

## **De Minimis Assessment: Self-Certification Template**



Department  
for Culture  
Media & Sport

<b>Title of regulatory proposal</b>	Radio provisions: article 113 of the EEC
<b>Stage</b>	Final
<b>Lead Department/Agency</b>	DCMS
<b>Expected date of implementation</b>	20/12/2020
<b>Origin</b>	EU Directive
<b>Date</b>	01/05/2019
<b>Lead Departmental Contact</b>	eecc@culture.gov.uk
<b>Departmental Triage Assessment</b>	Equivalent Annual Cost to Business (EANDCB) = Between £77,182 and £115,655 (10 year appraisal period)

### **Call in criteria check-list**

Significant distributional impacts (e.g. significant transfers between different businesses or sectors)	No
Disproportionate burdens on small businesses	No
Significant gross effects despite small net impacts	No
Significant wider social, environmental, financial, or economic impacts	No
Significant, novel, or contentious elements	No

**Spoke Analyst:** *Aris Xylouris*      Date: 01/05/2019

**BRU signoff:** *Kobini Ananth*      Date: 23/05/2019

**Chief Economist signoff:** *Alex Wilkinson*      Date: 28/05/2019

## **SUMMARY**

### **Rationale for government intervention**

The European Electronic Communications Code (EECC) was adopted by the EU in December 2018. It updates the existing regulatory framework (which comprises the Framework Directive 2002/21/EC<sup>1</sup>, the Access Directive 2002/19/EC<sup>2</sup>, the Universal Service Directive 2002/22/EC<sup>3</sup> and the Authorisation Directive 2002/20/EC)<sup>4</sup> to ensure that the telecoms framework continues to address market failures.

Article 113 sets interoperability requirements for car radio receivers and consumer digital television equipment and ensure that such measures are not applied to products where a radio receiver is purely ancillary, i.e. a smartphone, and to equipment used by radio amateurs. This includes interoperability requirements to radio receives in passenger cars (category M vehicles<sup>5</sup>).

Digital radio technologies offer a number of major benefits compared with analogue systems, including improved audio quality, greater functionality, stronger security and better channel efficiency. The three main motivators for moving to digital radio are:

1. Efficient use of spectrum space.
2. Increased amounts of information that can be passed down a single channel.
3. Improved audio clarity at low receiver signal levels approaching sensitivity.

The Government has a long-standing policy to support the transition of radio to digital. In December 2013<sup>6</sup>, DCMS published the Digital Radio Action Plan and announced a number of measures, including funding to support the expansion of DAB coverage, to help support the radio industry with its digital transition. A key part of that was work with UK car manufacturers and the Society of Motor Manufacturers and Traders

<sup>1</sup> [Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services \(Framework Directive\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32002L0021). Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32002L0021>

<sup>2</sup> [Directive 2002/19/EC of the European Parliament and of the Council of 7 March 2002 on access to, and interconnection of, electronic communications networks and associated facilities \(Access Directive\)](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0019). Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0019>

<sup>3</sup> [Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services \(Universal Service Directive\)](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32002L0022). Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32002L0022>.

<sup>4</sup> [Directive 2002/20/EC of the European Parliament and of the Council of 7 March 2002 on the authorisation of electronic communications networks and services \(Authorisation Directive\)](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0020); Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0020>.

<sup>5</sup> Read more at <https://www.vehicle-certification-agency.gov.uk/vehicletype/definition-of-vehicle-categories.asp>

<sup>6</sup> Ed Vaizey - Speech on the Digital Radio Action Plan - DCMS December 2013  
<https://www.gov.uk/government/speeches/go-digital-conference-16-december-2013-check-against-delivery>

(SMMT) to stimulate the standard installation of DAB radios in new cars. As a result the UK is much further along with over 90% of new cars now having DAB radios installed as standard.

Given that the UK remains subject to its EU rights and obligations throughout the post-Exit Implementation Period, the Government is obliged to update domestic telecoms law in line with the provisions in the EECC. This provision will be implemented by the Department for Transport.

### **Policy options**

Option 1: Do nothing. This would mean not implementing this article of the EECC, which would not be consistent with our commitment to transpose the EECC.

Option 2: Transposing the minimum requirements of the directive. This will only apply to interoperability of car radio, as provisions on the interoperability of consumer digital television equipment are already UK law as a result of the implementation of Annex VI of the 2002 Universal Service Directive<sup>7</sup>.

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<sup>7</sup> Universal Service Directive (2002). Available online at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002L0022&from=EN>

## Summary of business impact

### Art 113

Option 1 has no direct cost impacts on businesses.

Option 2 has a direct one-off cost to businesses, though relatively minor (we estimated familiarisation costs to businesses to be equivalent to £611 (more below)).

With regard to option 2, and aside from familiarisation costs, we have identified additional impacts on businesses:

**Benefits** - It is difficult to quantify how digital radio can benefit those businesses that would be impacted by the change, though there is strong evidence that consumers clearly value access to in car audio systems with installed digital radio services with clearer sound and a significantly greater choice of services. On a qualitative level digital radio has the benefit of increasing competition for businesses in the radio market and make more efficient use of spectrum space. Digital radio will also benefit consumers, which will have access to more channels and enjoy better audio quality.

**Costs** - Option 2 will increase the current costs of the car industry, on account of the obligation to require all new car radios to be digital and making car radios and other radio equipment interoperable, which we estimate to be approximately £1m in total across two years. This figure takes no account of any consumer or producer benefit.

## **SUPPORTING EVIDENCE**

### **Rationale for government intervention**

The European Electronic Communications Code (EECC) was adopted by the EU in December 2018. It updates the existing regulatory framework (which comprises the Framework Directive 2002/21/EC<sup>8</sup>, the Access Directive 2002/19/EC<sup>9</sup>, the Universal Service Directive 2002/22/EC<sup>10</sup> and the Authorisation Directive 2002/20/EC)<sup>11</sup> to ensure that the telecoms framework continues to address market failures.

Given that the UK remains subject to its EU rights and obligations throughout the post-Exit Implementation Period, the government is obliged to update domestic telecoms law in line with the provisions in the EECC. This provision will be implemented by the Department for Transport.

The UK has a vibrant and thriving radio sector comprised of national and local commercial radio stations, small community and not-for-profit radio and BBC national and local radio services. Radio continues to be a hugely popular broadcasting medium. UK radio stations are able to broadcast on the long established FM and AM analogue platforms, as well as the newer digital audio broadcasting (DAB) digital radio platform, on digital TV platforms and via online services such as radio streaming apps.

The Government has a long-standing policy to support the transition of radio to digital. In December 2013<sup>12</sup>, DCMS published the Digital Radio Action Plan and announced a number of measures, including funding to support the expansion of DAB coverage, to help support the radio industry with its digital transition. A key part of that was work with UK car manufacturers and the Society of Motor Manufacturers and Traders (SMMT) to stimulate the standard installation of DAB radios in new cars. As a result, the UK is much further along with over 90% of new cars now having DAB radios installed as standard.

Digital listening hit a new record share of 52.6% in Q4/18 – up from 49.9% a year earlier. Digital listening to national commercial stations has increased by 13.9 million hours (or 10.3%) year on year, and now accounts for 80% of all national commercial listening. In-car digital

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<sup>8</sup> Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services (Framework Directive). Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32002L0021>

<sup>9</sup> Directive 2002/19/EC of the European Parliament and of the Council of 7 March 2002 on access to, and interconnection of, electronic communications networks and associated facilities (Access Directive). Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0019>

<sup>10</sup> Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services (Universal Service Directive). Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32002L0022>.

<sup>11</sup> Directive 2002/20/EC of the European Parliament and of the Council of 7 March 2002 on the authorisation of electronic communications networks and services (Authorisation Directive); Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002L0020>.

<sup>12</sup> Ed Vaizey - Speech on the Digital Radio Action Plan - DCMS December 2013  
<https://www.gov.uk/government/speeches/go-digital-conference-16-december-2013-check-against-delivery>

listening grew by 15 million hours (19% year on year) and accounts for 37.5% of all listening in cars<sup>13</sup>.

Digital Audio Broadcasting accounts for 38.3% of all radio listening, and 72.7% of digital listening. The remainder of the digital listening is made up of online/apps (9.4%) and digital TV (9.4%)<sup>14</sup>.

Article 113 ('Interoperability of car radio and consumer radio receivers and consumer digital television equipment') sets interoperability requirements for car radio receivers and consumer digital television equipment that would improve the use and reuse of equipment and extends interoperability requirement to other radio receivers, subject to limitations.

This Article sets three interoperability requirements for car radio receivers and consumer digital television equipment. Specifically for car radio receivers passenger car (category M vehicles) radio receivers in new vehicles from 21 December 2020 shall be able to receive digital terrestrial radio broadcasting. The only new provision introduced by this article is that all new cars produced after 2020 will have to have digital radio installed.

The Article allows member states to extend interoperability requirements to other radio receivers while limiting the impact on low-value radio receivers, but should not apply to ancillary radio receivers and to amateur radio equipment. Equipment complying with standards set by the EU are considered to comply with this requirement. The government has previously<sup>15</sup> said it is supportive of introducing measures to phase out analogue only radio equipment used in the home and in commercial vehicles but wants to consider the scope and timing of any measure as part of the forthcoming Government industry review separately before consulting on any changes.

## Policy options

### Article 113 - Interoperability of car radio and consumer radio receivers and consumer digital television equipment

#### Option 1 - Do nothing:

Not transposing is not considered a viable option as we have a duty to transpose the European Electronic Communications Code.

#### Option 2 - Transposing the minimum requirements of the directive:

Transposing the article and giving effect to the stronger interoperability requirements is likely to promote digital radio services including its use in car radios, lead to better consumer choice and reduction of costs on account of interoperability.

This provision improves upon Article 18 of the Directive 2002/21/EC (Framework Directive) primarily by bringing car radios and other radio equipment within the scope of the

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<sup>13</sup> RAJAR (Q4 2018). Available online at: <https://radiotoday.co.uk/2019/02/rajar-q4-2018-national-brands-and-london-radio-update/>

<sup>14</sup> Ibid

<sup>15</sup> Matt Hancock - Speech to the Radio Academy - September 2017 <https://radiotoday.co.uk/2017/09/minister-wants-radio-to-be-digital-by-default/>

interoperability requirements (instead of just digital television) and requiring mechanisms for return of equipment. Hence, this option only applies to interoperability of car radio, as consumer digital television equipment is already UK law and was covered in Annex VI of the 2002 Universal Service Directive<sup>16</sup>.

### Assessment of business impact

Option 1 has no direct impact on businesses.

Option 2: For **Article 113**, mandating digital car radio interoperability will require all new cars to have digital car radio installed and this will likely incur some costs on the industry. Radio manufacturers for radios to be installed in cars will be required to switch to digital-only radio production, increasing their operation costs; the costs will be subsequently partly rolled over costs to the car manufacturers they supply, and eventually consumers.

Currently industry experts estimate that as of 2018 more than 90% of all new cars sold in the UK are fitted with digital radio receivers, a share that will increase to 96.5% by the first quarter of 2020 (see Figure 1 below). Discussions with stakeholders and international metrics comparisons confirm that the UK is well advanced in digital car radio adoption in comparison to other European states<sup>17</sup>. This means that costs (and benefits) should be considerably lower than for most EU states that are required to implement this legislation, and this is likely to largely formalise and speed up an existing market trend towards digital car radio adoption.

Digital listening hit a new record share of 52.6% in Q4/18 – up from 49.9% a year earlier. Digital listening to national commercial stations has increased by 13.9 million hours (or 10.3%) year on year, and now accounts for 80% of all national commercial listening. In-car digital listening grew by 15 million hours (19% year on year) and accounts for 37.5% of all listening in cars<sup>18</sup>.

DAB coverage is now at 90% of the UK<sup>19</sup>, and almost two-thirds of households have a DAB set. Digital radio offers higher reliability, less radio interference, better sound quality, more choice in terms of radio stations, and higher integration with other technology products such as smartphones; in a study by DCMS, consumers' willingness to pay for digital over analogue radio was identified as being between £35 and £75<sup>20</sup>. The same study estimated that net benefits for consumers of switching fully to digital over analogue radio (not only in cars but across devices) being around £100m.

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<sup>16</sup> Universal Service Directive (2002). Available online at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002L0022&from=EN>

<sup>17</sup> TechUK (2018), The EU Parliament Backs the Mandating of Digital Radio in Cars. Available online at: <https://www.techuk.org/insights/news/item/14327-the-eu-parliament-backs-the-mandating-of-digital-radio-in-cars>

<sup>18</sup> RAJAR (Q4 2018). Available online at: <https://radiotoday.co.uk/2019/02/rajar-q4-2018-national-brands-and-london-radio-update/>

<sup>19</sup> Ofcom (2018) Communications Market Report. Available at [https://www.ofcom.org.uk/data/assets/pdf\\_file/0022/117256/CMR-2018-narrative-report.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0022/117256/CMR-2018-narrative-report.pdf)

<sup>20</sup> See more at: DCMS (2013), Digital Radio Switchover Preliminary Analysis of the Impact of a Switchover. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/270341/DRS\\_preliminary\\_analysis.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/270341/DRS_preliminary_analysis.pdf)

Adopting the legislation should help harmonise manufacturing standards and decrease costs for acquiring digital radio for the few customers that still do not receive a digital receiver in new cars. Individual manufacturers can charge considerable costs when offering digital car radios as an optional, with retail costs ranging from £100 to £1000 according to industry benchmarks. Standards' harmonisation should decrease costs close to the estimated cost of upgrading analogue radios with Digital Audio Broadcasting (DAB, or digital radio) capabilities, which is provided by the industry with being between \$10 to \$15 (£7 to £10.4<sup>21</sup>). It should be noted that these costs are likely to be outdated as of 2019 and to have decreased as it commonly is the case with technology products<sup>22</sup>. The above cost estimate is reused in the analysis below when estimating costs for the UK industry.

Estimating the amount required to upgrade analogue to digital radios and the share of cars without digital radio outfitted from 2020 onwards should provide us with an estimate on the costs of implementing this legislation. Using the cost range of £7 to £10.4 and DCMS's forecasts on DAB adoption provides us with a cost estimate to businesses of a total of between £463,109 to £694,663 over the period between 2020 and 2022 (see table 1) for upgrading all new cars to DAB, or between £461,110 to £691,664 in Net Present Value (2016 prices) by using the BIT Impact Assessment Calculator.

An optimism bias of 54% can be applied to the costs associated with the policy option. This is based on the suggested upper bound optimism bias for equipment and development projects included in HM Treasury Green Book guidance<sup>23</sup>. The optimism bias is used to provide a conservative cost estimate and countermand the wide range of upgrade costs derived from our benchmarks. These costs are generally expected to decrease due to economies of scale but no such adjustments are included here to provide a more conservative cost estimate.

Applying an optimism bias of 54% the cost range changes to £10.7 - £16.1. Applying the above cost estimate on our forecasted amount of cars which will require to be outfitted with DAB, using the calculation as described above, we arrive at a total cost of between £710,109 to £1,065,164 in Net Present Value (2016 prices) by using the BIT Impact Assessment Calculator.

Figure 1: Share of new cars sold in the UK with a digital car radio outfitted as a standard option, optional at an extra cost, or unavailable. Includes existing industry estimates by cap-hdi<sup>24</sup> from 2014 to 2018, and DCMS forecasts from 2019 onwards.

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<sup>21</sup> Exchange rate based on 5-year average between 2014-2018 of USD to GBP exchange rate HMRC

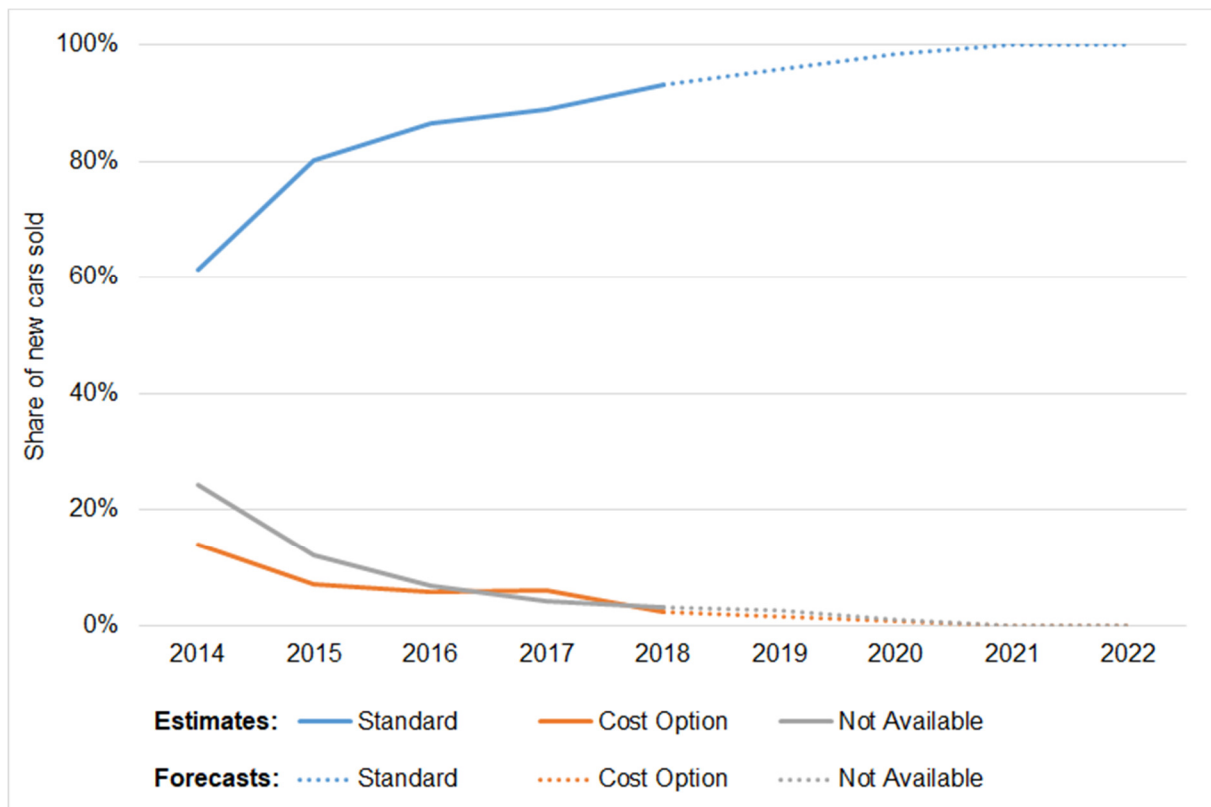
<sup>22</sup> For a detailed analysis, see Kucharavy, De Guio (2007), Application of S-shaped curves. Available at [https://ac.els-cdn.com/S1877705811001597/1-s2.0-S1877705811001597-main.pdf?\\_tid=3e6631c9-a6cb-4f35-9129-6e373a3a5f8e&acdnat=1547831468\\_b6e2f5d955a0fec418c8972c524b0bbe](https://ac.els-cdn.com/S1877705811001597/1-s2.0-S1877705811001597-main.pdf?_tid=3e6631c9-a6cb-4f35-9129-6e373a3a5f8e&acdnat=1547831468_b6e2f5d955a0fec418c8972c524b0bbe)

<sup>23</sup> According to government guidelines an optimism bias relevant to equipment and development projects was used. See more at HMT (2018), The Green Book central government guidance on appraisal and evaluation.

Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/685903/The\\_Green\\_Book.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf)

<sup>24</sup> <https://www.cap-hpi.com/>





Source: Cap-hdi and DCMS benchmarks

Table 1: Forecasted share of cars equipped with DAB from 2020 onwards absent of legislative intervention and the relevant costs of upgrading them with DAB

Quarter	Estimated share of cars with DAB as a standard option	Percentage Share (number) of cars that would be covered by implemented requirements	Cost of upgrading to DAB (£ current)	Cost of upgrading to DAB with 54% optimism bias (£ current)

2020 Q1	96.5%	3.5% (19,964)	184,824	£214,000 - £320,999
2020 Q2	97.2%	2.8% (16,236)	150,312	£174,040 - £261,060
2020 Q3	97.8%	2.2% (12,649)	117,103	£135,588 - £203,382
2020 Q4	98.4%	1.6% (9,192)	85,102	£98,535 - £147,803
2021 Q1	99.0%	1.0% (5,857)	54,223	£62,783 - £94,174
2021 Q2	99.5%	0.5% (2,635)	24,392	£28,242 - £42,363
2021 Q3	100.0%	-	-	-

Source: Industry sources and DCMS benchmarks

It should be noted that stakeholders did not identify any transition costs related to implementing the legislation. No indication was provided that it would require upskilling existing personnel, or upgrade production lines. This is largely the product of the maturity of the UK digital car radio market. It has also been indicated that the stakeholders have been well prepared in advance for this legislation while the impact on their businesses will be minimal, therefore familiarisation costs should be minimal.

Notwithstanding the above being said, there is still a minimal familiarisation cost for car manufacturers, i.e. we need to account costs for all firms which would potentially need to familiarise themselves with the new legislation and develop plans to install digital radios in all vehicles. Each car manufacturer operating in the UK would need to familiarise themselves with the changes in legislation. We have calculated the cost of familiarising with the new legislation to be £1,673.1, plus an additional £501.93 in 30% overhead costs (2016 prices). We envision an employee in each business will need to spend thirty minutes in order to read this section of the legislation. We have calculated the familiarisation cost by multiplying £42.9<sup>25</sup>, the average hourly pay for private sector legal professionals, by 39<sup>26</sup>, the number of car manufacturers operating in the UK and 0.5 (as only 30 minutes will be required to read this section of the legislation). This cost has subsequently been translated to 2016 prices by using the BIT Impact Assessment Calculator.

The analysis for this DMA is based on evidence collected from stakeholders and research from DCMS before the public consultation, which was published on the 16th July 2019. No further evidence or information has been brought forward since the consultation. We therefore believe the impact estimates provided to be accurate and the analysis proportionate.

## Risks and assumptions

There are no major risks or assumptions.

<sup>25</sup> ONS (2017), ASHE survey. This is for the latest available year, which is 2015, however we expect the current average hourly pay to be aligned. Available online at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/006608annualsurveyofhoursandearningsashepublicandprivatesectorsplitby1to4digitsocode>

<sup>26</sup> Industry sources: SMMT (2018) SMMT Motor Industry Facts 2018. Available at: <https://www.smm.co.uk/reports/smm-motor-industry-facts-2018/>

## **Call-in check list explanations**

### Distributional Impacts

There are no significant distributional impacts.

### Small and Micro Business Assessment (SaMBA)

Car manufacturers in the UK do not qualify for SaMBA.

Conclusion: There are no disproportionate effects on small businesses.

### Gross Effects

There are no significant gross effects.

### Wider Impacts

There are no wider impacts.

### Significant, Novel, or Contentious

There are no significant, novel or contentious impacts.