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## Facebook and Google must end anti-competitive practices or face being broken up

- **Current competition law is not fit for purpose, regulators follow pro-monopoly standards**
- **Consumer choice and innovation should be the new norm, not just consumer welfare**
- **Competition law needs to stop privileging big business and focus on the benefits of small businesses and market structure**
- **Regulators should strip the wrongdoer of their profits for their wrongdoing**
- **Social media is media, and should be regulated in the same way as traditional media**
- **Current merger controls should be changed to meet challenges of the digital age**
- **Current UK inaction on merger controls is unsustainable**

Internet giants such as Facebook and Google must end anti-competitive “kill in the crib” practices or face sanctions including being broken up, says think tank.

The think tank, ResPublica, warns that the practice of buying up potential competitors is one of many problems in the technology sector that is harming innovation, creating a market controlled by a few large firms and is leading to higher consumer prices.

In its’ report *“Technopoly” and what to do about it: Reform, Redress and Regulation*, ResPublica, with support of Will Hutton’s Big Innovation Centre, calls for a radical overhaul of current regulation, which it says is unfit for purpose, incentivises bad behaviour and has failed to address ethical questions around Big Data and its use.

“Digitalisation and the new world of Big Data are already conferring vast benefits...Not such good news are the new threats that digitisation poses to competition and the weakened capacity of insurgents to be lode-bearers of the new. Investment in patents, copyrights and computerised systems has become a new form of intellectual capitalism. The company that gains first mover advantage (with the creation of the fastest growing network of digital users) is the company on the way to establishing a

monopoly position, which can be further entrenched – as monopolies have always been – by buttressing that position through making its services as distinctive and non-reproducible as possible. If unconstrained by competitive alternatives, there is a danger that these companies can eliminate all potential competition through acquisition strategies.”

Phillip Blond, Director of ResPublica commented: “This matters because the dominance of the big players is crowding out innovation and leading to higher consumer prices. This is widely seen in price mark ups that have increased dramatically in recent years. Research in the US by De Loecker and Eeckhout found that these margins have more than trebled from 18 per cent in 1980 to 67 per cent in 2014. It is reasonable to assume the picture in the UK and Europe is broadly similar.”

The detailed and technical report, warns that its not just higher consumer prices that are a problem in the sector, but dominance by these internet giants of advertising revenue, data and even the provision of news.

“Facebook and Google leverage their market power to divert huge volumes of advertising to their platforms, accounting for half of all digital advertising revenue,” it says.

“The “Fantastic Four” (Google, Facebook, Amazon and Apple) are now widely recognised to be dominating the technology sector and controlling the media. They have wrapped the planet with their platforms and inhabit all, or almost all offices, schools and homes. Their impact on communication is pervasive and the consequences for freedom of expression and press freedom is only now becoming clear.

“Players such as *The Guardian’s* Alan Rusbridger have claimed that Facebook sucked up £20m of his former newspaper’s digital advertising revenue in 2015. If such players can accumulate control of visibility, they can threaten diversity of supply. Weakening of the press is the first step toward weakening of viewpoints, and it undermines democracy. Visibility is everything online. Control over what is seen or found determines what people see, read and, ultimately shapes what they think.”

The think tank argues that internet companies should be treated like other media groups such as SKY, or Bloomberg. While regulators are given new powers to promote innovation and choice in the sector, rather than their current focus on “turn over thresholds”, that report believes to be out dated.

In extreme circumstances the report recommends that companies should be broken up and forced to sell off parts of their business to “reinforce market structure and increase beneficial competition”.

“Competition authorities must be hawkish, not only in assessing what is happening today, but also the likelihood of what may happen tomorrow,” it says.

Tim Cowen, EU competition law expert and co-author of the report continued: “What we are calling for is a radical overhaul of how the sector is regulated as the concentration in the market continues at an alarming pace. Since 2001, Google alone has bought up 215 companies. Worryingly the pace of these aggressive acquisitions is increasing – 167 companies since 2008.

“While Facebook, which enjoys a virtual monopoly, with its 2 billion users has hoovered up 69 companies since 2007. Given the massive investment and high barriers to entry, this would meet almost any definition of a sector in crisis, but until the Cambridge Analytica scandal, few in power showed any concern - Even fewer understood the business model, which saw affiliates profiteering from the large scale harvesting and mining of personal data.”

The report concludes by acknowledging steps made by the Government, but warns that the UK must work with the EU in this important area. “The British government in its recent Green Paper ‘Modernising Consumer Markets’ has recognised some of these themes, and we hope it takes forward the proposed recommendations in this report; but we also recognise that national action alone is inadequate. We must try to marshal global institutions to tackle these issues. Despite Brexit, Britain must work closely with EU competition authorities to take on the difficulties posed by digitalisation.”

Phillip concluded: “This is an exciting time in the sector, as companies seek to exploit the potential of AI, which could double economic growth rates in industrialised countries like ours - But the dominance of the current behemoths puts this at risk.

“By tolerating anti competitive strategies, failure to penalise bad behaviour and make law breakers pay, we are damaging innovation. This is why we propose a pan European approach to dealing with the sector, support for small and medium size enterprises to gain market entry and the use of the states’ purchasing power to ensure greater choice and diversity.”

**ENDS**

#### **Notes to editors:**

##### **About ResPublica**

The ResPublica Trust (ResPublica) is an independent non-partisan think tank. Through our research, policy innovation and programmes, we seek to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in our country, we aim to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across our economy and society.

##### **About the Big Innovation Centre**

Big Innovation Centre (BIC) is a business-led open innovation consultancy established in 2011 that provides thought leadership for big companies and public bodies to address shared economic challenges and raise their innovative capabilities. They specialise in convening innovation champions in companies, government and world-class

universities, thinking forward about how to promote innovation and the best use of intellectual property, in particular, through co-creating open innovation eco-systems and communities, and piloting digital platforms where they see gaps and opportunities.

Professor Birgitte Andersen is CEO and CoCreator of Big Innovation Centre. An entrepreneur with a background in academia, she leads in developing practical policy proposals to grow the UK's economy.

Big Innovation Centre is also currently the Secretariat for The All Party Parliamentary Groups on Artificial Intelligence (APPG AI) and The All Party Parliamentary Groups on the Forth Industrial Revolution (APPG 4IR).

BIC's CEO is Professor Birgitte Andersen and its Chair is Will Hutton. Big Innovation Centre is registered in England and Wales No. 8613849. Address: Ergon House, Horseferry Road, London SW1P 2AL. CEO of Big Innovation Centre, Professor Birgitte Andersen (PhD Economics), is also Professor at University of London.

The full report is available upon request.

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