

<p>Title: Video Recordings (Labelling) Regulations 2011</p> <p>PIR No: Unpublished</p> <p>Original IA/RPC No: DCMS052</p> <p>Lead department or agency: Department for Digital, Culture, Media and Sport</p> <p>Other departments or agencies: NA</p> <p>Contact for enquiries: Rob Gillespie, DCMS Robert.gillespie@culture.gov.uk or 020 7211 2854</p>	Post Implementation Review
	Date: 01/12/2017
	Type of regulation: Domestic
	Type of review: Non-statutory
	Date measure came into force: 30/07/2012
	Recommendation: Keep
RPC Opinion: NA	

1. What were the policy objectives of the measure?

Prior to 2011, the UK government mandated that two parallel rating systems labels, the BBFC (British Board of Film Classification) and PEGI (Pan European Game Information), be displayed on all labelling of video games sold in the UK.

The intention of the 2012 change was to give better protection to children from inappropriate content; increase clarity for consumers and retailers about the age-suitability of products; and to simplify the process for industry of obtaining classifications and labelling product packaging (including avoiding the need for games publishers to produce UK-specific packaging). Following the changes, dual classification was no longer necessary.

2. What evidence has informed the PIR?

For this PIR, key stakeholders (industry and regulators) were consulted and provided relevant data to assess the magnitude of the effect this legislation had had on the market.

Questionnaires were sent to games publishing companies, which explored how the implementation of the law had impacted firms in affected by it. Questionnaires to UK Interactive Entertainment (UKIE), the trade body for the UK's games and interactive entertainment industry, and the Video Standards Council, provided data on changes and trends in the UK video games market.

3. To what extent have the policy objectives been achieved?

Moving to the new labelling regime appears successful. The move to a single rating system has simplified messaging, adding to clarity about the age suitability of content.

The legislation's secondary objective of reducing costs to game publishers has worked, however, to a lower degree than forecast in the IA. Companies have not moved to producing single Europe wide packaging and instead still see value in creating territory specific packaging.

Publishers do find that the law change has reduced costs as a result of no longer needing to go through the process of acquiring BBFC classification. Publishers state this has reduced their workload.

Further information sheet

Please provide additional evidence in subsequent sheets, as required.

1. What were the policy objectives of the measure?

This PIR assesses the implementation of the 2011 Video Recordings (Labelling) Regulations. Prior to 2011, the UK government mandated that two parallel rating systems labels, the BBFC (British Board of Film Classification) and PEGI (Pan European Game Information), be displayed on all labelling of video games sold in the UK.

Dr Tanya Byron's report, "Safer Children in a Digital World", concluded this system was confusing for consumers. This prompted the government to adopt a new labelling regime for all games rated 12+, based solely on the PEGI rating system.

The intention of the 2012 change was to give better protection to children from inappropriate content; increase clarity for consumers and retailers about the age-suitability of products; and to simplify the process for industry of obtaining classifications and labelling product packaging (including avoiding the need for games publishers to produce UK-specific packaging).

2. What evidence has informed the PIR?

For this PIR, key stakeholders (industry and regulators) were consulted and were able to provide relevant data to assess the magnitude of the effect this legislation had had on the market.

Questionnaires were sent to games publishing companies, which explored how the implementation of the law had impacted firms affected by it. Questions were asked about identified key changes, the associated costs and benefits of introducing and complying with new or altered regulation.

In addition to the questionnaires, UK Interactive Entertainment (UKIE), the trade body for the UK's games and interactive entertainment industry, was asked to provide data on changes and trends on the size and the sales distribution methods used in the UK video games market.

Questionnaires were not used to consult consumers in the general public as it was unlikely that general consumers would have had enough relevant knowledge of both the pre- and post-legislative labelling regimes to affectively judge its effect.

3. To what extent have the policy objectives been achieved?

The legislation amended the Video Recordings (Labelling) Regulations 2010 in order to implement the UK's new video games classification and labelling regime. The new regime a) extends the statutory backing for all games classifications from 12+ b) introduces a single system based on the PEGI rating system.

There were three objectives of the new system:

- 1) To increase clarity and consistency for consumers and retailers about the content of video games being supplied. The video game market is subject to information failure on the side of consumers. Prior to purchasing and playing a game, a consumer does not have enough information to accurately gauge its true age suitability. A clear and consistent classification labelling of video games helps to overcome this information problem by giving consumers greater information on a game's content's suitability; and helps to protect children and young people from inappropriate material. The new system is simpler and less confusing for consumers thereby improving the information they receive.

- II) To reduce costs to firms, by no longer mandating they require BBFC certification. Firms no longer need to produce UK specific packaging and UK stock keeping units. A simpler labelling process benefits video games publishers – i.e. most products only require PEGI classification labels for the UK and the wider European market. Labelling that can work across Europe benefits games publishers – the IA assumed boxed games were very rarely designed and marketed solely for a UK market.
- III) Consistency in classification labelling for boxed games supplied across Europe. Under the old dual system it was possible that a game supplied in the UK could carry a BBFC rating that did not match the PEGI rating applied in other European countries. Should such a game have had an online multiplayer component, some parents and players themselves could have made unsafe assumptions about the likely ages of those they are playing against.

This PIR considers each of these elements.

In terms of assessing the effect of this legislation on the market as a whole it is worth looking at the health of the UK video games industry as a whole. UK consumers spend £4.33bn on video games¹. PwC estimates that by 2021, the UK market will be worth £5.2bn, growing at a rate of 6.7% making it Europe's largest market and the fifth largest in the world². In 2015, the UK games industry directly employs 12,100 full-time employees. The core UK games industry contributed £755m in direct GVA to the UK economy³. These figures suggest the UK video game market is healthy relative to international competitors and if there were any negative ramifications related to the 2011 change they were small. However, it is difficult to establish a robust counterfactual against which to assess the potential state of the market.

Looking at each of the objectives in turn:

- I) Labelling video game packaging with only one classification was intended to give unambiguous advice to consumers and retailers on the minimum age required for the included content, however it is not possible to quantitatively evaluate whether there has been a positive effect. The initial IA did not monetise these benefits and therefore is no benchmark against which to measure them.

Qualitative analysis is also not possible. The nature of this change was small. It is unlikely the general consumer has enough knowledge on the subject to accurately assess how the labelling change has affected their buying habits. For this reason, questionnaires were not used. Isolating the positive effect of this law is therefore difficult.

However, it is felt that simpler messaging increases consumer understanding and from that perspective the new labelling regime has succeeded.

- II) This PIR finds video games publishers have achieved savings, as fewer classifications have been required. All the publishers who replied to the survey agreed that the law change had led to cost savings due to no longer needing to apply for BBFC certification. For a more detailed breakdown on cost savings, see assumptions.
- III) This PIR finds video games publishers have not achieved savings from no longer needing to print UK specific labelling. It was thought that the removal of the BBFC logo would mean a label with a single PEGI rated would be used across all territories where the PEGI system applies. However, games publishing companies who replied

¹ [UK Video Games Fact Sheet](#) - UKIE, 2017

² [The 2017 UK entertainment and media outlook](#) – PwC, 2017

³ [Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors](#) – Olsberg, SPI & Nordcity, 2015

to the questionnaire stated they still produce separate labelling for different nations. Language and local differences mean companies still prefer to produce localised packaging. However, the changes have provided companies with the option of reducing costs by producing multi-market packaging, should they so wish. For more information on costs, see assumptions.

Moving to the new labelling regime appears successful. The move to a single rating system has simplified messaging, adding to clarity about the age suitability of content.

The legislation's secondary objective of reducing costs to game publishers has worked, however, to a lower degree than forecast in the IA. Companies have not moved to producing single Europe wide packaging and instead still see value in creating territory specific packaging.

Publishers do find that the law change has reduced costs as a result of no longer needing to go through the process of acquiring BBFC classification. Publishers state this has also reduced their workload.

4. What were the original assumptions?

The estimates from the IA of the benefits were subject to a level of uncertainty focused around the cost savings to business. Specifically how would costs be reduced by 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 which would be affected going forward. The further into the future, forecasts are made the greater uncertainty becomes. The unpredictability of the video games market is based on its "hits-driven" nature; the pace of technical advancement; changes in consumer tastes; and its changing delivery methods.

Savings from fewer stock keeping units

In inventory management, stock keeping units (SKUs) are distinct products for sale. It was thought that the old labelling regime would require game publishing companies to hold UK specific SKUs with UK labelling. It was assumed that moving UK regulation towards being more closely to that of the EU would lead to games publishers producing a single SKU which could be used EU wide.

Predicted savings

The IA monetised benefits arising from no longer requiring different packaging and labelling for the UK and other EU countries. Savings are made in packaging production and design costs.

The full savings were based on:

- 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 Runs become.

Table 1, gives the estimated cost savings from the IA. The costs were supplied by UKIE on behalf of the video game 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 – Packaging Costs

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

Source: UKIE

It was thought costs would vary between businesses for different game 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, it was assumed that since, on average, individual games titles are produced in 4 different SKUs, for a range of gaming platforms, then estimated additional costs of creating specific versions for the UK would be around **£10,000 per game title**.

Actual savings

In practise, savings related to packaging were smaller than the IA forecast. For publishers that produce one multi-territory SKU, such as a combined English, French, German SKU, to be sold across all the respective territories, there would be a saving. However, all companies who replied to the survey stated they always produce separate SKUs for each territory. Therefore, The UK's change from BBFC and PEGI ratings, to exclusively PEGI had no cost implications or savings, although it has allowed the possibility of this.

Regarding disc labels, firms stated they produce one disc label per platform displaying all ratings. Since the change publishers continue to use one disc label for all markets, there were no changes to the cost implications or savings resulting from the switch from dual to single ratings.

Savings from fewer certification fees

The initial IA forecast potential savings, to game publishers was due to their no longer needing to obtain a UK specific classifications. The IA did not monetise these benefits, but mentioned they would accrue due to a reduction in workload for publishers and time saving.

Most of the firms who replied to the questionnaire stated currently they submit to all global ratings boards, which for some titles is around 14 boards. Managing timelines and submission requirements creates a considerable workload. The reduction of the need for BBFC classification has reduced this workload by roughly 8%. Publishers state this has increased the amount of time they have review and evaluate prior to submitting them. Publishers also state this has resulted in a reduction in the overall time it takes to obtain ratings for European territories.

5. Were there any unintended consequences?

According to stakeholders, there have been no unintended consequences from the legislation.

6. Has the evidence identified any opportunities for reducing the burden on business?

Part of the scope of the legislation was to reduce the burden on business. The law has succeeded with this. Companies no longer need to procure UK specific classification. However, the IA forecast the change would reduce the burden farther than it did, as firms continued to produce nation specific packaging. As long as firms see value in printing separate labels they will continue to do so.

Shift to digital

Overtime video games distribution is increasingly moving toward digital delivery. Generally, firms still release physical versions of their game and therefore fall under the scope of the law. However as firms shift to a purely digitally distributed model they will no longer fall under the scope of the law. This will reduce the burden of the law, however also reduce the amount of information available on the age suitability of a game's content.

Potential to increase legislation to include historical releases

Nintendo, identified an opportunity to change the law so as to further reduce the burden on business. Older games are subject to a 'legacy' effect, when games were previously rated by the BBFC. For games which were previously rated by the BBFC, and are then re-released on a new platform (including with some minor changes), PEGI is unable to override a UK rating for the physical release, because the BBFC rating still applies – even if the BBFC rating pre-dates the new Video Recordings (Labelling) Regulations.

This problem effectively 'traps' the game in having a BBFC rating for the rest of its life, bringing with it the historical packaging and distribution issues and related costs.

Nintendo support an amendment to the law which would give PEGI the power to re-classify all BBFC-rated games if they are re-released on a new platform.

7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business?

The PEGI system covers 30 countries. The change to solely using the PEGI system more closely aligns the UK with other EU member states.

ⁱ 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.