Common errors regarding search engine regulation—and how to avoid them

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In 2010, Google and the European Commission set out to negotiate a quick settlement intended to address the Commission’s concerns about “search neutrality” in the Foundem case. That plan did not quite work out. Several sets of commitments have been drafted, negotitated and rejected by the Commission since then. The latest version of January 2014 was initially welcomed by former Competition Commissioner Almunia, but ultimately rejected by the Commission because of political pressure.

The US Federal Trade Commission had investigated similar complaints against Google. However, in 2013, following controversial internal discussions, the FTC unanimously rejected the allegation of a “search bias”.

“[The] FTC concluded that the introduction of Universal Search as well as additional changes made to Google’s search algorithms—even those that may have had the effect of harming individual competitors—could be plausibly justified as innovations that improved Google’s product and the experience of its users”.

Likewise, the European Commission has not been able to prove that Google has committed an actual abuse of power.

Nonetheless, mere accusations of a search bias were enough to motivate high-ranking European politicians as well as members of the European Parliament to urge the Commission not only to punish Google, but to break up the company. Such requests are seldom based on consumer interests or on competition law, although this is often claimed. More often, these demands are driven by populism or special interests. There is, for example, a strong lobby of European publishers who feel threatened by the readers’ migration to the internet. Moreover, most big internet undertakings (like Amazon, eBay, Facebook or Google) are US companies. Europe has no comparable “big players”. Many European politicians find this imbalance disturbing and call for measures of industrial policy (often disguised as competition policy measures) in order to change the situation. Ironically, while overregulation might be one reason for the lack of significant European internet companies, these politicians do not call for deregulatory measures. Much to the contrary, they push for even stricter regulation.

Requests to regulate internet undertakings in general and search engine undertakings in particular are often based upon profound misconceptions about the dynamics of the internet economy as well as of competition law. The following article tries to set the picture straight by addressing some of the most common errors regarding the need for, and the (very limited) potential of, search engine regulation. While search engines are taken as an example, many of the following observations apply to other fields of the internet economy as well.

**Error One: “Competition law is a universal instrument to achieve any political objective”**

Competition law is often regarded as a kind of “universal instrument” able to achieve any political objective or to solve problems in other fields of law, e.g. energy law, copyright law, patent law or privacy law. The European Commission is not completely innocent with regard to this misunderstanding because it has sometimes (ab)used competition law as a means of extending its jurisdiction to such other fields of law, which according to the letter of EU law cannot be enforced directly by the Commission. Competition law, however, is not a universal instrument for correcting deficits in other fields of law. Competition authorities are responsible for the protection of competition only. Other political objectives must not be considered. This limitation has been established for good reason—particularly to protect competition authorities from inappropriate political pressure. Many examples underscore the urgent need for this protection. The Foundem search case is just one among many cases in which the Commission or other competition authorities were confronted with massive lobbying and political pressure.

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2. In 2015, the Commission decided to open formal proceedings against Google it has sent Google a formal Statement of Objections on April 15. See European Commission, press release IP/15/4780 and MEMO/15/4781 of April 15, 2015.
4. For example, in its E.On decision—11.26.2008, Cases COMP/B-1/39.388 and 39.389—the Commission used art.9 Regulation 1/2003 proceedings to divest E.On from its transmission system business. This occurred after the Commission had failed (as part of the lawmaking process) to introduce a provision in regulatory law that would have empowered the national regulatory agencies to such a “full ownership unbundling”.

To give another recent example: in late June 2014, VG Media (a German licensing and collecting society) filed a complaint on behalf of publishers with the German Federal Cartel Office (Bundeskartellamt: BKartA) seeking remuneration for Google’s inclusion of text excerpts (“snippets”) from the publishers’ press articles in its organic (ad free) search list. This claim was preceded by a barrage against Google in several newspapers amidst rising political lobbying efforts. The inclusion of such snippets in the organic search list, for which Google neither charges nor pays money to anybody, amounts to “free advertising” for the publishers’ websites. Instead of appreciating this collateral effect, VG Media has tried to extract additional money from Google for using the “snippets”. This claim seems quite bizarre. Just imagine if Google (or any other undertaking) had acted the other way round and asked the publishers to publish ads for Google in their newspapers and then, in addition, sued them to pay money to Google for these ads. Unsurprisingly, the BKartA’s investigation was already closed in August 2014. The BKartA emphasised that the claim was not sufficient to institute formal abuse of dominance proceedings against Google.7 The questions of whether Google violates the publisher’s copyrights by including text snippets in its organic search list and of whether it, therefore, has to pay remuneration to the publishers, is a copyright issue and not a competition law issue. Hence, it must be properly addressed under the German Copyright Act, which the BKartA is not empowered to enforce.6

The same principles apply to privacy (data protection). Without doubt, “big data” raises several critical data protection issues. Whether the general terms and conditions that Google, Facebook, WhatsApp or other internet undertakings use in relation to their user’s copyrights and personal data rights stay within reasonable limits or, alternatively, violate national privacy laws and/or consumer protection laws are questions worth pursuing. But, again, competition authorities are not to answer these questions, but rather data protection authorities or civil courts.

The European Commission was, therefore, right when it underscored with regard to its Facebook/WhatsApp merger decision that the Commission “analysed potential data concentration issues only to the extent that it could hamper competition in the online advertising market. Any privacy-related concerns flowing from the increased concentration of data within the control of Facebook as a result of the transaction do not fall within the scope of EU competition law”.5

Error Two: “Competition law is aimed at avoiding and breaking up monopolies”

What does it mean that competition law is about “protecting competition only”? Many politicians and journalists believe that competition law aims to prevent monopolies and that the fact that an undertaking enjoys monopoly power is sufficient to ask competition authorities to break that undertaking up. In other words, “big is bad”. This is not only a very simplistic point of view, but also an erroneous one. While it is possible to avoid the creation of monopolies through mergers based upon the EC Merger Regulation 139/2004, competition law does not per se forbid the creation or existence of monopolies.

On the contrary, the desire to acquire a large market share is one of the driving forces of competition. It is quite obvious that offering better products and/or lower prices than competitors is an expression of competition that does not become anti-competitive just because it is successful. An undertaking that successfully competes on the merits does nothing wrong within the context of competition law, even if it becomes very big and powerful in the relevant markets. This is, in a nutshell, what happened with undertakings such as Amazon, eBay, Facebook or Google. Consumers preferred their services because they considered them to be more innovative, better or simply cheaper than other offerings.

If competition law considered size in itself an offence, innovative undertakings would have to be careful not to become “too successful”. A Sword of Damocles would hang over all competition. This would be the opposite of what competition law, which is about promoting competition, strives for, and this is exactly why art.102 TFEU does not forbid market power in itself. The fact that an undertaking enjoys a dominant position makes it an addressee of art.102 TFEU, but it is not sufficient to make it an infringer of art.102 TFEU.

In order to infringe art.102 TFEU, an undertaking must not just possess, but abuse this position. And even if an undertaking abuses a dominant position, this is not enough to break it up. The Commission can only break up an undertaking if it can prove, first, that such an abuse occurred and, secondly, that there is no other, milder remedy that could stop this abuse. Based upon the Commission’s publications, the Google search case fulfills neither the first nor the second requirement. There is no legal basis for “breaking Google up” under EU competition law, even if Google was found to be dominant.

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6While the publishers’ snippets are no “ads” in the narrow sense of the word, showing them in the organic search list clearly has a collateral “advertising effect” for the publishers’ web pages. Insofar, even if German copyright law would allow the publishers to ask for remuneration, this “advertising effect” could be seen as a sufficient compensation. In other words, the free licences which Google now asks for can be seen as a consideration for this free advertising effect.
Error Three: “High market shares are enough to prove dominance”

In Europe, Google Search is the leading search engine. For example, a statistical study estimates that Google Search currently makes up 95.13 per cent of search inquiries in Germany. Google also enjoys a strong position in other areas, including map services (Google Maps) and video streaming (YouTube). These numbers may, at first glance, indicate dominance, but they are not enough to prove it.

First, it is far from clear how the “search engine market” is properly defined. While the fact that Google charges no fees for including hyperlinks in the organic search list does not constitute a valid argument against the existence of a “search market in the economic sense,” the 95.13 per cent figure quoted above relates to “horizontal search” only. Internet search in the year 2014 is not that simple a process. Google Search actually offers a combination of horizontal (general) and vertical (specialised) search services, and both fields overlap. For instance, if users search for a book, they might turn to Amazon instead. If they search for a flight, they might use Expedia as an alternative. Excluding all these vertical issues from the definition of search markets creates a misleading impression of the actual market conditions.

Secondly, Google Search does not operate in a traditional market, but, at the minimum, in a three-sided market: Google is a platform that connects users searching for answers (“search market”) with undertakings offering websites or other information (“indexing market”) and with advertisers who pay money for search-related ads (“advertising market”). In such multi-sided markets, market power cannot be properly accessed by just looking at one side of the market (i.e. only at the search side or at the indexing side). All three sides have to be taken into account. Moreover, because of mutual influence of the three sides on each other, some degree of market power must be present in all sides of the market/platform in order to establish a “dominant position” in the sense of art.102 TFEU.

Thirdly, even though high market shares are usually a first indicator of dominance, this may not be the case in innovation-driven markets of the digital economy shaped by economies of scale and network effects. In such markets, high market shares often indicate effective competition for the market rather than market failure. Innovative enterprises quickly conquer high market shares, but they lose these shares just as quickly when an innovative competitor introduces an even better product. This is evidenced by the displacement of the once dominant social network MySpace by Facebook or by the displacement of Yahoo! by Google in the western hemisphere. The significance of high market shares is very limited in such a dynamic environment. In its 2011 Microsoft/Skype merger decision, the Commission therefore considered market shares of 90 per cent to be unproblematic where the market affected was dynamic and consumers could (and would) easily switch suppliers. This analysis has proven correct. Since 2011, the former market leader for messaging services, Skype, has been displaced by WhatsApp: a company that was not even mentioned in the Commission’s decision because it was irrelevant in 2011.

In sum, while it does not seem unlikely that Google is a dominant undertaking with regard to search-related markets, this result cannot simply be derived from its 95.13 per cent market share on the horizontal search market (if such a market can be defined as a separate market at all). Market definition is far more complicated and economic and legal research is just beginning to grasp the dynamics of internet markets. Much work remains to be done.

Error Four: “Google is the gatekeeper of the internet”

If we assume, for the sake of the argument, that Google is a dominant undertaking and that it is therefore an addressee of art.102 TFEU, the question arises of whether it has abused this dominant position. In exceptional cases, the mere denial of access to a service may constitute an abuse of a dominant position. In this context, it is often claimed in the media that those who do not appear on one of Google’s first organic search pages are virtually “invisible” on the internet. If that were true, then Google’s search engine could be deemed a so-called “essential facility” to which suppliers of websites and other information would need access if they wanted to sell their services on the internet—and to which these suppliers could thus force access under the competition laws. However, this is not the case.

First, there are other search engines, such as Bing, Yahoo! or DuckDuckGo to which users are able to switch at any time with a simple mouse click and without cost. This assessment might change to a certain degree in the future because search is increasingly combined with other services (e.g. “Google+”) and therefore gets more and more “personalised”. This in turn, might create switching costs or even lock-in effects in the future.

Secondly, websites of other undertakings can be visited directly without any cost or burden. Undertakings that have built up strong brands such as “Amazon” or the “New York Times” are easily found on the internet even without a search engine. For example, the leading German newspaper “Bild” receives less than 15 per cent of its traffic via search engines, while more than 70 per cent of
the users go directly to “bild.de”. The “New York Times” receives about 27 per cent of its traffic via search engines, 16 per cent via Facebook and other social media, 17 per cent via direct links on other webpages and about 39 per cent directly via “NYTimes.com”. 17

Thirdly, while it may be that it is harder to locate undertakings that do not appear on at least one major search engine, Google’s search engine does not control access to information or to the internet merely because it is used particularly often. Again: competition law is not designed to sanction success in competition. Moreover, according to the European Court of Justice’s Oscar Bronner decision a service may be an “essential facility” only if refusal of access to it would “be likely to eliminate all competition in the [downstream] … market on the part of the person requesting the service”, which is not the case if this market can be accessed by other means “even though they may be less advantageous”. 15 Search engine links are clearly not the only way to advertise internet services. For example, vertical travel search engines such as Expedia, Booking.com or HRS also advertise extensively (and successfully) on TV and in other “offline media”. 16

Google is indisputably an important “gateway” to the internet, but it is certainly not the internet’s “gatekeeper” and therefore also not an “essential facility” in the meaning of competition law.

Error Five: “Giving away search and other services for free indicates a price-based abuse or even predatory pricing”

A characteristic feature of most internet markets has been described as a “free-of-charge culture”. Consumers make use of services, but they do not make a direct payment in exchange. This may seem surprising at first glance, as no undertaking can perpetually give away its products for free and stay in business or even make a profit.

The fact that Google (and other companies) appear to do exactly this is nevertheless neither wizardry nor an indication of anti-competitive price abuse to the detriment of competitors. Rather, as we have seen above, the search market (like many other internet markets) is part of a so-called “two- or multi-sided market/platform market”. 14 While users on one side of the market pay no money, but only a non-monetary price in the form of their data or attention, advertisers on the other side of the market pay the monetary cost for these services.

This business model—as an alternative to pay-for-service offerings—is not limited to the internet. For example, advertising leaflets and so-called “free TV” channels (Sat1, RTL, etc.) are based on a similar model.

In the internet’s digital economy, however, this multi-sided business model is not the exception, but the rule. Consumers often prefer the distribution of services in this modern way because it appears to serve their interests better than traditional pay-for-offerings.

The success of this new business model is often accompanied by the decline of traditional pay-for-service business models and their providers. The fact that these traditional undertakings lose market shares and profit to those that use more innovative multi-sided business models is not an expression of an abuse of power (e.g. by “below-cost pricing” or “predatory pricing”). On the contrary, it is an expression of working competition among different business models. Nevertheless, traditional undertakings often (misleadingly) claim such abuses and ask the competition authorities to take action “in order to protect competition”, while their real goal is to abuse competition law as a means of sheltering themselves from competition. The FairSearch complaint against Google Android is a good example for such a frivolous claim.”

Error Six: “Search neutrality is possible”

Let’s go back to the Foundem search case. The principal complaint in the Foundem case is the absence of search neutrality. However, given that the very purpose of a search engine is to filter out information from a myriad of websites that best correspond to a specific search request, internet search is by definition not neutral. A search algorithm must assign values to results and differentiate on that basis. If the outcome corresponds to the preferences of most users and these users thus feel that the search results meet their needs, the search engine will be successful. The fact that certain websites are ranked higher than others is just as natural as the fact that different search engines (with different search algorithms) deliver different search results. This is an expression of competition among search engines.

In other words, there is no such thing as an “objectively correct search result” against which a governmental agency could test any given search result or which a governmental agency could seek to enforce. Prohibiting search engines from ranking results according to their own criteria and algorithms would be tantamount to prohibiting search engines as such. Search engines therefore enjoy a wide discretion with regard to the selection and the ranking of the search criteria that they apply.

In this context, mere suspicion of a potential violation cannot justify jumping to conclusions, or, worse, regulatory intervention. Even on Microsoft’s search engine Bing, Google Maps and YouTube receive top rankings. The finding that Google’s own services are

12 These figures differ from newspaper to newspaper, for a comprehensive overview see http://t3n.de/news/traffic-analyse-median-bild-heftig-spon-548276/ [Accessed April 8, 2015].
displayed at the top of a search result thus cannot serve as evidence of manipulation. It might simply result from the quality of the Google services or from product innovations like Universal Search that can (like most innovations) harm competitors, but also improves consumer welfare. As the FTC has properly pointed out, competition law is about protecting competition, not competitors.

Besides, even if Google did differentiate in favour of its own services or those of its subsidiaries, this would not necessarily amount to a violation of art.102 TFEU as long as Google Search is not an essential facility (which it is not) and as long as this differentiation does not lead to an anti-competitive exclusion of its competitors from downstream markets.

Error Seven: “Internet search can be regulated by regulatory agencies”

Considering all of the above, the solution to the question of how the government should address actual or perceived market power in search might be surprising to some. The answer is: “with wise restraint”.

An obligation to disclose search algorithms to the public or to competing undertakings would clearly not be workable and hardly in the consumers’ interest. Such a disclosure would result, inter alia, in webmasters manipulating their websites to ensure that their websites are ranked at the top of search results pages despite poor quality content. Honest websites would get the short end of the stick, and the search engine would be devalued.

Ex-ante state regulation of search algorithms is not feasible. Search algorithms are not simple BASIC-code like “IF Maps THEN Google Maps”. They consist of a complex multi-algorithm network within which hundreds of search-ranking criteria and several algorithms interact.

Given this background, it seems very unlikely that an external expert would be able to fully comprehend these algorithms even if they were static. And search algorithms are not static. They are rather in constant flux. This is necessary in order to keep pace with the rapid development and ever-changing dynamics of the internet. Google, for example, makes between 500 and 1,000 changes to its algorithms every year. Even Google’s own engineers cannot safely predict whether slight changes (e.g. with regard to the relevance of certain search ranking criteria) would lead to better or worse results for the consumers. In practice, the effects of such changes are therefore measured by evaluations, side-by-side experiments and live traffic experiments.

Given these considerations, requiring prior approval for changes to the algorithms from a public authority would clearly mean the end of efficient internet search even if there would be only one global regulator. To once again underscore the point, there is, first and foremost, no such thing as an “objectively correct search result” against which a governmental agency could test any given search result or which a governmental agency could seek to enforce. Secondly, any kind of administrative control would be much too unwieldy and slow and, thus, unable to keep pace with the rapid development of the internet. Thirdly, as evidenced by the pressure on the Commission in the Foundem case, lobbyists and politicians would try to influence the agency’s decisions to their own advantage (and not to promote competition). The problems that could be created—even by indirect state intervention—are demonstrated by the European Court of Justice’s questionable Google Spain judgment on the “Right to be Forgotten”, which throws the baby (freedom of information) out with the bathwater (the general right to privacy) and de facto leads to a form of “internet censorship” by making the messenger liable for the bad news.

The only realistic option that remains is ex-post control of alleged competition law infringements. As demonstrated above, such mechanisms would not legitimately allow for the punishment of the mere existence of a dominant position as such, but rather solely the proven anti-competitive abuse of such power, e.g. by direct, arbitrary manipulations of the search index or the search algorithms which are solely aimed at foreclosing competing websites while at the same time reducing competition and consumer welfare.

In applying art.102 TFEU to Google’s business practices with regard to internet search, the Commission must keep three aspects in mind: first, that competition laws aim at protecting competition, not competitors. Even if the dominant search engine is US-based and the competitors are EU undertakings, competition policy must not be mistaken for industrial policy; secondly, that search engines must enjoy a wide discretion because it is this discretion that drives innovation and competition in the field of search engines; thirdly, that a search engine works properly if it serves the consumers’ interest best and not the commercial interest of Google or its competitors, even if these undertakings would prefer another search result.

The FTC was therefore right when it considered the introduction of Google’s “Universal Search” in 2007 to be a product innovation and not an abuse. By introducing Universal Search, Google combined horizontal and vertical search and made it possible for consumers to

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15 See “Error Four” above.
16 Compare European Court of Justice, March 27, 2012, Post Danmark A/S v Konkurrensvirksomheden (C-209/10) EU:C:2012:172; [2012] 4 C.M.L.R. 23 at No.30: “the fact that the practice of a dominant undertaking may . . . be described as ‘price discrimination’, that is to say, charging different customers or different classes of customers different prices for goods or services whose costs are the same or, conversely, charging a single price to customers for whom supply costs differ, cannot of itself suggest that there exists an exclusionary abuse”.
locate the desired information itself in the organic search list (e.g. a map) instead of a mere hyperlink to the desired information (e.g. a map service website) like before. While it was obvious that competitors lost traffic due to this change (and therefore did not like it), it was also obvious that consumer welfare (as well as competition among search engines) was increased by this innovation.

The “Panda update” to the Google search algorithm that was released in 2011 offers another instructive example in this regard. According to Google, this update was “designed to reduce rankings for low-quality sites—sites which are low-value add for users, copy content from other websites or sites that are just not very useful. At the same time, the update provides better rankings for high-quality sites—sites with original content and information such as research, in-depth reports, thoughtful analysis and so on.”

An independent review by CNET notes that news sites and sites like Twitter or Facebook generally benefit from the Panda update, while so-called “content farms” were demoted in the organic search list. It is not farfetched to assume that vertical search engines like Foundem, which basically consist of aggregated content from other websites and advertising, find themselves in the second group. Nevertheless, the Panda update is obviously not solely aimed at foreclosing such competitors, but on improving search quality from the consumers’ point of view. It therefore generally falls within Google’s entrepreneurial discretion to implement these changes.

**Concluding remarks**

Against this wider backdrop, the Commission has been correct in refraining from intervention in Google’s search index or algorithms and the company’s underlying entrepreneurial freedom, and it would be well advised to avoid an “over-enforcement” in the ongoing proceedings in spite of the massive political pressure. The solution that the Commission considered in the course of the negotiations with Google, however, was only partially convincing: the imposition of a further advertising panel (the so-called “Almunia box”) between the existing ad slot at the top of the page and the organic, ad-free search result list would have been more of a consumer nuisance than a helpful addition (in particular on mobile devices). This part of the commitments served the competitors’ interest rather than consumer welfare.

On the other hand, a requirement to label Google’s own services (like YouTube, Google Maps or Google Shopping) more clearly should be welcomed as it increases transparency. Transparency is of utmost importance in this field because internet search is ultimately based on trust. If users got the impression that the ranking of Google services was not in line with the quality of these services, they would become dissatisfied with the search results. Manipulations would thus be quickly uncovered. Any search engine that manipulates its results bites off the very hand that feeds it.

In parallel—outside of the context of competition law—consumers’ media literacy should be strengthened early on in life. A number of German states already offer “media studies” as part of their fifth grade curriculum to further this goal. Such measures make a lot of sense: citizens who are fully aware of the opportunities as well as of the dangers of the internet will ultimately be the most effective guardians of democracy and competition.