European Gaming and Amusement Federation
Europäischer Verband der Unterhaltungsautomatenwirtschaft
Fédération Européenne des Jeux et d'Amusement

Radek Maly, Head of Unit, Notification of Regulatory Barriers
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European Commission
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Ref: **EUROMAT comments on the Draft technical regulation on the production, import and verification of entertainment machines without cash prizes as referred to in Article 110(7) of Royal Decree No 773 of 18 June 1931, as amended (TULPS), *TRIS Notification 2021/97/I***

Dear Mr Maly,

I am writing on behalf of the European Gaming and Amusement Federation (EUROMAT) to share our concerns about the Draft technical regulation on the production, import and verification of entertainment machines without cash prizes as referred to in Article 110(7) of Royal Decree No 773 of 18 June 1931, as amended (TULPS), notified by Italy on 16th February 2021 (Notification Number: 2021/97/I). The technical regulation is at standstill period until 17th May 2021.

EUROMAT is the voice of the land-based gaming entertainment sector in Europe. The organisation was established in 1979 to represent, through affiliated national associations, private sector operators of gaming machines and the manufacturers that supply them. EUROMAT instigates dialogue with the European Union and other pan-European bodies to discuss gaming-related public policy issues. It also provides accurate information on the gaming sector to citizens, European media and national administration and supports its members in their efforts to promote socially responsible practice.

Our Italian member, SAPAR, has brought to our attention the abovementioned technical regulation. SAPAR has numerous concerns with this regulation, which we also share.

The proposed regulation sets out technical rules regarding the homologation of all amusement machines without cash prizes, for example football tables, driving games,

redemption, kiddie rides, cranes, pinballs). This proposal will have a negative effect on our industry, which has already been hit hard due to the COVID-19 pandemic and the necessary restrictions put in place to combat it. In addition, it creates substantial internal market issues and places unjustified limitations on the common market.

We have a number of concerns with this piece of legislation, touching on the following:

- Creation of perverse incentives
- Single Market concerns
- Source code confidentiality
- Provisions on maximum value of prizes for redemption machines
- What happens with existing machines

Our concerns in more detail

Creation of perverse incentives

EUROMAT is not against government checks and controls of amusement machines. The proposed rules do not change the actual homologation process, which we will describe in more detail below. This system is applicable to certain categories of machines (such as video games and prize machines), and its main purpose is to demonstrate that they cannot be used for gambling purposes. The draft technical regulation proposes the expansion of the current homologation system to include other types of machines, such as basketball, Kiddie rides etc. Moreover, the decision on whether to use the full homologation process or the "lighter" alternative rests with the technical laboratory delivering the homologation.

This creates a double perverse incentive for the laboratory: on the one hand, since they are ultimately responsible for any irregularities when the authorities inspect a homologated machine, they are more likely to err on the side of caution and choose to use the full homologation process for all types of machines. On the other hand, this process is more expensive, so there is a clear revenue incentive.

The full system for homologating an amusement machine in Italy is as follows:

The procedure covers the Safety Rules of CE Certification (complete Data Sheet Report of a Certified Body) against Electromagnetic Compatibility and the Low Voltage Directive. These are also necessary for Customs purposes. The necessary documentation and steps in the process are as follows:

- Explanatory Sheet (in paper and digital non-rewritable format) of the game. This is a complete technical description of the game and how it works.
- Electro-magnetic compatibility and Low Voltage Directive test report.
- CD with the encrypted Source Code (provided by the producer) of the game's software, together with documents of the producer authorising the importer to use the CD only for the homologation of the game. In case of a Government check, the producer has to be available to decrypt the software.
- After this laboratory certification **(cost around €3,000)**, all documentation goes to the Italian Customs and Monopoly Agency (ADM), which must provide a "Certificate of positive outcome of the technical verification of conformity".
- The importer then has to request a permission for the distribution of every single game they are going to sell **(cost €50 each)**. This document is accompanied by RFID with an identification number for the game, both of which must be affixed on the game.
- The operator that buys the game from the importer must request another permission for operating the game (the permission is affixed on the machine as well). **This costs another €10**.
- In addition to these three documents (permission of distribution, permission of operation and RFID with ID number), the machine must also have a permanent sticker with the identification code placed on it.

This entire process takes between 3-6 months at a cost of €3,000. We strongly believe that the technical regulations will create a situation where most amusement machines have to go through this long and costly procedure, even in cases where it is clearly not necessary to do so. We have to reiterate that the point of this homologation is to certify that a machine cannot be used for gambling purposes. Extending this to basketball, air

hockey and the like and creating a perverse incentive for those certifying the machines will add a substantial burden to an industry already severely hit by COVID-19.

It must also be noted that placing these restrictions are not justifiable because the machines in question do not award cash prizes and there is thus no gambling risk involved.

We maintain that these provisions are disproportionate and would like to see changes to the technical rules to address these concerns.

Single Market concerns

The proposed technical rules make access to the Single Market of Italian amusement machine operators significantly more difficult. Although our producers and distributors can sell anywhere in Europe easily, Italian operators who want to buy machines from other EU countries need to undertake the homologation process outlined above. Due to the cost and paperwork required for this, small volume purchases (e.g. a single machine unit) becomes economically unviable. Moreover, there are no provisions allowing for the testing of new game machine before beginning the process of homologation.

This means that Italian operators are effectively forced to buy from Italian producers or distributors who can afford the homologation process due to large-scale production, or have access only to machines that importers choose to bring in the country and certify.

This is a serious restriction to the free circulation of goods in the Single Market, which forces Italian operators to either accept prohibitive costs to purchase machines manufactured in other EU countries or simply make their purchases according to what is available in the Italian market.

Source code and confidentiality

The technical rules mandate that the machine's source code needs to be provided to the laboratory running the checks. This is a deeply problematic issue, as the source code is confidential proprietary information and many manufacturers are reluctant to provide it without any strong guarantees that it will remain confidential.

We ask that the rules are amended to include strong safeguards on source code confidentiality and that the code is only required for games directly related to money.

Maximum value for redemption prizes

Redemption machines are a very popular type of machine in arcades. These provide tickets to a user that they can then redeem for a prize (e.g. a stuffed animal or a toy). They allow arcade guests to gather tickets over multiple visits, should they wish to claim a certain prize, offering flexibility.

The technical regulation seeks to put a maximum value on a prize presented in the showroom of the arcade. This is clearly an issue going beyond the scope of a technical regulation on the certification of machines, as it is not an issue for a machine per se, but rather an issue for the entire arcade. A guest can play on multiple machines over a period of time of their choosing and wish to accumulate enough tickets to obtain a more expensive prize.

Arbitrarily setting the maximum value at €20 risks undermining the attractiveness of redemption machines, resulting in reduced imports in Italy and reduced production of new games developped in the country. We have empirical data suggesting that a value of €100 is far more appealing to the users of the machine. We are also aware that other countries have significantly higher thresholds (in the Netherlands the maximum value is €750).

We challenge this provision both in terms of relevance to what the technical rules seek to regulate, but also under the free movement of goods, as it effectively makes redemption machines unattractive for Italian operators.

Existing machines

Finally, the technical lrules do not make any reference on what happens with machines already operational in the Italian market. Although precise numbers are not easy to come by, a conservative estimate places the number of machines at **110,000 at minimum**. It is

not clear whether these will have to be withdrawn, homologated or used as they are until a certain date.

We would appreciate some clarity on what happens to machines already on the market.

<u>Our proposals</u>

In addition to the proposals made above, we would like to propose the following solutions for different types of machines, based on what happens in other EU Member States.

- For football tables, air hockey, basket, pools, ticket redemption (all mechanical & electromechanical games falling under the 7c-bis category in the draft technical regulation): A simple certification signed by the importer / producer would be sufficient. This certification, which includes a description of the game, will be sent to the Customs and Monopoly Agency (ADM). The ADM will then provide an adhesive sticker to be placed on any sold game with the information about the seller and the Identification Number of that specific game. The cost of this process is estimated at €200-300.
- For video games and prize machines not related to money (categories 7c and 7a): A description manual and a certification signed by a professional engineer or a laboratory. A sticker is then affixed on each new game sold by that importer / producer. The time between submitting documentation and receiving the sticker is estimated at 10 days, with the cost at €300-600.

Yours sincerely,

Jason Frost, EUROMAT President