HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Internal Market Sub-Committee

Inquiry on

ONLINE PLATFORMS AND THE EU DIGITAL SINGLE MARKET

Evidence Session No. 12 *Heard in Public* *Questions 109 - 122*

MONDAY 23 NOVEMBER 2015

4.55 pm

Witnesses: Adam Cohen and Jon Steinberg

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Members present

Lord Whitty (Chairman)
Lord Aberdare
Baroness Donaghy
Lord Freeman
Lord German
Lord Liddle
Lord Mawson
Baroness Randerson

Examination of Witnesses

Adam Cohen, Head of Competition and Economy Policy for EMEA, Google, and **Jon Steinberg**, External Relations Manager, EMEA, Google

Q109 The Chairman: This is a formal evidence-taking session. A full note will be taken and put on the public record. We will send you a copy before it is issued as a public record and you can change any minor errors. The session is being webcast and will be accessible. I hope that will not inhibit you too much in what you say, but it is important that you understand that and the circumstances. The room's acoustics are not brilliant, so please speak up. Would either of you like to make any opening statement? You know the terms of our inquiry and that we are at a relatively early stage in it.

Jon Steinberg: Sure. We thank you for the opportunity to come and give evidence. You have seen our written submission.

The Chairman: Thank you very much for that.

Jon Steinberg: Our pleasure. As a point of introduction, my name is Jon Steinberg. I work on Google's European policy team handling a range of economic issues, including platform regulation and the digital single market strategy in Brussels. As a recent naturalised UK citizen, I should say that it is with great pleasure that I come here today.

The Chairman: Congratulations.

Jon Steinberg: Thank you very much. The other part of my role is to help to demonstrate the economic value of the internet and Google's contribution to it. Part of that is demonstrating how Google is not just a search engine but a growth engine for hundreds of thousands of businesses across Europe.

Adam Cohen: My name is Adam Cohen. I am based in London, but I am not a citizen yet. I work on economic policy issues across the region—Europe, the Middle East and Africa—particularly competition policy. I saw that some of your questions were geared towards these issues and I am very happy to discuss them with you. Thank you for having me.

Q110 The Chairman: Thank you very much. We sent you the outline of the questions. The second question included a number of questions on annual turnover and what proportion of that comes from advertising. Do you have the answers to that either orally or in writing, because it would be useful if we had them on the record before we started the more specific questions?

Adam Cohen: I am happy to share those. A couple of the numbers we cannot provide, but on the main one, our annual turnover last year, 2014, was $66 billion. We derived 89 per cent of that income from advertising. We do not, unfortunately, break down which parts of revenue are attributable to which lines of advertising businesses that we have, but one thing I wanted to clarify based on that question is that we do not sell profiles to third parties. That is not the way our advertising systems work.

The Chairman: It is very useful to have for the record. Thank you. The next question is what proportion of that advertising revenue is in the EU.

Adam Cohen: We do not break it down by EU geography, but I can tell you that 57 per cent of our revenue came from international. Within the UK, we report that publicly on an annual basis. It was $6.5 billion last year.

The Chairman: What proportion of EU search revenues does Google account for? That was the third question.

Adam Cohen: I was not quite sure what the question about search revenues meant exactly. We have search-based advertising; it is a service that we call AdWords. Rival search engines have their own, similar advertising formats, but I am not familiar with industry analysis that would give you a sense of Google’s share of that particular niche within the broader advertising market.

The Chairman: That was not quite what the question meant, but I accept that it is not very clear.

Adam Cohen: I do not have specific data to share in response to that question.

The Chairman: That is fine. Talking of the general search markets, we have been told that you have around 90 per cent of the EU 28 market. Is that your understanding?

Adam Cohen: We do not keep data on this, but if you define the market for general purpose search—some people refer to it as Google, Bing from Microsoft, Yahoo and a couple of other smaller players—that number might be accurate. The key question is whether that is a self-contained market with no substitute and no outside competitive pressures. I hope we can talk about that a bit this afternoon.

Q111 The Chairman: In that case, let us go on to the more policy-oriented questions. Your written evidence says that there is no evidence for specific online services having excessive market power. It also says that competition, which you define quite widely as mode of competition, exerts competitive pressure, forcing prices low and stimulating innovation. Can you describe how you see that dynamic competition, and is that true across the range of your services, or very specifically in relation to some of them?

Adam Cohen: From our perspective, our competitors are not necessarily 100 per cent like for like. We provide a broad, general-purpose search service. Some of our competitors provide specialist services, but if you are looking for products to buy you might use Amazon, eBay, John Lewis and other services like that as substitutes or complements to Google's own. If you also look at other areas such as travel, where people will go to Expedia, Kayak or lastminute.com, you see that the net effect of all those competitors, some of them specialist, some of them operating more broadly, is a competitive impulse on our business that forces us to do exactly as you say: to keep prices low and to maintain quality and a constant drive for innovation.

The Chairman: On the general search, for example, which is the most obvious one for most consumers and businesses to deal with, if you were looking for equivalent competitors you would say that although you may have a 90 per cent or thereabouts share of the market, that is not for real, because the real competition is in different modes.

Adam Cohen: That is correct. It is a long-established practice among regulators to try to understand, in the face of sustained price increases or degradations of quality, how consumers will behave and whether they will seek alternatives. If we look at these specific areas—they are very large and lucrative areas for online activity, such as shopping—we see that consumers are using services like Amazon and eBay and many others as substitutes for Google's own. Amazon touts its ability to attract consumers directly without using other services. Google is not unique among those services, but Amazon is able to attract users to its site directly. That is increasingly so in the mobile internet—we see that more than 50 per cent of internet access in western Europe now is done on mobile devices. Access to those types of services is not occurring through a browser on a desktop computer or through a search engine; it is occurring via dedicated applications. So somebody who is shopping online today is shopping via Amazon's mobile application rather than using the web as we might have thought about it six years ago.

Q112 Lord Wei: We have heard just now about the perception of very high market concentration in general search: that in effect Google Search is a gateway for the wider internet. This gives you a lot of influence over how people access information. It also means that a lot of businesses depend on your search rankings. Do you agree with that kind of statement, and, if so, should Google take a special responsibility to ensure that the results of your search engine are fair?

Adam Cohen: I agree with some of that. We are large, successful and influential to some degree. The key question there is whether there are alternatives for consumers and for businesses in the way they distribute their products and services. One of the quarters from which we heard this particular concern originally was the newspaper industry. Just to give an indicative example of how quickly things have changed, in 2008-09 newspapers said that Google was responsible for the majority of their online traffic. I think that was accurate. What we see today with the emergence of new services, particularly social media, is that most newspaper websites are getting more traffic from Facebook and Twitter than they are from Google. This goes to the point about market definition and what constitutes a substitute for Google services, and to the broader point of whether Google is somehow a choke point on the internet. There are a lot of interesting questions to explore about how easy it is for consumers to switch among these different services or to use them at the same time, a process that economists refer to as multi-homing. We see quite a lot of that across the web, so that even if someone is using Google every day and feels as if they are using Google all the time, they are actually using lots of other services at the same time, too.

Lord Wei: One question that I want to ask that follows on from that relates to the services that Google itself provides that sit on your search—you mentioned shopping. Are they subject to the same ranking algorithms as third parties that are listable on Google? Does Google sometimes prioritise its own services relative to those of third parties?

Adam Cohen: What you see right now if you come to Google and you search for a product to buy is a space that we refer to as organic search or natural search results. None of these results is paid for. They are based on a simple algorithm—well, it is not simple; it is quite complicated and has been in development for over a decade—that determines relevance. Around this, at the top and to the right, in a well-marked part of our page, you will see advertising space. At the moment, the way in which we show shopping results is as a form of advertising. There have been—this is the subject of an ongoing investigation in Brussels by the European Commission—accusations that we have somehow inappropriately favoured our own advertisements on our page. What I would say to that very clearly is that we have defined which parts of the page will be advertising and which parts will not. We have also defined strict criteria for ourselves and other sites about relevance. So we do not rank organic search results in the same way as we rank advertising, but we hold all the elements on the page to very high and equitable standards of relevance.

Lord Wei: So, just to be clear, if you were to search for Gmail in the organic search, wherever Gmail appears in the ranking is subject to the same algorithm within the organic search relative to any other general mail service online.

Adam Cohen: Correct. Hopefully, our service is good enough that if you were to search for Gmail we would be able to return Gmail as the top result.

Q113 Baroness Donaghy: While your written evidence states that Google believes that competition law is able to address concerns about abuse of dominance by online platforms, there are concerns that the sheer complexity and pace of change in these markets means that action by competition agencies is often seen to be very slow—you referred to the case at EU level. This slowness creates uncertainty for businesses and potentially means that abuse or alleged abuse can go uncorrected for a long time. Do you agree? If so, what steps do you think the Commission and the Government could take to improve this?

Adam Cohen: I think that competition authorities, particularly in Europe, have very powerful tools to intervene when they see harm. Investigations should probably take as long as they need to take. Some of the issues involved in our business are very complicated and have evolved quite significantly even in the period during which we have been investigated.

To the core question of whether authorities are equipped or competition law is sufficient to deal with these kinds of question, I think that the basic principles of competition law relate to what is happening to prices, because a monopolist can seek surplus profits for an extended period of time, and what is happening to quality—sometimes we think of quality and innovation as the same thing, as I think they are. Over the past century or 120 years or so, the practice of competition enforcement in western market economies has consistently been able to deal with a range of industries, from the railroads to steel to telecommunications and to the internet. The same two basic criteria apply to any business that you are looking at, so I think that authorities are well-equipped to look at us and to others when there are concerns.

Lord Mawson: I hear you say that, but how competent do you think they are really to deal with such a fast-moving environment? Your business presents all sorts of very exciting opportunities for small businesses, which is great, but there are also some very real challenges. As a person who has to deal with a lot of small businesses, I know that they often find themselves bamboozled by it—they find themselves at the top of Google one day and then on page 8 the next day, and their business completely collapses after they have invested quite a lot of money. That is all very confusing and difficult for small businesses, because they can go bankrupt. On issues like this, how competent do you think the authorities are? They may or may not have the same skill levels and immersion in these kinds of fast-changing environments as you have. That is not a criticism; it is just a reality. What is the reality? Are these things easy to deal with or are they just blooming difficult, because people do not quite get them?

Adam Cohen: I think they have a lot of skilled and clever people working for them and are able to seek outside advice when they feel they need it. I am not a technologist, but some of the issues relate to hardcore computer science, for example. If the regulator does not have the ability to understand them, they can bring in outside advice. The other thing is that they rely on us an awful lot. A big part of competition investigation from our perspective is to counter specific sets of accusation or concerns with education. How exactly does your business work? What is an algorithm? How does it apply? How do you write this? It is complicated, but I can say, having been very involved in the process at the European Commission and with other authorities in other jurisdictions, that they apply the time and the resources that they need to understand these issues.

The Chairman: Just before we leave the subject of competition authorities, let us go back to the issue of the definition of markets. Do you have a better definition of markets that would legitimise or otherwise interventions by the competition authorities? In other words, you say that it is not really meaningful to look at whether you have 90 per cent of the shopping market, or whatever market it is, because the forms of competition appear in so many different modes, whereas, let us say, if you were looking at the supply of widgets, then generally speaking you could work out relatively easily what the market is and what share any individual firms have. In this area, however, it is much more amorphous. Is there a definition that you would wish the competition authorities to have?

Adam Cohen: I think it is difficult. As you say, it is a bit amorphous, and it is very fluid and fast-changing. I do not think that, five years ago, somebody taking a static view of competition in the online space would have necessarily accounted for the rapid development of mobile applications. I do not think that someone looking at the newspaper industry in 2010 would have accounted for the rapid development and dissemination of news via social media. So it is very hard to put your finger on what exactly we are talking about. Maybe the market is a market for information discovery. I think that is how we would see our own business. When we look at our rivals, we are looking at services such as social media, which can provide different types of information, and dedicated shopping services such as Amazon, which also provide information. A business might look at it as a venue or a place where they can distribute different products and services. From that perspective, the view changes again. The very important thing from our perspective is that the enormous pace of change forces us to do the things that you want to see in competitive markets to keep prices low, to keep quality high and to build your products around the interests of the consumer.

Lord Mawson: I want to ask about something you said about news in your helpful paper. It is a general concern about whether the internal logic of all this is that, while the technology becomes amazing, the information by which the general public have to make decisions becomes ever thinner. The very logic of some of this means that some people know less rather than more through these processes. I think we are very aware that it is all new technology; we are all learning about it; it is very young; we do not know the unintended consequences of it yet—we are just a few years into it. I was just wondering what your gut instincts about all that were, because some of us worry about the quality of the information. When you look at Twitter, you see a lot of gossip, but there is also a lot of naivety.

Adam Cohen: Our approach to this is that helping people understand how your services work increases confidence in those services, and people are more inclined to use them in an educated and informed way. We have been dealing for some time with a perception that Google is a black box and that there is this magical algorithm that spits out a fantastic search result. People might find that useful, but we also understand that you need to do a bit of education and help people understand what is under the hood. In the past five or six years, we have built a lot of internal education pages: what is this search result and how is it derived, and how do algorithms work and why do rankings sometimes change, both for consumers using our business and for the small businesses that do very well on Google to promote their services?

Q114 Lord Aberdare: This question goes back a bit to the question raised by Lord Wei, but he asked his from the point of view of competition and I am asking mine from that of your relationship with your business users and clients. Are there situations in which the natural or organic search results are overridden or altered because a particular business has been demoted or downgraded in some way? Are there are any policies like that?

Related to that, if a business suddenly finds itself much further down the rankings than it was or expects to be, how easy is it for it to find out from you why that happened?

Adam Cohen: There are cases where we do that; we refer to them as manual action. We rank the entirety of the web index, and many of the queries that we see—some 25 per cent to 30 per cent of them—we have never seen before. We have to do this in a scalable, algorithmic fashion, but we do not always get it right. There are cases where different websites using different tricks or schemes can rise in the rankings inappropriately and basically turn what is meant to be relevant information into irrelevant information. We used to have a problem 10 years ago or so of people “Google bombing”—I do not know whether you have ever heard this term before. They were using these types of tactics to push inappropriate pages to the top of rankings. Somebody searching for garden furniture might see a site that appeared to be for garden furniture but was in fact for some online sports betting or something of that sort. There are cases where our algorithms do not work well and then we take manual action. Even if those sites are offering something inappropriate or doing something that is clearly against our webmaster guidelines—maybe even promoting spam, which can be inappropriate or even dangerous content—they can come to us and find out the reason for it. There is a form on our webmaster’s page that allows sites to understand why they have been demoted in rankings. I should also add that, on this notion of demotion, we are pushing down something that is not considered relevant so that we can push up information that is better. We often talk about demotions, but it is not a one-way process where everything is going down; we are doing this to build up and lift up things that are useful.

Lord Aberdare: There is, of course, a sector of organisations purportedly helping you to get yourself higher up the rankings. What sort of relationship do you have with them, and how do you manage that in a way that works?

Adam Cohen: It is an ongoing process. They are completely independent of us. I think that the best of them give their clients very good advice on how to build very good websites and to make the web better for consumers generally. Some of them—I do not know what share of this—try to game our systems. Those are the ones that we are constantly trying to act against to make sure that they cannot push inappropriate or irrelevant information high in our search results. It compromises the quality of our product.

Lord Aberdare: You may well be doing things that are entirely reasonable; the question is how people know that those things are entirely reasonable. I was interested in some of the comments you make in your paper about the balance between transparency on the one hand and protecting your intellectual property and avoiding spamming on the other. How do you get that balance right between giving us the information that we need to say, "Yes, Google is doing all these things, but it is doing it on an entirely reasonable basis", and our saying, "Well, this is all very fishy and they won't tell us how they are doing it because they say they're protecting their intellectual property"?

Adam Cohen: It is a balance, as you say, and I think we are constantly playing with it to figure out where exactly it works best. I will give you a recent example of this. We made a change to our algorithms for searches on mobile phones, so that websites that were oriented or structured so that they appeared better on mobile devices would appear more prominently in the rankings—they would get a kind of ranking advantage. There was a time when Google might have said, "Well, this is good for users. It's manifestly good for our services. We should just do it". In this case, in thinking about what the impact of the decision would be, we communicated it in advance to the entirely of the web and said, "Sites, as of a month from now, that are geared toward mobile devices are going to rank better". We helped websites adapt so that their sites were better for mobile devices and then we made the change. I think it was universally applauded as useful for consumers. I think that in those cases we can do both.

Lord Mawson: I have just spent last weekend with a couple who run a small business, who are worrying about December and how many hours they are going to spend making sure that their site is compatible with mobile phones—it could be many hours. I was wondering how level the playing field is for a small grouping like that who run a business and know that if they do not get in on that, their whole income will collapse. How fair is it when you are a small business dealing with a large corporate that has large resources and can afford to employ a whole range of people in the back office to do all that?

Adam Cohen: I think there are advantages for big firms that have big engineering resources and people on staff and that do not have to go out and contract people to do those things. In the analogue-offline world, you say, "Well, I have a small shop and I am kind of off the high street and I do not get a lot of foot traffic", there is Marks & Spencer sitting right there on Oxford Street and everyone is going into its store and it sells everything—they can buy volume and discount. But we see that the internet gives small businesses an unprecedented ability to level the playing field with big businesses. They can advertise specific products and services much more cost-effectively than they could with old advertising methods. It is measurable, it is quantifiable, and you can target it very effectively. Small businesses will always face some hurdles and barriers, but the internet has lowered them unlike anything that we have seen before.

Lord Mawson: Specifically, on the mobile phone issue, which is very live, how many hours would you expect small businesses—it is going to be hundreds of thousands—to have to spend to make themselves compatible with this new situation?

Adam Cohen: I am not an expert on that, but my understanding from talking to people who have websites is that it is more a question of trying to design certain elements around the format rather than designing a vast engineering effort to build a totally new technology. I could not quantify it for you, but for a small business to take advantage of a vast new marketplace, it is quite reasonable and accessible.

Lord Aberdare: Is there any correlation between paid-for advertising and search results? You say that paying for promoted links does not affect the rankings, but is there a correlation for other reasons: for example, more people are clicking on the paid links, which helps to bring them up the rankings?

Adam Cohen: You can, if you promote your business through advertising, get more traffic. If that traffic proves durable and people then link to your service through other services, and the wisdom of the crowd suggests that your service is useful and you have made yourself known through advertising, then yes. Fundamentally for our business, whether you advertise with Google or not, there is no impact on the organic search ranking. Those businesses are kept very separate.

Q115 Lord Freeman: Good afternoon. My question is about consumer relationships—and I have to declare that my family is full of "Google-ists".

Adam Cohen: Mine, too.

Lord Freeman: Join the club. Some consumers are concerned about how their data is collected and used. What is Google's current practice for processing personally identifiable consumer data through its online services such as Search, Gmail and YouTube, through its Android platform and through multi-platform applications such as Google Maps?

Jon Steinberg: The first thing I would say is that we take privacy and security very seriously at Google. Our business is based on the trust of our users. If we do not take their privacy and security seriously and we lose their trust, then we will lose their business. It is critical to the success of our business that we maintain it. We recently launched a new service called My Account, which puts all the information and the categories of information that Google collects about you as a user at your fingertips, giving you control over what you share with us and what you do not share with us, with very simple toggles to turn some of those settings on and off, to put you in control. We ran a marketing campaign to inform consumers across Europe about this service, because we believe that it is really important to provide simple, easy-to-use-and-understand information.

Lord Freeman: What kind of feedback or results have you had from that marketing?

Jon Steinberg: We have had very positive feedback. We know that some 10 million users around the world visit that site every week, and we saw big spikes in traffic when the campaign was launched.

Q116 Baroness Randerson: Following on from that, we have heard that there is a disconnect between consumers concerned about the use of their data, their comprehension of how that data is processed and their decision-making. What is your view on the creation of a kitemark, which has been suggested, or some similarly independently verified standard to notify users clearly of the implications of signing up to terms and conditions?

Jon Steinberg: We are very open to discussions about industry approaches and best practice to help inform users and make sure that they understand how their data is being used and how the services work. You may have received evidence from the Interactive Advertising Bureau, which talked about the “your advertising” product, which is a mark that Google has signed up to and that provides some information across the internet to users. We are happy to remain members of that and to work with it on other approaches. Thinking about the regulatory solution of a kitemark, we would hate it to end up being a least-common-denominator approach. We think that some of the practices that we have established are best practices for the industry. We hope to bring the industry with us rather than see it go the other way.

Baroness Randerson: What about the French Digital Council’s proposal for the creation of a platform rating agency, which is a collaborative approach between the user and the platform?

Jon Steinberg: We have not seen a lot of detail about that proposal; I have seen it mentioned. As I said, we are very open and willing to participate in conversations about other mechanisms to provide users and businesses with transparent information. As part of the overall digital single market strategy, and working in Brussels with the European Commission and the European Parliament, we hope that the better regulation principles will be followed that call for looking at existing regulation to make sure that it is fit for purpose before we think about new regulatory approaches and for considering co- regulatory and self-regulatory regimes as potential solutions before new legislation is proposed.

Q117 Lord German: Paragraph 21 of your evidence talks about switching. We have examples, of course, of people switching bank accounts and energy suppliers. You say that you support the principles about portability of data that consumers have, using your Google Takeout, so that people could move their calendars, their emails and their contacts and so on. How easy is it to make use of that tool when you can find it? How simple is it to use? What format is the data downloaded in, so that you have an idea of how it will be received by the new platform? What sort of success have you had—or not success, because they are leaving you—but how many people have you seen using the system and exercising their choice in the past year?

Jon Steinberg: The number of users is not a number that we regularly publish. We received the question on Thursday evening and referred it back to colleagues in California. What they were able to come back to me with today was that we know that millions of users have used this service in the past year. That is the most detail that we have at this stage, but of course I can come back to you if more is required.

The overall principle is one that we very much believe in—in terms of data portability and the ability of users to move across and between different services. Adam referred earlier to multi-homing: this idea that you would use more than one service for the same purpose. Oxera, a research company, did some research into this earlier this year and published a report which showed that consumers use multiple services for the same purpose with ease and report no problems doing so. We also know that they do not report any problems of lock-in—the idea that they are trapped within one service—and they use these multiple services for the same function. From our perspective, we do not see a real problem here, although we are open to discussions if harm is uncovered.

Lord German: Can I give you an example? If I decided I wanted to go to a Hotmail account from Gmail, how long would it take me and what would I have to do?

Jon Steinberg: The Google Takeout service allows you easily to download these data; it is done in a format which you could easily upload to a rival service, whether that is an email provider, a calendar provider or a contact book et cetera. These are done in relatively universal file formats that are fairly standard across the internet.

Q118 Lord Liddle: This is just a question about the general data protection regulation. Do you think that the provisions that mandate portability are going to encourage competition and choice, and to what extent?

Jon Steinberg: As you well know, the regulation remains under negotiation, so we have yet to see final texts to be able to interpret fully what the implications may be, but we support the general principle that consumers should be able to move easily across services. We also think it important that the regulation does not become an inhibitor to innovation. We want consumers to be able to move easily between services. We also want new service providers to be able to come up with new ideas, new forms of technology, and new forms of innovation and business models that should not be hampered unnecessarily by a requirement from the beginning to be able to integrate very easily with pre-existing technology.

Lord Liddle: You did not answer the question about how significant you think these requirements will be.

Jon Steinberg: I think that the debate is still out. We do not yet know what the final version will look like to be able to comment fully.

Lord Liddle: Right. Okay.

Lord Aberdare: At what point does user data become big data? You may have seen the letter in the *Times* recently expressing some concern about the European General Data Protection Regulation. It seems to me that this data initially appears as user data; it belongs to a user and the issues of consent, compliance, access and so forth apply. But when it all gets integrated together into a larger mass, it becomes an entirely different product with entirely different capabilities. Is that relevant to Google? Do you aggregate large quantities of user data and use it for whatever purposes, and, if so, what are those purposes? Are there regulatory or other questions related to the management of big data? The professors who wrote the letter were concerned that because of the regulation it might be harder to get these masses of big data, which are so crucial to addressing health and science problems?

Jon Steinberg: I did not see the letter, so I cannot comment on it specifically. I would say, however, that what we refer to as data-driven innovation—the idea that you can use aggregated anonymised data sets to make new discoveries, innovations, find new trends—is an important part of what is happening in innovation and technology today. It is important not to lose track of what might seem in that sphere to be very mundane purposes that help businesses every day to use those data to help them to grow. As an example, on our services we aggregate search results so that you can determine rising search trends and falling search trends. You can also look at that data by geography. If you are a UK-based widget-maker, for instance, you are interested in exporting for the first time and you would like to localise a website into a foreign language other than English, you might think about running an advertising campaign into a foreign market, but what it would be really helpful to know would be where the demand is for your widgets. Our search trend tool allows anyone to look to see whether there is a country in Europe that is particularly keen on English widgets. You can then target your advertising to that market. It is not all whizz bang stuff.

Lord Aberdare: Is that freely available at the moment?

Jon Steinberg: Yes.

Lord Aberdare: Do you see it as an additional potential commercial market for Google in the future? Presumably you are gathering in vast quantities of data that might have a commercial potential.

Jon Steinberg: I would not say that is the way we approach or think about this subject. We would think about how we could use data-driven innovation to provide tools and services to our consumers to make the products more relevant, more effective and better for them, but also to provide tools to businesses to make use of their own data. Through our Cloud platform we have tools that businesses can use to interpret data they might have to make their systems and their products more effective.

Adam Cohen: From an economic point of view, too, there are vastly diminishing marginal returns from data, so the first few data points that you get can inform the way you build your products and services. After that, having a lot more data does not necessarily make your services that much better or more useful.

Lord Wei: Can I just follow up on the point about Google take-up and the portability of data? Your current service provides the ability to port out emails, calendar and contacts, but presumably also in the actual search process itself there are search histories, location information, other data that is used to personalise that search, which in some ways makes the search experience quite sticky for the customer. Do you have plans to enable people to pull their search history or data point so that other search engines that people want to switch to can provide a similar personalised service?

Adam Cohen: We currently do that. You can export your search history and input it into another service, if you like.

Lord Wei: To another competitor search engine?

Adam Cohen: Again, it is in open formats that are accessible. The basic idea behind these types of services, either for Gmail or calendars, is that we do not want to compete by having anyone feel stuck using our services; we compete by giving people an open door. It keeps us on our toes and forces us to keep providing better and better services.

Q119 Lord German: Just to conclude on that point, you have offered the opportunity to have better data on the millions across the globe. If you could narrow that down a little to the numbers that are relevant for Europe and perhaps for the UK, that would be really helpful.

I want to ask about the Android platform, which is the ecosystem in which Google's activity is present, and about the iOS operating system, which is, we are told, more of a walled-garden approach. Is that an accurate conclusion: that one is more open than the other?

What is your view of the Competition and Markets Authority's finding that being open is not necessarily better?

Adam Cohen: When we talk about making the Android operating system open, we mean that we make Android available to anyone. You can go to our website, download the entirety of the operating system and use it as you see fit, including modifying it. That is sometimes referred to as open source. It is not quite an open-source project in that everyone contributes to it; it is open-sourced in that you can take the code produced by Google and use it however you like. We now see that businesses are using the Android-operating system to power Hoovers, treadmills and smart watches—a range of different things that we did not even know Android would be useful for. So in that sense openness helps to promote innovation. We also see that in the mobile computing space lots of people are using Android phones—I see that many of you have Apple devices—and that open format lowers the cost for hardware manufacturers to build tablets and smartphones. We now see a range of very powerful devices at a range of price points, including smartphones sold in developing markets for less than $100. In that sense, open can be better than closed, because it can promote competition and choice. Universally open is not necessarily better; there are downsides to openness as well. If you have five different people downloading the Android operating system and modifying to suit their own ends, the consistency of that operating system begins to fragment—you often hear the technical term "fragmentation". Over time, it becomes harder for developers—maybe that small business building its application on top of that platform—to build a consistent experience with confidence on all these different devices. When we took on the open-source project, the developers in our London office had a cabinet full of all the known Android phones and they would have to test our applications on every one. So there are downsides to being open, too.

Lord German: You have not addressed the issue of whether the iOS system is closed and what the benefits might be to Apple.

Adam Cohen: You would have to ask Apple about that.

Lord German: I will.

Adam Cohen: I think the general perception of closed is that an open-source operating system that anyone is free to use and modify as they see fit is different from the iOS system, which is not publicly available in that way.

Q120 Lord Mawson: In what instances would you welcome moves by the Commission to mandate interoperability between platforms? Secondly, you are, as you said, a large revenue-generating business, and I suppose the cynic might say that the success of all that means that you can buy up the real competition and take it out of the market, et cetera. Are there any practical examples of where you have done that if it is a real threat to your business?

Adam Cohen: I will take the second part of the question first. Regulators look very, very closely at acquisitions made by companies like Google. Large successful companies deserve more scrutiny in relation to these acquisitions precisely for this reason, and buying a competitor to limit competition is not allowed. Regulators around the world would frown on that and block acquisitions that are designed to do that. Our history of acquisitions has been one of investing in complementary technologies and helping a lot of small businesses to become very successful parts of our product suite. YouTube is a good example; it is our online video platform. We bought it in, I think, 2005. It was a struggling business potentially on the verge of bankruptcy and is now a very successful platform for a range of creators and licensed content. I think its success is due to the investment that we put into it.

Lord Mawson: But do you control it?

Adam Cohen: It is owned and developed by Google. That is correct. Remind me of the first question. Sorry, I got lost in the first thought.

Lord Mawson: In what instances do you think you would welcome moves by the Commission to mandate interoperability—it is a difficult word, that—between platforms?

Adam Cohen: It is a long word. We use a lot of jargon for these things; we should come up with a simpler form. Where we see friction, we should consider this. If a consumer faces difficulty in moving between one service and another, and feels stuck using that service, or if choice is in any way inhibited—economists or competition regulators would refer to it as switching costs and you look for low barriers to switching because it facilitates competition—and if you see those barriers as being inappropriately elevated, we should consider intervention. I think it should be done on a case-by-case basis. Just mandating that everything work with everything, as my colleague said, might lead to inhibitions for new innovators who want to work outside the existing framework.

Lord Aberdare: I am intrigued. If when you engage in industry discussions on an issue such as interoperability, or if you are looking at a kitemark proposal or something like that, what are the fora that you would use—you mentioned your membership of the IAB? What are the main fora? I have a wonderful vision of this enormous Google whale and lots of little fish in the room trying to discuss interoperability. Are there fora and organisations in which these issues are addressed with your counterparts and colleagues, and who would those be?

Jon Steinberg: Absolutely. We are a member of a range of trade associations where these issues are discussed. I know that you had a representative from techUK give evidence earlier in your inquiry. We are a member of a range of trade associations based in the United States and in Brussels—to handle European issues. We are also a member of a number of different standards organisations, so we participate in establishing best practice for dealing with illegal content online, for dealing with harmful content and for young people. We have signed up to a range of self-regulatory and co-regulatory regimes through these sorts of organisations at a member state, European and international level.

Lord Aberdare: Do you frequently find yourselves as the dominant player in those groups, or are there others who are equally weighty and powerful on their own? I should tell you that I speak as a former employee of IBM, so I know something about being a big player.

Jon Steinberg: I think that all members of these sorts of organisations make their voices heard, and all voices are considered equally. It is not my experience otherwise.

Q121 The Chairman: Can I ask you a few general questions before we finish? You have been very forthcoming. Clearly, we would not expect you to comment in detail on the current case being taken by the competition authorities in Europe, but given the suggestions of the size of your dominance and some accusations or allegations about abuse of that dominance in certain respects, do you think that you are always going to be in a position where the competition authorities nationally and internationally will take an interest in you? Or is there an alternative—going back to the previous question—of some degree of self-regulation within the industry to meet most of the concerns?

Adam Cohen: Fortunately, these types of investigations have a life cycle; they do not go on for ever.

The Chairman: They seem to.

Adam Cohen: Industries change. The dynamics of our industry are fast evolving. I would expect, in five years' time, the world of the internet to look very different from how it does today. It certainly looked different five or six years ago when this investigation began. There is a part of me that laughs a little, because when regulators stop talking about you, it might be a sign that you have become less successful, so you have to worry about that a little. To be honest, I think that big, successful companies should be open to scrutiny and should let the facts speak for themselves. There is always somebody who feels that they have been hard done by a business rival, or somebody who thinks that you should be doing things differently or that there is a better way for you to do them. We have a really vigorous system of competition enforcement and well-established laws and principles that we can use to test against that. We are in the middle of that process; I do not expect it to go on for ever.

The Chairman: What about self-regulation?

Adam Cohen: We are not particularly open to the way a competitor might like to see us design our business.

The Chairman: Fair enough.

Adam Cohen: But I should say that when it comes to making concessions that are designed to pre-empt an extended regulatory investigation, we took that approach with the European Commission in 2012. We made a set of voluntary concessions designed to address the core areas of this case as a compromise that would speed things along. That was unsuccessful, but I think it is a way to move on. When you get to a point where your competitors seem to be designing how your business functions, it is probably ineffective and unwanted.

The Chairman: I have another couple of questions on more societal concerns, neither of which are the main focus for our discussion but they may impinge on it, certainly publicly. The first, you will not be surprised to hear, is about taxation. We are not focusing on taxation, but it has an impact on level playing fields and so forth. Would you say that it was easier for a company like Google to, as we put it here, "aggressively manage their taxation affairs" than it would be for a more static kind of industry, like Starbucks or a Ford Motor Company?

Adam Cohen: I do not know enough about Starbucks' business to be able to comment on that. Most multinational companies pay the majority of their corporate income tax in their home country. For example, our effective corporate tax rate for last year was almost 20 per cent. We paid $3.3 billion in corporate tax, and almost 80 per cent of that was in the United States. That is the way in which the international rules work. For an American multinational company, you will pay the majority of your tax in the United States; for a UK multinational, you will pay the majority of your tax here. I think that is a level playing field among these big businesses. I understand the concern, and we have long supported a process, which is currently under way at the OECD, to take a look at these international rules and figure out whether there is a better way to apportion this type of tax among various jurisdictions. I leave that to the experts, but from our perspective we pay an awful lot of tax. There is significant cost to investing in our business and running our business—we invested $10 billion last year in research and development. Big companies like ours face a lot of pressures. You see that exhibited in our annual statements.

The Chairman: Why do you think that there is no European-based competitor to you? Some of the concerns about the European approach to platforms is why there are not more development companies based in the EU. Why is that the case?

Adam Cohen: The question is why there is no European Google. I think that what you see is a lot of successful European businesses doing different things. There is a term used in Silicon Valley: "unicorns"—which are the billion-dollar start-ups. I do not know who coined it. Again, it is more jargon, but you understand the idea. I saw an article stating that there are 13 European unicorns. I think that Europe is getting there. It is investing in these types of businesses in this space. Maybe it has started a bit later than the US, but I see no reason to be pessimistic about it. From the way we operate, we have no idea where the next big, successful online player that will eat our lunch is coming from. It might be Europe, it might be Asia, it could be from anywhere.

The Chairman: Any more questions from my colleagues?

Q122 Lord Aberdare: Perhaps I could follow up briefly on the question on tax. I entirely understand your response. Those are the rules, you are following them, and you are paying an awful lot of tax. None the less, there is a very strong public and media perception that Google does not pay its fair share of tax in the UK. That must be a matter of some concern, more in reputational terms. What, if anything, can you do? You are slightly between a rock and a hard place, but what can you do to mitigate that?

Adam Cohen: We have supported the OECD process. If the OECD and international Governments see fit to change the rules to address this very prominent public issue, if lawmakers such as you address this issue, we will fall into step very quickly and we would be pleased to see resolution that puts it to rest.

Lord Mawson: Is this not itself an example of the shallowness of the discussion out there? These kinds of lines sell newspapers, when the real world is rather more complicated. Is not part of the problem that we are generating a gossip culture when it comes to information that is not that informed?

Adam Cohen: As a former journalist, I think there is a spectrum of informed debate and maybe some speculation. I think it is very hard for average people to understand how the global tax system works—I struggle with it. Hopefully, law-makers can give them confidence that the systems that are in place for multinationals, for personal income taxation and for a range of other businesses and activities make sense and help promote budgets that make sense and public spending that makes sense, and all these other things. It is obviously a challenge to inform the public about these complex issues.

Lord Liddle: You mentioned the 13 European "unicorns", which is interesting. What is your response to the argument that I have heard that the first-mover advantages that you had and the critical mass that you have been able to develop give you a highly monopolistic control of the market, which makes it very difficult for those 13 successful companies to grow and compete with you? When people make that point to you, what is the point that you make back?

Adam Cohen: I saw an interesting article at about the same time which said that Google was the 21st search company—so we were not the first mover; we were the 21st mover. When Google started in 1998-99, it was a small business with a couple of computers working out of a garage in Silicon Valley. At the time, Yahoo was seen as the predominant search player. There were articles at the time saying, "Yahoo has solved search. Don't invest in new search companies". Google was able to succeed by building a better business method, by ingenuity and some luck. Those opportunities are still out there. Somebody will build a big successful business through the same process that made Google successful.

Baroness Donaghy: You mentioned how much you spent on research and development, which was a tremendous sum of money. Would that include buying up the young talent or the developing companies, or is that a separate exercise? We have heard that it is not a question of beating rivals; you simply buy them and develop them.

Lord German: Swallow them.

Baroness Donaghy: Well, they are very willing to be swallowed, because they are made an offer that they cannot refuse—if I can use a rather hackneyed phrase. They are given a tremendous boost in income. I am not saying necessarily that in the short term that is a bad thing; it is good for Google and it is good for the individual talent that has sold its idea to you. I am just wondering whether there are long-term implications of that way of swallowing up your rivals.

Adam Cohen: Well, I do not think that we have swallowed any rivals. As I have said, once you reach a certain size, your business engenders scrutiny from competition authorities. Buying a rival to exclude it from the marketplace is illegal in almost every jurisdiction with which I am familiar. When we talk about research and development spending, this is us spending money on our products and services to grow and maintain a cutting edge. It is not a pot of money that we use for acquisitions. We buy companies so that we can have new technologies that are complementary to the things that we are providing today, but we have to show regulators—and there is a higher burden for companies such as ours—that this will not inhibit competition in the broader marketplace. We have a higher hurdle to any of these acquisitions than probably anyone else operating in this space.

Jon Steinberg: It is important to remember that part of the digital single market debate is about making opportunity for European businesses even better. The United States has more than 300 million consumers under one regulatory regime who all generally speak the same language. In terms of growing and scaling a business—scale is so essential to a technology company—the US is a very attractive market. Europe at the moment is a much less attractive market—28 rulebooks, different regimes, some countries having more than one privacy regulator—so we do not get the opportunity of scale in Europe of those 500 million consumers, to the benefit of businesses. At the same time, European consumers do not benefit from the growth of these European businesses. We think that the intent of a digital single market strategy is right in trying to fix that.

The Chairman: That in a sense is where we came in. The role of the platforms within the digital single market will be our immediate focus, but it is within this broader context. I think that we have taken the amount of time that we told you we were going to take. Is there anything that you would like to leave with us that we have not touched on?

Jon Steinberg: No, thank you.

Adam Cohen: Thank you for having us.

The Chairman: Well, let us know if anything occurs to you subsequently. If you could let us have in writing the figures that you referred to at the beginning and the reasons why you cannot give the others, or if you can offer an alternative figure that will give us the equivalent information, we would be very grateful. Thank you very much indeed. That will be an important part of our assessment in this area. Thanks for giving us the full hour and for all your attention to this. The written evidence, too, has been very useful. Thank you.

Jon Steinberg: Thank you.

Adam Cohen: Thank you.