



CCRED
CENTRE FOR COMPETITION
REGULATION AND
ECONOMIC DEVELOPMENT



Digital Markets: The role for Competition Policy

Massimo Motta

ICREA-Univ. Pompeu Fabra and Barcelona School of Economics

7th Annual Competition and Economic Regulation (ACER) Week
Malawi 2022

Why digital markets do not work, and the role for competition policy

Massimo Motta

**ICREA - Universitat Pompeu Fabra, and
Barcelona School of Economics**

**7th ANNUAL COMPETITION AND ECONOMIC
REGULATION (ACER) WEEK**

15-16 September 2022, Senga Bay, Malawi

Ranking of GDP or turnover (USD bn, 2021)

➤ Amazon	470	➤ Nigeria	510
➤ Apple	366	➤ Egypt	436
➤ Alphabet	258	➤ S. Africa	426
➤ Microsoft	168	➤ Algeria	194
➤ Facebook	118	➤ Morocco	133
		➤ Angola	125
		➤ Kenya	115

Source: Wikipedia

“Free entry” and self-correcting markets

- Economists teach that markets are self-correcting:
Market power = High prices/profits → new entry → lower prices/profits
- If this mechanism worked, limited role for competition law and enforcement, and concentration/market power would be reduced
- But in some industries, it does not work...: there are **obstacles to entry** that new firms cannot overcome...

Obstacles to entry, I: economies of scale

- Digital markets characterised by large scale economies
 - A platform which has already a **big customer base has lower costs** than a new/small rival
- Scale economies can also be dynamic:
 - **larger dataset → improved algorithms → more clients/data...: virtuous circle**
- **More difficult for entrants to challenge incumbents**
 - Example: Microsoft lost several billions in Bing, without being able to dent Google's dominance in search engines market.

Obstacles, II: Network effects

= The utility of a user increases with the number of other users (“within-group”) of the same product/service

- *Direct externalities*: e.g., social networks (Facebook, WhatsApp, Instagram, Twitter...)
- *Indirect externalities*: navigation apps (Waze/Google Maps)
- Incumbents are advantaged by installed base, and network markets are often characterised by “*tipping*”: once a firm has reached a certain base, its position is unassailable.

Obstacles, III: “Two-sided” externalities

Network effects “across groups” of users, e.g.:

- More users in a platform → more sellers will list their products → more users (Amazon; eBay; Booking.com)
- More “eyeballs” on a platform → more firms want to advertise → more income → better website/service (Facebook, Google) → more users = more “eyeballs”
- Again, in two-sided markets it is difficult for entrants to challenge incumbents with a strong installed base

Obstacles, IV: switching costs

- Consumers tend not to change platform, or app, etc, due to switching costs
 - iPhone users continue to buy iPhones; WhatsApp users do not want to lose their chats, groups etc...
 - One may continue to use Booking.com because of additional points/benefits from “genius” status
- More difficult for a new firm to challenge a dominant platform

Obstacles, V: behavioural biases

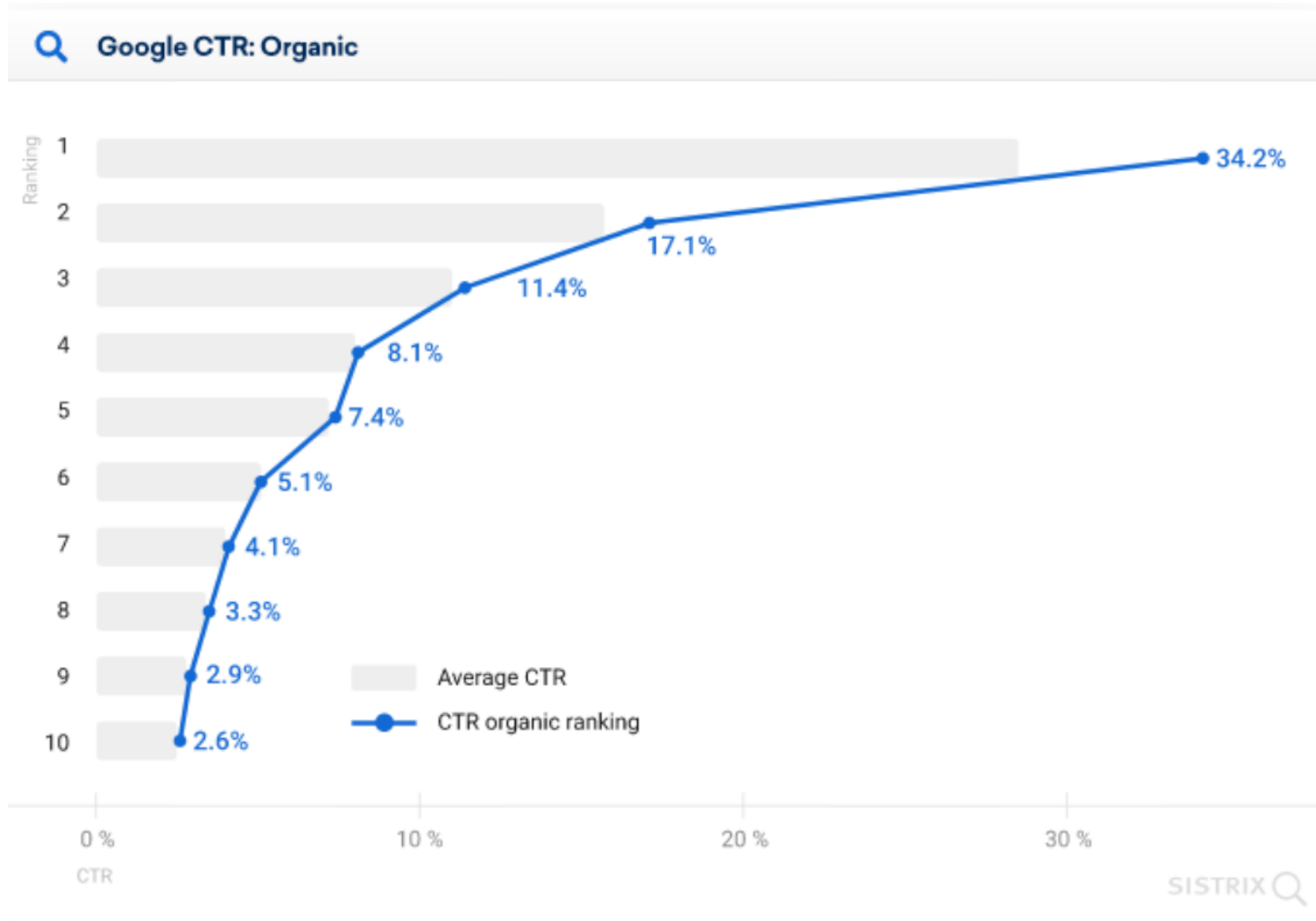
Default bias (we do not download new apps but use pre-installed ones)

- e.g., Google pays billions (to OEMs, browser developers, wireless carriers) to have its search engine installed as preset default for mobile and computer search access points, and not to have any other search engine installed

Prominence (we don't go beyond first search results – see next slide)

→ All these biases affect choices, mostly in favour of incumbents

Prominence pays



Digital markets

- Digital industries characterised by all such features
- Increasing market power of large digital platforms
 - Risk of lower quality, less innovation, higher prices (advertising fees)
 - Political risks due to lobbying/conflicts of interest by Big Tech
- When problems are due to market features, traditional competition tools cannot solve all of them
 - Market Inquiries; Consumer protection laws; privacy laws; Regulatory-like instruments'
- But dominant firms may engage in practices which reinforce those features and are anti-competitive...
 - Competition law can and should intervene

Abusive practices in digital markets

- Big digital firms have been using their market power to eliminate or marginalise (actual or potential) competitors
 - Self-preferencing: *Google Shopping (EU); Amazon Marketplace (EU, ITA)*
 - Tying and exclusivity payments: *Google Android (EU)*
 - Anti-steering provisions: *Apple v. Spotify (EU); Apple v. Epic (US)*
 - Denial of information/data: *Google Privacy Sandbox (UK,...)*
 - Degradation of interoperability: *Facebook (US FTC); Google v Enel (IT); Amazon IT*
 - Exclusive dealing to reinforce incumbency advantages: *Google AdSense (EU)*
 - [Price-parity clauses: *Booking.com; Expedia (F, DE, I, Swe...)*]
- All these cases have shaped the EU's Digital Markets Act.
- They can also inspire authorities in other jurisdictions

A new world is possible.
Let's not go back to what wasn't working anyway.

If you think the same, join us

Google LLC [+ Add to myFT](#)

EU wins €2.4bn Google Shopping case

Victory for competition commissioner Margrethe Vestager as court upholds 2017 fine

-
-
-
-



The General Court of Luxembourg has dismissed Google's appeal against a 2017 antitrust fine © Reuters

Javier Espinoza in Brussels **NOVEMBER 10 2021**

192

Receive free Google LLC updates

We'll send you a *myFT Daily Digest* email rounding up the latest Google LLC news every morning.

Feedback

14 September 2022

The New York Times

E.U. Scores Major Legal Victory Against Google

A court rejected Google's appeal of a record-setting antitrust fine related to Android and online search.



REUTERS®

World ▾

Business ▾

Legal ▾

Markets ▾

Breakingviews

Technology ▾

September 14, 2022

4:17 PM GMT+2

Last Updated 2 min ago

Technology

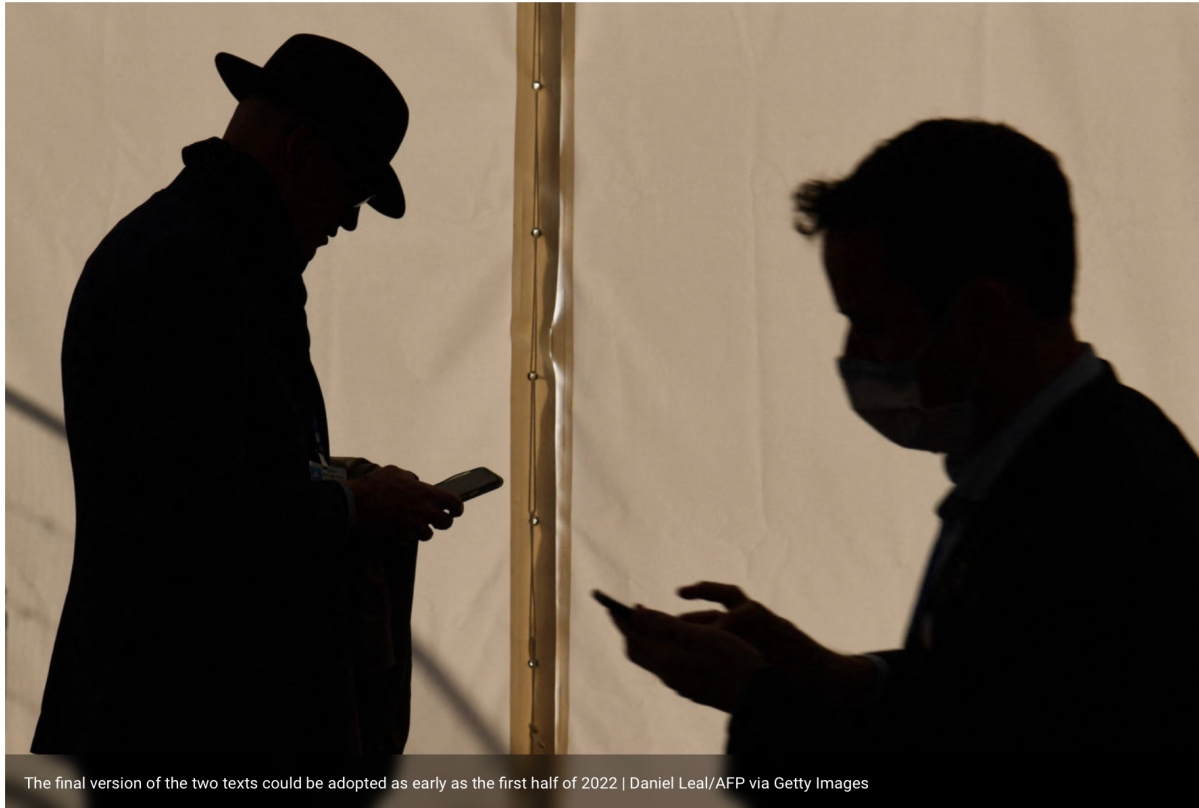
Google loses challenge against EU antitrust decision, other probes loom

Mergers in digital markets

- Hundreds of firms have been acquired by Amazon, Apple, Facebook, Google, Microsoft in the last few years.
- Very few have been investigated by antitrust authorities (for several reasons), virtually none prohibited
- In some cases, they have acquired potential competitors, removing a threat to their market position...
 - (Sometimes, “killer acquisitions”: a promising firm is taken over but its projects are not developed further)
 - Particularly controversial: *Facebook/Instagram, Facebook/WhatsApp; Google/DoubleClick, Google/Waze...*
 - Facebook even bought *Onavo*, an app which tracks growth and popularity of other apps, in order to identify competitive threats (and either acquire or marginalise them)

Europe reins in Big Tech: What you need to know

Ministers sign off on new EU tech rulebook to curb abuse and harm online.



The final version of the two texts could be adopted as early as the first half of 2022 | Daniel Leal/AFP via Getty Images

BY CLOTHILDE GOUJARD AND SAMUEL STOLTON

November 25, 2021 | 1:21 pm

EU's Digital Markets Act

Objectives:

Address market failures to **ensure contestable and competitive digital markets** for increased innovation and consumer choice

Address gatekeepers' unfair conduct

For platforms designated as gatekeepers, it imposes obligations, e.g.:

- refrain from treating more favourably in ranking services and products offered by the gatekeeper itself
- allow end users to un-install any pre-installed software applications
- (side-loading) allow installation of 3rd-party applications or app-stores
- Prohibition of tying core platform services
- (data lakes) refrain from combining personal data across services
- Prohibition of parity clauses...

What role for competition policy?

- Since some market features creating problems are too persistent, “light regulation” (like in the EU or in the UK) may be a good idea
- Market investigations, when available and allowing for (possibly also structural) remedies, are an excellent alternative tool
- But competition policy still has a role
 - Merger enforcement should be stricter (in general, not only in digital markets!)
 - Abuse of dominance provisions will allow to deal with new practices that regulation would not cover – but important to make investigations faster!
- In countries where a regulatory approach as in the UK and in the EU is not introduced, competition enforcement is the only tool available!