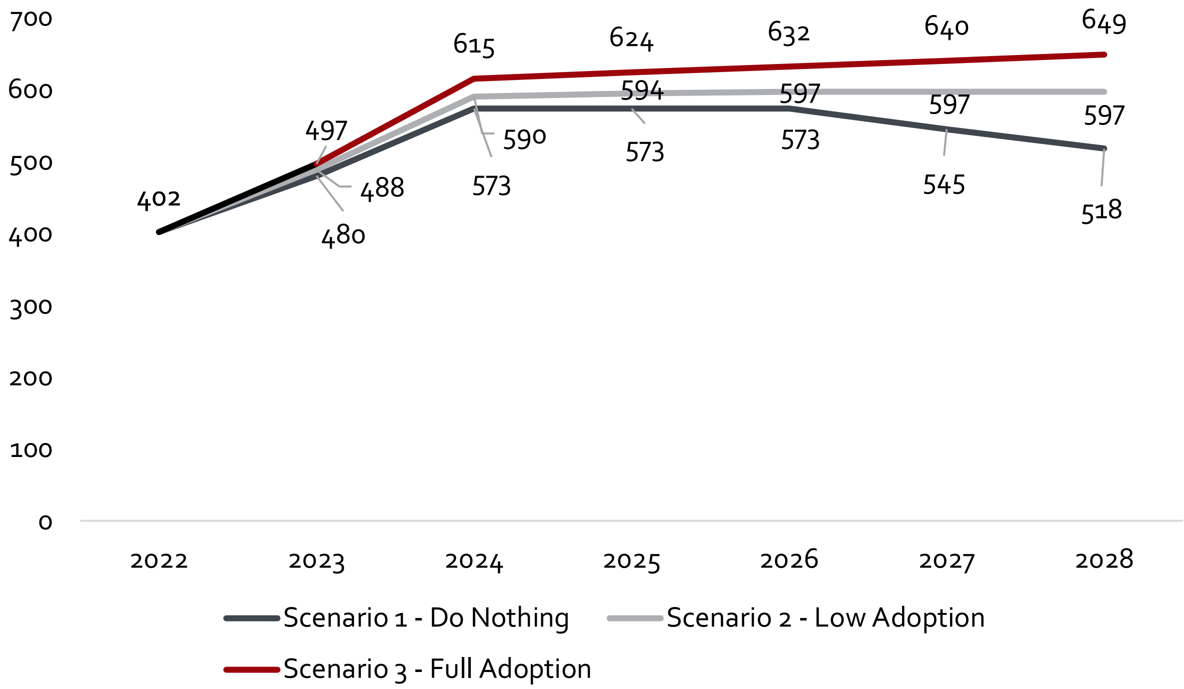
For the incentive forecast scenarios, a higher average budget level of US$6 million for both series and features was used for the additional productions, reflecting the fact that an incentive would attract an upturn in inward investment projects with higher budgets than are currently typical for Mexico.

Under the Low Adoption scenario, an additional 23 productions a year would be attracted by 2028, in addition to existing production continuing at the same level seen in 2021.[7] To reach the maximum opportunity, an additional 75 productions a year would be attracted to Mexico.

Project volume is only a rough guide to activity. Project budgets can vary very widely, and at the highest level may reach hundreds of millions of dollars.

[7] Which have an average of US$6 million in Mexican spend for each production

Figure 3 – Forecasts of Audiovisual Production Volume Related to Three Incentive Scenarios, 2022-28



The assumptions used in formulating the forecasts are outlined in detail in Section 6.3.

1.2.4. Potential Economic Impacts of an Incentive for Mexico

This Study uses an Input-Output (I-O) approach to economic impact modelling, and the production expenditure scenarios were used to drive a specially developed economic model. This model uses national data sources from INEGI, Mexico's national statistics authority, and from the Organisation for Economic Cooperation and Development (OECD) to model the interconnections between the audiovisual production industry and other industries, and the relationships between key metrics including output, gross value added (GVA), and jobs.

The Full Adoption scenario would be highly impactful for Mexico, delivering an estimated US$14.1 billion in total cumulative output between 2023 and 2028, including direct, indirect, and induced phases of impact.[8] In terms of GVA, Full Adoption is projected to deliver nearly US$7.3 billion in cumulative GVA between 2023 and 2028. With no incentive, the impact would be significantly lower and is projected to start to decline towards the end of the period.

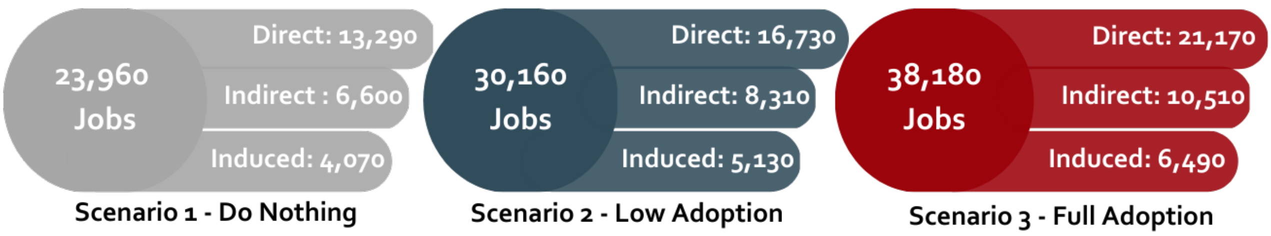
[8] Direct impact refers to the economic uplift within audiovisual production firms resulting from the increase in production and post-production expenditure; indirect impacts are the effects observed in sectors that supply goods and services into the audiovisual production sector; induced impacts are the effects observed as a result of the wage effects of those working in the audiovisual production sector and the supply chain

Figure 4 – Economic Impact of Each Forecast Scenario – Cumulative, 2023-28 (US$ m)

Note: numbers may not sum due to rounding. All figures are real values – they have been adjusted for inflation and are presented in 2021 prices.
Source: SPI calculations

SPI's production expenditure driven economic impact model indicates that an internationally competitive incentive could also deliver 38,180 jobs in 2028, across direct, indirect and induced impacts. This is an estimated number of year-round jobs associated with film and television production activity; it does not include other audiovisual activity such as cinemas and distribution activity. This is around 60% higher than the number of jobs generated by the Do Nothing scenario.

Figure 5 – Forecast of Impact on Employment of Each Forecast Scenario, 2028



Numbers may not sum due to rounding.
Source: SPI calculations

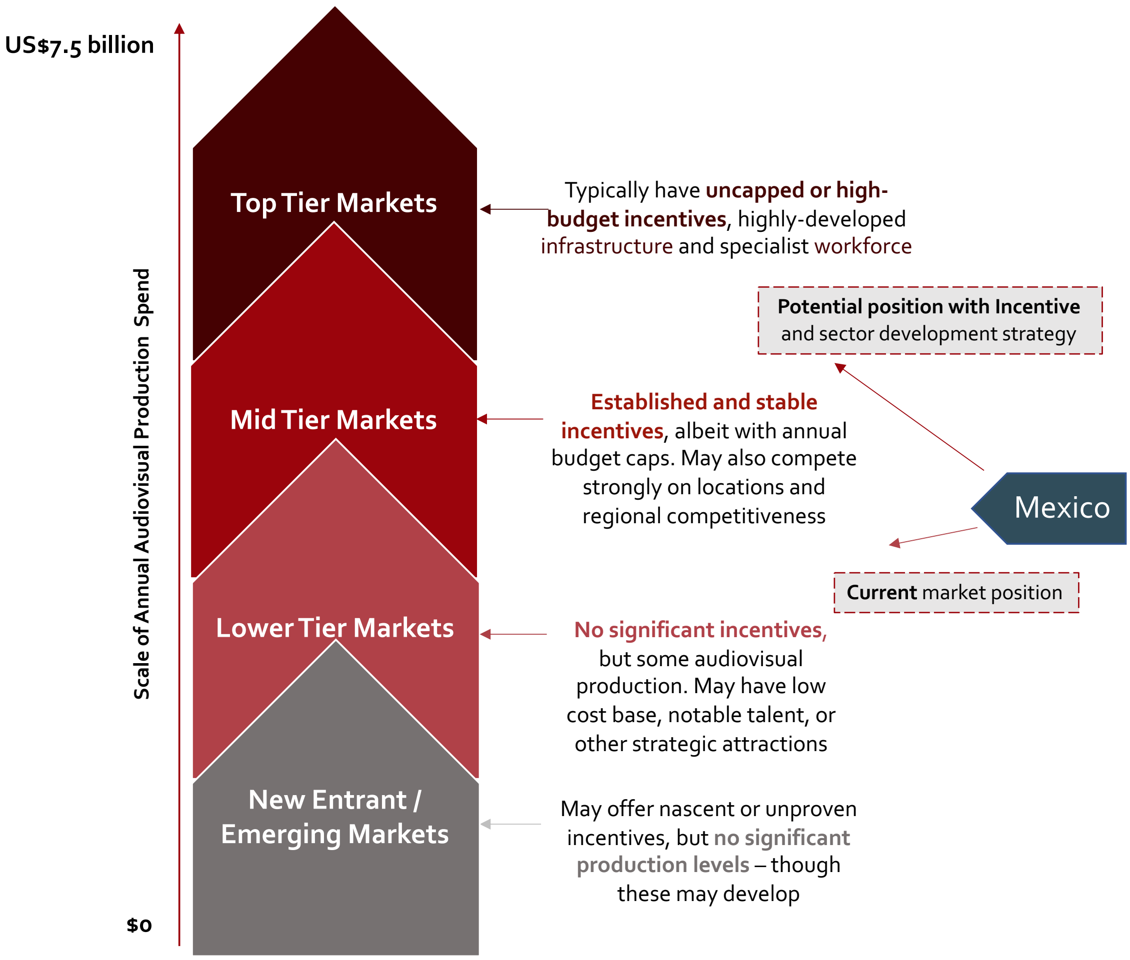
1.2.5. Mexico's Market Position in the Global Landscape

With no incentive, Mexico is not currently considered a top tier market in terms of its ability to routinely compete for the highest budget productions. The country may have seen some growth in film and series nationally, and is currently considered to be busy by historical standards, but it is underperforming in terms of the comparative growth seen in a range of individual markets. It is also underperforming when measured by the ratio of audiovisual production expenditure and the population of comparison markets.

For example, Mexico's estimated 2022 spend baseline of US$673 million is over six times lower than spend in the US state of Georgia in the 2021/22 fiscal year – despite Mexico's population being nearly 12 times the population of Georgia's. The UK, for example, saw over 11 times more spend than Mexico in 2022, despite having around half the population of Mexico.

Should the Mexico market move to the Full Adoption level, expenditure would quickly increase. The forecasts in this Study are conservative, and Mexico has the potential to quickly surpass these estimates. As outlined in the following figure, Mexico could quickly develop into a high mid-tier market with an incentive and a linked sectoral development strategy.

Figure 6 – Summary of Mexico's Current and Potential Market Position



1.2.6. Other Strategic Impacts and Considerations

In addition to macro and micro economic impacts, audiovisual production can also deliver a suite of strategic benefits. This includes cultural and soft power / national branding effects, as well as benefits such as the stimulation of additional foreign direct investment – a type of export revenue.

Of particular relevance to Mexico is the ability to drive skills and talent – including among young people – as well as encourage more infrastructure investment and more production activity in Mexico's regions. The majority of current audiovisual production takes place in Mexico City; an incentive would create an opportunity to encourage production to regions, including those which already host productions such as Jalisco, Nuevo León, Durango, and Baja California Sur.

An incentive introduction would also provide a strategic opportunity to drive formalization of the audiovisual production economy in Mexico, and lessen the 'grey' economy. This is because an incentive would require full invoice processes and audits to effectively administer it – increasing taxation to the Mexican Government. This would be a key benefit of an incentive.

It would be important for an incentive introduction to be linked to a robust sectoral development strategy – including a focus on workforce and infrastructure growth. Such a strategy would aim to ensure that Mexico extracts as much value and impact as possible from production growth.

Linked to this should be a strategy for Mexico to implement more robust statistics and data reporting for the audiovisual sector. A number of recommendations are set out in Section 8.3.1

Section One – **Introduction**

Credit: IMCINE

2. INTRODUCTION

2.1. About the Study

Mexico is of significant strategic interest as a production destination for global audiovisual producers and investors, while its domestic production sector is strong – with some notable talents and exports. However, the country does not currently offer any significant federal audiovisual production incentives of the type found in over 100 other jurisdictions globally, including Latin American countries such as Colombia, and key cities in Argentina and Brazil.

Against this backdrop, SPI has undertaken this Study to examine what an audiovisual production incentive could potentially deliver for Mexico in terms of economic and other impacts. It provides detailed context on the importance of audiovisual incentives in driving the development of audiovisual sectors worldwide, including attracting foreign investment and developing local jobs and skills.

The Study contains the following components:

1. An overview of the growth of the global audiovisual production sector in recent years, and an analysis of the existing global and Latin American production incentives landscape in underpinning this growth.
2. The potential for an audiovisual incentive in Mexico, including analysis of current activity and demand for an incentive.
3. An analysis of comparable markets in Latin America and globally, to model how the introduction of an audiovisual production incentive has impacted levels of activity.
4. An assessment of the economic impacts that could be delivered for Mexico through the creation of a new incentive. This element establishes a baseline for current activity and projects three scenarios based on doing nothing, a partial incentive introduction and a full incentive introduction. For the two latter scenarios, projected economic impacts have been modelled for Mexico, including GVA, output, and job creation.
5. A broader analysis of impacts that an increased level of production stimulated by an incentive could have on Mexico's economy, including micro economic impacts. These include the 'ripple' effects that audiovisual production expenditure can have on other sectors in the economy.
6. Consideration of other strategic impacts that an increase in audiovisual production could generate for Mexico, including on skills and talent, the formalization of the Mexico's production economy, and on tourism.

2.2. Context of Study

Mexico has significant and unique attractions for audiovisual producers. The country has a globally significant history, combined with highly talented storytellers and audiovisual talent – including directors, cinematographers, and production designers – that attract global acclaim and interest. The Mexican production offer is very rich – spanning urban landscapes, historical sites, and natural wonders – and its proximity to talent and production bases in the US combine to create significant interest in Mexico as a hub for audiovisual production. This attractiveness is also increased by the country's significantly lower cost base when compared to the US. This is a key selling point given inflationary trends in the current market.

Against this backdrop, global audiovisual production has been undergoing an unprecedented investment boom in recent years. Increased consumer demand for content has led to large investment increases from established global studios and broadcasters, while streaming services have significantly increased project flows.

Post-pandemic, the audiovisual production industry has bounced back strongly with US$238 billion in global content expenditure in 2022.[9] While global economic headwinds are likely to slow this strong production expansion, growth is still predicted.[10]

Market conditions have increased focus on audiovisual production incentives for producers and incentives play a key role in where projects are sited around the world. At the same time, governments and other authorities have become more cognizant of the economic and strategic benefits of production and are responding on a global level with policy interventions to stimulate the audiovisual industry. This has led to a rise in incentives.

The size and potential of the global Spanish-language content market is also of key interest to studios, streamers, broadcasters, and other producers.

Despite this global opportunity and Mexico's unique attractiveness as a production market, the country is falling behind competitors. Currently, Mexico does not offer a national incentive of the type implemented in over 100 global countries, states, and provinces.

While the Mexican Government has acknowledged the need to invest in the economic recovery of the country's audiovisual sector – with former Secretary of Economy Tatiana Clouthier outlining an initiative in 2022 to establish Mexico as an international leader in the creation of audiovisual content – the country does not have an incentive of the kind offered elsewhere.[11]

2.3. SPI's Approach

For this Study, SPI has utilized a range of research methods and sources, as outlined in the appendices. Data sources included:

- **Confidential consultations** with over 15 individuals. These included leading Mexican producers, key agencies, and film commissions.
- **Desk research**, including studies and articles on all facets of Mexico's audiovisual sector and the Mexican economy in general. This also included extensive analysis of comparable jurisdictions both in Latin America – such as Colombia, the Dominican Republic, Brazil, and Argentina – and globally, including California, Georgia, Spain, and the UK.
- **Data analysis**, to inform the development of an estimated baseline of production activity for Mexico and to inform the development of the economic model built for this Study. Mexico is lacking robust audiovisual production data so a range of sources were referenced, including publications from IMCINE and the Mexico City Film Commission. National data were also sourced from INEGI, Mexico's national statistics authority.

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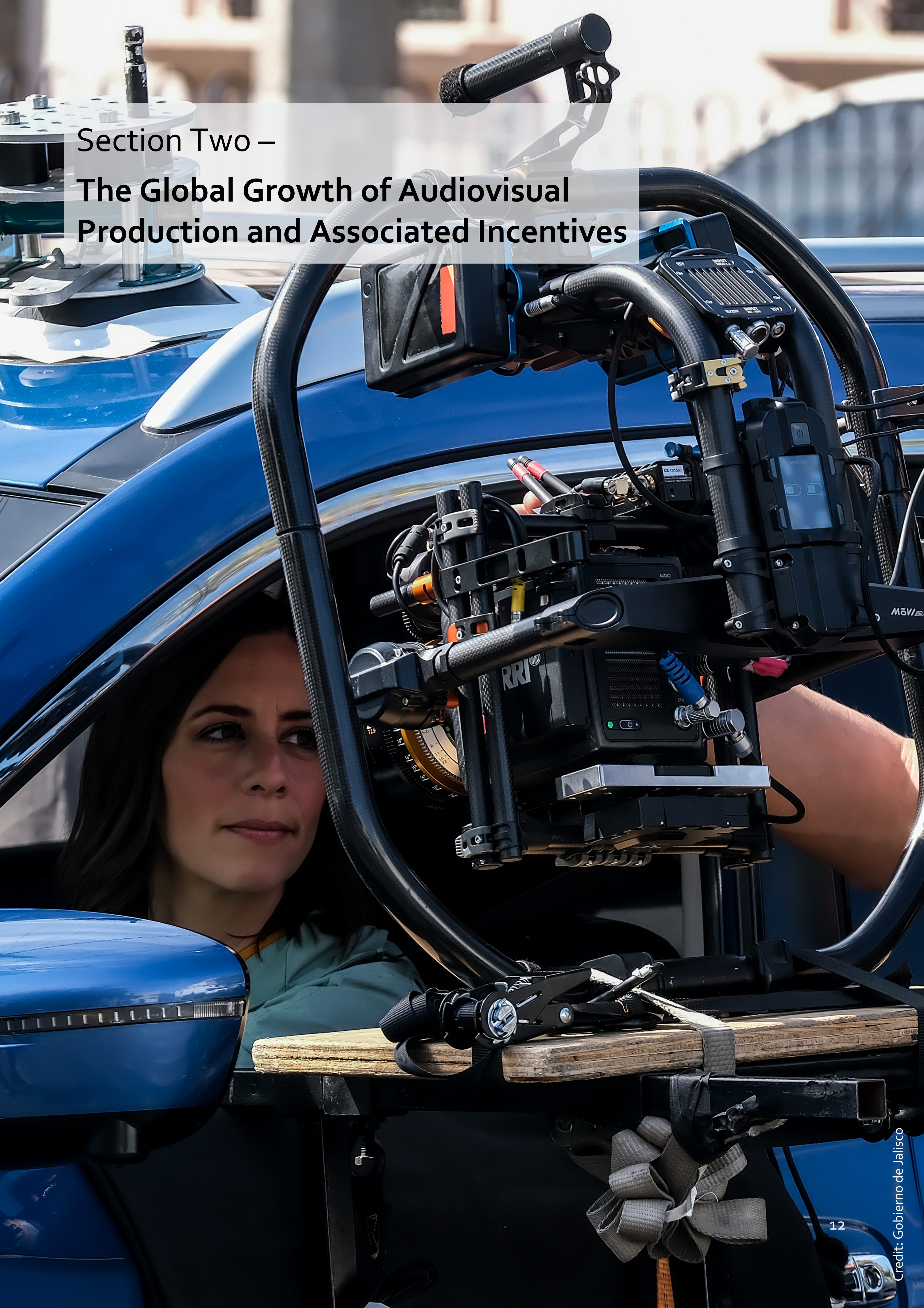
[9] Ampere Analysis

[10] *Decade-long spending boom on original TV content expected to slow*. Financial Times, 3rd January 2023

[11] *La Secretaría de Economía presenta el proyecto de Impulso al Sector Fílmico. Secretaría de Economía*, 3rd August 2022. Accessible at: https://www.gob.mx/se/articulos/la-secretaria-de-economia-presenta-el-proyecto-de-impulso-al-sector-filmico-310291

Section Two –

The Global Growth of Audiovisual Production and Associated Incentives



Credit: Gobierno de Jalisco

3. THE GLOBAL GROWTH OF AUDIOVISUAL PRODUCTION AND ASSOCIATED INCENTIVES

This section provides an overview of how audiovisual production has become a **significant economic global growth sector**, and also considers how governments, including in Latin America, are responding to this opportunity **through the provision of incentives**.

In 2022, global content spend is **projected to have grown by 6% to US$238 billion**.

There are **107 audiovisual production incentives globally**, aimed at stimulating this investment.

3.1. Growth of the Global Audiovisual Production Market

Recent years have seen a global deluge of audiovisual production, mainly driven by high demand for all types of content by consumers and investors alike – including streamers, broadcasters, and studios. Post-pandemic, the audiovisual production industry has bounced back strongly on a global basis – a trend partly driven by productions that were paused during the pandemic because of production lockdowns.

While the pandemic temporarily paused production in many locations it simultaneously led to a surge in streaming subscribers that coincided with the launch of several streaming platforms in new markets such as Disney+. Production bounced back strongly after the pandemic, with US$238 billion in global content expenditure in 2022 – a projected rise of 6%.[12] Expenditure growth is still expected, albeit at a less pronounced rate than in recent years.

In terms of wider context, it is estimated that the broader global entertainment and media space will grow at a compound annual growth rate of 4.6% between 2021 and 2026 to reach US$2.93 trillion in 2026.[13]

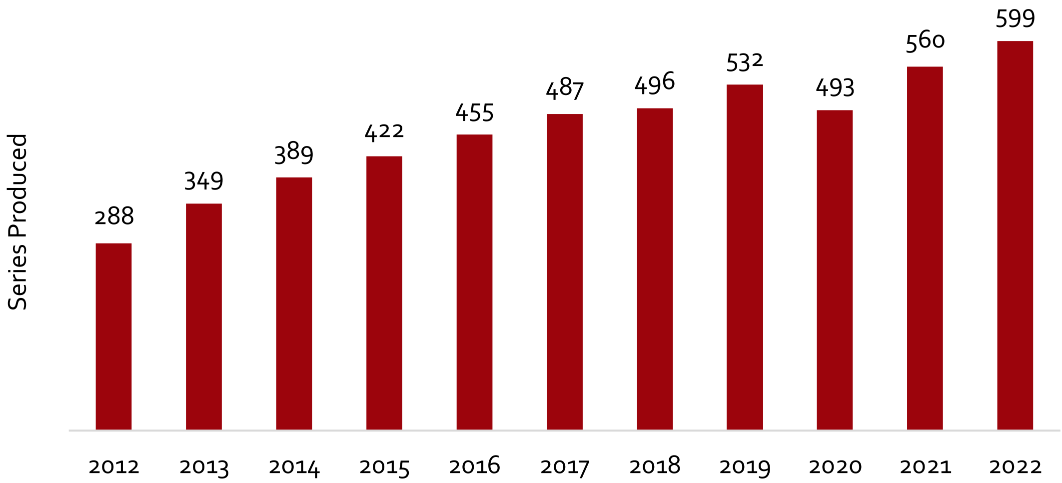
Much of the growth in audiovisual production has been driven by scripted series because they fit well with the streaming service format – streamers aim to attract more subscribers with original content and to keep these subscribers online and engaged with the platform for longer periods of time, avoiding subscriber loss.

Between 2012 and 2022, the number of US-produced original scripted series more than doubled – from 288 in 2012 to 599 in 2022. Despite the impact of the pandemic in 2020, there was only a drop of 7% recorded from 2019 to 2020. In 2021, an increase of around 14% from 2020 was recorded.

[12] Ampere Analysis

[13] *Perspectives from the Global Entertainment & Media Outlook 2022–2026.* pwc. Accessible at: https://www.pwc.com/gx/en/industries/tmt/media/outlook/outlook-perspectives.html

Figure 7 – Scripted Original Series Production in the US, 2012-22



Source: FX Networks research

Global volume of feature film production has also been increasing – albeit at a slower pace of 10% over five years.

SPI analysis of where investment is spent shows that all regions outside of the US attract more expenditure on incoming production than the expenditure that originates in the country.[14] This underlines the value of international productions. In 2019, SPI estimated that Latin America attracted just 3% of global production investment. However, there are significant opportunities for the region to increase its global market share, particularly if the growth of the incentives landscape in the region continues.

3.1.1. Economic and Strategic Impacts of Audiovisual Production

The growth in audiovisual production globally has also led to increased understanding by policymakers of the impacts that such activity can deliver across a range of considerations.

Of critical importance to governments in the current global climate is economic impact and job creation. As a type of specialized manufacturing, audiovisual production creates modern, mobile, and productive employment. Uniquely it requires skilled and well-remunerated jobs from a range of sectors including audiovisual production specific – e.g. screenwriters, cinematographers, and production design – but also skills from sectors such as transport, construction, and catering.

Economic impacts can be highly significant, with audiovisual productions able to inject large amounts of direct spend very quickly into and around an economy (see Section 7). It also typically delivers an attractive return on public investment – effectively in export revenues – as well as increasing inward investment, stimulating tourism, driving national branding, and enhancing soft power. These strategic impacts sit alongside a suite of cultural impacts that audiovisual content creates.

These values are created in the jurisdiction where the production is taking place, even if it is financed by an entity from another country.

[14] *Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19*. SPI, June 2020. Accessible at: https://static1.squarespace.com/static/5f7708077cf66e15c7de89ee/t/60282af90267734564e0fedd/1613245181073/Global-Screen-Production-and-COVID-19-Economic-Recovery-Final-2020-06-25.pdf

3.2. The Role of Incentives

3.2.1. *Incentives as a Public Policy Lever*

Given the benefits outlined previously in this section, proactive public policies are being implemented worldwide in order to stimulate greater levels of domestic and international productions. The most notable lever utilized by legislators is the audiovisual production incentive. These have become a phenomenon in recent years, regarded as perhaps the most effective strategy for production growth. The fact that incentives play such a cornerstone role in project finance means that producers are highly sensitive to them – and newly-introduced incentive models usually see rapid production investment because of their importance to producers.

These systems provide a return to a producer based on the eligible expenditure undertaken in that jurisdiction. In this way they do not function as selective funding instruments – i.e. based on subjective considerations of artistic quality or audience potential – but as economic instruments. Incentive systems can also be less costly to administer than selective funds – though they often sit alongside selective funding measures to ensure that economic and cultural objectives are being met.

For governments, they function as strategic investments and the activity they stimulate can largely be considered export revenues. The impacts that such models leverage are very much delivered to domestic workers and the domestic industry – even if the content is financed by a foreign entity.

Incentives should also be formulated to provide additionality: i.e. the projects and expenditure leveraged would likely have been undertaken elsewhere in the world or region without the incentive offer. The impact of incentives is also measurable, and by stimulating substantial additional production investment, positive returns can usually be measured using macro indicators such as GVA or gross domestic product (GDP).

Incentives also enable governments and their agencies and institutions to better measure and support the needs of the audiovisual production sector and the volume and value of productions taking place and therefore show growth of the sector over time.

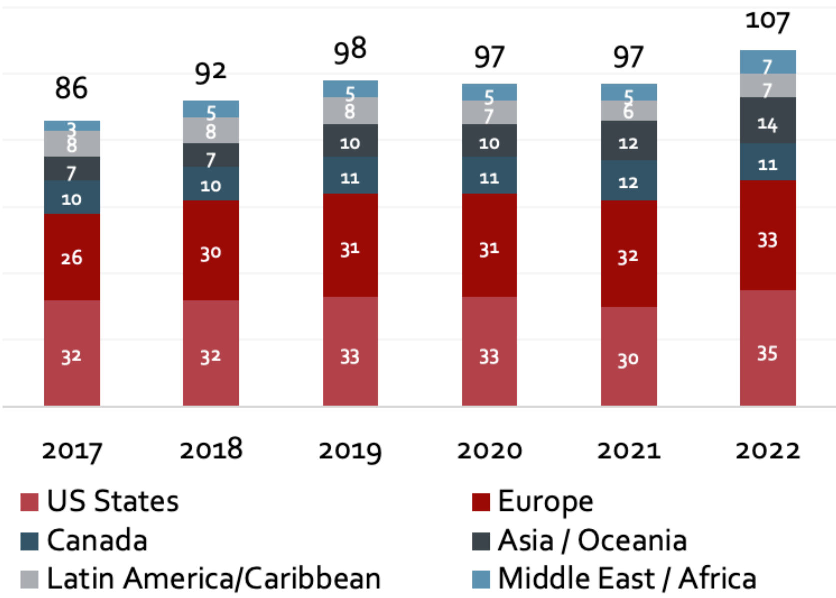
3.2.2. *The Expansion of Incentives Globally*

The effectiveness of incentives is underlined by the rapid expansion of these instruments globally. As of November 2022, there were 107 systems in operation at country, state, and province levels worldwide.

The landscape is developing quickly; 2022 saw the introduction of new national systems in Sweden, Saudi Arabia, and Mongolia, and improvements to a number of systems. There has also been an increase of incentive models at sub-national city and region levels – particularly in Latin America, where new models have been launched in Rio de Janeiro and São Paulo in Brazil, and Buenos Aires in Argentina. In Mexico this year, Jalisco also announced a new state incentive. These are explored in the next section.

Figure 8 below illustrates the steady increase in automatic incentives offered at the country, state and province levels worldwide over the last five years.

Figure 8 – Global Audiovisual Incentives Offer, 2017-22



Source: SPI

3.2.3. Incentives in Latin America and the Caribbean

The incentives landscape in Latin America has developed at a slower pace than other regions in the world – notably the US and Europe – but it is clear that Latin American governments are moving to invest strategically in audiovisual production through the implementation of incentives. In the past year, there has been a marked trend in Latin America for the creation of state and municipal incentives.

Current incentives on offer in Latin America and the Caribbean are summarized in the following table and outlined below. The table also explains how the incentive is formulated: cash rebates repay a specified amount of qualifying production expenditure back to a producer; tax credits set the incentive against tax owed by a production company. The latter can be refundable if the credit exceeds liabilities, or transferable – i.e. can be sold to third parties to utilize.

Table 1 – Overview of Latin America and Caribbean Incentives

Jurisdiction	Incentive
Buenos Aires, Argentina	20% cash rebate
Cayman Islands	Details TBC
Chile	35% cash rebate
Colombia	35% transferable tax credit
Dominican Republic	25% transferable tax credit
Ecuador	37% transferable tax credit

Jurisdiction	Incentive
Jalisco, Mexico	Cash rebate worth 40% of expenses on audiovisual services and up to 20% of expenses on audiovisual logistics services
Jujuy, Argentina	20% cash rebate
Mendoza, Argentina	40% cash rebate
Panama	25% cash rebate
Puerto Rico	20%-40% tax credit
Rio de Janeiro, Brazil	30%-35% cash rebate
São Paulo, Brazil	30% cash rebate
Trinidad & Tobago	12.5%-35% cash rebate
Uruguay	10.6%-25% cash rebate
US Virgin Islands	19%-29% cash rebate

Source: SPI. Correct as of April 2023

Buenos Aires, Argentina: a rebate worth up to 20% of spend, this is aimed at international projects. A call for applications was open from 1st to 31st October 2022 and it was recently announced that 12 projects had been selected.[15]

The Cayman Islands: in November 2022, The Cayman Islands launched a first non-stop flight from LAX to Grand Cayman. In launching the route, The Cayman Islands' Minister for Tourism & Transport announced that The Cayman Islands will be introducing audiovisual production incentives in 2023.[16]

Chile: a 35% cash rebate is on offer in Chile. The most recent application window closed on 23rd November 2022, with six projects receiving funding through the Audiovisual Investment Fund (FIA), with three further projects on the waiting list.[17] The Magallanes Region of Chile has also announced a 40% cash rebate with a minimum spend of U$200,000.

Colombia: one of Latin America's leading international production hubs, Colombia offers two separate incentives for international projects: the Colombian Film Fund (FFC) rebate, with a

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[15] *Rodriguez Larreta anunció que la Ciudad apoyará a 12 proyectos audiovisuales nacionales realizados con inversión internacional que se filmarán en la Ciudad.* Primera Noticia, 2023. Accessible at: https://www.primeranoticia.com.ar/2023/02/16/rodriguez-larreta-anuncio-que-la-ciudad-apoyara-a-12-proyectos-audiovisuales-nacionales-realizados-con-inversion-internacional-que-se-filmaran-en-la-ciudad/

[16] *First Non-Stop Flight from LAX to the Cayman Islands Takes Off*. Forbes, November 2022. Accessible at: https://www.forbes.com/sites/michaelgoldstein/2022/11/10/first-non-stop-flight-from-lax-to-the-cayman-islands-arrives/?sh=44aec0d023c9

[17] *Audiovisual Investment Funds.* Fondos Cultura, Nov 2022. Accessible at: https://www.fondosdecultura.cl/fia-2022/#:~:text=Esta%20convocatoria%20tiene%20por%20objetivo,inicio%20de%20actividades%20en%202022

budget of around US$4-6 million; and the Audiovisual Investment in Colombian Certificates (CINA), a transferable tax credit with a cap of around US$68 million in 2022.

Dominican Republic: a leading Caribbean hub, the Dominican Republic offers a 25% transferable tax credit.

Ecuador: the National Assembly of Ecuador unanimously approved a draft Law for Digital and Audiovisual Transformation, which will create the Audiovisual Investment Certificate (CINA), a 37% transferable tax credit for audiovisual productions modelled on Colombia's system.[18]

Jalisco, Mexico: in 2023 the Governor of Jalisco also announced a new state incentive – a cash rebate worth 40% of expenses on audiovisual services and up to 20% of the expenses on audiovisual logistics services.[19]

Jujuy, Argentina: in 2023 the Jujuy Province in northwestern Argentina announced a 20% cash rebate. Open until 1st May 2023, the call for projects is for feature films or fiction or documentary series with a minimum investment of approximately US$117,000.[20]

Mendoza, Argentina: in January, 2023, a new regional incentive was confirmed for the Mendoza region. This offers a 40% cash rebate for productions made in the region, with a budget of AR$ 500 million.[21]

Panama: Panama offers a rebate program worth 25%.

Puerto Rico: tax credit incentives are offered in Puerto Rico, with 40% for Puerto Rico companies and individuals, and 20% for non-resident qualifying spend.

Rio de Janeiro, Brazil: launched in 2022, Rio offers a rebate worth up to 35% of spend.

São Paulo, Brazil: in December 2022, the second edition of São Paulo's incentive was launched. Allocated funding was four times the first edition, with BRL27 million (US$5 million) allocated for international productions and BRL9 million (US$1.7 million) for co-productions. The São Paulo incentive offers a 20% - 30% cash rebate with a per-project cap of BRL13.5 million (US$2.5 million) for international productions and BRL3 million (US$560,000) for co-productions.[22]

Trinidad and Tobago: the Production Expenditure Rebate Programme offers 12.5%-35% based on expenditure with an additional 20% rebate on local labor.

Uruguay: the Audiovisual Program offers an incentive of 25% if Uruguayan expenses are between US$300,000 and US$4 million; 17.5% if Uruguayan expenses are between US$4 million and US$8 million; and 10.6% if Uruguayan expenses are over US$8 million.

US Virgin Islands: the Sustainable Tourism Through Arts-Based Revenue Stream is a tax credit and cash rebate. The tax credit is worth 10% on resident hires of 20%-25%, 15% on resident hires of 25.1%-30%, or 17% on resident hires of 30.1% or greater. The cash rebate is worth 9%.

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[18] *Asamblea Nacional aprueba por unanimidad el Proyecto de Ley para la Transformacion Digital*. Asamblea Nacional, December 2022. Accessible at: https://www.asambleanacional.gob.ec/es/noticia/86074-asamblea-nacional-aprueba-por-unanimidad-el-proyecto-de

[19] *Consolidarán a Jalisco Como el Hub de Producciones Fílmicas, Talento, Innovación y Alta Tecnología Más Importante de Latinoamérica a Través de las Políticas Públicas Filma Jalisco y Jalisco Tech Hub Act.* Gobierno del Estado de Jalisco, 21st February 2023. Accessible at: https://www.jalisco.gob.mx/es/prensa/noticias/155897

[20] *Jujuy lanza programa de cash rebate para producciones nacionales e internacionales.* Latam Cinema, 13th April 2023. Accessible at: https://www.latamcinema.com/jujuy-lanza-programa-de-cash-rebate-para-producciones-nacionales-e-internacionales/

21 Devolveran 40% a produccciones audiovisuales hechas en Mendoza. Sitio Andino, November 2022. Accessible at: *https://www.sitioandino.com.ar/economia/devolveran-40-producciones-audiovisuales-hechas-mendoza-n5640921*

[22] *Governo do Estado de SP Lanca ampliacao do Programa de Atracao de Filmagens a Cidade e ao Estado de Sao Paulo.* Cultura e Economia Criativa, December 2022. Accessible at: https://www.cultura.sp.gov.br/governo-do-estado-de-sp-lanca-ampliacao-do-programa-de-atracao-de-filmagens-a-cidade-e-ao-estado-de-sao-paulo/

Section Three –

The Potential for an Audiovisual Production Incentive for Mexico

Credit: Gobierno de Jalisco

4. THE POTENTIAL FOR AN AUDIOVISUAL PRODUCTION INCENTIVE FOR MEXICO

This section considers the **current audiovisual production sector** in Mexico, including the **type of projects** being made in the country, and how an incentive could impact the **scale of activity**.

Global investors are closely interested in Mexico due to its **talent, infrastructure, cost base, locations, and proximity to the US**.

Mexico is well-placed strategically because of the **boom in Spanish-language content**.

However, **production will likely decline** in Mexico with no incentives.

4.1. The Current Mexican Production Landscape

Mexico has a long track record as an audiovisual production center – with the country having produced audiovisual content for over 100 years. Some major global successes have been achieved, and in today's marketplace Mexico has a very visible talent base that is recognized around the world. This includes award-winning filmmakers such as Guillermo del Toro, Alfonso Cuarón, and Alejandro González Iñárritu, actors such as Gael García Bernal, Diego Luna, and Salma Hayek, and key heads of department such as cinematographers Emmanuel Lubezki, Guillermo Navarro, and Rodrigo Prieto. Mexico is also strong in other key creative roles such as production design.

Mexican productions are also recognized globally, with films such as Guillermo del Toro *Pan's Labyrinth*, or Alfonso Cuarón's *Roma* drawing critical acclaim – and three Oscars, in the case of the latter. Independent national films are also critically acclaimed, with some examples being *La Region Salvaje* (2016) directed by Amat Escalante or *Las Hijas de Abril* (2017) directed by Michel Franco which were recognized in festivals such as Venice, San Sebastian, and Cannes. Mexican films are also in demand among audiences worldwide: 2013's *Instructions Not Included* made over US$100 million at the box office, US$56 million of which was from outside of Mexico.

Mexico's talent base, and the artistic and technical quality of its industry, make the country a highly attractive hub for audiovisual production – from both domestic and international producers. Indeed, Mexico is a key country of interest for foreign investors.

This is due to several unique attributes, including the size of the domestic Mexican audiovisual market and the wider global Spanish-speaking audience base. This comprises more than 500 million people worldwide, or about 8% of the world's population. Mexico's significantly lower cost base when compared to the US is also a key attraction, as is its proximity to production decision makers and key production and talent bases there. Mexico also offers a unique and varied range of natural and built locations.

There are, however, some negatives including perceptions around difficulties with VAT recovery in Mexico.

Despite this, Mexico's audiovisual production sector has been busy in recent years, particularly following the COVID-19 pandemic.[23] High consumer demand during the pandemic and initial

[23] *CDMX perdió 150 MDD por paro fílmico: Saldaña. El Universal, August 2020. Accessible at: https://www.eluniversal.com.mx/espectaculos/cdmx-perdio-150-mdd-por-paro-filmico-saldana*

production shutdowns were followed by a significant upturn in some markets – including Mexico. However, there is evidence that this increase will not continue at the same level in coming years – see Section 4.1.2.

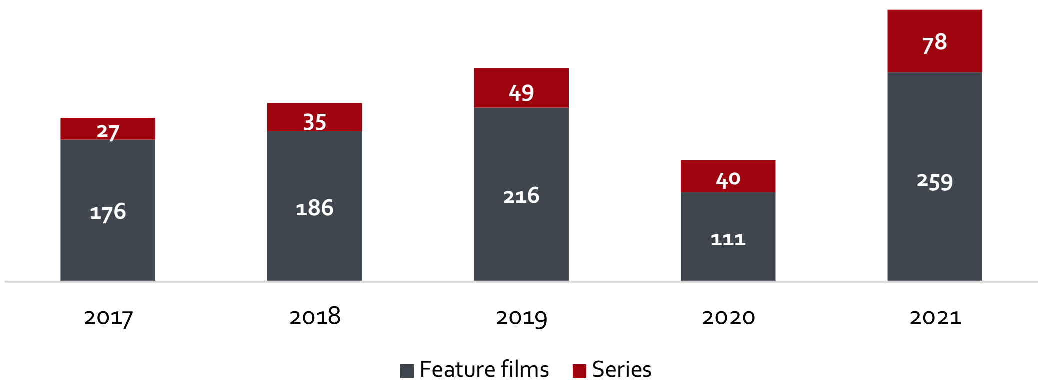
The country's audiovisual production sector is very busy with domestic and inward mid-range productions, although it does not routinely attract very high-budget international features or series. This is closely related to the lack of incentive: high-budget projects are particularly focused on defraying cost and will instead to go production markets that offer very high skills and infrastructure bases, as well as attracting incentives – such as the UK, Canada, the Dominican Republic, the US state of Georgia, Australia, and New Zealand.

As outlined in Section 8.4, Mexico may be lacking in some areas of provision for very high budget projects – but it could quickly develop this provision should an incentive be created.

A significant majority of Mexico's audiovisual production activity takes place in Mexico City. According to Mexico City Film Commission data, investment in the film and audiovisual industry in Mexico City totaled MXN11.3 billion (US$563.8 million) in 2021 and MXN 13.1 billion (US$656.2 million) in 2022.[24] This represents domestic and inward film, television, and commercials production.

There is some production activity outside of Mexico City in states such as Jalisco, Durango, Baja California Sur, and Nuevo León – but at a lower volume. Considering feature film production per state, of the record total of 259 national features produced in 2021, 35% were produced in Mexico City, 12% in Jalisco and 7% in Baja California Sur.[25, 26]

Figure 9 – Films and Series Produced in Mexico 2017-21



Source: Mexican Cinema Statistical Yearbooks, 2021, 2020, 2019, 2018 and 2017.
Accessible at: http://anuariocinemx.imcine.gob.mx/Inicio/EdicionesAnteriores

In terms of volume, more feature films are produced in Mexico than series. While series production in Mexico has seen some increase since COVID-19, it should be noted that project volume is still some way off the activity seen in major markets – where series production has driven significant growth in recent years. This underlines the sensitivity of producers of such projects to incentives when it comes to siting drama series internationally.

[24] Mexico City Film Commission Statistical Yearbook, 2021 (page 140) and 2022 (page 145)
[25] *Anuario de Cine*. Imcine, Jan 2023. Accessible at: http://anuariocinemx.imcine.gob.mx/Assets/anuarios/2021.pdf
[26] Plans were announced in January for a Guadalajara Content City, as well as the introduction of state incentives in Jalisco. *Guadalajara Content City Planned by Micelio Media Group as Jalisco Announces New Incentives*. Ibid

4.1.1. Potential for Further Production Sector Growth

As outlined in the previous section, Mexico's natural attributes and audiovisual production capabilities mean that it would be primed for immediate growth in response to an audiovisual incentive. The country is already able to handle large volumes of production – although it is struggling to compete for the highest budget productions – has low costs and Mexican crew are well regarded. An incentive would rapidly improve Mexico's market position.

With over 62 million Spanish speakers in the United States, and nearly 500 million Spanish speakers globally, content investors are closely focused on production in Spanish. Given Mexico's pre-existing attributes, outlined in the previous section, there is significant growth potential. Streamers and other investors identified the opportunity in Spanish-language production and have been heavily investing in Spain and Spanish-language content for the last few years.[27]

La Casa de Papel, a Spanish Netflix television series which managed to reach the top 10 in over 85 countries (including France, India, and Russia), also proved that national content borders have opened, and audiences are more receptive than ever to viewing content in other languages. Therefore, the Spanish-language content opportunity is not limited to Spanish-speaking audiences.[28]

Streamers and studios have been producing and acquiring content in Mexico for the last few years and plan to continue their investment in the country. Netflix opened its Latin American headquarters in Mexico City in 2019 and spent US$200 million in 2020 in producing content which helped the industry recover after it halted for months due to COVID-19.[29] Netflix has also reportedly pledged to invest US$300 million in the coming years and has already acquired national feature film content such as Elisa Miller's romantic comedy *Don't Blame Karma!* and Natalia Beristain's *¡Qué Viva México!*.[30] The streamer has also largely invested in television, producing shows such as *Oscuro Deseo* which has gone to become a worldwide success, with season two reaching the Netflix top 10 in over 65 countries.[31]

Amazon, meanwhile, has also reportedly pledged US$300 million in investment for production for 2022-24 which translates into around 50 local productions.[32] Other platforms are also ramping up production in the country, some examples being Particular Crowd (the original film banner of Warner Bros Discovery Latin American) and TelevisaUnivision's new ViX+ premium.

4.1.2. Outlook for Production in Mexico

While the audiovisual production sector in Mexico has been busy, there is potential for production levels to decline in the coming years. This is due to several factors, including a softening in global production growth, which increased sharply since the height of the pandemic. Macro trends such as rising inflation and production costs are increasing focus on incentives, with significant improvements introduced at the start of 2023 in Spain (see Section 5.3.9) and newer incentives in other Latin American markets. Most recently, these have included a new draft law for a 37% transferable tax credit for audiovisual productions in Ecuador

[27] *How Investment from US Streamers has transformed the Spanish Production Landscape.* ScreenDaily, July 2021. Accessible at: https://www.screendaily.com/features/how-investment-from-us-streamers-has-transformed-the-spanish-production-landscape/5161343.article

[28] *Netflix Top 10*. Netflix, January 2023. Accessible at: https://top10.netflix.com

[29] *Spanish Streaming Wars escalate as Hollywood moves past lip service*. June 2021. Accessible at: https://www.latimes.com/entertainment-arts/business/story/2021-06-13/spanish-streaming-wars-escalate-netflix-hbo-max-disney-plus-pantaya

[30] *How streamer investment and a revamped public funding mechanism are driving Mexico's production scene.* ScreenDaily, September 2022. Accessible at: https://www.screendaily.com/features/how-streamer-investment-and-a-revamped-public-funding-mechanism-are-driving-mexicos-production-scene/5174507.article

[31] *Netflix Top 10.* Netflix, January 2023. Accessible at: https://top10.netflix.com

[32] *How streamer investment and a revamped public funding mechanism are driving Mexico's production scene.* Ibid

and a notable increase in regional incentives in Latin America, including in Argentina and Brazil. (See Section 3.2.3).

Without an incentive, Mexico is likely to see a softening in production demand from current levels in the coming years. This is due to overlapping and inter-related factors. In addition to a post-pandemic correction, strong inflationary pressures on audiovisual production are increasing focus on markets with incentives such as Colombia, the Dominican Republic, Argentina, and Spain. Despite Mexico's unique attributes as a production destination, for some types of productions – particularly those with larger budgets – incentives offered by Mexico's competitors are simply more attractive. The lack of an incentive therefore places Mexico at a significant disadvantage in terms of its ability to compete for international-scale projects. Indeed, consultees suggest that some productions set in Mexico have instead been filmed in other markets with an incentive.

Another disadvantage for Mexico in terms of attracting international production is its significant 'grey' economy. With not all areas of the economy fully formalized, this can create uncertainty for inward productions budgeting for and undertaking production in the country. The introduction of an incentive would demand financial accountability – including full invoicing and auditing – and would therefore assist in driving formalization in the sector. This is explored further in Section 8.3.

One key challenge when considering the outlook for production is data. Mexico does not track official production statistics at the federal level, which creates a challenge for establishing a baseline to underpin policy and strategy for the sector. Establishing such a data approach should be closely linked to an incentive, and some high level recommendations are set out in Section 8.3.1.

4.2. Evolution of National Incentives in Mexico

As an audiovisual production market, Mexico has offered various support measures over the years – and indeed the Mexican Government announced plans for a new incentive in 2022 which are assumed not to have progressed.

In 1997, the Mexican Government set up FOPROCINE. This was an audiovisual production support fund with one annual call that supported the production or post-production of projects of more than 60 minutes. FOPROCINE could fund up to 80% of the cost of a film and the projects to be funded were selected by a committee – i.e. it was a selective fund rather than an incentive triggered automatically by eligible expenditure. It mainly supported first-time filmmakers and arthouse films, with funding amounts ranging from MXN125,000 (about US$6,500) to MXN10 million (about US$520,000).

In 2001, FIDECINE was created, with its first call happening in 2002. This fund was created to support the production, post-production, distribution and exhibition of commercial fiction and animation features from Mexico. This fund covered up to 49% of the total production budget and focused on commercial material that could perform well at the box office. The amounts offered ranged from MXN740,000 (about US$39,000) to MXN10 million (about US$520,000).

In 2019, both of these incentives were eliminated, despite protests from the Mexican audiovisual industry. FOPROCINE supported a total of 185 projects during its operation, and FIDECINE a total of 129 projects.

In 2021, IMCINE launched the Focine funding program for production, exhibition, and archive preservation. The latest Focine call added a new form of support for experimental film projects.[33]

Meanwhile, EFICINE 189 has operated since 2007 and is a fiscal incentive for investment in production and distribution of national cinematographic projects, with 189 referencing article 189 of the Income Tax Law, which is where the incentive is outlined. This fund allows a reduction in income tax for individuals investing in audiovisual production and distribution. For production, the amount per contributor per project needs to be under MXN 20 million (about US$1 million) and under 10% of the contributor's income tax. The total maximum annual amount of production support is set at MXN 650 million (about US$33.6 million) and projects supported are chosen by committee rather than automatically being triggered by production spend – a model used by leading incentive systems. For producers, such an automatic model is preferred as it offers certainty. EFICINE 189 is only open to national productions, which are described as productions where more than 70% of production costs are undertaken in Mexico and more than 70% of the cast and crew have Mexican nationality. Treaty co-productions are also classified as national productions.[34] EFICINE 189 supports an average of 60 films a year.

Finally, Mexico does offer a return of 15% VAT to international projects. However, this is standard practice globally and should not be considered an incentive – not least because VAT does not appear to always be returned to producers in a consistent way.

[33] *En 2023 continúa el apoyo al cine mexicano: Imcine abre las 12 convocatorias del programa Focine.* Gobierno de Mexico, 2nd January 2023. Accessible at: https://www.gob.mx/cultura/prensa/en-2023-continua-el-apoyo-al-cine-mexicano-imcine-abre-las-12-convocatorias-del-programa-focine
[34] *Reglas generales EFICINE.* EFICINE, 24th December 2020. Accessible at: https://www.imcine.gob.mx/media/2022/3/reglasgeneraleseficine2021.pdf

5. COMPARISON MARKETS AND IMPACT OF INCENTIVES

This section considers the **impact** of audiovisual production incentives in a **range of comparable markets**.

These include both Spanish-language and non-Spanish language markets, and examines **data on production after the introduction of an incentive.**

Incentives are **critical tools to stimulate production growth**.

Many markets show **significant audiovisual production growth in the years after an incentive is introduced** – particularly where there are no significant budgetary caps.

5.1. Introduction

To create projections for Mexico, detailed research has been undertaken into a range of audiovisual production markets at varying levels of maturity with incentives. This includes Spanish-speaking markets such as Argentina, Brazil, the Dominican Republic, and Spain. Several of these markets introduced incentives a number of years ago, and the progress of audiovisual production in response to these policy measures can be tracked over time.

In addition, the impact of incentives in some non-Spanish speaking markets have been assessed. This includes markets with the type of incentive able to attract large budget international film and television of the type Mexico could also compete for if an incentive was introduced. This includes markets several US States – including California and Georgia – and national markets such as Australia and the UK.

Mexico, of course, is not identical to any of these markets. The development of its audiovisual sector over many years is unique, as are its political priorities and the formulation of its audiovisual policy landscape. The cost of production before incentives also varies significantly between different markets. Nevertheless, comparable analysis underlines the cornerstone role that incentives play in building the development of audiovisual industries in many other countries around the world.

Jurisdictions have varying approaches to tracking production activity, from production expenditure and types of production tracked, through to the number of domestic and international productions taking place. This section attempts to map the introduction and changes of incentive systems against production expenditure to demonstrate the relationship trend between the two, however with each area having alternative sources and types of data available, this information is not directly comparable across jurisdictions or to Mexico. Rather, the demonstration of this data contributes to a larger picture of the subsequent impact incentives have had and continue to have on varied production industries, globally.

5.2. Mexico's Market Position in the Global Landscape

To illustrate Mexico's market position, analysis has been undertaken in a number of markets to examine how expenditure in the Mexican film and television sector compares relative to the size of jurisdiction and its incentive offer.

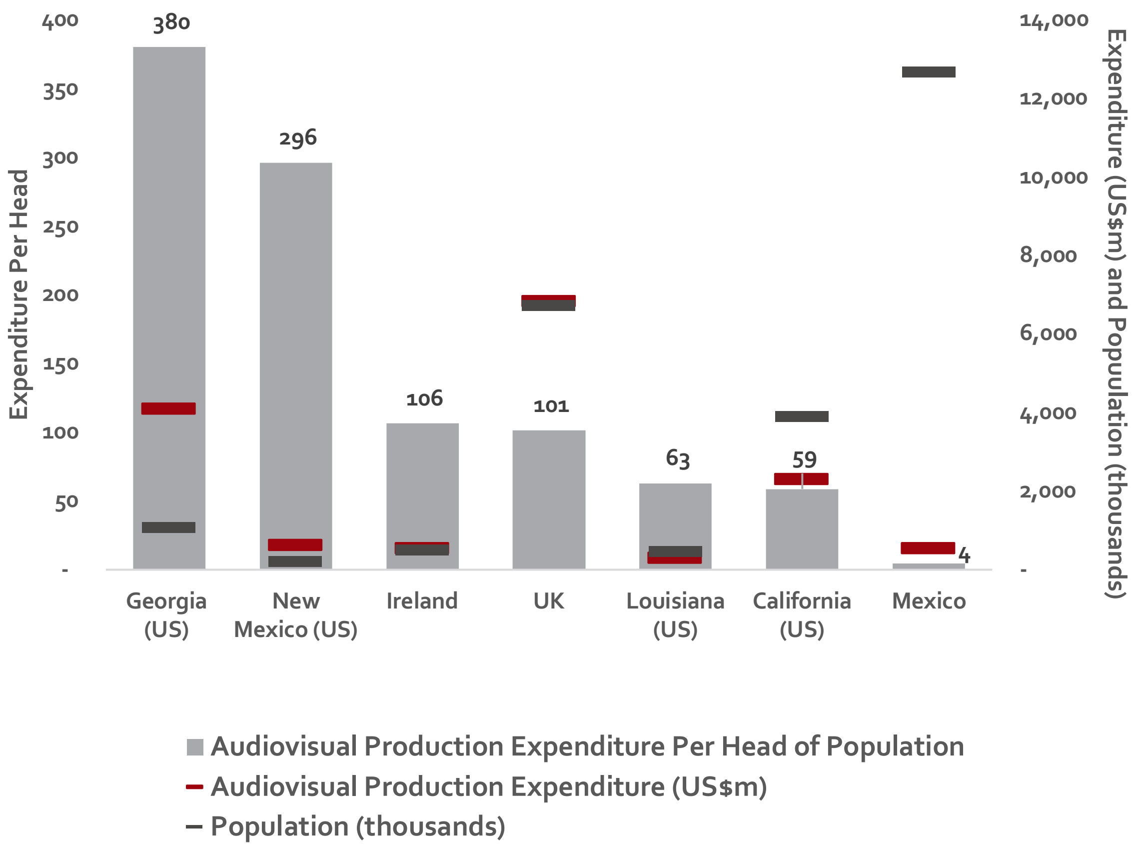
With no national incentive, Mexico is not currently considered a top tier market. The country may have seen some growth in film and series in recent years, and is currently considered to be busy by historical standards, but it is significantly underperforming in terms of the comparative growth seen in the sector globally, and in a range of individual markets. It is also underperforming when measured by the ratio of audiovisual production expenditure and the population of comparison markets.

For example, Mexico's estimated 2021 spend baseline for film and television production of US$546 million is over seven times lower than spend in the US state of Georgia in the 2021/22 fiscal year – despite Mexico's population being nearly 12 times the population of Georgia's. The UK, for example, saw over 12 times more spend than Mexico in 2021, despite having around half the population of Mexico.

Mexico sits towards the bottom of the following analysis of the ratio between spend and population ratio. Mexico has the largest population of all compared jurisdictions at 129 million – more than double the UK.

It is important to note that this analysis is indicative. Expenditure data is collected and published differently in different jurisdictions and therefore some data might not correspond to the same exact time period or only contain part of the total expenditure of the country. An example of this is California, which only provides expenditure data for projects covered by the incentive. Not all productions in California receive state incentives, meaning the actual production expenditure in California is likely to be significantly higher.

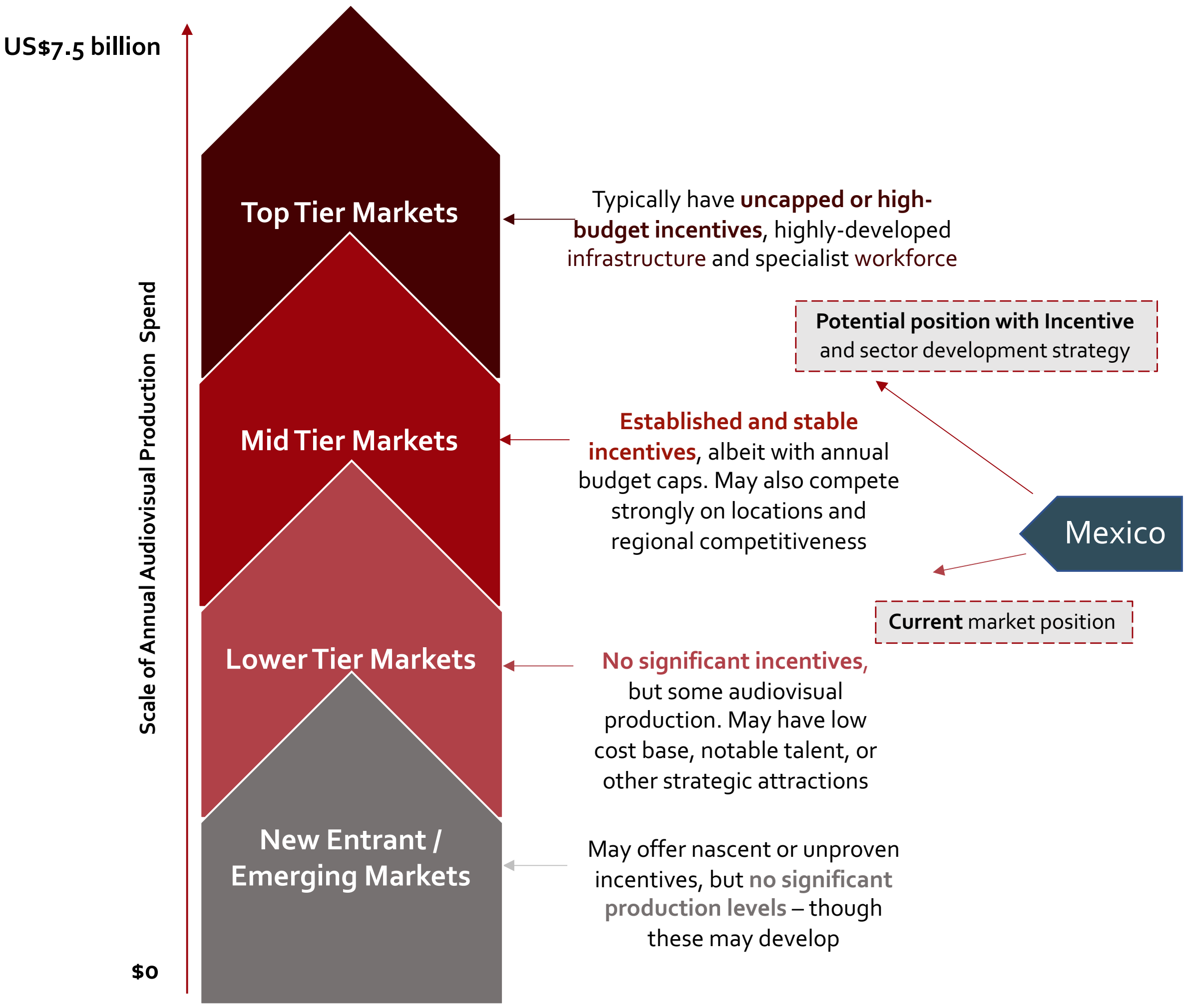
Figure 10 – Indicative Analysis of Selected Comparison Markets by Ratio of Production Expenditure to Population



Note: This analysis is indicative only. Data is for calendar year 2021 or fiscal year 2021/22, unless otherwise stated. Expenditure data is collected, allocated and published differently in different jurisdictions and therefore some data might not correspond to the same exact time period or only contain part of the total expenditure of the country. Population data source: For countries, World Bank. Accessible at: https://data.worldbank.org/indicator/SP.POP.TOTL For US State Census Department Accessible at: https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html

Should the Mexican market move to the Full Adoption level, expenditure would quickly increase. The forecasts in this Study are conservative, and Mexico has the potential to quickly surpass these estimates. As outlined in the following figure Mexico could quickly develop into a high mid-tier market with an incentive and a linked sectoral development strategy.

Figure 11 – Summary of Mexico's Current and Potential Market Position



5.3. Analysis by Jurisdiction

5.3.1. Australia

The Australian federal incentive system for audiovisual production covers production to post-production and includes the following components: the Producer Offset, the Location Offset and PDV (Post, Digital and Visual Effects) Offset as well as the Location Incentive. The various incentive streams have gone through iterations over the years but are predominantly focused on encouraging both inward and domestic production support for medium to high-budget projects.[35]

[35] Screen Tax Incentives webpage. Ausfilm website. Accessible at: https://www.ausfilm.com.au/incentives/

Table 2 – Overview of Australia's Incentives

	Producer Offset	Post, Digital & Visual Effects (PDV) Offset	Location Offset
Type	Tax Credit	Tax Credit	Tax Credit
Value	40% for features released theatrically; 30% for other productions	30%	16.5%
Additional Value	-	-	13.5% through Location Incentive Program, a merit-assessed grant with separate terms and conditions
Per Project Cap	-	-	-
Annual Budget / Cap	-	-	-
Eligible Formats	40%: theatrically released features including documentary, animation and Imax 30%: single dramas and documentary including features released on DVD or online, TV drama, documentary series, short-form animation	Film TV Drama Other TV Documentary Other	Film TV Drama Other TV Documentary Other

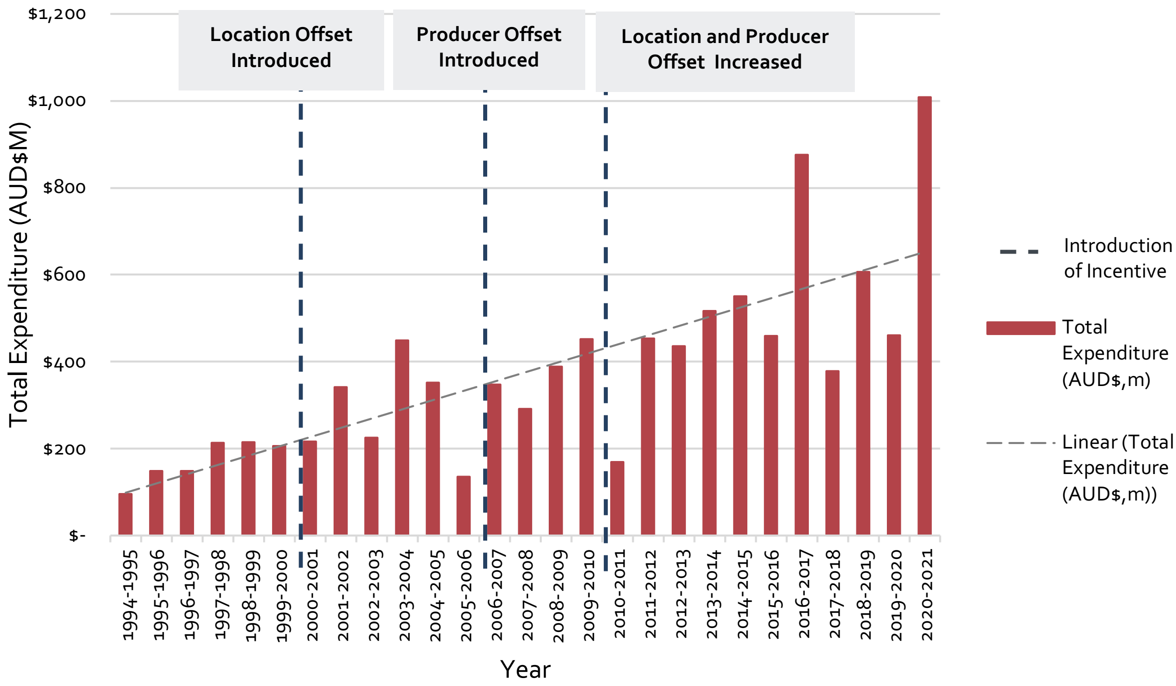
The Producer Offset was introduced in 2007 and most recently adapted in 2022, offering a 40% tax rebate for Australian theatrical feature films and a 30% tax rebate for non-theatrical Australian productions. These non-theatrical Australian productions include documentaries, television series, telemovies, and short-form animation. This incentive seeks to support and further specifically Australian content and develop Australian content makers.

The Location Offset was originally introduced as the Refundable Film Tax Offset (RFTO) in 2001 for feature films, mini-series, and telemovies but was adjusted to include television series in 2005. The RFTO was then renamed to the Location Offset in 2007 and the rate was increased to 15%, further increasing by an additional 1.5% in 2011. The intention of this offset is to encourage the use of Australian locations, crew, cast, and service providers. To complement that and remain a competitive location in the global production market the Location Incentive – a merit-assessed grant of up to 13.5% – was added to attract large budget footloose international film and television projects. The federal government committed an additional AUD$400 million to increase available funds under the Incentive over the next three years, extending the program to 2026/27, complementing the AUD$140 million launched in 2018.

The PDV Offset was introduced in 2007 to further develop and support the post-production and digital sector of the audiovisual production industry. The 30% offset is applicable to post and digital activity spend in Australia including, but not limited to, visual effects, audio and visual editing and mixing, orchestration, and green-screen photography. The PDV Offset can also be combined with up to 15% from state and territory government PDV incentives in Australia.

The Producer Offset is administered by Screen Australia, while the Location Offset, Location Incentive and PDV Offset are administered by the Office of the Arts within the Department of Infrastructure, Transport, Regional Development, Communication and the Arts.[36] The following figure shows the maps the introduction of the offsets against the production expenditure to show the relationship between the two over time.

***Figure 12 – Total Production Expenditure in Australia between 1994-95 and 2020-21 with Incentive Introductions and Adjustments** (AUD$m)*[37]



Source: Screen Australia production activity data

This robust incentive system has made Australia an incredibly competitive location, attracting significant inward investment as well as encouraging the sustained increase of the domestic industry's output. In 2016/17, there was a notable AUD$876 million in production expenditure. Domestic films included *Peter Rabbit*, *Mary Magdalene* (an Australia-UK co-production), *Hotel Mumbai*, *The Longest Shot* (an Australia-China co-production) and *Maya the Bee: The Honey Games* (an Australia-Germany co-production). Six foreign projects started shooting that year, including *Thor: Ragnarok*, *Aquaman* and *Pacific Rim: Uprising*, and *Bleeding Steel* (China), *Parindey* (India), and *Bad Genius* (Thailand).

In 2018-19 there was the second-highest production expenditure on record, with an expenditure of AUD$607 million. Notably, domestic titles accounted for just over half of that

[36] Australian Screen Production Incentive. Office for the Arts, December 2022 (Website). Accessible at: https://www.arts.gov.au/what-we-do/screen/australian-screen-production-incentive
[37] *Production Activity Data*. Screen Australia, 2022. Accessible at: https://www.screenaustralia.gov.au/fact-finders/production-trends/theatrical-feature-production/all-theatrical-feature-films/spend-in-australia.

recorded expenditure, and included *Peter Rabbit 2*, *True History of the Kelly Gang*, *Dirt Music* (an Australia and UK co-production) and *I Am Woman*. Foreign features that started shooting that year included *Dora and the Lost City of Gold*, *Godzilla vs Kong* and *Monster Problems.*

Following a dip in activity and spend as a result of the first stages of the COVID-19 pandemic, 2020/21 saw a new expenditure record with over AUD$1 billion spent on Australian and foreign feature films. High-budget domestic films included Baz Luhrmann's *Elvis* and *Three Thousand Years of Longing*. Foreign titles shooting in Australia included *Blacklight*, *Thor: Love and Thunder* and *Thirteen Lives.*[38]

5.3.2. California

The first film tax credit program in California was created in 2009, with the intention to increase production and jobs in the state. In 2014, the California Film and TV Tax Credit 2.0 was passed, extending the program for five more years. Tax Credit 2.0 ran from 2015 until 2020 and contributed more than US$21.9 billion in economic output, supporting more than 110,000 total jobs in California.[39] In 2020, the incentive was extended until 2025, with the current incentive known as Tax Credit 3.0.

[38] *Production Trends.* Screen Australia, 2022. Accessible at: https://www.screenaustralia.gov.au/fact-finders/production-trends/theatrical-feature-production/all-theatrical-feature-films/spend-in-australia

[39] *California film and Television Tax Credit Program 2.0: An economic impact study.* Los Angeles County Economic Development Corporation, 2022. Accessible at: https://laedc.org/wp-content/uploads/2022/03/LAEDC-Report_CA-Film-TV-Tax-Credit-Program-2.0_FINAL_2022.03.14.pdf

Table 3 – Overview of California's Incentives

	Film & Television Tax Credit Program 3.0	Soundstage Filming Tax Credit Program
Type	Tax Credit	Tax Credit
Value	25% non-transferable tax credit for relocating TV series 20% non-transferable tax credit for feature films (not independent) and TV projects. 25% transferable tax credit for independent films.	25% non-transferable tax credit for relocating TV series. 20% non-transferable tax credit for feature films (not independent) and TV projects. 25% transferable tax credit for independent films.
Additional Value	Projects eligible for 20% may get additional: - 5% uplift for 'out-of-zone' filming and visual effects - 10% uplift for hiring local 'out-of-zone' labor Projects eligible for 25% may get additional: - 5% uplift for hiring local 'out-of-zone' labor	Projects eligible for 20% may get additional: - 5% uplift for 'out-of-zone' filming and visual effects - 10% uplift for hiring local 'out-of-zone' labor Projects eligible for 25% may get additional: - 5% uplift for hiring local 'out-of-zone' labor All projects eligible for 4% uplift for meeting or making a good effort to meet their diversity goals [All subject to overall project cap sum]
Per Project Cap	Feature films (non-independent) and TV projects, including relocating TV: first US$100m of qualified expenditures (plus any uplifts). Independent films: first US$10m of qualified expenditures (plus any uplifts).	Maximum tax credit allocation per project is US$12 million inclusive of uplifts
Annual Budget / Cap	US$300 million	US$150 million in total
Eligible Formats	Film TV Projects	Film TV Projects

The Film & Television Tax Credit is administered by the California Film Commission and has a budget of US$330 million each fiscal year, which is divided into television projects, relocating television projects, indie features and non-indie features. The enacting statute sets out specific percentages of funding for each production category, with 40% to recurring and new television, pilots and mini-series, 35% to feature films, 17% to relocating television and 8% to indie productions (3.8% to indies above US$10 million and 4.2% to indies below US$10 million).[40] The total expenditure in state between 2020-21 and 2022-23 by the 106 projects that have used Program 3.0 over this period is US$6 billion.

As noted by the California Film Commission: "With increasing costs of production, many companies rely heavily on tax incentives to maximize the return on investment, thus, the availability of incentives is one of the primary factors when it comes to determining where projects are filmed. Various jurisdictions globally and within the United States offer financial incentives to lure jobs and spending away from California."[41]

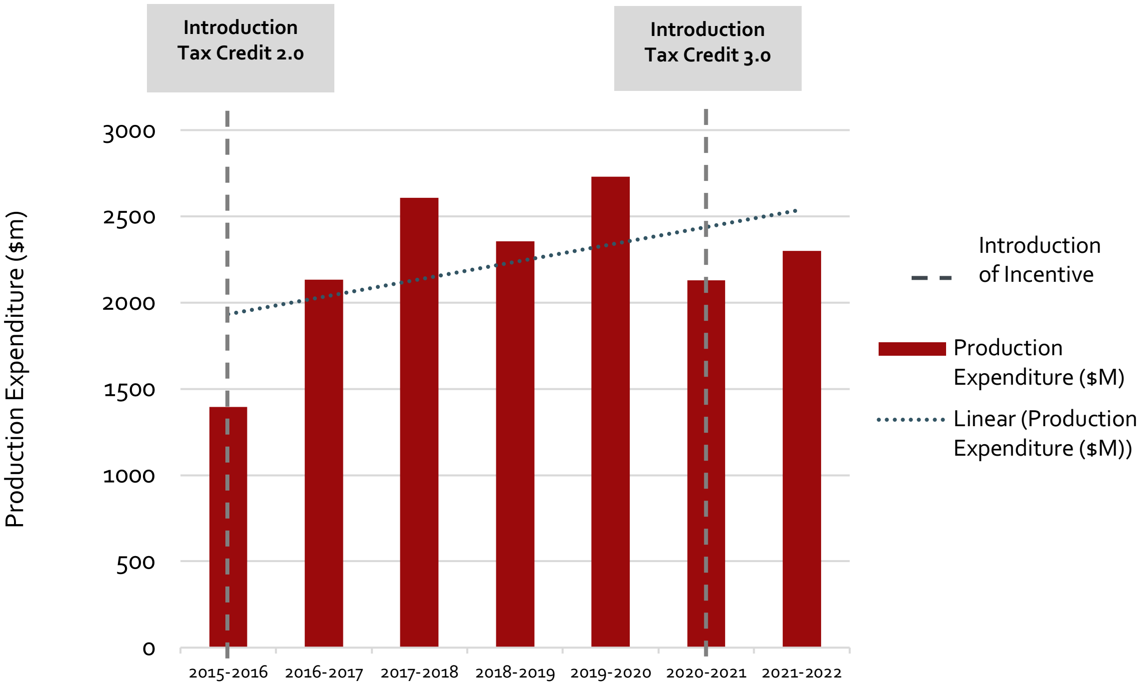
Even with a budget of US$330 million each fiscal year, not all projects that apply for tax credits in California receive them, because of lack of budget. According to California Film Commission research into projects that applied for tax credits between 2020 and 2022 but were ultimately denied due to lack of available funds the state lost 77% of production spending by projects that applied for but did not receive a California tax credit. In total, 16 out of 28 projects that did not receive a tax credit left California to be produced out-of-state – accounting for US$951 million in production spending outside California.[42]

The program has not only had significant impact in increasing expenditure (which grew by US$153 million in 2021) but also in increasing production outside the City of Los Angeles.[43] The total expenditure outside of Los Angeles throughout Program 3.0 has been around US$5 million including location and permit fees, hotel fees, local purchases and rentals and wages.[27]

In 2021, an adjacent program was passed – the California Soundstage Filming Tax Credit Program – which aims to encourage the construction and renovation of sound stages in California. This program has a budget of US$150 million available on a first-come, first-served basis between 2022 and 2032.

[40] *California Film Commission Progress Report*, November 2022. Accessible at: https://cdn.film.ca.gov/wp-content/uploads/2022/11/Progress-Report-2022.pdf
[41] Ibid
[42] Ibid
[43] *California Film Tax Credit Program Grows to $2.3 Billion in Direct Spending*. Variety, November 2022. Accessible at: https://variety.com/2022/film/news/california-film-tax-credit-increases-direct-spending-1235439847/

Figure 13 – Levels of Total Production Expenditure for Projects that used the California Tax Credit between 2015-16 and 2021-22 with Incentive Introduction and Adjustments (US$ m)



Source: California Film Commission Annual Reports

5.3.3. Colombia

In 2020, it was noted that 39 international films had shot on location since the introduction of the Colombian Film Fund (FFC) rebate incentive in 2012.[44] This is a significant increase in activity from the 14 productions that shot in the country in the 50 years prior to the incentive launch.[45] Domestic producers can also access the FFC, which has also led to an increase in Colombian audiovisual output, with 17 local theatrical releases in 2013 increasing to 48 local theatrical releases in 2019 as well as numerous projects going on to participate in and/or win at international film festivals.

In 2020, the government expanded the incentive to include television series and music videos, and introduced a further incentive for foreign productions – the Audiovisual Investment in Colombia Certificates (CINA) transferable tax credit, as outlined in the table below.[46]

[44] The FFC has also impacted domestic producers, with 17 local theatrical releases in 2013 increasing to 48 local theatrical releases in 2019 as well as numerous projects going on to participate in and/or win at international film festivals

[45] *Colombia Expands Foreign Shoot Incentives to Drama Series, Music Videos, Bows Tax Credit.* Variety, June 2020. Accessible at: https://variety.com/2020/tv/global/new-improved-location-filming-incentives-colombia-1234628944/

[46] Film Incentives. Screen Colombia website. Accessible at: https://www.screencolombia.com/filming-incentives#:~:text=FFC%20(Colombian%20Film%20Fund)%20is,giving%20a%20net%20average%20of

Table 4 – Overview of Colombia's Incentives

	Colombian Film Fund (FFC)	Audiovisual Investment in Colombia Certificates (CINA)
Type	Cash Rebate	Transferable Tax Credit
Value	40% for film services 20% for logistics services of the amount spent in the country	35% for audiovisual and logistics services of the amount spent in the country
Additional Value	-	-
Per Project Cap	-	-
Annual Budget / Cap	US$4-6 million (last reported; budget is assigned every year)	US$68 million (last reported; budget is assigned every fiscal year)
Eligible Formats	Film TV Drama Series	Film Series Music Videos Video Games Advertising Animation

With the FFC, international producers can access a 40% cash rebate on pre-production, production and post-production qualifying spend, for local labor and vendor services, as well as a 20% cash rebate for production services such as accommodation. The CINA is a transferable tax credit which can be sold on the Colombian Stock Exchange. Advantageously, the structure of the CINA incentive means a direct allocation of funding is not required, as it is funded through forfeited tax revenue rather than budgetary allocation.

Since its introduction in 2013, by 2020 58 international productions had been approved for the CINA, resulting in a rounded total of US$300 million in investment, and generating around 20,000 jobs.[47] Prior to the incentive, the country's production infrastructure was limited but has since benefited from the influx of inward investment and industry demand resulting in Colombia becoming one of the biggest production hubs in Latin America.

[47] *Colombia Expands Foreign Shoot Incentives to Drama Series, Music Videos, Bows Tax Credit.* Variety, 2020. Accessible at: https://variety.com/2020/tv/global/new-improved-location-filming-incentives-colombia-1234628944/

5.3.4. Dominican Republic

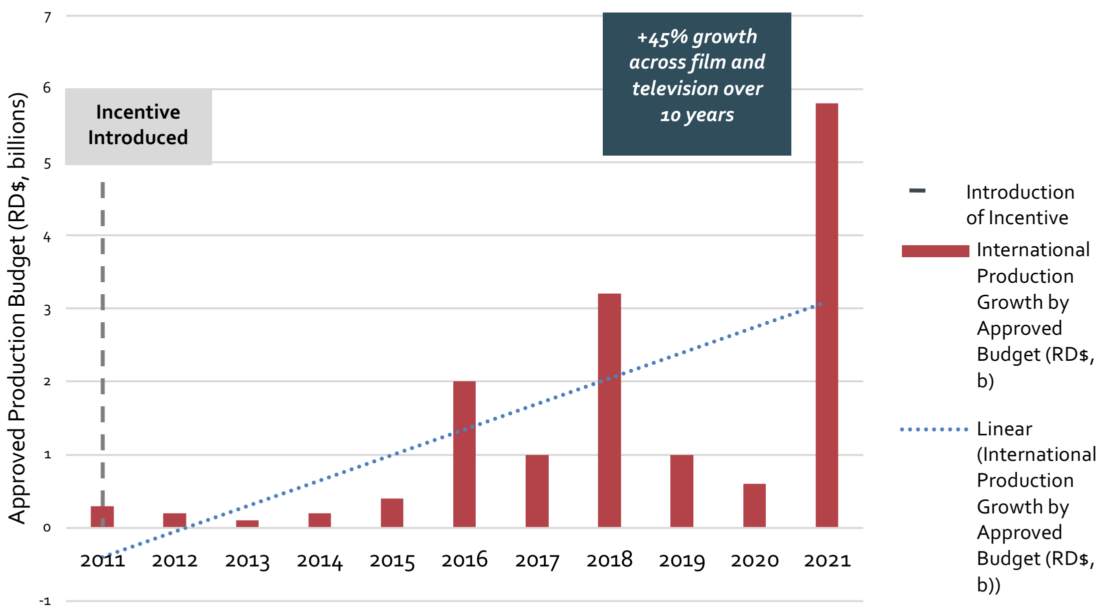
The Dominican Republic's incentive program for international productions is a transferable tax credit. This is worth 25%, and can be transferred to one or several Dominican taxpayers.

Table 5 – Overview of the Dominican's Republic Incentive

	Transferable Tax Credit (Article 39)
Type	Tax Credit
Value	25% for all expenses incurred in the country during all stages of production, including equipment, services, resident and non-resident labor, above and below-the-line costs
Additional Value	-
Per Project Cap	-
Annual Budget / Cap	No annual cap
Eligible Formats	Feature Films Documentaries TV Drama Other TV Other

The incentive, combined with the film law, a large studio/water tank and a consistent international marketing strategy have stimulated significant growth of the industry over 12 years.

Figure 14 – Growth of International Production in the Dominican Republic, 2011-21



Note: 'Other' includes documentaries, reality TV, photoshoots, corporate videos, etc.; includes international production, not domestic

An advantage of the model used in the Dominican Republic is that the transferable tax credit has proven to be generally consistent and reliable, attracting increasingly high-profile and big-budget productions. In addition, a wide range of eligible expenses – both above-the-line and below-the-line – qualify, except distribution and marketing costs, finance costs and bank charges, and completion bond and foreign insurance policies.

Significantly, payments to foreign cast and crew, if made via a company based in the Dominican Republic, are subject to only 1.5% withholding tax.[48]

5.3.5. Georgia, US

The state of Georgia has one of the most competitive production tax incentives in the US and has subsequently become a key location for film and television projects and one of the country's busiest production hubs. The incentive is a 20% base transferable tax credit, with an additional 10% uplift available to projects that adhere to the requirements of the Georgia Entertainment Promotion (GEP) uplift. The Georgia Department of Economic Development (GDEcD) approves projects that qualify for the Film Tax Incentive and the process of fund distribution and spend is overseen by the Georgia Department of Revenue (GDOR).[49]

Table 6 – Overview of Georgia's Incentive

	Entertainment Industry Tax Credit
Type	Tax Credit
Value	20% basic incentive
Additional Value	10% for including Georgia promotional logo in final production
Per Project Cap	-
Annual Budget / Cap	-
Eligible Formats	Film TV Drama Other TV Other

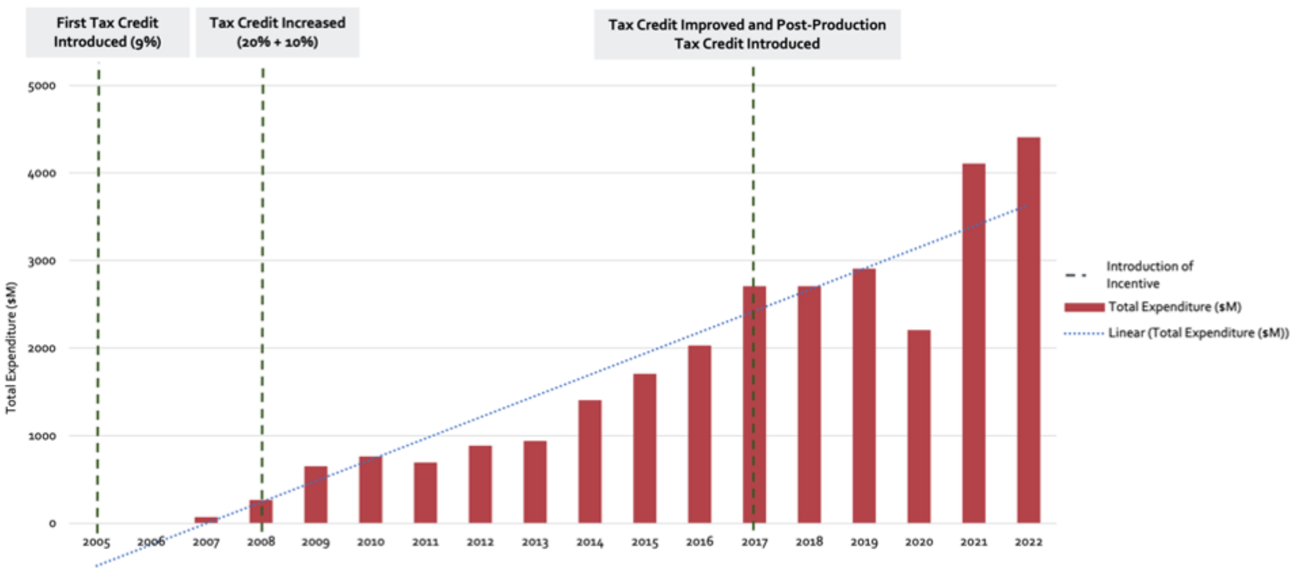
Since the incentive's adjustment and increase to its current rate in 2008, production activity in Georgia has boomed, resulting in an influx of large budget productions and the rapid development of production infrastructure, including studios and post-production facilities. This growth has continued, with the industry reaching record production spend of US$2.9 billion in 2019 and US$4 billion in 2021. The state saw US$4.4 billion in spending from

[48] The domestic market has also been impacted since the enactment of Law No. 108-10, between 2010 to 2019, over 239 Dominican films have been produced (and 169 released), compared to 101 films that were shot between 1922 and 2010. (Article 34 is for local filmmakers, and Article 39 is for international producers).
[49] Georgia Film Commission website, incentives and applications page. Accessed at: https://www.georgia.org/industries/film-entertainment/georgia-film-tv-production/production-incentives

audiovisual productions in the fiscal year of 2021/22. Georgia currently has no annual cap on the tax credit.[50]

In 2022, 412 productions were shot in Georgia, including 32 feature films, 36 independent films, 269 episodic productions, 42 commercials, and 33 music videos.[51] The most recent seasons of *Stranger Things*, *Ozark* and *Atlanta* were all shot in the state in 2022.

Figure 15 – Total Production Expenditure in Georgia between 2005 and 2022 with Incentive Introduction and Adjustments (US$ m)[52]



Source: Georgia Department of Audits and Accounts Performance Audit Division
Impact of the Georgia Film Tax Credit

5.3.6. Jordan

The Jordanian incentive system has been a key point of attraction for major international productions, alongside Jordan's iconic locations. After increasing the incentive offering from 20% to 25% in 2019, the country saw an increase in large scale international productions, including Legendary Entertainment's *Dune*, which was one of the first Hollywood productions to take advantage of the revised incentive rate.[53]

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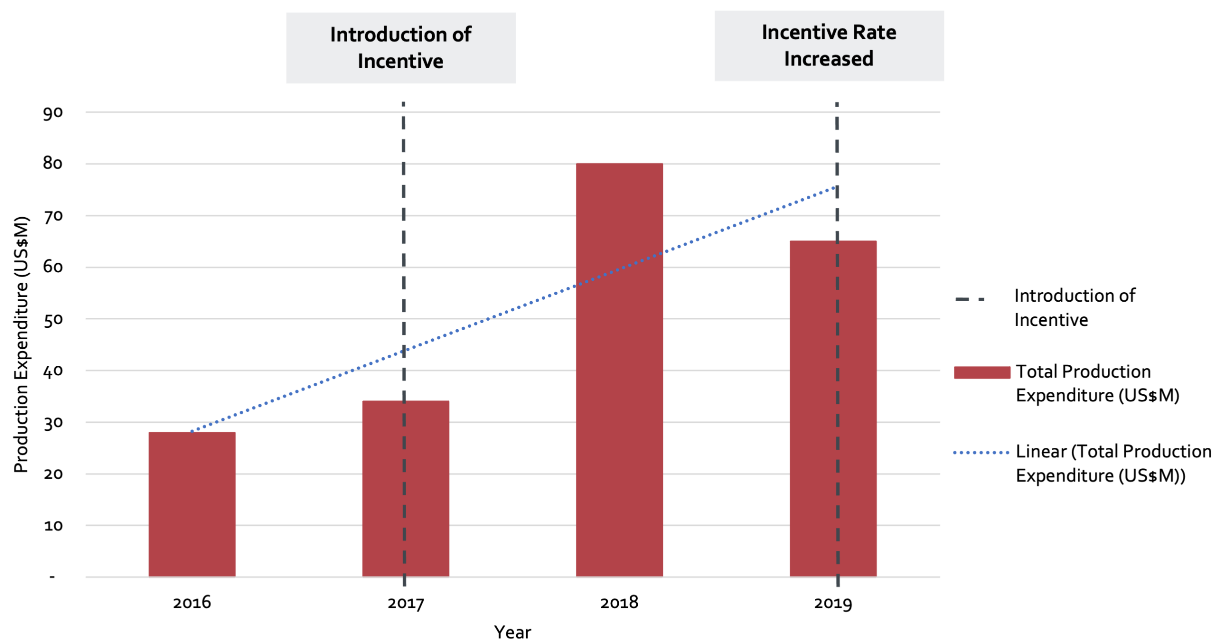
[50] *Georgia Film and TV Productions Spent $4.4 Billion In The 2022 Tax Season Helping Jump Start New Opportunities*. Forbes, 2nd November 2022. Accessible at: https://www.forbes.com/sites/joshwilson/2022/11/02/georgia-film-and-tv-productions-spent-44-billion-in-the-2022-tax-season-helping-jump-start-new-opportunities/?sh=64919f671f76
[51] *Film and TV Spending in Georgia Hits $4.4B*. Hollywood Reporter, 1st August 2022. Accessible at: https://www.hollywoodreporter.com/business/business-news/film-and-tv-spending-in-georgia-hits-4-4b-1235190293/
[52] *Impact of the Georgia Film Tax Credit.* Georgia Department of Audits and Accounts Performance Audit Division, January 2020. Accessible at: https://www.audits.ga.gov/ReportSearch/download/23536
[53] *Jordan Increases Tax Incentive to 25%*. Variety, 6th October 2019. Accessible at: https://variety.com/2019/film/asia/busan-jordan-increases-tax-location-incentive-1203360604/

Table 7 – Overview of Jordan's Incentive

	The Jordan Film Incentive
Type	Rebate
Value	10% if total qualifying expenditure is between US$1m - US$3m 15% if total qualifying expenditure is between US$3m - US$5m 20% if total qualifying expenditure is between US$5m - US$7m 25% if total qualifying expenditure is more than US$7m
Additional Value	-
Per Project Cap	$2 million
Annual Budget / Cap	-
Eligible Formats	Film TV Drama Other TV Other

To be eligible for the incentive, productions must spend at least US$1 million in Jordan, while the maximum rebate available to a foreign production is US$2 million.

Figure 16 – Levels of Total Production Expenditure for Jordan between 2016 and 2019 with Incentive Introduction and Adjustments (US$ m) [54]



Source: Broadcast Pro, 2021

The incentive system works to encourage and attract inward investment while also supporting the development and sustainable growth of the local industry, with the government seeing the

[54] *Filming in Jordan thrives despite coronavirus pandemic*. Broadcast Pro, 31st May 2021. Accessible at: https://www.broadcastprome.com/news/production/filming-in-jordan-thrives-despite-coronavirus-pandemic/

economic benefits of international film and television productions as an opportunity to facilitate further training and skill development opportunities.

5.3.7. Puerto Rico

In 2011, Puerto Rico approved the Puerto Rico Film Industry Economic Incentives Act, introducing a tax credit production incentive for audiovisual productions.

The impact of the incentive was immediate, with the number of shoots in Puerto Rico increasing from nine to 17 between 2010 and 2011. The overall budgets in 2012 were three times higher than those in 2011.[55] In the 2017-18 fiscal year, production spend reached an all-time high of around US$225 million dollars, more than doubling 2015 figures.[56]

Between 2020 and 2022, 72 films undertook production or post-production in the country, creating a combined investment of US$376 million and generating over 9,600 jobs.[57]

The 2022-23 fiscal year had the full US$38 million in tax credits assigned before the start of 2023 to four productions, demonstrating production demand.[58]

Table 8 – Overview of Puerto Rico's Incentives

	Production Tax Credit
Type	Tax Credit
Value	40% for Puerto Rico companies and individuals 20% for non-residents qualified spending
Additional Value	-
Per Project Cap	-
Annual Budget / Cap	US$38 million per fiscal year cap
Eligible Formats	Film TV Drama Other TV Documentary Commercials Video Games Other

5.3.8. New Mexico

The incentive system in New Mexico has made the state one of the most competitive production locations. New Mexico offers a 25% to 35% refundable tax credit on qualifying spend in the state and the system has a notable annual budget cap of US$110 million. In April

[55] *Puerto Rico Overcomes Economic Woes with Generous Production Incentives*. Variety (Anne Marie de la Fuente), May 2016. Accessible at: https://variety.com/2016/artisans/production/puerto-rico-production-incentives-1201770818/

[56] *Programa de Desarrollo de la Industria Cinematografica* (website), January 2022. Accessible at: https://www.ddec.pr.gov/programa-de-desarrollo-de-la-industria-cinematografica

[57] *The Stage is Set: Puerto Rico Beckons to film & TV Production Industry*. Site Selection Magazine, January 2022. Accessible at: https://www.investpr.org/the-stage-is-set-puerto-rico-beckons-to-film-tv-production-industry/

[58] *Film Industry exhausts full $38M FY22 tax credit budget on 4 projects*. NimB, June 2021. Accessible at: https://newsismybusiness.com/film-industry-fund-exhausts-full-38m-fy22-tax-credit-budget-on-4-projects/

2023, this cap was extended by an additional US$10 million each fiscal year from 2024 to 2028. For subsequent years, the cap is set at US$160 million.

The incentive was first introduced in 2003 but faced issues in the initial years of its implementation due to administrative challenges, which were addressed with the most current revision in 2019 to form the current system, which has shown significant and sustained impact across the state's sector. In the 2022 fiscal year, direct spending into the state's economy by the audiovisual sector reached a record US$855.4 million, which is a 36% increase over the 2021 fiscal year. In the same period, New Mexico hosted 109 total productions, including 55 films and 54 television shows. In addition to that, total worker days reached 668,708, which is an increase of 547,356 from 2021.[59]

Table 9 – Overview of New Mexico's Incentive

	Film Production Tax Credit (New Mexico)
Type	Tax Credit
Value	25% basic tax credit 15% for non-resident industry crew wages when certain criteria are met
Additional Value	5% for television series productions 5% if certain criteria are met regarding the use of qualified production facilities 5% for production expenditures in the state at least 96km outside the exterior boundaries of Bernalillo and Santa Fe
Per Project Cap	-
Annual Budget / Cap	US$110 million (New Mexico Film Partners exempt from cap). This cap is increasing by an additional US$10 million each fiscal year from 2024 to 2028. For subsequent years, the cap is set at US$160 million
Eligible Formats	Film TV Drama Other TV Documentary Other

As of 2022, the state has recorded issuing US$130 million a year on average in film incentives. SPI conducted an evaluation of the incentive in 2019 that highlighted the economic return on investment (RoI) of 8.4 for the credit, meaning that for every US$1 invested through the incentive program, the state's economy benefitted by US$8.40.[60] In addition to that, the study

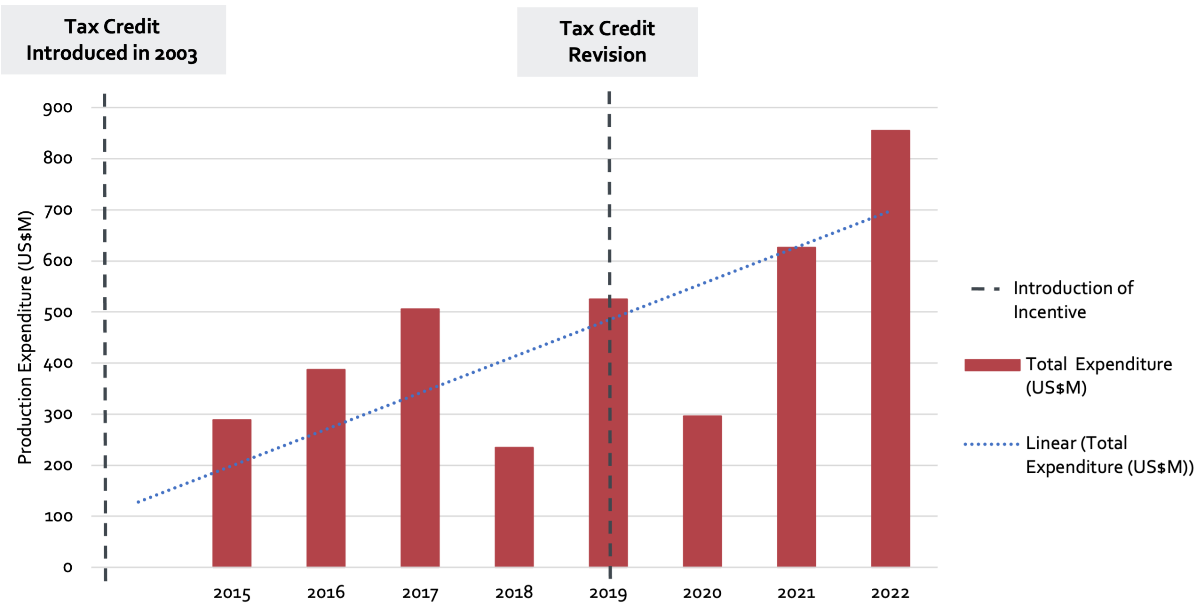
[59] *New Mexico Sees Record $855.4 Million In Direct Production Spending; Officials Tout Incentives Program*. D. Robb, July 2022. Accessible at: https://deadline.com/2022/07/new-mexico-sees-record-855-4-million-in-direct-production-spending-officials-tout-incentives-program-1235064078/

[60] *Economic Impact of the New Mexico Film Production Tax Credit*. SPI, November 2021. Accessible at: https://nmfilm.com/assets/uploads/migrated/2021/11/NMFO_EconomicImpactStudy_NMFilmProductionIncentiveProgram_2021.pdf

identified that 92% of productions in New Mexico noted the incentive as the most important factor considered by decision-makers when choosing a film or television shooting location, outlining that only 8% of total productions would have existed in New Mexico had the film incentive not existed.[61]

The state has seen a range of notable projects, such as *Breaking Bad, Better Call Saul, Stranger Things, Dark Winds, Outer Range* and other audiovisual projects. Since the incentive revision in 2019, with the Film Production Tax Credit, Netflix announced an expansion in the state with a commitment to spend another US$1 billion over the coming 10 years, which doubled the company's original commitment to the state. NBCUniversal also opened a production facility and committed to US$500 million direct production spend over the next 10 years and 330 full-time-equivalent jobs.[62]

***Figure 17 – Levels of Total Production Expenditure for New Mexico between 2015 and 2020 with Incentive Introduction and Adjustments** (US$ m)*



Source: *Economic Impact of the New Mexico Film Production Tax Credit (Study Update 2022)*. Accessible at: https://nmfilm.com/assets/uploads/NM-Film-Study-Update-2022-2.pdf

5.3.9. Spain

In 2022, Spain announced a significant increase of both the cap on its existing tax rebates accessed by international series productions to €10 million (US$10.6 million) per episode as well as that accessed by international film productions to €20 million ($21.2 million).[63] In effect from early 2023, such improvements underline the Spanish Government's stated aim of becoming an audiovisual hub of Europe. The policy aims to attract not only film and series production but other aspects of audiovisual production such as video games and immersive/virtual reality.[64]

[61] *Economic Impact of the New Mexico Film Production Tax Credit*. Ibid
[62] *Hollywood's Spending in New Mexico Hits $855M*. W. Cho, July 2022. Accessible at: https://www.hollywoodreporter.com/business/business-news/hollywoods-spending-in-new-mexico-hits-855m-1235180586/
[63] *Pedro Sánchez presents 'Spain, Audio-visual Hub of Europe' plan, with over 1.6 billion euros of public investment to 2025*. La Moncloa, 2021. Accessible at: https://www.lamoncloa.gob.es/lang/en/presidente/news/Paginas/2021/20210324audiovisual-hub.aspx
[64] *Spain Audiovisual Hub of Europe*. Gobierno de España, 2021. Accessible at: https://portal.mineco.gob.es/en-us/TID/hub-audiovisual/Pages/el-plan.aspx

Table 10 – Overview of Spain's Incentive

	Rebates for Investments in Film and Television Series
Type	Rebate
Value	30% tax rebate at national level (up to €1 million expenditure, and 25% after) Regional level: - 35% tax credit in Navarre - 50% tax rebate in Canary Islands (up to €1 million expenditure, and 45% after) - Up to 70% in Bizkaia (60% if expenses in Bizkaia are more than 50%; 50% if expenses in Bizkaia account for between 35-50% of the total; 40% if expenses in Bizkaia are between 20-35%; 35% overall (no territoriality requirement); 10% uplift if Basque is the source language.
Additional Value	-
Per Project Cap	National level: US$9.9 million max rebate limit Regional level: US$5.3 million max rebate limit for Canary Islands [current cap of US$17.5 million pending further legislative amendments] Incentives cannot exceed 50% of production cost
Annual Budget / Cap	-
Eligible Formats	Film TV Drama Other TV Documentary

Spain's Prime Minister has publicly acknowledged the impact the industry has on the country's economy, highlighting that the audiovisual industry accounts for around 3.2% of Spain's gross domestic product as well as contributing to cultural identity and international reputation. This adjustment to the incentive is part of a wider strategy and finical plan to grow production levels by 30% in four years as managed by the Spanish Ministry of Economy. This reflects the crucial role the incentive system plays in supporting and developing a sustainable and successful audiovisual sector, with a significant part of the Ministry's finical investment outlined in this strategy going towards easing access to financing, broadening project eligibility, creating new lines of public support to the audiovisual industry, and narrowing the gender gap.[65]

Spain has already seen significant benefits from the introduction of its baseline incentive system in 2015, which has been reviewed and increased to match industry growth and sustain inward investment. The vast historical heritage sites and varied cinematic landscapes have been utilized in large scale fantasy titles from *Game of Thrones*, which shot in Spain through

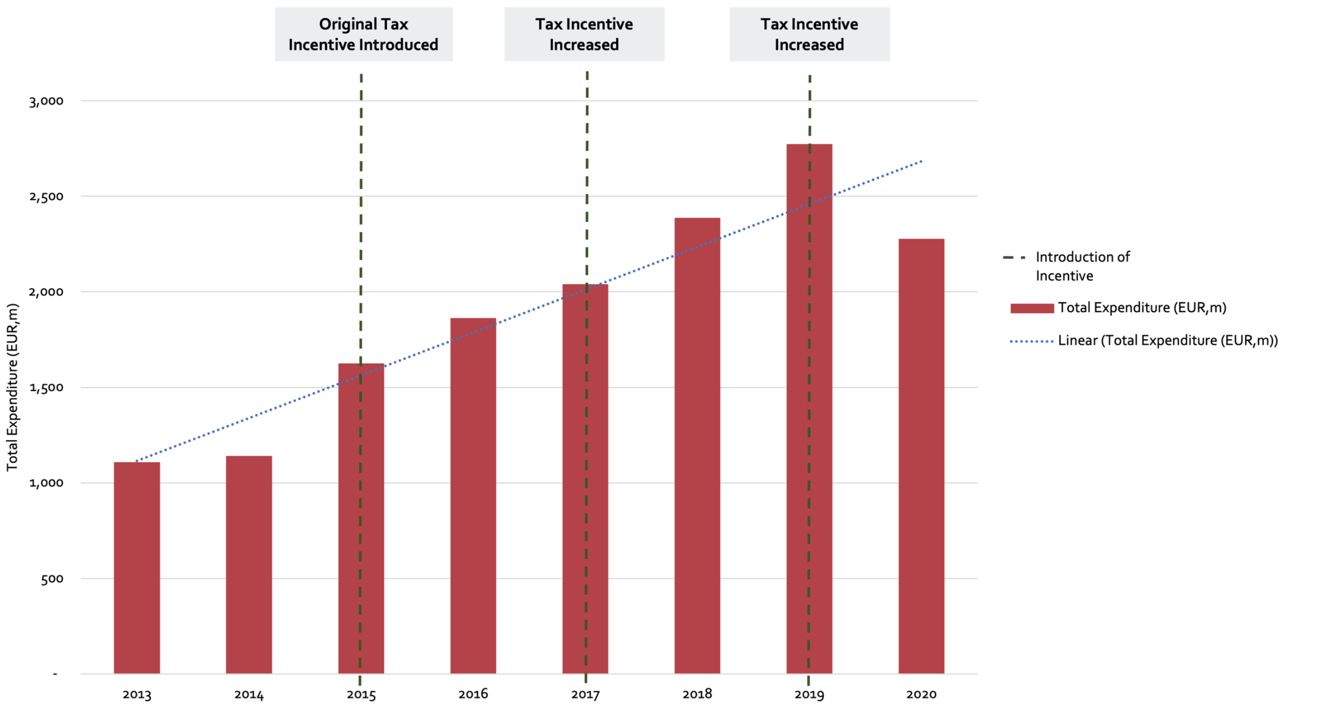
[65] *Spain Audiovisual Hub of Europe*. Gobierno de España. 2021. Accessed at: https://portal.mineco.gob.es/en-us/TID/hub-audiovisual/Pages/el-plan.aspx

2014 to 2018, to *The Witcher*, for Seasons 1 and 2 across 2019 to 2021, *Vampire Academy*, and *House of the Dragon*, which showcased the regions of Cáceres, Granada and Girona.[66]

In terms of more localized content, within Europe, Spain was noted as being the main producer of television in 2019. Spanish series content has been recognized for its ability to travel and appeal to audiences outside of the national market. The most notable example of this is *La Casa de Papel.*[67]

There is no aggregated production expenditure available for Spain, Figure 18 displays data from the Instituto Nacional De Estadística based on the relevant industry codes and although is not comparable with production expenditure data, can usefully track the growth within the Spanish industry between 2013 and 2020.

Figure 18 – Value of Produced Output in Spain between 2013 and 2020 with Incentive Introduction and Adjustments (EUR m)[68]



Source: INE (Economic Statistics for Spain – Database)

5.3.10. United Kingdom

Like Mexico, the UK has a long history of audiovisual production. Underpinned by a suite of audiovisual tax reliefs, production in the UK has undergone unprecedented growth in recent years – in turn, helping to attract private investment into production infrastructure and driving

[66] *Spain Supercharges Incentives for Big Foreign TV Series*. Hopewell and Sandoval, December 2022. Accessible at: https://variety.com/2022/tv/global/incentives-international-shoots-spain-film-commission-1235475094/

[67] Parrot Analytics Global Heat Map for *La Casa de Papel* (August 30 – September 5, 2021). See "*La Casa de Papel" Becomes the most in-demand TV show in the world*. Señal News, 8th September 2021. Accessible at: https://senalnews.com/en/research/la-casa-de-papel-becomes-the-most-in-demand-tv-show-in-the-world

[68] This depicts the economic indicator 'Production Value' measures of the turnover plus or minus the variation in the stock of finished and work-in-progress, plus capitalized production for the production and post-production sector codes 5912, 5915 and 5916. See full definition at https://www.ine.es/DEFIne/es/concepto.htm?c=2207&op=30197&p=1&n=20#:~:text=El%20valor%20de%20la%20producci%C3%B3n,reventa%20de%20bienes%20y%20servicios. It is not comparable to production expenditure. INE website. Accessed at: https://www.ine.es/jaxiT3/Tabla.htm?t=32449

jobs growth and skills development. Audiovisual production is now growing significantly in a range of regions in the UK outside of London.

Table 11 – Overview of the UK's Incentives

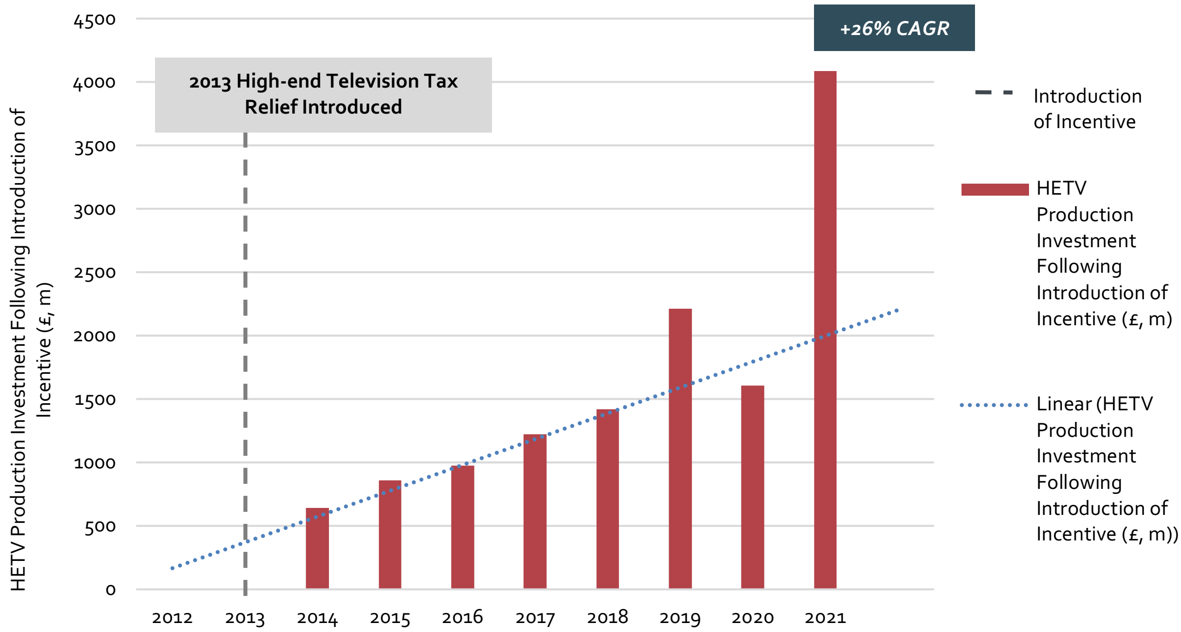
	Creative Sector Tax Reliefs
Type	Tax Credit
Value	25% (of 80% of core expenditure used or consumed in the UK)
Additional Value	-
Per Project Cap	-
Annual Budget / Cap	-
Eligible Formats	Film TV Drama Other TV Documentary Other

The UK offers five audiovisual incentives: Film Tax Relief (FTR), High-end Television Tax Relief (HETR), Animation Tax Relief (ATR), Children's Television Tax Relief (CTR) and Video Games Tax Relief (VGTR).

All have been impactful, with FTR and HETR in particular operating as primary drivers of expenditure growth in recent years – alongside the UK's developed talent and skills base, its production infrastructure and specialist vendors. Functioning as tax credits, the incentives offer 25% of up to 80% of core expenditure that is used or consumed in the UK. Both international and domestic projects are eligible.

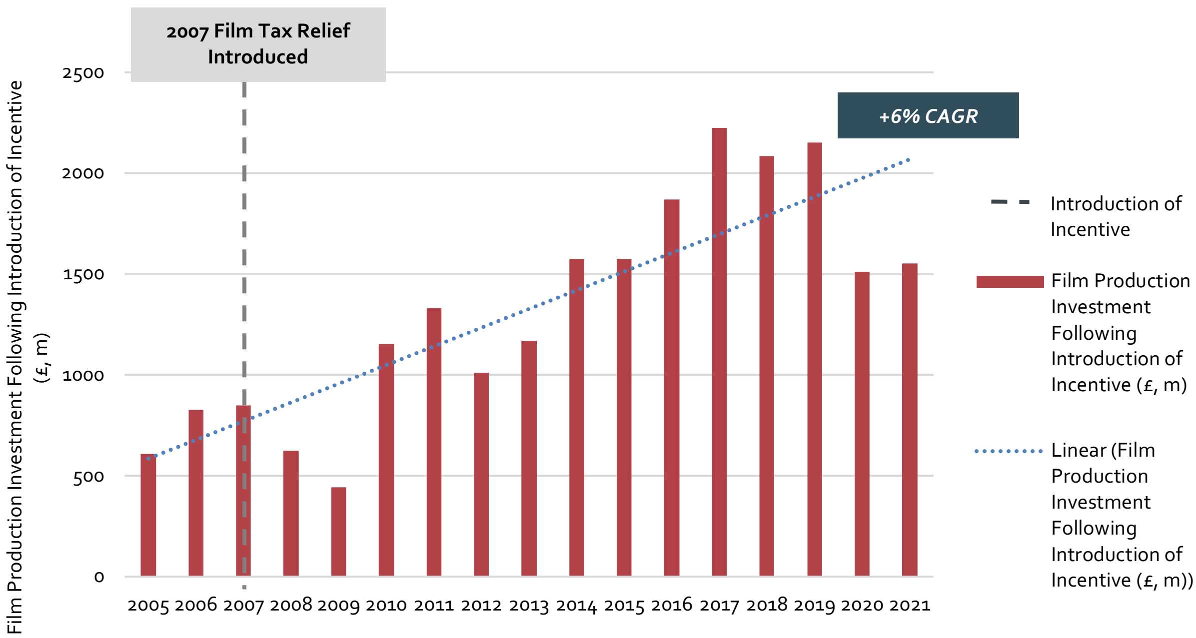
As outlined in the following figures, the incentives have driven record expenditure in the UK.

Figure 19 – Growth of High-end Television Production Investment in the UK Following Introduction of Incentive, 2012-21 (£ m)



Source: BFI

Figure 20 – Growth of Film Production Investment in the UK Following Introduction of Incentive, 2006 to 2021 (£m)



Source: BFI

A recent evaluation of FTR, HETR, ATR and CTR for Her Majesty's Revenue and Customs concluded that "there is strong evidence that the tax reliefs across film, high-end TV, animation and children's TV have made the UK a more attractive filming and production location, and led to more productions taking place in the UK".[69] Research shows that the UK incentive has high rates of additionality – i.e. it attracts production that would not otherwise have taken place in the country.[70]

The incentives have also been found to have had significant impacts on tourism, infrastructure development and regional activity. For example, an estimated £1.56 billion – or 33% – of high-end television production was undertaken outside of Metro London between 2017 and 2019.[71]

On a wider basis, the UK's creative industries have become a sizeable component of the national economy. In 2019, more than one in eight UK businesses were part of the creative industries, and in the same year the sector accounted for £115.9 billion – almost 6% of the UK's total GVA. This was more than the aerospace, automotive and life sciences industries combined.[72]

[69] *Creative Industry Tax Reliefs Evaluation.* Ipsos, London Economics and SPI for HM Revenue and Customs, November 2022. Accessible at: https://www.gov.uk/government/publications/creative-industry-tax-reliefs-evaluation
[70] Survey research shows that, for 2017 to 2019 92% of production spending supported by FTR would not have occurred in the absence of the incentive. *Screen Business. How screen sector tax reliefs power economic growth across the UK 2017-2019.* SPI with Nordicity, for the British Film Institute. December 2021. *Accessible at: https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy*
[71] Ibid
[72] Research referenced in *At risk: our creative future.* House of Lords Communications and Digital Committee. 17th January 2023. Accessible at: https://publications.parliament.uk/pa/ld5803/ldselect/ldcomm/125/125.pdf

Section Four –

The Potential Economic Impact of an Audiovisual Production Incentive for Mexico

Credit: IMCINE

6. ECONOMIC IMPACT OF AN INCENTIVE FOR MEXICO

This section outlines an **estimated baseline of audiovisual production activity** for Mexico, and a **set of projections** in relation to a new national incentive.

The **economic impact potential** of an incentive is outlined in detail.

Annual audiovisual production expenditure in Mexico is estimated at **around US$673 million for 2022**.

An internationally competitive incentive could **more than double current expenditure by 2026.** This could deliver nearly **US$7.3 billion in total cumulative GVA between 2023 and 2028 and over 38,000 jobs in 2028.** With no incentive, **decline is possible.**

6.1. Introduction

Given the role that audiovisual production incentives play in stimulating production activity, it is important to consider what a new federal incentive system could deliver for Mexico in terms of increased production, as well as the resulting economic impact.

In terms of impact of production, SPI's research has focused on the detailed modelling of three potential scenarios for Mexico:

1. **Full Adoption**: in which a globally competitive incentive is introduced without a significantly capped budget.
2. **Low Adoption**: in which an incentive is introduced, but it is of limited competitiveness with a capped annual budget.
3. **Do Nothing**: in which no new federal-level incentive is introduced in Mexico.

Detailed expenditure forecasts are outlined in this section for each of these scenarios, up to 2028.

In addition, the annual and overall economic impact for each scenario has been modelled. Based on the expenditure forecasts, this focuses on what each level of incentive introduction outlined above could deliver for Mexico's economy.

This focuses on the following standard economic impact metrics:

- **Output**;
- **GVA**; and
- **Job creation**.

6.2. Establishing a Baseline of Audiovisual Activity

In order to establish the economic impact of an incentive for Mexico, it was first necessary to estimate a baseline of current audiovisual production activity. Mexico does not track official production statistics nationally, so there are challenges associated with modelling current activity.

A number of data sources were therefore researched. It should be noted, however, that no single source of data provides definitive activity figures and there are significant methodological differences and discrepancies between data sources examined for this Study. In addition, Mexico has a large informal economy, with informal employment accounting for 57% of the Mexican labor force in 2018.[73] This means that national statistics are likely to be an underestimate of the total activity levels.

[73] *OECD Mexico Policy Briefing: Labour Market Inclusion*, January 2020. Accessible at: https://www.oecd.org/mexico/Policy-Brief-Mexico-Labour-market-inclusion-EN.pdf

6.2.1. National Statistics

Mexico's national statistics authority INEGI publishes a range of statistics which are helpful in considering the scale of Mexican audiovisual production and post-production activity. The main sources published by INEGI are:

- **National Accounts** data from which the I-O tables are produced every five years – with the latest release in 2018 for 2013 data. This publishes data based on standard NAICS codes.
- **Culture Satellite Accounts**, which provide more detailed information about all the cultural industries but published data is not aligned to the NAICS codes.
- **Economic Census**, which is an extensive survey, undertaken independently and carried out every five years. The census data does not align exactly with the National Accounts.

In addition, IMCINE produces a Statistical Yearbook which contains relevant industry statistics.[74] The most relevant data on production output is a presentation of INEGI Cultural Accounts data. In this section SPI has used the source data from INEGI.

The Culture Satellite Accounts provide annual figures up to 2021 (provisional) on output, intermediate consumption and GDP on 'film' activities. SPI has been advised by INEGI that 'film' activities does not align exactly to NAICS 5121, and comparing the historic data in the I-O tables indicates that 'film' activities tend to be smaller than the overall NAICS 5121 and therefore are likely to be a sub-set of NAICS 5121. A potential reason for this is that NAICS code 5121 is divided in the cultural accounts into 'film' activities and 'related goods and services' activities.

[74] http://anuariocinemx.imcine.gob.mx/Assets/anuarios/2021.pdf

Table 12 presents the output figures for the 'film' activity from INEGI data.

Data from the I-O tables for 2013 and 2008 provide data on output down to the five-digit NAICS codes and it is therefore possible to calculate the percentage of the total activity in code 5121, Motion Picture and Video Activities, that is represented by Production (51211) and Post-Production (51219) while removing Exhibition (51213) and Distribution (51212). The proportion of production and post activity within the 5121 total fell from 39.3% in 2008 to 28.6% in 2013. SPI has projected this downward trend for years after 2013. This is displayed in the second line of

Table 12. Note that this downward trend in the proportion of production compared to exhibition was also noticeable in jobs data from the economic census and is corroborated in SPI research, which saw a huge increase in cinemas in Mexico during this period. According to CANACINE's impact study of the film industry in the Mexican economy, the amount of cinema screens in the country grew at an annual rate of 4.8% between 2010 and 2017.[75]

SPI applied the percentages in the second line of

[75] https://canacine.org.mx/wp-content/uploads/2022/06/ESTUDIO-DERRAMA-ECO-INDUSTRIA-POR-UNAM-.pdf

Table 12 to the overall output figures to estimate an output figure for production and post-production only.[76] Note that this is an estimation rather than a certain calculation as the 'film' activities does not exactly align to the NAICS 5121 definition.

[76] Output is a measure of overall economic activity; it is the value of all goods and services produced. Economic impact modelling is based on the premise that expenditure on direct production activity is equivalent to direct output

Table 12 – National Statistics-Based Estimations for Production and Post-Production Output

Year	'Film' Activities Gross Output[77] (MXN, million)	Producti-on and Post as a % of 5121 Motion Picture[78]	Estimated Output for Production and Post-Production (MXN, million)	'Film' Activities Gross Output (US$ m)	Production and Post as a % of 5121 Motion Picture	Estimated Output for Production and Post-Production (US$ m)
2013	22,176	29%	6,342	1,739	29%	497
2014	23,824	27%	6,391	1,792	27%	481
2015	27,069	25%	6,811	1,708	25%	430
2016	31,417	24%	7,414	1,684	24%	397
2017	33,947	22%	7,514	1,799	22%	398
2018	35,398	21%	7,349	1,844	21%	383
2019	39,850	19%	7,760	2,072	19%	403
2020	11,112	18%	2,029	521	18%	95
2021	15,872	18%	2,898	783	18%	143

Source: SPI calculations, unless referenced otherwise

This analysis indicates that, based on the data within national statistics, there is some evidence to suggest that production and post-production output has been steady and, in some periods, has declined since 2013. This method connects the production and post-production to the overall 5121 code which includes exhibition, therefore 2020 and 2021 should be treated as anomalies due the closure of cinemas due to COVID-19.

The annual average estimate gross output for production and post-production between 2017 and 2019 was US$395 million.

This is likely to be an underestimate of overall production expenditure due to the limitations of national statistics given Mexico's significant informal economy. This is a key consideration in estimating the baseline, as outlined below.

6.2.2. Other Data Sources and Defining a Baseline

SPI also referenced data published by the Mexico City Film Commission, which publishes data in its 2021 and 2022 *Statistical Yearbook* which shows that investment in the film and audiovisual industry in Mexico City totaled MXN11.3 billion (US$563.8 million) in 2021 and MXN 13.1 billion (US$656.2 million) in 2022.[79] This represents domestic and inward film, television, and commercials production. Commercials comprise 22.5% of total investment in 2021 and 17.9% in 2022[80], which indicates that, in **2021, US$436 million was invested in audiovisual production excluding commercials in Mexico City, rising by 23.5% to US$539 million in 2022.**

[77] Source: INEGI Cultural Satellite Accounts
[78] SPI calculations based on 2008 and 2013 I-O tables
[79] The latter are new data and have been used to revise the baseline for this study since an initial presentation of this Study at the Canacine Convention
[80] Mexico City Film Commission Statistical Yearbook, 2021 (page 140) and 2022 (page 145)

While some incentive systems include commercials, it was decided for the purposes of this analysis to only focus on film and television activity and the drivers behind these projects – which can be different to the drivers behind commercial production.[81] SPI is not undertaking a detailed design for an incentive in Mexico – and a full feasibility study that also considers project eligibility should be undertaken to inform the design of such an instrument.

Confidential consultations with key stakeholders and other research showed that the clear majority of Mexican production takes place in Mexico City. It is not known precisely what proportion of all Mexican production expenditure happening in Mexico City.

To estimate the total Mexican production expenditure from the Mexico City data therefore requires an assumption to be made. There are strong reasons why the percentage of production expenditure happening in Mexico City would be higher than the percentage for overall production numbers. This is because the majority of screen production infrastructure (including sound stages) is located in Mexico City, meaning most of the major budget productions are based in the city.

Taking into account all factors, **it is therefore assumed that around 80% of production expenditure[82] in Mexico happens within Mexico City.** As this is an important assumption, sensitivity analysis has been undertaken to ascertain the impact of the results on varying this figure between 75% and 85%.

Overall production expenditure in Mexico City (i.e. audiovisual excluding commercials) was US$539 million in 2022 and using the assumption that Mexico City hosts 80% of Mexican production activity leads to an **estimated baseline expenditure figure for the whole of Mexico of US$673 million for 2022.** This is higher than national statistics data and accounts for the element of grey economy not captured in these data.

It would be possible to update the production expenditure baseline and projections if additional data becomes available in the future.

6.3. Forecasting Impact – Expenditure

With a national baseline of US$673 million in 2022 established, the three scenarios were then modelled for six years.[83] For the Full and Low Adoption models it was assumed that an incentive was introduced from 2023. The forecasts were based on a range of findings – including from comparison research into patterns in other markets after the introduction of an incentive and insights from consultations into likely impacts in Mexico.

While SPI is not designing an incentive for Mexico in this Study, a number of assumptions had to be made in terms of the overall likely scale of the incentive and the resulting production expenditure levels. Because the global incentives landscape is highly diverse – ranging from very limited incentives with small annual budgets, to systems with unlimited budgets – two of the scenarios use different assumptions in relation to the potential scale of a Mexican incentive.

It is assumed any incentive would be available both to eligible domestic and incoming international projects, as eligibility for both would be important for obtaining both economic and cultural value for Mexico. However, it would be important in designing an incentive to ensure that economic deadweight is minimized – i.e. that only projects that would not otherwise have filmed in Mexico are using the incentive. This is likely to impact domestic productions more.

[81] It should be noted, however, that commercials do contribute expenditure and other industry impacts and that Mexico services high-end commercials

[83] Note that this represents production expenditure only; there may be additional impact generated by an incentive in areas such as infrastructure and supply chain investment

Note on assumptions and forecasts: this Study does not provide a detailed incentive design outline, or recommend the most feasible incentive model for Mexico, which would be a next step in establishing a federal incentive.

The analysis does not consider the necessary logistical and political steps to introducing an incentive, and neither does the Study consider how any positive or negative political or economic changes in the future in Mexico, such as the upcoming elections or provisions of the United States-Mexico-Canada Agreement (USMCA), might impact the projections. The scenarios outlined in this study assume no significant change to the status quo.

6.3.1. Do Nothing Scenario

In the Do Nothing Scenario, it is assumed that Mexico does not introduce a new incentive. The country's audiovisual production sector has been busy since the height of COVID-19 and expenditure of audiovisual excluding commercials in Mexico City grew by 23.5% between 2021 and 2022. It is assumed in the Do Nothing scenario that this rate of growth will continue in 2023 and 2024. By 2025, SPI projects that the growth in production activity will soften in this scenario, leading to a flattening of production expenditure in 2025 and 2026. There are a number of factors driving such a levelling-off. First, the rapid increase in production at the height of the pandemic is slowing – particularly in markets without incentives. Second, producers are facing rising costs of goods and services necessary for production globally. Third, Mexico's competitors continue to improve their offers, with lawmakers looking to stimulate audiovisual production throughout improved incentives and new strategies to expand crew and infrastructure. An example of this is Spain, where the Government has announced an ambitious Audiovisual Hub policy and in January 2023 introduced changes to its incentive to make it more attractive to incoming producers. Competition for projects is also increasing from the US.

Concurrent recessionary pressure on content investors is also likely to reduce investment levels in the short term – so there may be fewer productions going forward, which will be closely focused on incentivized markets. There is already evidence that this is occurring, with consultees pointing to projects that may have considered Mexico but instead filmed in alternative markets with incentive offers.

One further pressure point for production is regarding difficulties with audiovisual VAT in Mexico, and the fact that the production sector is not fully formalized.

These considerations make it likely that production demand for Mexico will reduce towards the end of the Study period – despite the globally high demand, among investors and consumers, including for Spanish-language content. SPI has therefore modelled an annual reduction of 5% from 2027 onwards.

Table 13 – Do Nothing Scenario Expenditure Projections for Audiovisual (excluding Commercials) (US$ millions)

	2022	2023	2024	2025	2026	2027	2028
Total Expenditure in Do Nothing Scenario	673	832	1,027	1,027	1,027	976	927

Source: SPI estimations and projections

6.3.2. Low Adoption Scenario

This scenario assumes that an incentive of some kind is introduced in Mexico in 2023, but that the incentive is limited in the amount of production that can be serviced. This is assumed for modelling purposes to relate to a low annual incentive budget (or cap) – which will limit the number and size of projects which will come to Mexico to access the system. For modelling, SPI assumed a cap in line roughly with second tier US state markets.

A low adoption scenario is enough to arrest the reduction of activity projected in 2027 and 2028 in the Do Nothing Scenario. It leads to a limited surge of activity in years one and two. The rate of growth slows and then expenditure plateaus in 2026 onwards, as the incentive cap is reached.

Table 14 – Low Adoption Scenario Expenditure Projections (US$ millions)

	2022	2023	2024	2025	2026	2027	2028
Additional Expenditure (above Do Nothing Scenario)	–	50	100	125	140	191*	240*
Total Expenditure	673	882	1,127	1,152	1,167	1,167	1,167

* Including arresting the 5% p.a. decline projected in Do Nothing Scenario
Source: SPI estimations and projections

6.3.3. Full Adoption Scenario

This scenario is based on an internationally competitive incentive being introduced. This assumes that the incentive has a headline rate than can compete with other major global hubs of around 25%. It also assumes that the system is either uncapped, or has a large enough annual budget to ensure that it can service large budget features and series that would come to Mexico over competitor jurisdictions.

In this scenario, the incentive is also assumed to be secure over a multi-year period and well administered so that producers are comfortable that the system is stable. Such stability is critical, since any questions around reliability or payment can quickly undermine confidence and usability.

It is likely that, using this model, Mexico would see a marked and immediate increase in additional production activity. Mexico's natural attributes and audiovisual production capabilities mean that the country is primed for immediate interest from foreign producers in response to an audiovisual incentive, while such a system would also repatriate any domestic projects that might otherwise look to overseas incentive markets.

Table 15 – Full Adoption Scenario Expenditure Projections (US$ millions)

	2022	2023	2024	2025	2026	2027	2028
Additional Expenditure (above Do Nothing Scenario)	–	100	250	300	350	451*	550*
Total Expenditure	673	932	1,277	1,377	1,377	1,427	1,477

* Including arresting the 5% p.a. decline projected in Do Nothing Scenario
Source: SPI estimations and projections

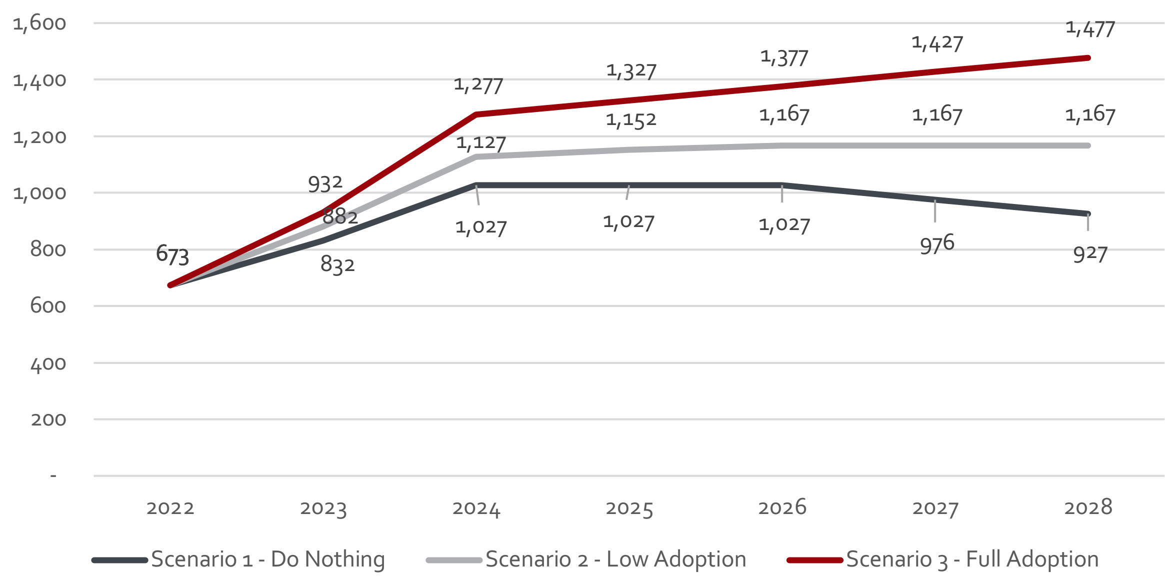
This additional activity has been modelled at US$100 million in year one, and an additional US$250 million in year two. This could be considered conservative: in recent years, Mexico has not been routinely attracting very high budget film and series and even a small number of sizeable projects of this type could quickly ramp up Mexico's production activity. With a strong incentive, Mexico could routinely attract major global English language film and series projects in addition to larger budget Spanish language projects.

Beyond years one and two, production growth is projected at an additional US$50 million annually. Again, this is conservative but given the tightness in Mexico's production market it is assumed that growth would be tempered by this. As outlined elsewhere, it is critical that an incentive is introduced alongside a robust sectoral development strategy – including a focus on workforce and infrastructure development – in order to extract as much value and impact for Mexico as possible.

6.3.4. Comparison of Expenditure Under Three Scenarios

Results show that full adoption of an incentive could increase production expenditure to US$1.5 billion a year by 2028. Conversely, doing nothing would lead to softening of Mexico's production sector while a limited-budget incentive would arrest this decline and see a modest uplift of production expenditure.

Figure 21 – Forecasts of Audiovisual (excluding Commercials) Production Expenditure Related to Three Incentive Scenarios, 2021–28 (US$ millions)



Source: SPI projections

6.4. Forecasting Impact – Number of Projects

In 2021, there were 259 films and 78 series produced in Mexico. The best data available, from the *Mexican Cinema Statistical Yearbook*, indicates that the average feature film production expenditure in Mexico was approximately US$1 million between 2017 and 2021.[84] From an international perspective, this average expenditure figure is low and underlines the relatively low number of significant international feature films currently being produced in Mexico. In comparison, in 2021 24% of the 943 US films produced had an estimated budget of over US$15 million and a further 50% had a budget between US$1 million and US$15 million.[85] The lack of an incentive makes it challenging for Mexico to attract medium and high-budget projects.

There are no comparable average spend data available for series in Mexico. However, based on available data, and the estimated 2021 expenditure (US$546 million in 2021), SPI estimates that series spent US$3.68 million on average in Mexico in 2021.[86] Average series spend is higher than the average per-film expenditure in Mexico, reflecting the investment in international Spanish language series content in Mexico in recent years. Nonetheless, spend per series is low compared to international benchmarks. For example, in the UK, the cost of just one hour of television drama is reportedly US$1.5 million, under half the total cost of a whole series in Mexico .[87]

Introducing an incentive would change the type and budget of projects produced in Mexico, and would likely increase the average spend of both feature film and series as there would be more throughput of productions from global players with larger budgets.

For example, Amazon will reportedly invest US$300 million in Mexico in 2022-24 which translates into around 50 local productions, suggesting an average spend of US$6 million per production. [88] This average is significantly larger than the current spend averages for series and feature films in the Mexican market. The higher average of US$6 million has been used to model the volume of series and feature films necessary to reach the expenditure growth modelled in this Study, since an incentive is expected to attract an upturn in inward investment projects at this budget level and beyond.

The figure below displays the estimated number of projects for each scenario by year. The assumptions for the project projections are in line with those set out for expenditure estimates in the previous section. The Do Nothing Scenario is predicted to lead to an increase in the number of projects (by 19.5% a year) in 2023 and 2024, with this growth stabilizing in 2025 and 2026, followed by a decline of 5% a year in 2027 and 2028.

For Scenario 2 – Low Adoption and Scenario 3 – Full Adoption, it is assumed that the introduction of the incentive would arrest the decline in production seen in the Do Nothing Scenario in the later years. It is assumed that uplift in productions attracted to Mexico because of the incentive have an average Mexican spend of US$6 million (across both series and film)

[84] Exact figure: US$967,000. *Mexican Cinema Statistical Yearbook*, 2021 Accessible at: http://anuariocinemx.imcine.gob.mx/Inicio/EdicionesAnteriores

[85] *Theme Report 2021.* Motion Picture Association. Page 47. Accessible at https://www.motionpictures.org/wp-content/uploads/2022/03/MPA-2021-THEME-Report-FINAL.pdf

[86] To calculate this, it is estimated that film production expenditure in 2021 would have been approximately US$259 million (259 projects multiplied by the US$1 million average Mexico spend per production). The estimated series spend would therefore be US$341287 million in 2021 (US$600546 million minus US$259 million) and the average spend per series would be US$4.4 3.68 million (US$341287 million divided by 78 productions)

[87] *Report: Cost of UK drama fell last year for first time since 2015; international revenues propping up sector.* Deadline. December 2021. Accessible at: https://deadline.com/2021/12/report-cost-of-uk-drama-fell-last-year-for-first-time-since-2015-international-revenues-propping-up-sector-1234889837/

[88] *How streamer investment and a revamped public funding mechanism are driving Mexico's production scene.* ScreenDaily, September 2022. Accessible at: https://www.screendaily.com/features/how-streamer-investment-and-a-revamped-public-funding-mechanism-are-driving-mexicos-production-scene/5174507.article

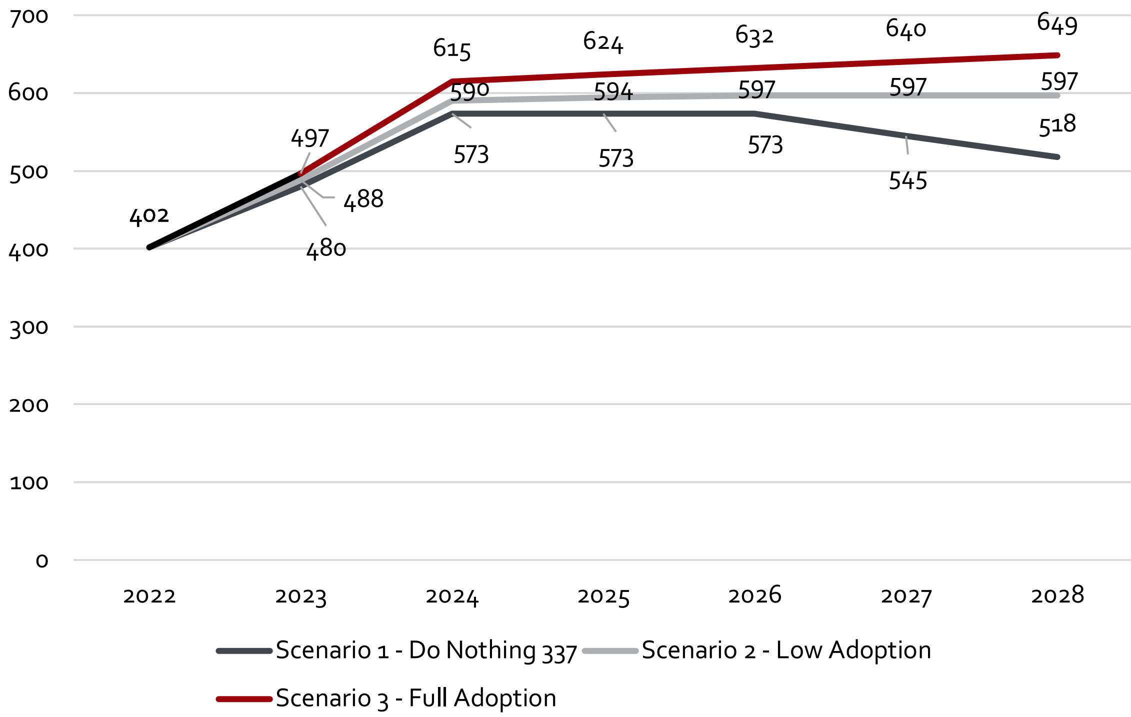
rather than the current average of $1 million for film and an estimated US$3.68 million for series.

Under Scenario 2, an additional 23 productions a year would be attracted by 2028, in addition existing production continuing at the same level seen in 2021.[89] In Scenario 3 – Full Adoption, an additional 75 productions a year would be attracted to Mexico.

Project volume is only a rough guide to activity. Project budgets can vary very widely, and at the highest level may reach hundreds of millions of dollars. Therefore, there is more uncertainty around the project number modelling than the expenditure modelling.

This also underlines the need for a Mexican incentive that is potent enough to attract projects with budgets significantly higher than the present averages.

Figure 22 – Forecasts of Audiovisual Production Volume Related to Three Incentive Scenarios, 2022–2028



Source: SPI Projections

6.5. Economic Impact

6.5.1. Overview of Methodology

This study employs an I-O approach to economic impact modelling. It uses estimated and forecast production expenditure data to drive a specially developed economic model. The model uses national data sources from INEGI, the national statistics authority in Mexico and from OECD, to model the interconnections between the audiovisual production industry and other industries and the relationships between key metrics including as output, GVA and jobs.

The methodology is based on a large number of sector studies that SPI has undertaken around the world and it is consistent with international best practice, including studies in the UK, several US states, New Zealand, Australia, and Europe. A full detailed methodology can be found in the appendices.

[89] Which have an average of $6 million in Mexican spend for each production

This study estimates the economic activity supported by three different scenarios as outlined in previous sections.

The total economic impact is the sum of the following three effects:

- **Direct impacts** are the economic uplift in terms of output, value created (GVA) and jobs within the film and television sector resulting from the increase in production and post-production expenditure
- **Indirect impacts** are the output, value created (GVA) and jobs effects observed in sectors that supply goods and services into the audiovisual production sector
- **Induced impacts** are the output, value created (GVA) and jobs uplift created as a result of the wage effects of those working in the production sector.

SPI's approach to estimating jobs is based on a year-round and 'permanent' definition of jobs. This means that if one person is working full time on a three-month contract, this would be counted as 0.25 job. We adopt this approach as it enables comparison across industries and countries.

As with any study of this type there are limitations to the methodology and the practical application of the methodology. One of the most significant limitations of this study is that it has only been possible to model the impacts in the formal economy due to data gaps that would reflect informal economic activity. As there is evidence that a significant amount of economic activity across all sectors in Mexico, and in audiovisual production specifically, fall outside the formal economy, the economic impact results presented here are an underestimation of the full impact if informal employment and added value were to also be included.

There are limitations in the data available from INEGI. The extent of these and their implications are set out in detail in Appendix Two. In addition, I-O modelling relies on a static model which assumes no supply side constraints, constant return to scale and a fixed input structure.

Note that results are presented as real results (constant 2021 year prices), jobs figures are rounded to the nearest 10 jobs and output and GVA to the nearest US$1 million.

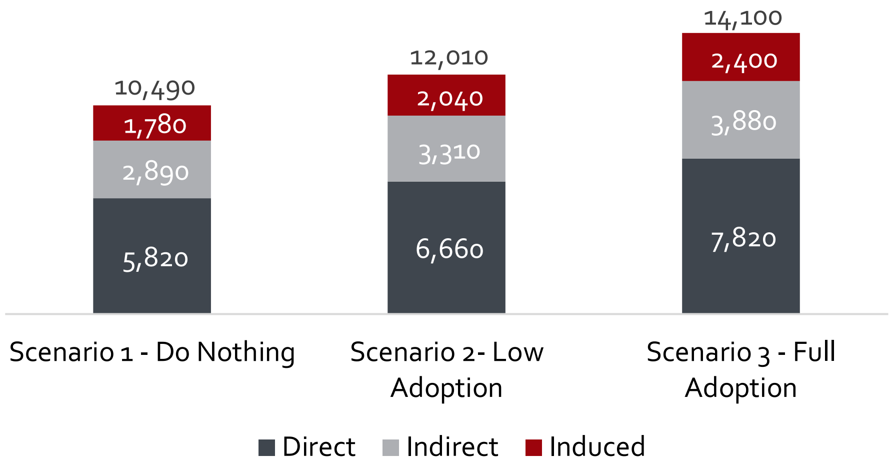
6.5.2. Output

Output is a measure of overall economic activity; it is the value of all goods and services produced. The results in this section present the estimated output which is forecast to be generated by the audiovisual production and post-production activity in Mexico between 2023 and 2028 under each of the policy scenarios.

If no incentive program is introduced, it is estimated that the sector would still contribute a total of US$10.5 billion in output in the six years (2023-28). This includes the direct impact within the sector, indirect impacts in the supply chain and induced effects caused by re-spending of wages in the wider economy.

Under a low adoption scenario (Scenario 2) output is estimated to be 14% higher over the period, contributing a total of US$12.0 billion in total output. The additional output generated by Scenario 2 would be US$1.5 billion. Modelling results indicate that output in Scenario 3 would total US$14.1 billion over the six-year period – an additional US$3.6 billion in output, an uplift of 34% from the Do Nothing scenario.

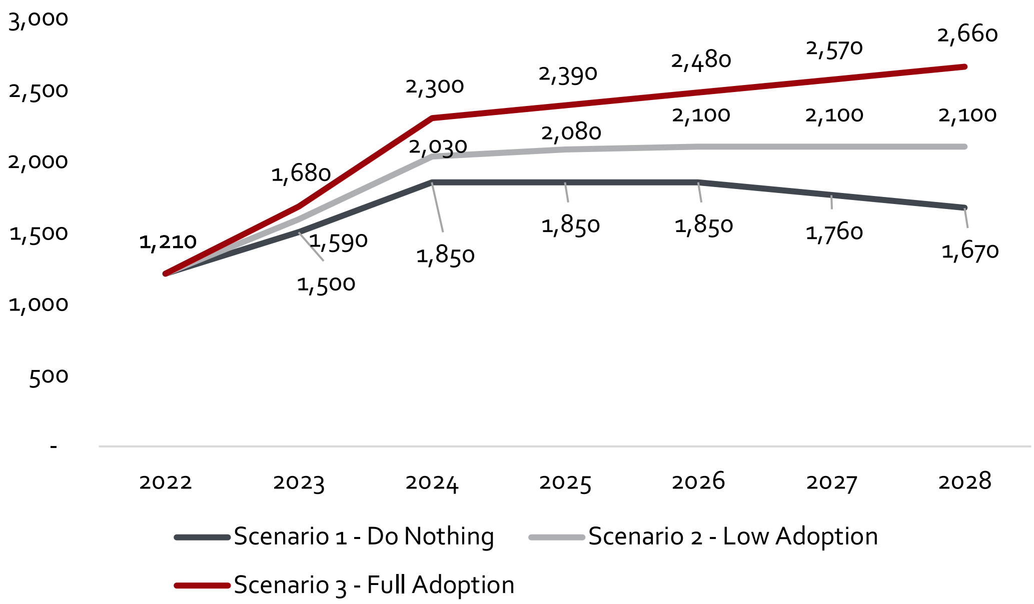
Figure 23 – Output, Cumulative 2023 to 2028, (US$ m, real)



Source: SPI calculations

Figure 24 displays the pattern of impact on total output over the time period and it reflects the pattern of projected expenditure for each scenario. Output under the Do Nothing option is forecast to grow by around 24% a year until 2024, level off and then start to decline by 5% a year in 2027 and 2028. In Scenario 2 the annual output associated with audiovisual production is predicted to be limited by availability of incentive by 2026, reflected in a plateauing of economic output at US$2.1 billion a year from 2026 onwards. Output associated with sector activity under Scenario 3 is forecast to continue to grow throughout the period, reaching a total of US$2.7 billion a year by 2028.

Figure 24 – Total Output (Direct, Indirect and Induced), 2022-28, (US$ m, real)



Source: SPI calculations

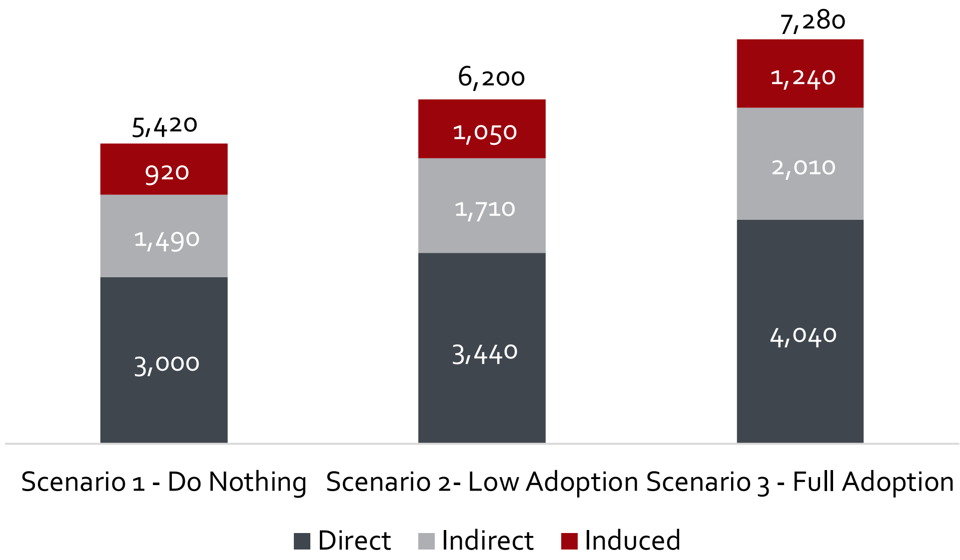
6.5.3. Gross Value Added

GVA measures the additional value created by economic activity. It is the difference between gross output and the value of intermediate inputs and at a national level, it aligns closely to GDP.

Without an incentive program (Do Nothing), audiovisual production activity in Mexico is forecast to support US$5.4 billion in GVA between 2023 and 2028. This includes US$3.0 billion GVA in direct impact within the sector, US$1.5 billion in indirect (supply chain) and US$0.9 billion induced effects.

The introduction of an incentive program is forecast to lead an additional US$1.9 billion in GVA under the full adoption (Scenario 3) or an additional US$0.8 billion GVA under Scenario 2. These estimates include the indirect and the induced impacts as well as the direct effect within the production industry.

Figure 25 – GVA, Cumulative 2023 to 2028, (US$ m, real)

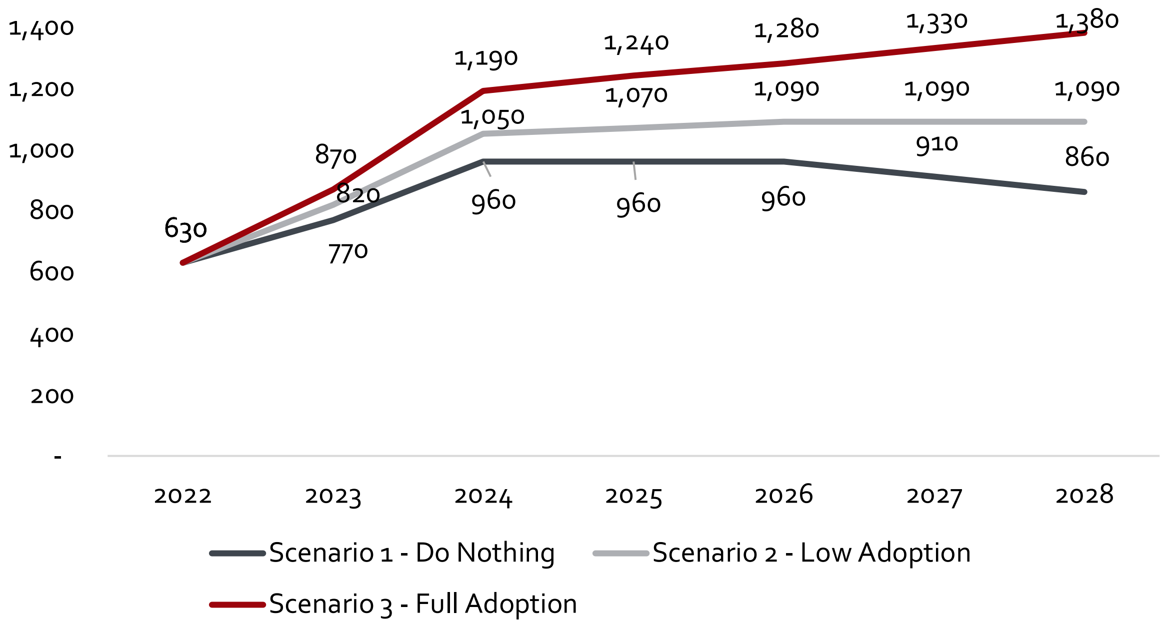


Source: SPI calculations

Figure 26 illustrates the pattern of GVA impact over time. The economic model assumes a fixed relationship between output and GVA, and the other economic variables. Therefore, the shape of the economic impact over time is the same for each indicator.

Scenario 3 shows the strongest growth from US$630 million in 2022 to US$1.4 billion in 2028 – a compound annual growth rate (CAGR) of 14.0%. Scenario 2 reflects the plateauing of expenditure from 2026 onwards caused by modelled constraints in the incentive program. In this scenario the total GVA impact rises from US$630 million in 2022, reaching US$1,090 million in 2026 and then remaining at that level for the remainder of the period. Under the Do Nothing Scenario the annual GVA impact rises and then falls in line with the forecast production expenditure.

Figure 26 – Total GVA (Direct, Indirect and Induced), 2022-28, (US$ m, real)



Source: SPI calculations

6.5.4. Jobs

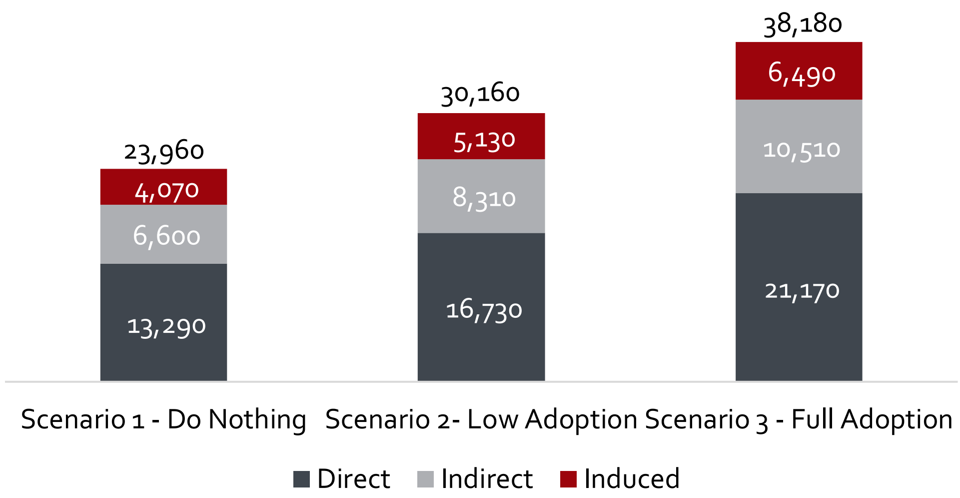
There are multiple sources of data on jobs/employment in the audiovisual sector in Mexico. The jobs estimates presented here result from the production expenditure-driven economic impact model. The full methodology is set out in Appendix Two. The best available data has been utilized to build the model but, as with all modelling, there are some limitations and caveats largely relating to data availability in an economy with a high level of informal activity.

Without an incentive program, SPI analysis estimates that by 2028 the audiovisual production sector will support 13,290 direct jobs, 6,600 indirect and 4,070 induced jobs – a total of 23,960 (see Figure 27).

Scenario 2 and Scenario 3 estimations clearly show the opportunity for significant jobs growth within the sector (direct jobs) and within supply chains (indirect jobs). However, as noted elsewhere in the report, Mexico's existing workforce is stretched by current production levels, the introduction of an incentive should be linked strategically to workforce development. Without this workforce development, the supply of labor may not be able to increase the demand supported by an incentive program in the short-term.

Assuming such aligned workforce development programs were in place, SPI estimate that under Scenario 2 the sector could support a total of 30,160 jobs, rising to 38,180 under Scenario 3.

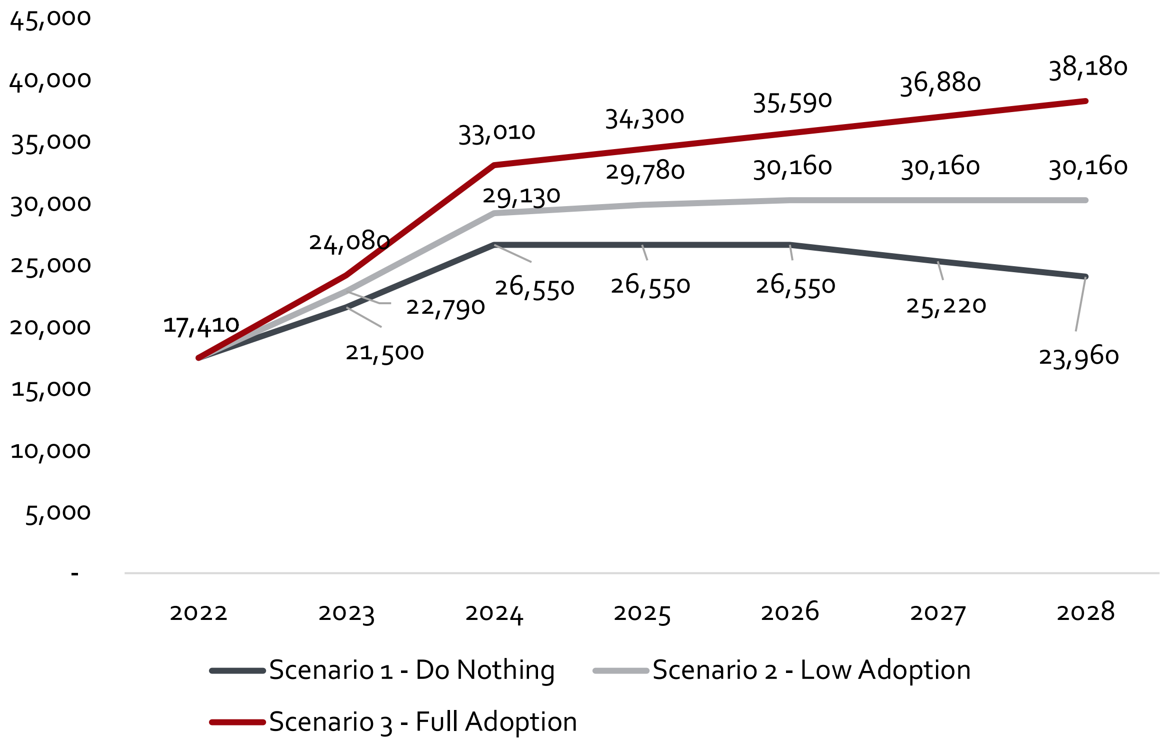
Figure 27 – Jobs Supported by Audiovisual Production in 2028



Source: SPI calculations

Under Scenario 3, there is a clear pattern of growth with projected jobs growing from 17,410 in 2022 to 38,180 in 2028. The jobs growth in Scenario 2 is strong in the first years of the incentive but plateaus by 2026 due to constraints in the incentive. The Do Nothing option highlights the risk of job losses within the sector and supply chain in the absence of the incentive. It should be noted that based on best available data, this modelling assumes a fixed relationship between output and jobs, however as the industry develops one would expect this relationship to change as the sector matures.

Figure 28 – Jobs Supported by Audiovisual Production 2022-28



Source: SPI calculations

6.5.5. Tax

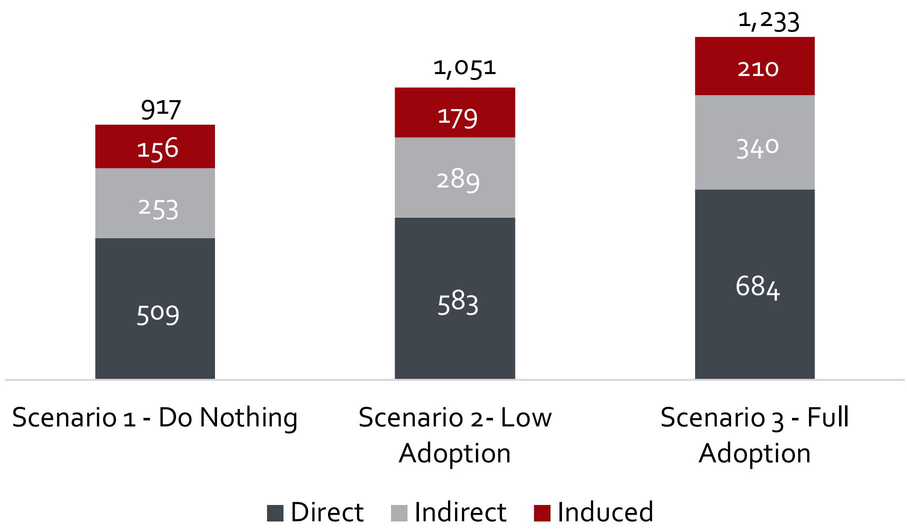
Screen production generates taxes for different levels of government, including corporation tax and labor taxes. The taxation modelling here uses the tax-to-GDP ratio from the OECD[90] for the whole economy. It should be noted that Mexico has a low tax-to-GDP ratio compared to other OECD countries, which is likely to be explained by the large informal economy. The estimations set out below reflect the total tax receipts, i.e. those receipts directly supported by the sector, as well as those supported through additional indirect and induced impacts.

Without an incentive program, audiovisual production activity in Mexico is forecast to generate US$0.9 billion in tax between 2023 and 2028. This includes US$509 million in direct tax within the sector, US$253 million in indirect tax (supply chain) and US$156 million in induced tax.

The introduction of an incentive program is forecast to lead an additional US$316 million in tax under the full adoption (Scenario 3) or an additional US$133 million in tax under Scenario 2 between 2023 and 2028. These estimates include the indirect and the induced impacts as well as the direct effect within the production industry.

[90] OECD Data Insight https://stats.oecd.org/index.aspx?DataSetCode=REV

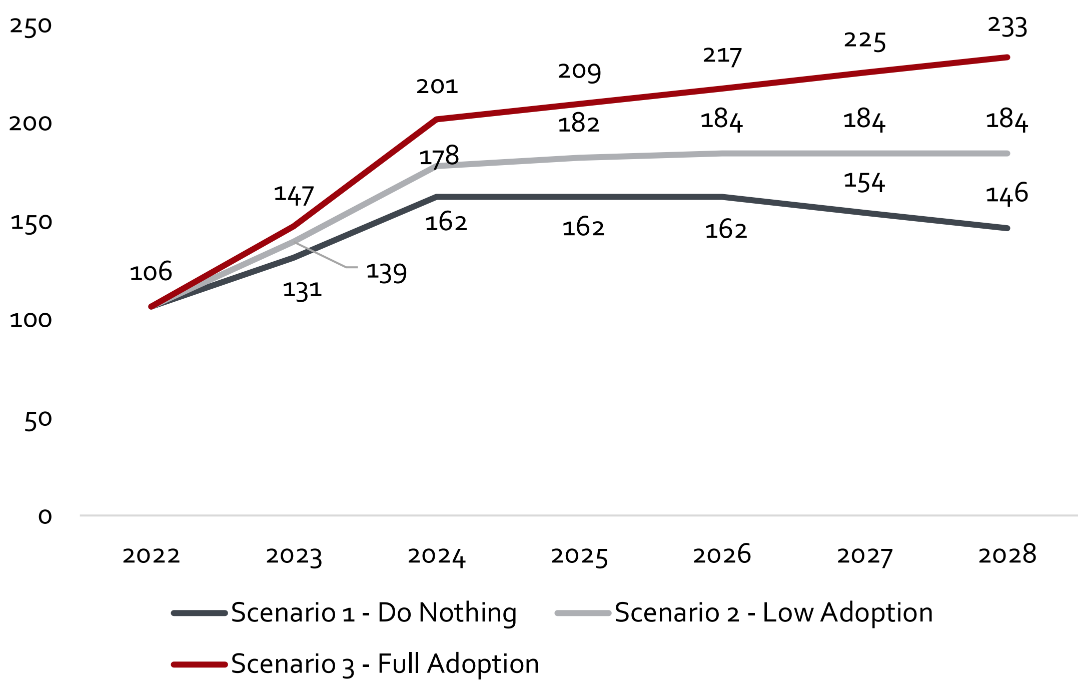
Figure 29 – Tax, Cumulative 2023 to 2028, (US$ m, real)



Source: SPI Calculations

The pattern of taxation growth over the period reflects the expenditure profile. The tax pattern is shown in Figure 30 below. Scenario 3 shows the strongest growth from US$106 million in 2022 to US$233 million in 2028 – a compound annual growth rate (CAGR) of 14.0%. Scenario 2 reflects the plateauing of expenditure from 2026 onwards caused by modelled constraints in the incentive program. In this scenario the total tax footprint rises from US$106 million in 2022, reaching US$184 million in 2026 and then remaining at that level for the remainder of the period. Under the Do Nothing Scenario the annual tax impact rises and then falls in line with the forecast production expenditure.

Figure 30 – Total Tax (Direct, Indirect and Induced), 2022-28, (US$ m, real)



Source: SPI calculations

7. OTHER ECONOMIC IMPACTS

In addition to the **macro economic impacts** identified in the previous section, audiovisual production creates a host of **micro economic impacts, including stimulating activity in a wide range of other business sectors.**

'Ripple' analyses of individual productions show that over 60% of expenditure can impact other business sectors outside of the audiovisual sector**.** These include **hospitality, travel and transport, construction and health and medical.**

Heatmap analysis shows that geographical spread of impact can also be significant.

7.1. Introduction

Macro-economic effects are often the key point of focus when evaluating economic impacts attributed to audiovisual production. However, it is also important to highlight the additional value of this production outside of the audiovisual sector. This relates to the micro-economic effects of audiovisual production spending, which impacts a wide range of other business sectors inside and outside the area in which the production takes place.

Audiovisual production involves specialist processes which require a range of inputs, including a large number of workers – all with varying creative, technical, logistical and support roles – as well as equipment, facilities, infrastructure, and services.

Along with micro-economic impacts, there are a range of further impacts that can be identified in various other sectors and areas of development as spill-over from production activity. These are broader social and economic effects on areas such as education and training, skills transfer and upskilling, as well as infrastructure development and expansion. Such areas can be developed and supported by the presence of an active audiovisual production industry.

7.2. Micro-Impacts of Audiovisual Production

7.2.1. 'Ripple' Analysis

Due to the uniqueness of audiovisual production, some production expenditure is specific to the sector – i.e. it flows to individuals and supplier companies which only work in audiovisual production. However, there is significant spend and further economic impact made to other areas of the economy, such as real estate and hospitality services that are not exclusive vendors to the audiovisual sector but which contribute key resources and services.

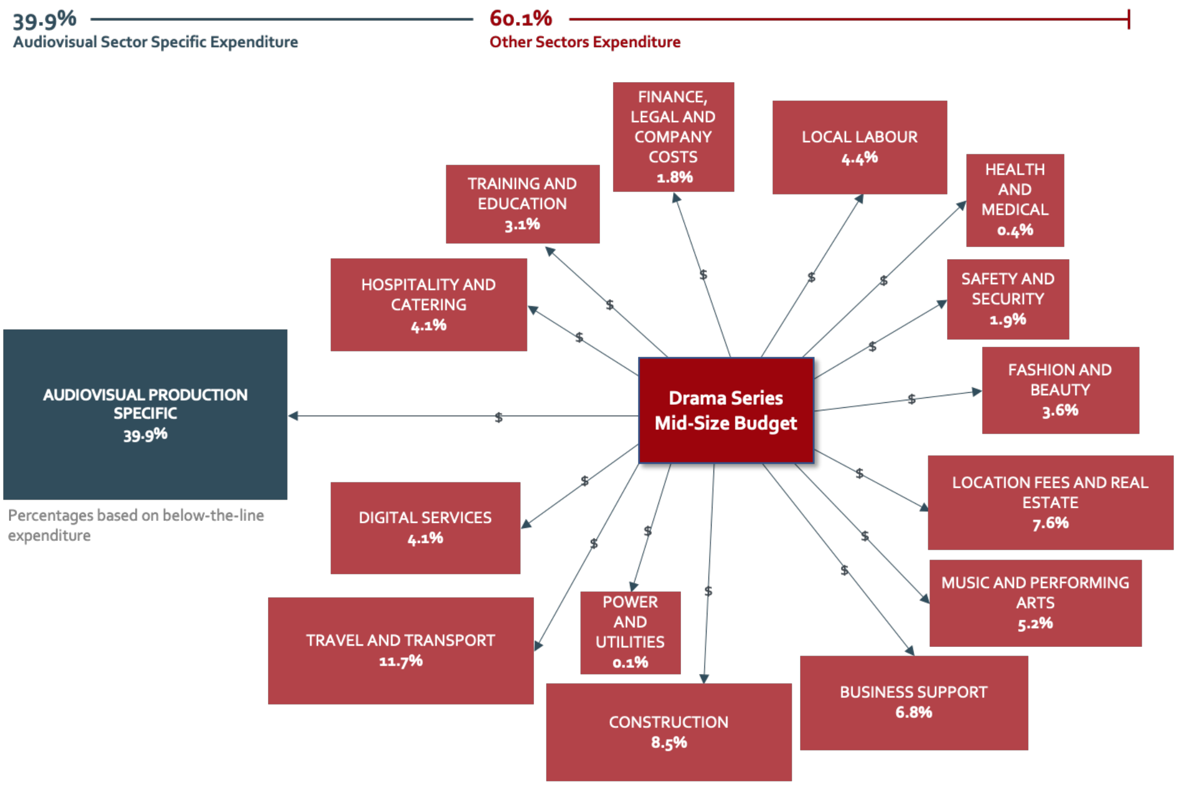
A project's expenditure can be analyzed and categorized according to several business sectors to show the ripple effect of production expenditure through an economy. The analysis is based on 'below-the-line'[91] production expenditure as this excludes payments to major creative talent, such as key actors, directors, or producers, which can cause an imbalance in analysis. Although the percentages can be lower, expenditure can also be found to be directed to critical service industries, such as safety and security, and health and medical.

As an example, a ripple analysis was conducted on a high-end television series with a mid-sized budget. The production was not in Mexico. As the analysis outlines, just below 40% of production expenditure went towards audiovisual production-specific businesses and service providers.

[91] Above-the-line (ATL) and below-the-line (BTL) relate to film and television production workforce and the different types and seniority of roles across talent, cast, and crew: ATL refers to key talent, including directors, writers, and actors; BTL refers to other crew, for example in technical production roles

The remaining 60% of the project's expenditure was spread across a range of other business sectors, including over 8% on construction, almost 12% on travel and transport, 4% on hospitality and catering costs, and almost 7% on business support services and resources.

Figure 31 – Example Ripple Analysis of a Drama Series, Mid-Size Budget[92]



Source: SPI analysis of mid-size budget drama series (Australian-based)

7.2.2. Heatmapping Analysis

Production expenditure is often concentrated in major urban areas or production hubs, in which the base of industry's infrastructure, such as studios, equipment houses, and post-production suites are situated and where most of the workforce reside or can commute. However, due a range of factors, such as the itinerant nature of the industry workforce, the demand for adequate shooting and studio space outside of the confides of city centers, as well as script-specific location requirements, production spend can often be seen to spread across regions with various vendors, thus having further notable impact across an entirety of a region.

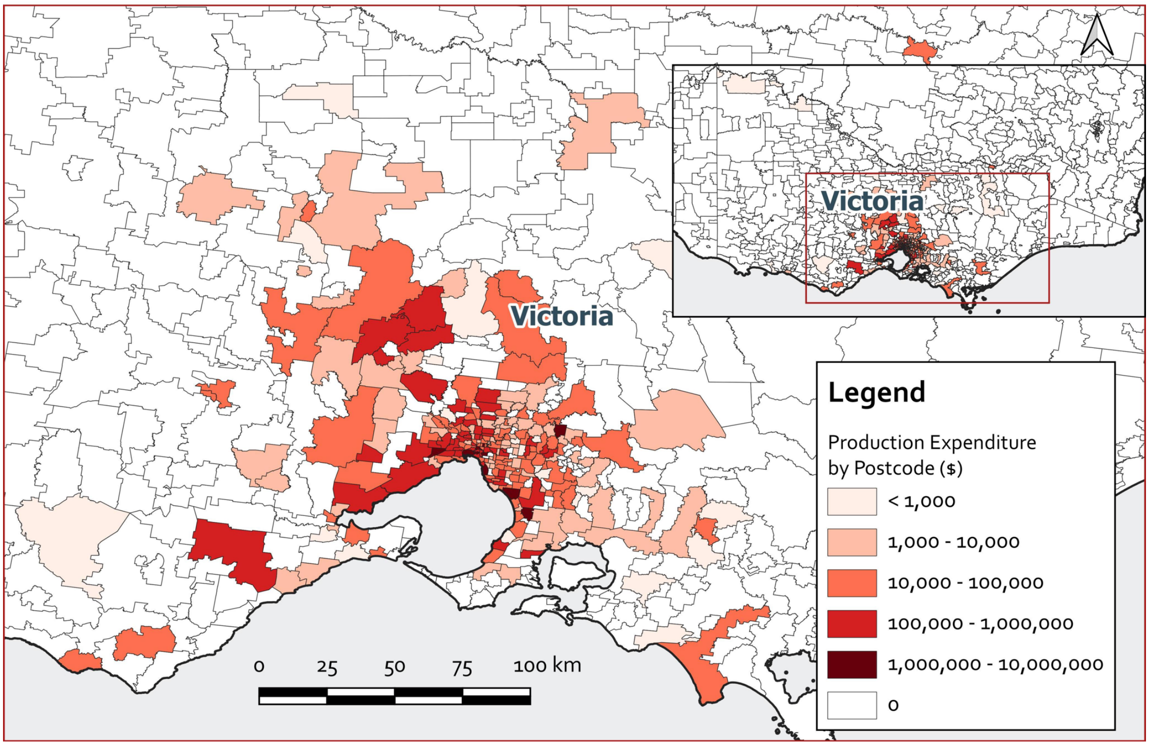
Vendor spend heatmaps are a visual presentation of the location of and intensity of production expenditure. Although we anticipate most of the production expenditure to be located within hubs, a vendor heatmap provides insight into the different districts and suburbs in which expenditure occurs, again showing the ripple of spend across the economy.

In the following example from Australia, SPI worked with a production company to evaluate the impact of their productions on their immediate as well as surrounding areas' audiovisual sector supply chain. Three television drama series were analyzed specifically, and their expenditure mapped by zip code to determine where the spend landed in terms of geographic spread. The map in the figure below illustrates vendor spend from production expenditure in

[92] *Study on the Impact of Film and Television Production Incentives in Australia.* SPI, February 2023. Accessible at: https://www.o-spi.com/s/ANZSA-Final-Report-February-2023.pdf

Melbourne / Victoria. Spend was mapped through vendor postcode to show the spread of impact from the three projects. The darker the color, the larger the spend in that area.

Figure 32 – Example of Geographical Spread of Production Expenditure in Melbourne / Victoria, Australia[93]



Source: SPI analysis of three Australian drama series

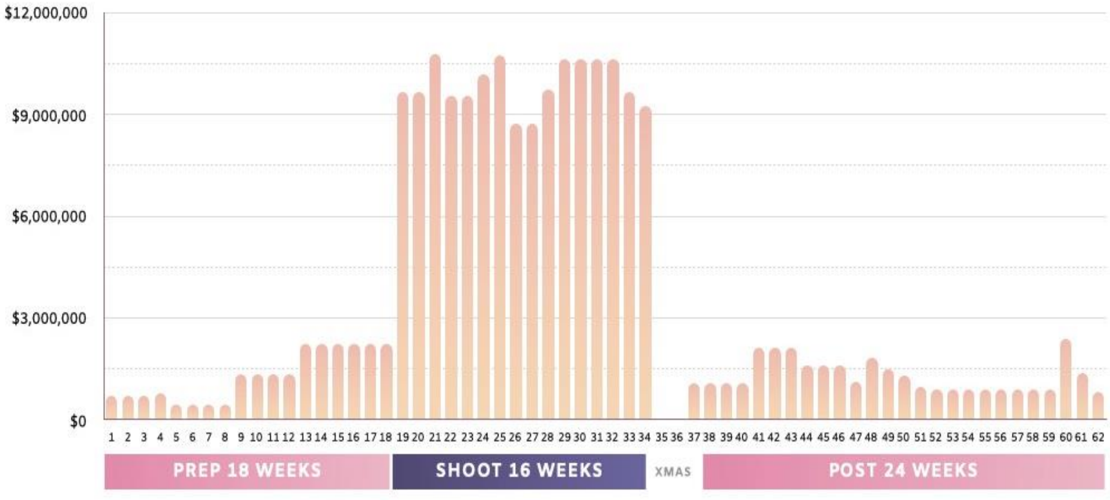
7.2.3. The Speed of Expenditure

In addition to its geographical impacts and its impacts on a wide range of other business sectors, audiovisual production expenditure is also notable for how rapidly it can impact an economy. Projects of all sizes can deliver a large injection of cash in a short space of time and in this way can be likened to major, specialist, high-tech manufacturing undertakings that arise, expend significant and employ hundreds, before reducing to a handful of key operatives while those previously employed move on to new projects.[94]

Previous SPI analysis of projects outside of Mexico shows that a very large budget feature film spent an average of US$9.9 million on a weekly basis during a 16-week shoot. As shown in the following figure, there is a large increase in spend between the prep phase and the principal production phase, with an adjustment downwards once the project enters its post production phase.

[93] *Study on the Impact of Film and Television Production Incentives in Australia.* Ibid
[94] *Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19.* Ibid

Figure 33 – Major Film Cashflow ($220 Million Budget)



Source: *Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19*. Ibid

Section Five –

Wider Strategic Impacts for Mexico

Credit: Gobierno de Jalisco

8. WIDER STRATEGIC IMPACTS OF AN INCENTIVE FOR MEXICO

This section examines **additional impacts** that an incentive could deliver for Mexico.

Potential strategic impacts are broad, and span impacts on **Mexican culture, national branding,** and **tourism**.

Such impacts also include the potential to drive **formalization** in the Mexican economy – a key benefit – as well as **regional effects**, and effects on **skills and talent**.

8.1. Introduction

In addition to macro and micro economic impacts, audiovisual production can also deliver a suite of strategic benefits for jurisdictions. Mexico will be attracting some of these benefits already, and expanded production stimulated by an incentive would increase the intensity and value of these effects.

These strategic impacts include those which are universal – such as cultural impacts, soft power and national branding, the stimulation of additional foreign direct investment (a type of export revenue), and global tourism related to audiovisual content. It also includes the potential to drive more production activity in Mexico's regions, and an opportunity to drive formalization in the audiovisual production economy.

8.2. Developing Skills and Talent

Mexico's existing audiovisual production workforce is already considered to be somewhat stretched by current production levels. The introduction of an incentive would therefore provide a way to strategically expand this skilled workforce further and protect existing sectoral jobs and skills. Given the importance of employment, any incentive should be developed and introduced alongside a robust skills development strategy.

As outlined in Section 8.3, introduction of an incentive would also provide a key opportunity to formalize the Mexican production landscape. This would include the collection of better quality data on projects, and their spend and workforce. An incentive provides key agencies with the ability to implement a model to ensure that incentivized projects provide data on workers so that a skills development strategy can be developed and rapidly adapted in response to any shortages or gaps.

Incentives can also be formulated to directly encourage national skills and talent development and to drive jobs in specific areas of high unemployment. Examples in the US market include:

- The Illinois Film Production Services Tax Credit, which offers an additional 15% tax credit on Illinois labor expenditures of employees who live in areas of high unemployment.
- The Texas Moving Image Industry Incentive Program, which offers an addition 2.5% for underused or economically distressed areas.
- The Montana Economic Development Industry Advancement (MEDIA) Act, which offers an additional 5% for expenditures in a high poverty county.

Incentives can also be formulated to encourage workforce diversity. For example, the New Jersey film & Digital Media Tax Credit Program offers an additional 2% if a diversity plan is submitted and achieved. Portugal, meanwhile, offers a 5% uplift for remuneration of actors and technicians with disabilities.

By increasing international production flows, incentives also help escalate talent by ensuring that professionals have access to the level of quality and process required on major budget international productions. This upskills a nation's crews and creates the potential for local crews to transfer international skills to domestic audiovisual content.

The introduction of an incentive could also assist in repatriating leading Mexican professionals who have moved to other global markets to work. As above, this would provide highly valuable skills transfer and ensure that money invested in training impacts Mexico.

An incentive would also underpin skills and talent development by creating jobs. Mexico may have been busy with audiovisual production since the pandemic, but an incentive would bring more activity and enable more jobs. This is vitally important given Mexico's focus on youth employment. As outlined, current production levels are likely to soften given global competition from other incentivized jurisdictions should no incentive be introduced.

8.3. Formalization of Mexico's Production Economy

A national incentive introduction would provide an opportunity for Mexico to formalize its production economy. Currently, there are significant 'grey' areas of the economy in Mexico which can create uncertainty – and indeed risk – for international productions. An incentive would require a high degree of financial accountability for productions through the need for full invoicing and audits, and therefore drive formalization in the economy.

In turn, this would return additional taxes to government – including from the additional production attracted to Mexico that would not otherwise be undertaken in the country. It would also encourage employment formalization.

An incentive would also provide an opportunity to collect more and better data on the sector, which in turn would enable more effective policy making in future. As the audiovisual production sector in Mexico is lacking key statistics, the introduction and administration of an incentive should be linked to a robust sectoral data and statistics strategy. This will enable Mexico to be more strategic about the audiovisual sector: in understanding production levels and production flows, key agencies can also implement robust strategies in areas such as marketing, skills development, and infrastructure.

An incentive can also be used as a tool for planning. Depending on how an incentive is formulated, it can assist film commissions and other key agencies in capacity planning for the future in areas such as skills and infrastructure.

8.3.1. Data Gathering and Industry Tracking

Research undertaken for this Study underlines that there are significant gaps in data tracking at the federal level in Mexico. Just as the introduction of an incentive could be leveraged to increase economic formalization, it should also be used to introduce a robust new approach of industry tracking and insight. This will enable policy makers to understand the true scale of the industry in Mexico, and also ensure that the incentive and other interventions are effective.

A full analysis should be introduced to map and plan for better data tracking, but at the minimum it is suggested that Mexico develops a method of systematically recording production expenditure nationally by type of production, region of expenditure, and sources of financing. This should be published annually, enabling time series tracking.

Government and key industry stakeholders should also work closely with INEGI to develop a set of standardized national statistics – including job numbers – focused on production as a key element of the wider audiovisual sector. This can be done within the current industry classification system (NAICS) used in Mexico.

In addition, standalone analyses should be planned in relation to the introduction of a federal incentive in Mexico. A study should immediately be undertaken on the precise scale of informal activity within the audiovisual production sector in Mexico, producing a set of metrics that set out the prevalence of informality. This should also produce a set of recommendations that should contribute to the design of an incentive. A follow up study – two to three years after an incentive introduction – should be undertaken to track improvement and growth of formal processes.

A further economic impact analysis should be undertaken after two to three years of an incentive's operation to track the effects of the incentive, and also to make recommendations around ensuring ongoing effectiveness.

8.4. Infrastructure

The introduction of a major incentive can also encourage growth in audiovisual production infrastructure – particularly in studios. This is because a stable incentive and a throughput of linked productions is a signal to investors that the jurisdiction is a potential place to invest, with strong official support.

There is very strong demand for existing studio provision in established production hubs globally, which creates an opportunity for Mexico.

Evidence from other global production markets underline the speed at which investors can respond to opportunity. Other Latin American markets have seen expansion in purpose-built studio space – a key factor in being able to attract larger audiovisual productions. This includes the Dominican Republic, where Dominican Republic Studios offers three sound stages and a water tank. In November 2022, Banijay Americas announced it would be opening a studio of nearly 750,000 square feet in in Guarulhos, relatively close to São Paulo's international airport.[95] The Panama Government has also announced plans for a studio facility.[96] The Dominican Republic, São Paulo and Panama all offer international incentives.

Mexico is lacking in some areas of infrastructure related to very high budget productions, such as studios and specialized transport vehicles. However, this lack relates to the lack of custom: should an incentive stimulate larger budget production, it is very likely that the market would respond quickly to the increased need in this area. Any incentive introduction should be linked to an infrastructure development strategy.

8.5. Increased Regionalization

Currently, much of Mexico's audiovisual production takes place in Mexico City, which is where the majority of production companies, production service companies and crew are based.

However, Mexico has a globally unique locations offer and there would be significant demand for regional production in response to an incentive. The high level of activity in Mexico City is also an opportunity for key sectoral agencies to encourage production to other regional hubs in Mexico.

An incentive would provide a strong lever to encourage development of this sector in other parts of the country beyond the capital. Currently, inward projects may come into Mexico via Mexico City and then into regions depending on the need for production. An incentive would encourage individual states to market their own offer more extensively.

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[95] *Banijay Opening Largest Independent Production Studio Facility in Latin America*. Banijay, 28th November 2022. Accessible at: https://www.banijay.com/blog/2022/11/28/banijay-opening-largest-independent-production-studio-facility-in-latin-america/

[96] *Panama's Culture Minister Giselle Gonzalez: Panama to Build New Film Studio, Pledges More Support for IFF Panama*. Variety, 4th December 2022. Accessible at: https://variety.com/2022/film/news/panama-studio-iff-panama-giselle-gonzalez-1235449357/

It would be important to implement a regionalization strategy alongside an incentive for Mexico, to ensure that regions are developing adequate crew and infrastructure, so that producers do not have to bring everything from Mexico City. Regional growth in production would also encourage infrastructure investment.

Incentives can also be formulated to directly drive regional impacts – for example, by offering specific uplifts for projects shooting in specific regions. For example, Portugal's 25% rebate offers producers a 5% uplift for costs incurred in areas of low population density, while several US States offer out-of-zone related filming uplifts. These include California and Louisiana.

8.6. Driving Domestic and International Tourism

Audiovisual production can bolster tourism significantly through the highlighting of a region's locations, characters, and stories. Tourism is a key economic driver in many countries, including Mexico, and the potential of audiovisual production to stimulate tourism is well recognized.

Audiovisual content has a unique ability to change perspectives on a destination and show viewers authentic and lesser-known elements which can be highly impactful. There are many positive examples of such impacts, including on placemaking and tourism development.

Indeed, some incentives are formulated to maximize tourism impacts from the projects that access them. For example, the US state of Georgia offers a 10% uplift for projects that include the state's promotional peach logo in the final production.

Tourism has been identified as a driver of national development, mainly due to its ability to generate foreign exchange and jobs. In Mexico, tourism represented 7.5% of national GDP and 5.7% of paid jobs in 2021 which was a significant increase from 2020 when tourism only amounted to 6.8% of GDP. It does represent a decrease from 2019, which is likely due to the fact that the sector is still recovering from the effects of the pandemic.

While recovery from the pandemic was predicted to be slow, the numbers from the first half of 2022 show a recovered sector with numbers above those from pre-pandemic levels.

In 2020, the Mexican Government's *Sustainable Tourism Strategy 2030* was launched, a national strategy aiming to position Mexico as a global leader in sustainable tourism by 2030.[97]

This is not the only project that Mexico's Secretary of Tourism (SECTUR) has developed with the intention of attracting more and better tourism to the country. Some noteworthy projects in development include Barrios Magicos – a program which aims to diversify the country's tourist destinations by highlighting noteworthy destinations – and Tren Maya, a program that aims to improve quality of life, help with the diversification of tourist locations and promote the economy of all states it crosses.[98]

Previous audiovisual productions have already proved the power of content to promote tourism. A key example is *Spectre*, which was partly set in Mexico City and featured a Day of the Dead parade. The year after the release of the film, the number of international tourists in Mexico City increased by 9.4%.[99] In 2016, the parade in the film was recreated by more than 1,000 people with the intention of reaching an international audience. The parade had around 425,000 spectators in 2016 but in only three years it had grown to more than two million. According to recent figures, the Day of the Dead attracts more than 7.5 million international tourists a year, representing an economic income of nearly MXN4 billion.

[97] Mexico Sostenible. Estrategia de Turismo 2030. Accessible at: http://sistemas.sectur.gob.mx/dgots/04-estrategia-turismo-sostenible-2030.pdf
[98] https://www.gob.mx/trenmaya
[99] *Travel-inspiring Skeletons in Spectre and Coco – Film Tourism and the Día de Muertos in Mexico*. Viola Rühse, 2021. Accessible at: https://journals.openedition.org/inmedia/2985

The *Coco* Route is another example of tourism impact.[100] After the success of the film, SECTUR publicized in October 2018 a compilation of tourist routes to visit sites inspired by the film *Coco*, which national and international tourists could follow, thus diversifying tourism destinations. The impact of this route was immediate in Michoacan, the state where the route runs through, which saw an increase of 425% in the arrival of international tourists between 2018 and 2019.[101] The total amount of tourists in Morelia, the capital of Michoacan (and the starting point of the shortest *Coco* route) saw an increase of 5.45% in total tourists from 2018 to 2019 with a total of around 3.2 million visitors that had an economic impact of MXN4,482 million (around US$225 million).[102]

An incentive is likely to increase the scale of productions coming to Mexico, meaning larger budget television series and films would shoot in the country. These larger budget productions tend to have the most impact on tourism and thus would increase the appeal of the country as a tourist destination.

Incentives can also be used to drive more regional production, which in turn can have a significant impact on tourism. Creating a mechanism that incentivizes regional production will push productions into these new areas, representing a more varied Mexico on screen.

[100] https://www.mexicanist.com/l/coco-route/
[101] https://www.datatur.sectur.gob.mx/ITxEF/ITxEF_MICH.aspx
[102] https://www.elsoldemorelia.com.mx/local/arribaron-a-morelia-3.2-millones-de-turistas-4680590.html

9. APPENDIX ONE – STUDY APPROACH

A detailed study of the potential of an incentive requires collating a number of different evidence bases and data sources. SPI's methodology, briefly outlined in this appendix, draws together a number of qualitative and quantitative techniques, developed through the firm's work in the incentives and sectoral development space in multiple global jurisdictions.

SPI's methodology involved the following steps.

Preliminary Document Review

To start the project, SPI undertake a rapid review of all relevant documents and initial data related to the Mexican audiovisual production sector, and to the issue of incentives.

Detailed Desk Research and Data Gathering

A more detailed program of desk research and data gathering was then undertaken, drawing together all relevant public reports and datasets. A key element of this was gathering all data required for the economic impact element of the Study. Necessary data for the economic modelling, including federal-level statistics and I-O tables, were also gathered and data gaps identified.

SPI liaised with relevant Mexican agencies, including INEGI, with data requests and questions.

At this stage, data were also gathered on comparison countries to inform the analysis and projections being created for Mexico.

Confidential Consultations

SPI undertook confidential consultations with over 15 stakeholders. These added insight and depth to the quantitative data being gathered and analyzed, and to the wider view of the production sector in Mexico and the issue of incentives. The consultations were also used to interrogate issues or questions related to public data sources, and to gather information on other areas of analysis. To inform the expenditure projections process, consultations with producers also examined how production investment in Mexico would change should a competitive incentive be introduced.

Primary Economic Impact Analysis, Survey, and Forecasts

SPI analyzed data on production investment for current audiovisual activity in Mexico and, as there were no national baseline spend data, created three scenarios for future annual expenditure in relation to the levels of an incentive offer. SPI used these spend estimates to analyze the direct, indirect, and induced impacts of current production levels through I-O tables. This focuses on standard economic impact metrics, including GVA and output.

Additional Data Analysis

In addition to economic data, the Study also considered key areas of strategic impact, including regional effects. These data were collated and analyzed to form elements of the Study narrative.

Team Brainstorm and Synthesis

At this point in the Study, having gathered most of the data for the Study and reached a set of conclusions, SPI collated, reviewed and analyzed all data and findings at an internal 'brainstorm' meeting.

Final Report

As the research reached its conclusion, the final report was drafted.

10. APPENDIX TWO – ECONOMIC IMPACT METHODOLOGY

To develop this analysis, SPI undertook a series of key steps. These are based on methodological approaches for similar studies in a range of countries, including Ireland, the UK, several US states, Australia, New Zealand, and countries within Europe.

10.1. Expenditure data

As there is no one comprehensive, consistent source of production expenditure data for Mexico, it has been necessary to estimate the current production levels and forecast levels under each scenario. The assumptions used to generate this are set out in Section 6.3.

10.2. Key Data Sets and Sources

The following data sets were accessed and analyzed:

- INEGI, Mexican National Accounts Input Output Matrix, www.inegi.org.mx
- INEGI, Satellite Accounts for Culture, www.inegi.org.mx
- INEGI, Economic Census data, www.inegi.org.mx
- IMCINE, Statistical Yearbook, 2021
- World Bank, GDP Deflator
- OCED, I-O tables, https://www.oecd.org/sti/ind/input-outputtables.htm
- OECD revenue statistics, https://www.oecd.org/tax/revenue-statistics-mexico.pdf

10.3. Informal Economy in Mexico

The informal economy in Mexico is significant – the OECD indicated in 2018 that informal workers accounted for 57% of the Mexican labor force.[103] This poses a significant challenge to economic development polices and also to accurately measuring economic activity across a range of indicators. For example, this is highlighted in relatively low tax receipts (as commented later). The SPI approach uses the best available data while acknowledging uncertainties and assumptions needed to plug these gaps.

10.4. Input-Output Methodology

This study employs an I-O approach to economic impact modelling. It uses production expenditure data to drive a specially developed economic model, which uses national data sources to build a picture of the interconnections between the audiovisual production industry and other industries and the relationships between key metrics such as output, GVA, and jobs.

The methodology is based on a large number of sector studies SPI has undertaken around the world and it is consistent with international best practice including studies in the UK, US states, New Zealand, Australia, Asia, and across Europe.

I-O determines the total economic impact of a particular investment or activity. This total is the sum of the direct, indirect and induced effects:

- **Direct** – that element of impact which occurs directly within the element of the sector being studied (i.e. for audiovisual production, the value generated by the direct hiring of cast and crew, and other direct spending);
- **Indirect** – the impacts associated with the purchasing of goods and services from non-audiovisual sector companies (for example, legal advice, financing, catering, and transport associated with productions); and,
- **Induced** – impacts generated as a result of the additional economic activity resulting from the re-spending of wages earned in the direct and indirect phases, which increases economic activity across the broader economy.

[103] OECD Mexico Policy Briefing: Labour Market Inclusion, January 2020 https://www.oecd.org/mexico/Policy-Brief-Mexico-Labour-market-inclusion-EN.pdf

10.5. Calculating Multipliers – Analyzing Mexican Input-Output Tables

The I-O tables for Mexico are released every five years, with a five-year delay. This means that the latest I-O tables for Mexico are for 2013 (released in 2018). The next update is due mid-way through 2023. I-O tables are a picture of the fundamental structure of the interactions between different economic sectors, and while the underlying structure of the economy does not change rapidly, using I-O tables which are ten years out of date is a limitation of this study. SPI has undertaken comparative analysis with additional data sources, set out in the following section, to verify and cross-check multipliers.

SPI used the Domestic Industry by Industry matrix to calculate the matrix of coefficients and the Leontief Inverse Matrix for the whole economy. The calculations for Type I multipliers included only the industry, while the calculations for the Type II multipliers also included household income and expenditure. For a particular industry, the multipliers are the sum of the Leontief Inverse coefficients. For Type 1 multipliers the final demand corresponds to the direct + indirect effects. For Type II multipliers, this final demand corresponds to direct + indirect + induced effects. The indirect (Type 1) relationships are published alongside I-O tables and our calculations were checked against these for consistency.

For this Study, SPI used the multipliers which correspond to NAICS 5121 'Motion Picture and Video Industries'. I-O data for Mexico is available to this four-digit level.

Table 16 indicates the 5-digit industry codes which are included in in NAICS 5121.

Table 16 – Summary of Audiovisual Sector Industrial Codes

5121 Motion Picture and Video Activities	
51211	Motion Picture and Video Production
51212	Motion Picture and Video Distribution
51213	Motion Picture Exhibition
51219	Post-production Services

Although this sector definition does not align perfectly with the audiovisual production activity, it is close enough to provide useable multiplier estimates. On this, it should be noted that:

- The other activity within 5121 is around the distribution and exhibition of audiovisual content (although broadcasting has a separate SIC code). In Mexico, Motion Picture exhibition accounts for the majority of activity in this category (an estimated 62% in 2013).[104] However, it is not possible to remove this for estimating multipliers, but this activity is not included in expenditure.
- It is common practice in other parts of the world to use multipliers from this sector (or something closely aligned) in studies of the impact of the audiovisual sector and the approach used here is consistent with such studies in New Zealand, US states, UK and Ireland.

The focus of this study is on production and post-production activities. It is clear that there are some activities within 5121 which fall outside this scope. It is important to note that when we use data for 5121 Motion Picture and Video Activities we are using this information to inform ratios and multipliers. The overall economic impact is driven by the expenditure on audiovisual production and post-production activity only.

[104] INEGI Matrix Insumo Producto data download

Across all areas, the I-O analysis produces multipliers which allow us to assess the impact of spending associated with the sectors studied in three areas, reflecting the three phases of economic activity in a standard impact study:

Type I multipliers calculate the direct + indirect effect and Type II are used to calculate the total effect (direct + indirect + induced).

Table 17 displays the output multipliers calculated through this method. Note that these multipliers are relatively low compared to some more developed markets where local supply chains are stronger. In addition, the high level of informal activity within the economy is likely to contribute to lower multipliers being measured in official statistics.

Table 17 – Multipliers for Motion Picture and Video Activities from Mexico I-O Tables (2013)

	Type 1	Type 2
2013	1.55	1.87

Source: SPI calculations based on IO Tables

10.6. Verifying Multipliers – Using OECD data

As set out in previously, the lag in I-O data for Mexico poses a challenge for this study. SPI devised a methodology to cross check the multipliers with data from other sources.

The OECD publishes I-O tables for member countries, although at less granular sector detail than nationally published information. The latest I-O tables for Mexico published by the OECD is for 2018. Indicators published includes the Leontief Inverse Matrix (Type I multipliers) and the data is available for International SIC (ISIC) 58-60: Publishing, audiovisual and broadcasting activities which contains Motion Picture and Video Activities. OECD does not publish data on Type II multipliers, nor the full data that would enable SPI to calculate them.

Table 18 – Leontief Inverse Matrix (Domestic) for 58-60 Publishing, Audio Visual and Broadcasting from OECD 2013 to 2018

Year	Type I Multipliers for ISIC 58-60
2013	1.622
2014	1.606
2015	1.580
2016	1.563
2017	1.561
2018	1.561
% change 2013-18	-3.8%

Source: OECD I-O tables, 2021 edition

The OECD data indicates a broad alignment in the multipliers for the sector 58-60 and those specifically calculated for NAICS 5121 from the Mexican I-O table.

The Type I multiplier for the broader sector (58-60) from OECD data has declined slightly between 2013 and 2018, a total fall of 3.8% in the five years. This is likely to reflect the growth in both imports and exports and strengthening of international supply chains during this period.

Given this decline in the sector Type I multiplier, SPI believes it is prudent to reduce the multiplier to Motion Picture and Video Activities in line with this 3.8% decline. This gives slightly lower multipliers for 2018, as shown in Table 19. These multipliers are used in the analysis.

Table 19 – Adjusted Multipliers for Motion Picture and Video Activities (2018)

	Type 1	Type 2
2018	1.4966	1.8032

Source: SPI calculations based on IO Tables and OECD data for broader sector

10.7. Jobs and Other Variables

In addition to the multipliers, the economic model also utilizes key ratios and relationships that estimate direct GVA, direct income and direct jobs from direct output.

SPI undertook a detailed search for up to date and consistently measured jobs numbers for the sector. The purpose of this was twofold. First, jobs figures which are measured on a consistent basis to sector output are required as an input into the economic modelling. Second, published jobs figures are an important point of comparison for SPI jobs estimates.

There are many sources and measurements for jobs/employment in the audiovisual sector in Mexico. Most estimates are for the whole of the audiovisual sector which includes distribution and exhibition, as well as production. Table 21 below summarizes the main sources and identifies the main issues within them. This underlines the complexity of the statistics on the sector in Mexico and the challenges of coming to an accurate jobs estimate for production.

Table 20 – Sources of Data on Jobs in the Mexican Audiovisual Sector

Source	Description	Jobs	Issues	Link
INEGI Cultural Account	2021 Employed	14,162	Cultural account divides sectors without indication of what is exactly included and is most likely to include Distribution and Exhibition	https://www.inegi.org.mx/app/tabulados/default.aspx?pr=19&vr=2&in=21&tp=20&wr=1&cno=2&idrt=114&opc=t
INEGI Cultural Account	2020 Employed	19,721	Cultural account divides sectors without indication of what is exactly included and is most likely to include Distribution and Exhibition	https://www.inegi.org.mx/app/tabulados/default.aspx?pr=19&vr=2&in=21&tp=20&wr=1&cno=2&idrt=114&opc=t
INEGI	2021 Total Employed Personnel (code 5121)	22,149	Number includes Exhibition and Distribution and because of the amount of irregular jobs in the country INEGI might be underestimating jobs	https://www.inegi.org.mx/app/tabulados/interactivos/?bd=EASPNF&px=EASPNF_2

Source	Description	Jobs	Issues	Link
INEGI	2020 Total Employed Personnel (code 5121)	22,433	Number includes Exhibition and Distribution and because of the amount of irregular jobs in the country INEGI might be underestimating jobs	https://www.inegi.org.mx/app/tabulados/interactivos/?bd=EASPNF&px=EASPNF_2
IMCINE Yearly Report	2020 Employed	24,146	Seems to source data from old version of cultural accounts so issues are similar as above	http://anuariocinemx.imcine.gob.mx/
INEGI Cultural Account	2019 Employed	29,169	Cultural account divides sectors without indication of what is exactly included and is most likely to include Distribution and Exhibition	https://www.inegi.org.mx/app/tabulados/default.aspx?pr=19&vr=2&in=21&tp=20&wr=1&cno=2&idrt=114&opc=t
Economic Spill Study (page 14)	2018 Number of jobs	31,000	Data from INEGI so has similar issues to other INEGI data	https://canacine.org.mx/wp-content/uploads/2022/06/ESTUDIO-DERRAMA-ECO-INDUSTRIA-POR-UNAM-.pdf
INEGI	2019 Total Employed Personnel (code 5121)	31,652	Number includes Exhibition and Distribution and because of the amount of irregular jobs in the country INEGI might be underestimating jobs	https://www.inegi.org.mx/app/tabulados/interactivos/?bd=EASPNF&px=EASPNF_2
IMCINE Yearly Report	2019 Employed	34,831	Seems to source data from old version of cultural accounts so issues are similar as above	http://anuariocinemx.imcine.gob.mx/
CDMX Annual Report (page 141)	2021 Number of jobs generated	104,582	Unclear the definition of jobs and the methodology for estimating.	https://www.cfilma.cultura.cdmx.gob.mx/

Source	Description	Jobs	Issues	Link
CDMX Annual Report (page 9)	2021 People employed in the audiovisual industry	375,577	Unclear the definition of jobs and the methodology for estimating.	https://www.cfilma.cultura.cdmx.gob.mx/

SPI has found that the 2013 I-O Table release contains the most comprehensive and consistent set of jobs data for the NAICS 5121 sector, even though this data is quite out of date, it is consistent with the output figures and therefore gives a jobs to output ratio that can be used in the modelling.

In this data, there are number of different 'jobs' measures presented.

Table 21 – Definition of Jobs, including Identifying Code

PT: All jobs	PTR: All jobs in company that are paid with a salary
	PTNDRS: All jobs that work for the company without payment (e.g. owners)
	PSORS: Those working for company but through a contract with a different company (i.e. very close supply chain)
	PHOCSS: Workers who are self-employed and get paid through an invoice

Source: SPI Communications with INEGI

These jobs, and the jobs presented in the economic impact section, are annualized jobs which account for the short-term nature of some of the employment in audiovisual production sector. For example, a three-month contract would be counted as 0.25 job. This enables comparison to other industries on a more consistent basis.

It is standard practice in studies like this to estimate the full-time equivalent (FTE) job impact. This accounts for the extent of part-time workers within the total workforce and provides a measure which is comparable across sectors. Unfortunately in Mexico, data on full-time equivalent employment for the motion picture and video activities is not available in a manner that is comparable to the I-O tables. However, SPI has reviewed data on hours worked from the Economic Census published by INEGI. This indicates that on average someone working in the 5121 sector worked 2,318[2] hours a year in 2018. This is higher than a 40-hour week, 52 weeks a year (2,080 hours). Therefore, SPI concludes that the rate of part-time working in the sector is likely to be small and therefore the headcount jobs figure presented here is likely to be very close to the full-time equivalent figure if that was available.

The table below summarizes the key economic ratios from the 2013 I-O tables in 2013. This is updated to 2021 prices and exchange rates in

Table 23 to enable the ratios to be applied to the current and future forecast pattern of expenditure.

Table 22 – Key Economic Ratios for NAICS 5121, 2013 data year, 2013 prices

	MXN Pesos	US $[105]
Output (US$ m)	38,322	3,004
GVA (US$ m)	19,793	1,552
Jobs	39,234[106]	39,234
GVA to Output	0.516	0.516
Number of jobs per US$1m	1.024	13.059

Source: SPI calculations based on Mexican I-O Tables 2013

Table 23 – Key Economic Ratios for NAICS 5121, 2013 data year, 2021 prices

	MXN Pesos	US$[107]
Output (million)	55,523	2,737
GVA (million)	28,677	1,414
Jobs	39,234[108]	39,234
GVA to Output	0.516	0.516
Number of jobs per US$1 million	0.71	14.33

Source: SPI calculations based on Mexican I-O Tables 2013 and GDP estimates from World Bank

SPI has reviewed the Satellite Account which provides estimates of output and GVA for the sector and data published by IMCINE. This data does not exactly match with sector definitions of those presented in the I-O tables and therefore it is not appropriate to use these figures to inform the ratios and multipliers. However, SPI undertook analysis and found that the average ratio between GVA and output in IMCINE data is 0.518 which is very close to the figure in the 2013 I-O tables. This gives confidence in that the ratios of 2013 are still relevant.

To estimate the tax impact of the scenario-based production spend we have used data derived from the OECD.[109] We have used the three-year average in Mexico of overall tax revenue as a percentage of output (GDP). The three-year average encapsulates the period 2019-2021. The ratio of tax income output that has been used in this analysis is on average c0.169. Therefore, we have utilized the OECD total tax as a proportion of output, which does also include income as well as production-based taxes. We recognize that this is a relatively wide definition of tax income, but it is consistent with the approach taken in other studies.

This tax ratio is then applied to both direct impact (GVA) and total impact (GVA) to derive the direct and total tax impact of each scenario.

It is important to highlight that Mexico ranks 38th out of 38 OECD countries in terms of tax-to-GDP ratio. In 2021, its tax-to-GDP ratio of 16.7% compared with an OECD average of 34.1%. It has consistently ranked the lowest on this measure across OCED members. It is our interpretation that this relates to the informal nature of large parts of economic activity across Mexico, as discussed previously. Whilst the tax-to-GDP ratio has increased over the last

[105] Average exchange rate for 2013 - 1 MMXN = 0.0784 US$ exchangerates.org.uk
[106] Sourced from Output Tables for 2013, average for whole year.
[107] Average exchange rate for 2013 - 1 MMXN = 0.0784 US$ exchangerates.org.uk
[108] Sourced from Output Tables for 2013, average for whole year.
[109] https://stats.oecd.org/index.aspx?DataSetCode=REV

decade, it remains low in relative terms. Consequently, the tax impact of the scenarios presented will be lower than when compared to initiatives that may occur elsewhere.

10.8. Application of I-O Multipliers

To begin determining the impact of audiovisual production expenditure, SPI first used the output multipliers to determine the indirect and induced output effects. This approach effectively uses expenditure as a proxy for sector output.

GVA ratios and multipliers were applied to these results, allowing the determination of the value added in each of the phases of economic impact, and thus the direct, indirect, and induced contributions from the audiovisual sector to the broader Mexican economy.

Job analysis was undertaken by first applying a job-to-output ratio to the output generated by the sector which provided an estimate of the direct footprint associated with production expenditure. Type I and Type II multipliers were applied to the results of this analysis to determine the indirect and induced jobs arising from this activity.

10.9. General Limitations of Input-Output Approach

I-O Analysis is a commonly used method of establishing the economic contribution or economic impact of a particular firm, investment or wider sector. It is used around the world by government and the private sector to communicate the significance of a sector and the effect of investments and policies. SPI's approach to undertaking Economic Impact Studies is aligned to international best practice.[110]

As with all modelling approaches, there are limitations to the approach. Specifically I-O analysis makes the following assumptions:

- **No supply constraints.** I-O assumes there are no restrictions on inputs, raw materials and employment. This means that modelling a change in the industry, needs to be undertaken sensitively to when this assumption might not hold. In this study SPI has identified potential supply constraints and indicated where action is necessary to mitigate these.
- **The model is not dynamic.** There are no embedded feedback loops or price effects dampening demand. I-O does not account for counteracting or balancing effects of a change being offset or counter acted by a change in another industry.
- **Constant returns to scale**. The same quantity of inputs is needed per unit of output, regardless of the level of production.
- **Input structure is fixed**. It is assumed that changes in the economy will affect the level of inputs and outputs but not the mix.

10.10. Caveats and Limitations of This Study

This study uses best available methods for determining the footprint of production activity. As with all studies of this kind, there are limitations and caveats to the approach.

- Exclusion of impacts in informal economy. The economic model was built using the best available data, applied sensitively. The impact only refers to the effect in the measurable, formal economy. As there is strong evidence that a significant amount of economic activity across all sectors in Mexico, and in the audiovisual production activity specifically that fall outside the formal economy, the economic impact results presented here are an underestimation of the full impact when informal employment is included.

[110] For example, *Evaluating the effectiveness of state film tax credit programs: Issues that need to be considered.* Ernst & Young, 2012. Accessible at: https://deadline.com/wp-content/uploads/2012/05/motion-picture-assoc-film-credit-study__120510071748.pdf

- The modelling is based on estimated production expenditure data. While this is based on the best available evidence, the estimation relies on a number of assumptions which are set out in this methodological appendix.
- The GVA was calculated using the relationship between output and added value for NAICS 5121 in the I-O tables. SPI understands that this is not a perfect sector match for audiovisual production expenditure. SPI's general approach is to err on the side of conservativism in our assumptions, preferring underestimations than overestimations. On balance, SPI feel there is an argument that the GVA to output ratio would be higher for the production activity than for all the activities in NAICS 5121 – as jobs are more skilled and wages are typically higher in audiovisual production activities than they are in say cinemas. Therefore, this assumption may lead to an underestimation of GVA.

11. APPENDIX THREE – SENSITIVITY ANALYSIS

Production expenditure data for the whole of Mexico is not available. As set out in Section 6.2, the best available data is on production expenditure in Mexico City. To calculate the estimate Mexico production expenditure, it was necessary to make an assumption as to what proportion of Mexican production expenditure happens in Mexico City. Through consultation and testing with stakeholders, it was agreed that an 80% figure should be used, i.e. Mexico City hosts 80% of the production expenditure in Mexico. Due to the crucial nature of this assumption, SPI has undertaken sensitivity analysis to test the impact of this assumption on the economic impact results. The tables below contain results when the assumption is 75%, 80% (main analysis) and 85%.

Table 24 – Economic Impact Results Summary – 75% Assumption

		Scenario 1	Scenario 2	Scenario 3
Production Expenditure, Cumulative, 2023-2028 (US$m, real)	Direct	6,200	7,060	8,220
Output, Cumulative, 2023-2028 (US$m, real)	Direct	6,200	7,060	8,220
	Indirect	3,080	3,510	4,080
	Induced	1,900	2,160	2,520
	Total	11,190	12,730	14,810
GVA, Cumulative, 2023-2028 (US$m, real)	Direct	3,200	3,650	4,240
	Indirect	1,590	1,810	2,110
	Induced	980	1,120	1,300
	Total	5,780	6,580	7,650
Jobs in 2028	Direct	14,170	17,710	22,150
	Indirect	7,040	8,800	11,000
	Induced	4,340	5,430	6,790
	Total	25,560	31,930	39,950

Source: SPI calculations

Table 25 – Economic Impact Results Summary – 80% Assumption

		Scenario 1	Scenario 2	Scenario 3
Production Expenditure, Cumulative 2023-2028 (US$m, real)		5,820	6,660	7,820
Output, Cumulative, 2023-2028 (US$m, real)	Direct	5,820	6,660	7,820
	Indirect	2,890	3,310	3,880
	Induced	1,780	2,040	2,400
	Total	10,490	12,010	14,100
GVA, Cumulative, 2023-2028 (US$m, real)	Direct	3,000	3,440	4,040
	Indirect	1,490	1,710	2,010
	Induced	920	1,050	1,240
	Total	5,420	6,200	7,280
Jobs in 2028	Direct	13,290	16,730	21,170
	Indirect	6,600	8,310	10,510
	Induced	4,070	5,130	6,490
	Total	23,960	30,160	38,180

Source: SPI Calculations

Table 26 – Economic Impact Results Summary – 85% Assumption

		Scenario 1	Scenario 2	Scenario 3
Production Expenditure, Cumulative, 2023-2028 (US$m, real)		5,470	6,310	7,470
Output, Cumulative, 2023-2028 (US$m, real)	Direct	5,470	6,310	7,470
	Indirect	2,720	3,130	3,710
	Induced	1,680	1,930	2,290
	Total	9,870	11,380	13,460
GVA, Cumulative, 2023-2028 (US$m, real)	Direct	2,830	3,260	3,860
	Indirect	1,400	1,620	1,920
	Induced	870	1,000	1,180
	Total	5,100	5,880	6,950
Jobs in 2028	Direct	12,510	15,860	20,310
	Indirect	6,210	7,880	10,080
	Induced	3,830	4,860	6,220
	Total	22,550	28,600	36,620

Source: SPI Calculations

12. APPENDIX FOUR – ABOUT OLSBERG•SPI

SPI is an international creative industries consultancy, specializing in the global audiovisual sector.

SPI provides a range of expert consultancy and strategic advisory services to public and private sector clients in the worlds of film, television, video games and digital media. Formed in 1992, it has become one of the leading international consultancies in these dynamic creative audiovisual industries.

The firm's expert advice, trusted vision and proven track record create high levels of new and repeat business from a diverse group of companies and organizations, including:

- National governments, including culture and economics ministries
- National film institutes and audiovisual agencies l Regional and city development agencies and local authorities
- Multi-national cultural funds and authorities
- National and regional tourism agencies
- Established studios and streamers
- Independent companies at all points of the audiovisual business value chain
- National and international broadcasters
- Trade associations and guilds
- Training and skills development organizations
- Publishers and conference organizers.

With expertise in all areas of the fast-moving global creative sector, SPI offers a wide range of services, including:

- Analysis and strategic advice for building healthy and sustainable national and regional industries, and recommendations for public policies to support this
- Mapping and assessment of physical infrastructure, services and workforce
- Delivering economic impact studies of whole sector activity or of incentives
- Advice on the creation of fiscal incentives for audiovisual productions
- Helping businesses and governments interpret the strategic implications of digital media innovations
- Business development strategies for content companies
- Feasibility studies, marketing and business strategies for small and large-scale studio facilities
- Evaluations of publicly-funded investment schemes
- Acquisition and divestment advice for owners or managers of SMEs
- International cost comparisons for small and large film and television productions
- Strategic advice on inward investment and exports for national and regional public bodies
- Analyzing and explaining the links between growth in tourism and a nation's film and television output
- Providing strategic advice for audiovisual commissions, including business and marketing plans
- Keynote speakers at industry events.

Further information on SPI's work can be found at www.o-spi.com and within the SPI Company Brochure.

Please **contact Leon Forde** at leon@o-spi.com for further information about this study

The strategy consultancy for the creative industries