

<p>Title: Impact assessment accompanying draft Statutory Instrument "Video Recordings (Labelling) Regulations 2011"</p> <p>IA No: DCMS038</p> <p>Lead department or agency: Department for Culture, Media and Sport</p> <p>Other departments or agencies:</p>	Impact Assessment (IA)
	Date: 21/11/2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary Legislation
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Summary: Intervention and Options RPC: RPC Opinion Status

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£20m	£20m	Zero	Yes IN

What is the problem under consideration? Why is government intervention necessary?
 Dr Tanya Byron's report, "Safer Children in a Digital World", concluded our classification and labelling system for video games is confusing. She recommended reforms so consumers and retailers are clearer about the content of individual games and extension of the system so that all video games classifications from age 12+ have statutory backing. Following full public consultation on options, Government announced the UK would adopt a single classification system for video games based on the PEGI (Pan European Game Information) ratings and made necessary primary legislation changes via the Digital Economy Act 2010. To implement the new system we need now to amend the labelling requirements for video games.

What are the policy objectives and the intended effects?
 To amend the Video Recordings (Labelling) Regulations 2010 in order to implement the UK's new video games classification and labelling regime which a) extends the statutory backing for all games classifications from 12+ and b) introduces a single system based on the PEGI ratings. The UK's new system will give better protection for children from inappropriate content, offer more clarity for consumers and retailers about the age-suitability of products and simplify the process for video games publishers of obtaining classifications for content and for labelling their product packaging (including avoiding the current need to produce UK-specific product packaging for a significant number of games).

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
 The Video Recordings (Labelling) Regulations 2010 have to be amended so that products are required to be labelled in accordance with the new video games classification system. Under the new system, the majority of video games products will be classified by PEGI and thus the amended Labelling Regulations will simply require the packaging and discs to carry PEGI labels. No other options are appropriate. However alternative approaches were considered for the relatively small numbers of products carrying a mixture of games (rated by PEGI) and film content (rated by BBFC). Options considered were: 1) requiring only the highest classification awarded to appear on the packaging and where the classifications are equal allowing the publisher to decide which one to apply; and, 2) requiring both classification labels on the packaging. Option (1) was selected as it offers the most simple and unambiguous advice to consumers, has reduced compliance costs for video games publishers and is the option most strongly favoured by industry.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2015					
Does implementation go beyond minimum EU requirements?				N/A	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: ED VAIZEY Date: 21/11/2011

Summary: Analysis & Evidence

Policy Option 1

Description: Statutory Instrument "Video Recordings (Labelling) Regulations 2011 which will amend the current requirements for the labelling of video games so that they are in accordance with the UK's new single classification system for video games which is based on the PEGI ratings system.

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £20m
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate	negligible		negligible		negligible
Description and scale of key monetised costs by 'main affected groups' There may be small transitional costs from adapting to the new labelling regulations, such as through re-training staff, for: video game publishers, retailers, and regulatory and enforcement bodies. However these costs are expected to be minimal. No on-going costs are anticipated from this change.					
Other key non-monetised costs by 'main affected groups' No non-monetised costs are expected as a result of this change.					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate	negligible		£2.5m		£20m
Description and scale of key monetised benefits by 'main affected groups' The majority of video games will be labelled with a PEGI rating, bringing UK labelling in line with other EU countries. This yields savings in production and design costs, such as through economies of scale, from giving businesses the opportunity to use one packaging design across numerous markets rather than separate designs for the UK market. The benefits are estimated to be worth approximately £20m in present value terms over ten years.					
Other key non-monetised benefits by 'main affected groups' Labelling video game packaging with only one rating classification gives clearer, unambiguous advice for consumers and retailers on the minimum age required for content that is included in the package.					
Key assumptions/sensitivities/risks			Discount rate (%)	3.5%	
The estimated benefits are subject to uncertainty in: the cost saving to businesses from no longer having to design and produce separate packaging for the UK market, how these cost savings change over time, and the number of games effected going forward. Estimates further into the future are increasingly uncertain given the unpredictability of the video games market, its "hits-driven" nature, the pace of technical advancement and changes in consumer taste over time.					

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: -	Benefits: -	Net: £0m	Yes	IN

Evidence Base (for summary sheets)

A. PROBLEM UNDER CONSIDERATION

The current system

To date the UK has had a dual system for classifying and labelling boxed video games:

- all games are classified voluntarily under the PEGI (Pan European Games Information System) which applies in 32 countries across Europe. Games are awarded PEGI age ratings of 3, 7, 12, 16 or 18. In practice PEGI classification and labelling for boxed games is in fact mandatory – manufacturers Nintendo, Sony and Microsoft will not allow games to be sold for use on their consoles unless they have been classified by PEGI. In the UK, high street retailers will not stock boxed games unless they carry at least a PEGI classification
- additionally in the UK under the provisions of the Video Recordings Act any games featuring gross violence, depictions of human sexual activity, certain criminal activity or film content must also be referred to the BBFC (British Board of Film Classification) for classification
- thus some games currently sold in the UK have both a BBFC and PEGI classification. For these games, publishers comply with current Video Recording Labelling Regulations requirements to carry the BBFC classification label on the front of the packaging though in keeping with their European industry-wide commitments to PEGI they tend to ensure the UK product packaging also carries the PEGI rating (which they place on the back)

Industry views

The changes now proposed for the Video Recordings Labelling Regulations will mean that only PEGI labels would be required for the vast majority of games sold in the UK. Video games publishers welcome this as a major step forward in child protection terms but also argue it offers them substantial benefits to their businesses given that in future they will be able to largely avoid the need to produce separate packaging solely for the UK market. The improved efficiencies reported by industry of the new labelling system based on PEGI are set out under the benefits of the options discussed below.

The UK's games publishing industry comprises a mixture of SME (mostly indigenous) companies and major inward investors who have located publishing operations - and indeed in many cases European HQs – here (eg Activision, Sega etc). According to industry figures, 97% of boxed game products sold in the UK in 2010 were published by companies that are registered in the UK.

These companies are calling for the new classification and labelling system for video games to be implemented as soon as possible.

Policy background

Dr Tanya Byron's independent report to Government, "Safer Children in a Digital World", concluded the current dual classification and labelling system is confusing. She recommended the system be reformed so that parents, children and retailers can be clearer about the content of individual games and the existing statutory scheme be extended so that all games rated from ages 12 onwards must be properly age classified and sold/supplied according to this classification. Following a full public consultation on classification options, Government announced the UK would be adopting a single classification system for video games based on the PEGI ratings. This option was determined to best meet the child protection requirements set out in Dr Byron's report and offered the most positive impacts for businesses. The necessary legislative framework was subsequently provided via the Digital Economy Act 2010. A full impact assessment covering the classification options was published with the Digital Economy Act.

The Video Recordings (Labelling) Regulations 2010 (SI 2010/115)¹ must now be amended in order to implement the new PEGI classification for video games. Once the amended Regulations are agreed they must then be notified to the European Commission under the Technical Standards Directive before being taken through Parliamentary approval. A Designation Order will also be introduced in Parliament to establish the Video Standards Council (VSC) as the primary authority for classifying video games in the UK.

¹ The Video Recordings (Labelling) Regulations 2010 were introduced following repeal of the Video Recordings (Labelling) Regulations 1985. The repeal and immediate revival of the Regulations was necessary to correspond to the repeal and revival of the Video Recordings Act 1984 which, during preparation for the Digital Economy Act, had been found to have not been properly notified at the time of its introduction.

The new labelling requirements for video games set out on the amended Regulations should positively impact a large number of consumers, retailers and video games businesses, many of them SMEs. In 2010, 1181 video games titles were released in the UK. 62.9m boxed video games software units were sold generating £1.45bn. The UK has the highest per capita spend on video games software of any country in Europe. An estimated 7000 people work specifically in video games development and publishing in the UK² though we believe this figure features significant undercoverage because of the difficulty in identifying video games content producers separately from other digital content businesses.

B: RATIONALE FOR INTERVENTION

We need to amend the Video Recordings (Labelling) Regulations 2010 so that product supplied in the UK is labelled in accordance with our new, single classification system for video games. Video games publishers and other stakeholders have been anxious that the new labelling requirements are brought in as soon as possible in order to deliver the improvements they will offer to child protection and benefits to business and consumers. The rationale for amending the regulations is to ensure:

- more clarity and consistency for consumers and retailers about the content of video games being supplied. Prior to purchasing, potential buyers of video games do not have the same information on the content of games as producers. Clear and consistent classification labels on video games helps to overcome this asymmetry of information, giving consumers better information on the suitability of games content; and helping to protect children and young people from inappropriate content.
- a simpler labelling process for video games publishers – ie. in future most product will only be required to carry PEGI classification labels for the UK and the wider European market. Labelling that can work across Europe benefits games publishers - boxed games are very rarely designed and marketed solely for a UK market
- consistency in classification labelling for boxed games supplied across Europe. Under the current dual system it is possible that a game supplied in the UK could be carrying a BBFC rating that does not match the PEGI rating applying in other European countries. Should such a game have an online multiplayer component, some parents and players themselves could make unsafe assumptions about the likely ages of those they are playing against

C: OPTIONS CONSIDERED

In considering options for amending the Video Recordings (Labelling) Regulations 2010 our guiding policy principles were to:

- ensure the amended Labelling Regulations accurately reflect the aims and provisions of relevant primary legislation ie. the Video Recordings Act and the Digital Economy Act
- ensure that classification labels on boxed video games and discs provide sufficient information for consumers and retailers to understand immediately the suitability of content for specific age groups
- only require age classification and content advice labelling that is necessary to comply with the primary legislation and protect children. Our assumption is that if video games publishers wish packages to carry additional information for consumers that goes beyond the minimum required to support the protection of children from inappropriate content, they may do so via voluntary agreement
- maintain the status quo in terms of labelling requirement for other products (primarily DVDs) covered by the Video Recordings (Labelling) Regulations 2010 with any text changes made simply for the purposes of clarity or simplification. Such product will, as currently, be classified by the BBFC and thus continue to carry BBFC labels.

We needed to consider how the Labelling Regulations should apply to two main types of product:

² Skillsset

- **packages carrying video games content only:** this category represents the vast majority of games sold in the UK. Currently all are classified by PEGI but some are additionally classified in the UK by the BBFC and thus carry dual classification labels. In future all content in these products will be classified under the PEGI system thus they can only be required to carry PEGI classification labels. There is no other option to consider and so the costs and benefits are compared against the existing dual labelling arrangement as a theoretical baseline.
- **packages carrying mixed content:** this category represents the relatively small number of product scenarios that involve a combination of video games content that will be classified under PEGI and film content that will continue to be classified by the BBFC³. This could mean a single disc carrying both game content and film content (for example, a game coupled with film trailers or a Blu Ray disc carrying both a game and a film) or a package that contains multiple discs individually carrying games and films. Currently these mixed content products carry both BBFC and PEGI logos.

The “do nothing” option was not possible : the current Labelling Regulations set out requirements for video games to carry BBFC ratings on their packaging where statutory classifications are applicable. However, this cannot continue as the BBFC will no longer be responsible for classifying video games content under the new classification regime. The Labelling Regulations must be amended to reflect the fact that PEGI rather than the BBFC will have the statutory role for awarding video games classifications in future.

The options we considered were:

OPTION 1

Packages carrying video games content only to carry a single PEGI classification label and ;
 Packages carrying mixed content to carry a single classification label representing the highest rating awarded (whether BBFC or PEGI)

Under this option mixed content packages would carry a single classification logo on the front of the packaging and single classification on the disc reflecting the highest rating awarded for the content it carries, whether PEGI or BBFC. Most mixed content games discs will carry only PEGI ratings under this option as PEGI requires publishers to ensure that their games are not coupled with linear content that has a higher rating⁴. In packages coupling games and film content and where the PEGI and BBFC ratings awarded are equal, the publisher may decide which classification label to apply to the packaging. Should games publishers wish to include additional information on the packaging to indicate that two ratings bodies have been involved in reviewing the content, this can be added on a voluntary basis.

OPTION 2:

Packages carrying video games content only to carry and single PEGI classification label and ;
 Packages carrying mixed content to carry both PEGI and BBFC classification labels

Under this option the classification logos of both PEGI and BBFC bodies would appear on the packaging and on the discs of mixed content packages (or single classifications on the discs where these separately contain film or game content).

³ Video games with some linear content built into the narrative - eg so-called “cut scenes” - will be classified under PEGI. A small number of games might include film-type clips that can be accessed as the player progresses through the game but are not integral to the narrative eg “reward” clips. These games will still be classified under PEGI but the VSC will need to obtain a determination from the BBFC for the film clip and take it into account when awarding the overall classification. Where products are video games coupled with film content that is entirely separate to the game then the games content will be classified under PEGI and the film content by the BBFC.

⁴ An exception will occur if there are any mixed content packages carrying games that have a PEGI 3 or 7 rating alongside linear content rated by BBFC. These PEGI ratings are not statutory whilst all BBFC ratings for linear content are. Thus the BBFC ratings will always apply in these circumstances.

We concluded that **OPTION 1** offered the best solution for children protection, for consumers and for businesses. Both options will result in reduced packaging costs compared to the current labelling requirements but Option 1 will result in the biggest reduction because it minimises the need for UK-specific packaging for mixed content packages.

D: COSTS AND BENEFITS

Costs of Option 1: single PEGI label for most games + highest rating label for mixed content

Evidence from industry and other relevant bodies suggests there will be minimal, if any, on-going costs resulting from the change to Option 1, and only small transition costs. These are discussed in turn below.

For the ratings bodies: the VSC has already incurred costs in anticipation of the new video games classification system, particularly in relation to preparing for its new role as the UK's designated Video Games Authority. One-off costs to the VSC directly attributable to the introduction of the amendments to the Video Recording (Labelling) Regulations 2010 total £58,000 for the development of learning materials (e-learning and new websites design) provided to businesses. These costs have already been committed to and/or incurred. They are therefore treated as sunk costs rather than as a result of the choice of options in this impact assessment (hence these costs are not included in the forward looking net present value calculations of the cost-benefit analysis). The BBFC has confirmed it does not anticipate any significant costs as a direct result of the labelling changes.

For the retailers: members of the Entertainment Retail Association have confirmed that they do not anticipate any one-off costs or additional ongoing costs as a result of the changes to classification and labelling. Their systems are already configured to deal with age-restricted product. Sales assistants will need to learn the new video games labelling system but this is expected to be absorbed as part of existing ongoing training requirements (typically staff are required by their employers to undergo training and reassessment every 3 months as a minimum). Training materials are provided to retailers by the VSC.

Costs to video games publishers: video games publishers have confirmed that they do not envisage any one-off costs or ongoing costs as a result of the amended Labelling Regulations.

Implications for enforcement: the proposed policy seeks to amend existing regulation. Enforcement of the Video Recordings Act 2010 and Video Recordings (Labelling) Regulations is by Trading Standards Officers who carry out checks on sales of all age-restricted product and ensure video games and DVDs offered for sale are appropriately classified and labelled. The Trading Standards Institute advises that there may be a small transitional cost to become familiar with the change in labelling regulations ie. an investment in some additional training.

Treatment of product carrying "old" labels: there should be no additional costs to video games publishers or retailers associated with the transition arrangements to the new system. From the date of Commencement of the amended Video Recording (Labelling) Regulations, all video games receiving their classification certificates will be required to apply the new labels. Products classified prior to that date will carry the old labels. We do not propose any requirement to reclassify, withdraw or re-label product already on the market. Particularly given the second hand market for video games it is likely that products classified and labelled under the old system will be on the market, and certainly in the home, for some time.

The VSC will be working closely with video games publishers and retailers to prepare for implementation and is working up formal guidance and transition procedures which will come into operation in the month prior to Commencement.

Benefits of Option 1: single PEGI label for most games + highest rating label for mixed content

The monetised benefits from Option 1 result from no longer requiring different labelling in the UK to other EU countries, and so savings are made in packaging production and design costs.

In order to establish the benefits of either option it is necessary to establish the additional costs that apply when UK-specific packaging is required for boxed video games products. The following sets out

the difference in costs of packaging carrying single PEGI labels and packaging carrying dual PEGI and BBFC labels ie. UK-specific packaging.

The PEGI system as it applies across Europe has detailed Labelling and Advertising Guidelines to ensure that identical age rating icons and descriptors are displayed. These packaging requirements apply to SKUs ("stock keeping unit") sold in 32 countries across the EU. Most video games titles are offered in more than one SKU: different versions are produced to work on specific gaming platforms (eg PC, X-Box 360, Nintendo Wii, PS3, Nintendo 3Ds etc) or content in the package can vary (special editions etc). The video games publishers trade body UKIE (association for UK Interactive Entertainment) closely monitors video games sales in the UK and, though there is scope for the figure to vary widely, from their ongoing analysis they estimate the average number of SKUs per games title to be around four. UKIE used ChartTrack's UK's video games top 10 sales chart (based on units sold) for August 2011 as a typical example to illustrate this : 46 SKUs were produced for the top 10 video games ranging from "Battlefield" with 3 SKUs to "Call of Duty: Black Ops" with 11 SKUs.

Video games publishers prefer to be in a position where each SKU can have uniform packaging that can work for all 32 European countries: additional SKUs produced to reflect territory-specific labelling requirements entail additional costs in terms of new packaging design and printing. Publishers argue it can also increase their chances of wasting stock - with uniform packaging and labelling it is easier to move stock between territories and help maintain efficiency if sales are above or below projections in certain countries.

The additional costs associated with labelling and packaging each separate SKU are estimated by industry sources at £600. This figure includes the cost of inlay design, proofing and admin, disc labelling and some additional content for publisher website and online store images. Additional costs of creating extra SKUs are:

- Loss of economies of scale for inlay printing. The more SKUs there are, the smaller the print runs become
- Increased disc printing costs due to slower manufacturing cycles, arising from an obligation to print labels for a specific territory i.e. the UK
- Increased product assembly and shipping costs associated with a larger number of SKUs and smaller run sizes. Again the more SKUs, the smaller the Game Build Runs⁵ become.

Table 1 gives production cost estimates supplied by UKIE on behalf of the video games industry. The example of a specific game released is used to illustrate the additional costs of creating a second version of game packaging specifically for the UK market. This leads to an increase in costs from £1.04 per unit for a large Game Build Run to £1.24 for a smaller Game Build Run.

Table 1: Production Cost Example

	Countries Released to	Units	Cost per unit	Total production cost
Single version of packaging to carry PEGI labels only	Title X Game (English PAL) released in UK, Belgium, Greece, Luxembourg, Netherlands and Portugal	130,061	1.04	134,980

⁵ A Game Build Run is the process of manufacturing the game product which includes the game DVD, DVD label, game box and packaging and inserting game manual with additional game specific inlays.

Two versions of packaging to offer UK product carrying BBFC labels	Title X Game (English PAL) released in Belgium, Greece, Luxembourg, Netherlands and Portugal	13,933	1.24	17,214
	Title X Game (English PAL) for UK only	116,128	1.04	120,520
	Total	130,061		137,734

In reality, costs will vary between businesses and for different games releases. However, comparing production costs on this basis, the extra costs to video games publishers of creating an additional version of packaging for the UK market is £2,754 (£137,734-£134,980) for each game title. However, if we assume that, on average, individual games titles are produced in 4 different SKUs – for the range of gaming platforms, for example - then estimated additional costs of creating specific versions for the UK would be around £10,000 per game title.

Products with video games content only: most game packages fall into this category. The number of games (all classified/labelled by PEGI) released in the UK in 2010 was 1,181. 179 games products were additionally referred to the BBFC for classification. 90 of these contained video games without separate linear content and need only be classified by PEGI in future. Assuming £600 additional packaging design costs per title and £2,754 difference in production costs for UK-specific packaging the new single labelling system will result in a reduction in packaging costs of around £300,000 per year for titles containing only video games content (90 x 2754 + 90 x 600). If we again make the assumption that each game title is offered on the market in four different SKUs on average then the estimated packaging cost reduction to video games publishers of the new PEGI-only labelling system is around £1.2m per year for video games that do not carry separate linear content.

Mixed content packages: the BBFC have confirmed that in 2010 they classified 89 products containing a mix of video games and separate linear content. 48 of these were covermount discs for magazines but 41 were boxed games titles. On this basis and using the industry modelling detailed above, our preferred single label option could reduce annual packaging costs by around £600,000 (41 x 2754 + 41 x 600, then multiplied by 4 for the average number of SKUs per title).

We do not envisage significant costs under Option 1 for the small number of magazine covermount discs containing mixed content.

In addition to reducing as far as is possible the number of instances in which video games publishers will be required to create separate packaging for the UK market only, Option 1 gives clearer, unambiguous advice for consumers and retailers on the minimum age required for content that is included in the package.

The benefits to video games producers going forward is dependent upon the number of games affected (outlined above with 2010 data). This is projected forward in line with the 8.2% cumulative annual growth rate in the sector predicted in PWC's report "Global Media and Entertainment Outlook 2011 - 2015" until the end of the PWC forecast in 2015. Whilst there may be growth in overall games sales beyond 2015, it is possible that boxed sales will start to decline in favour of online sales. To reflect these possible opposing effects, it is assumed that the number of games affected remains constant after 2015. Utilising these projections, the benefits from Option 1 have a net present value of approximately £20m over ten years, as outlined in the table below.

	Total NPV*	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Option 1	20	2.1	2.2	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Option 2	15	1.4	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8

(£m, constant 2011 prices)

*Net Present Value gives the current value from today's perspective of a series of cash flows that are spread over time

Costs under Option 2: single classification label for games only content; both classification labels for mixed content packages

As under Option 1, there will be minimal on-going costs and only small transitional costs from this option for: ratings bodies, retailers, video games publishers and enforcement agencies. The transitional costs are likely to be similar under both options, because under both options there would be a need to adjust to the change to labelling of games only products, which constitute the majority of the market. As under Option 1, there will be no costs associated with 'old' label games already on the market.

Benefits under Option 2: single classification label for games only content; both classification labels for mixed content packages

The monetised benefits from Option 2 result from no longer requiring different labelling in the UK to other EU countries. Producers will benefit from reduced costs of packaging and design for products with video games content only. As outlined under option 1, the cost saving to producers of these games is around £1.2m a year based on latest data. Projected forward, this benefit has a total present value over ten years of approximately £15m. This is a smaller benefit than under Option 1 because the mixed content packages would still require both PEGI and BBFC labels, and so these products would need to be produced separately for the UK market and other EU countries.

E: RISKS AND ASSUMPTIONS

The changes in business costs set out are subject to a number of variable factors: not only is the number of potential SKUs speculative but it is very difficult to predict the number of mixed content packages that might be offered on the market in future years and the number of these which could still require UK-specific packages under the "highest classification applies" rule. The cost savings from avoiding UK-specific releases will in reality vary for different businesses and for different games. The assumption that an average of 4 SKUs will be produced for each games title is only a best estimate based on a snapshot analysis of games on the UK market in August 2011. In scaling up the industry cost data it is assumed that the cost of production for each additional SKU is constant. This may not be the case in reality, but is a necessary assumption given the data available.

It is assumed that the new regulations would come into place in early financial year 2012-13. To project estimates into future years, it has been assumed that costs will remain constant in real terms going forward for ten years. The number of games affected in the UK is assumed to follow the 8.2% cumulative annual growth rate in the sector predicted in PWC's report "Global Media and Entertainment Outlook 2011 - 2015" until the end of the PWC forecast in 2015. Whilst there may be growth in overall games sales beyond 2015, it is possible that boxed sales will start to decline in favour of online sales. To reflect these possible opposing effects, it is assumed that the number of games affected by the Options remains constant after 2015. The projected costs of production and design, and the number of affected products are subject to uncertainty, especially in years further into the future. As the benefits estimated relate to boxed products (as opposed to online sales), the extent to which boxed sales follow the overall growth predicted for the sector adds further uncertainty. Deviations from these assumptions in reality could increase or reduce the estimated benefits.

All figures are subject to uncertainty given the unpredictability of the video games market, its "hits-driven" nature, the pace of technical advancement and changes in consumer taste. Truly accurate estimates for the labelling options for packages containing both games and separate linear content are impossible given that we cannot predict the PEGI and BBFC classifications that they will attract. However, we think it is safe to assume that games publishers will seek to ensure that their products contain content that will enable them to apply only single PEGI ratings wherever this is possible under the "highest classification label applies" approach we propose to take with the Labelling Regulations. Despite the difficulties in producing accurate quantified estimates, we think it is reasonable to conclude that the cost difference between Options 1 and 2 is significant and Option 1 will certainly be cheaper for industry. The video games industry strongly supports this option.

Whilst the proposed change is expected to provide improved clarity for consumers, there is a risk of the new labelling system will not prove as effective as we had hoped in preventing consumption of inappropriate games content by children and young people as effectively. The policy will be fully reviewed three years after implementation.

F: WIDER IMPACTS

Consumers

The amendments to the Video Recordings (Labelling) Regulations 2010 should have a positive impact on consumers, parents and children. The new labels will enable them to understand immediately the minimum age required to purchase a boxed video game and remove ambiguities or uncertainties resulting from having two age ratings appearing on the packaging for a number of products. With the vast majority of games products carrying only the single PEGI ratings it should make information campaigns about video games age-ratings easier to present and more powerful. We note that the video games industry - through UKIE - has pledged to mount a high-profile campaign to raise awareness and understanding of the PEGI ratings in the UK when the new system is implemented. Benefits from increased clarity will be greater under Option 1, because all games would only carry one classification label; under Option 2 mixed content packages would have both PEGI and BBFC labels.

Competition Assessment and Small Firms Impact Test

It is impossible to be definitive about the number of companies producing boxed games and those producing online games – as some businesses will be creating or publishing both. However, the trade body representing video games publishers, UKIE, confirms that its 85 members were responsible for 97% of the boxed games sold in the UK in 2010. Whilst a number of these publishers will be large multinationals, an analysis by UKIE of the top 35 UK-based games publishers (based on market share) in 2010 indicates that 26 were SMEs and these SMEs accounted for 50% of boxed video games sales in the UK. There are 7700 retailers selling video games in the UK, of which 1000 are video games retail specialists.

Businesses specialising in boxed video game products will gain from the reduction in production costs under both options (and especially under Option 1), whereas those focusing on online sales are likely to be less effected. However, as the effect on costs is fairly small, competition is unlikely to be significantly effected as a result.

Direct costs and benefits to business calculations (following OIOO methodology)

Both Option 1 and 2 replace the existing regulations with a new obligation such that the majority of games will be labelled with PEGI ratings (and so no longer require UK specific packaging). Both options therefore qualify as an 'in' following the 'One-In-One-Out' methodology, with an Effective Annual Net Cost to Business of zero.

Statutory Equality Impact Tests

We have also considered the potential effects of both proposals on protected groups under the Equality Act 2010 (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation). After initial screening it has been deemed that no significant impact is anticipated.

Other specific impact tests

Other specific impact tests have been considered including Justice, Sustainable Development, Carbon Assessment, Environment, and Rural Proofing. After initial screening it has been deemed that no significant impact is anticipated in any case.

Micro Organisations

Micro organisations are within scope of this change as the labelling requirements are designed to provide protection for consumers and so exempting any organisations could potentially undermine this protection. However, very few, if any, micro organisations are likely to be effected by this change; and a net benefit is expected for businesses from this measure.

G: IMPLEMENTATION PLAN

Following RPC and Home Affairs Committee approval for the amendments to the Video Recordings (Labelling) Regulations 2010 planned activity is as follows:

Notification of Video Recordings (Labelling) Regulations 2011 to the European Commission under the Technical Standards Directive.	Clearance will require a minimum of 3 months
Lay draft Regulations in both Houses of Parliament Lay Commencement Order in Parliament Lay draft Designation Order in Parliament to establish the Video Standards Council as the new Games Authority	Can all be done in parallel but Designation Order needs to be in Parliament for 40 sitting days before Commencement
Work with VSC, retailers and video games publishers to prepare for new system	New Guidance will be drawn up. The annual VSC/PEGI conference in November 2011 will reinforce requirements of the new system with stakeholders. VSC's online training packages for retailers will be completed and go live
Commencement of new video games classification system and amended labelling regulations	All video games issued with classification certificates from the commencement date must apply the new labels. Products placed on the market before this date will have been classified under the old system and labelled accordingly, is unaffected.