Market Power & Platform Power in the Digital Economy

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Competition dynamic

Significant benefits,... *but* concerns over virtual competition

- Network effects
- Economies of scale and scope
- Data as critical input
- Advanced analytics and data collection
- Asymmetry of information and analytical power
- Key gate keepers
- Stealth - tracking, harvesting, targeting and manipulation
- Zero price markets and quality degradation
OK,...

but what’s new?

▶ Aggregated effect, Tipping effect
  
  Network effects, limited (true) outside options, control of ecosystem, innovation ‘Kill zones’, ...

▶ Limited competition in key markets

▶ Competition for markets requires significant innovation,

▶ Sustained market power

▶ Market power below threshold

▶ Remedies limited in their effectiveness
Welfare Effects

- Exclusion - Exclusivity, tying, and self favouritism.
- Upstream effects - Bargaining power, scraping, e-monopsony.
- Exploitation - The things you own, end up owning you.
- Illustration -

- Self favouritism
- Quality degradation
- Behavioural discrimination
- Game makers
1 - Self-favouritism

- **Case AT.39740 — Google Search (Shopping)**
  - Google gave its own comparison shopping service an illegal advantage.
  - ‘Google to stop its illegal conduct... refrain from any measure that has the same or an equivalent object or effect... comply with the principle of giving equal treatment to rival comparison shopping services and its own service - apply the same processes and methods to position and display rival comparison shopping services.’

- Amazon investigation
- Apple investigation
Some parallels to the discussion on retail competition:

- Vertical Competition
- Bargaining power & Private labels
- Downstream rivals do not gain sufficient access.
- Control over interface
- Access to downstream data
- Control over customer data collection

- Can you have equality in vertical competition?
- Chilling effect & free riding ← → Exclusion, extraction & leveraging

- 2014 - EU Commission Report - The economic impact of modern retail on choice and innovation in the EU food sector
2 - Quality degradation & Exploitation

- Facebook

  - Market power & Network effects \(\rightarrow\) Limited outside options \(\rightarrow\) Limited outside options \(\rightarrow\) Quality degradation & Exploitation

  - Gathering and combining data from multiple sources.
  - Degradation of quality - Privacy
  - Excessive data collection?

- Bundeskartellamt imposed restrictions on Facebook’s freedom to process data
Policy considerations

- Is this a competition problem?
- Consumer protection problem?
- Welfare effects...
- Price effects...
- Empower consumers?
4 - Behavioural Discrimination

- Maintain complete control over the user relationship
- Controlled Ecosystems: *The Truman Show*
- Friction and outside options.

- The role and limits of digital comparison tools (DCTs)
- Fairness as a limit of behavioral discrimination.
- Minimize the Perceived Unfairness through Framing Effects
The Digital Butler

What you need. When you need it.
Policy considerations

- Is this a competition problem?
- Consumer protection problem?
- Welfare effects...
- Price effects...
- Welfare effects - Third degree or first degree price discrimination?
- Empower consumers?
- What is the market? How wide?
4 - Game Makers

- Platforms can obtain higher margins when they position themselves as a mandatory bottleneck between partners and customers.
- Perception of competitive environment
- Thousands of providers compete for our attention
- Thousands of advertisers bid to reach us
- Ample choice.
- Opacity and distortions as key.

- The hunger games ...
The Game Makers
Global Perspective - What to do?

Is there a competition problem?

**EU Law**
- Prevent distortion of competition
- Ensure fair competitive market
  - *Google
  - *Amazon
  - *Facebook
- Parity (Booking,...)
- Regulation - GDPR, E-privacy...

**US Antitrust law**
- The market ability to correct
- Prevent chilling effect
- No competition harm
  
  Yet,...
  - Inequality
  - Political condemnation,...
  - Elisabeth Warren ...


Final reflections

- New market reality - Enforcement needs to adapt.
- The limits of price-centric approach.
- The limits of static analysis.
- Be mindful of over/under intervention.
- Combined Ex-post & Ex-ante approach.