

Google counsel stands up for free services

ROSALIND DONALD

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Google's senior competition counsel Dana Wagner has posted a blog entry defending the company's business model, where advertising revenues are used to subsidise the company's free search and e-mail services.

The post, which appeared last Friday, responds to comments by Wired editor Chris Anderson on CNN's website, which suggest that Google's dominant position in the advertising market allows the company to offer services for free, subsidised by advertising revenue.

This, Anderson argues, is preventing competitors from having the same level of access to customers.

Wagner repeats the assertion that Google accounts for only 3 per cent of US advertising revenue - including all forms of advertising rather than just internet search advertising - and adds that many companies cross-subsidise areas of their operations. "No matter how successful the subsidising product is, the fact remains that cross-subsidising itself has never been viewed as an antitrust problem," he says.

Wagner says Google is not requiring customers to buy anything. "Competition laws are concerned with what's best for consumers, not for competing companies, and there's little doubt that from a consumer perspective, free products are usually a good thing," he says.

Google's presence in the internet search advertising market, which, the department says, counts for 70 per cent of market share, has already drawn the attention of the US Department of Justice's antitrust division. Google last year abandoned its proposed search deal with rival Yahoo after the DoJ said it would file an enforcement action if the companies went ahead with the deal.

This year, the division turned its attention to Google's October 2008 settlement with the Authors Guild that would give the company control over all out-of-print books that have not been claimed by the authors. The DoJ launched an investigation of the agreement in April.

Scott Cleland, CEO of Precursor LLC, a technology research company, who wrote a paper on the subject, has posted a response. He says that offering free services could cause antitrust concerns if Google's free products are determined to "foreclose competition by neutralising search complements" that could represent significant potential competition to the company.

Independent practitioner Richard Wolfram in New York says the danger of punishing firms for offering free products is that this is usually pro-competitive, so punishing this conduct could be counter-productive. However, the DoJ said that it will be "less constrained by the fear of possible overdeterrence than the previous administration," he says.

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“We should remember that the DoJ’s statement about Google’s dominant market share in internet search advertising was in response to the proposed Google-Yahoo agreement, which the companies abandoned last November – and that was under the previous administration,” Wolfram continues. “The larger issue here is that we don’t know the different ways in which monopoly or near-monopoly power might be manipulated either to extend or maintain monopoly power in that market or foreclose competition in markets for other applications.”