HOUSE OF LORDS

Select Committee on Communications

Corrected oral evidence: The Advertising Industry

Tuesday 19 December 2017

3.35 pm

Watch the meeting

Members present: Lord Gilbert of Panteg (The Chairman); Baroness Benjamin; Baroness Bertin; The Lord Bishop of Chelmsford; Viscount Colville of Culross; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin; Baroness Stowell of Beeston.

Evidence Session No. 14 Heard in Public Questions 134 - 139

Witnesses

I: Adam Cohen, Head of Economic Policy for EMEA, Google; Michael Todd, Head of Advertising Industry Relations, Google; Ed Couchman, Director of Agency Partnerships, Facebook; Simon Milner, Policy Director—UK, Middle East and Africa, Facebook.

Examination of witnesses

Adam Cohen, Michael Todd, Ed Couchman and Simon Milner.

Q134 **The Chairman:** I welcome our witnesses to this evidence session of our inquiry into the advertising industry, particularly the skills it needs for the future. Our witnesses today are from Facebook and Google. Thank you for coming before the Committee and for the evidence you have already provided, which the Committee has found useful. This session will be broadcast online. A transcript will also be given.

I will start by asking our witnesses briefly to introduce themselves. How do you see your business fitting into the advertising market value chain, and what impact has the growth of your businesses had on the market? We will start our brief introductions with Simon Milner.

Simon Milner: I am Simon Milner. I am the policy director for Facebook in the UK and some other parts of Europe, the Middle East and Africa. My colleague Ed is the best person to help you with this question.

Ed Couchman: Good afternoon, everyone. Thank you for the opportunity to give evidence this afternoon. My name is Ed Couchman. I am the director of agency relations for Facebook here in the UK. My day job is to help to build meaningful and sustainable relationships with the whole advertising community. I have been at Facebook for nearly six years. Previously I worked at Channel 4 and Associated Newspapers.

I am sure you have heard from other witnesses throughout the inquiry how much advertising has changed in the last 10 years, but even more so in the last five years, when demand from companies of all sizes to access our platform and users has grown exponentially.

My role at Facebook is to ensure that all UK businesses have access to the tools they need to reach the brands and consumers on our platform. The core philosophy of our team is to help to inspire and equip the creative industry with the knowledge and tools to help it to thrive in a mobile world. We see a significant shift of consumers' time and attention on to their mobile phones. In practice, that means helping established brands and advertisers to find the customers who are most likely to buy their products and services, and, at the same time, equipping small businesses.

Although our scale, reach and cost-effectiveness bring incredible opportunities, they have some risks. We are more than happy to share some of those risks with the Committee.

We feel very strongly that at the heart of the platform is the inflection between creativity and technological innovation. We think that the UK is absolutely at the heart of that. It excels in talent and skills in technology and creativity. We think we are in a great place to build on that. Recently we opened our new international office here in the UK. We have plans to continue to expand our UK presence.

Michael Todd: I am Michael Todd. I look after advertising industry relations for Google. Thank you for having me here today. The term "industry relations" essentially means our relationship with the wider UK industry: trade bodies, regulators, industry associations, et cetera. Adam is best placed to answer the broad questions.

Adam Cohen: Thank you for having us. My name is Adam Cohen. I lead our economic policy work across Europe, the Middle East and Africa. I manage a range of regulatory issues, including competition policy.

Broadly speaking, our role in the advertising industry is to be both a venue for advertisers and an agency, of sorts, that helps advertisers and publishers to connect. Fundamentally, this business is growing rapidly. According to the UK Advertising Association, it has grown from less than £17 billion in 2012 to just over £22 billion this year; that is an estimate. We are a significant part of that growth, alongside our colleagues at Facebook.

We have helped a range of new businesses that have never participated in the advertising sector to get online and to start marketing their products and services across the UK and internationally. We have a great number of examples of businesses that have grown exclusively online. A bakery in north Wales that, 10 years ago, was just a single baker now has 20 employees and is marketing its baked goods across the region. We are a significant part of that success.

Q135 **Baroness Benjamin:** Many young people have grown up in the digital world. It is their world. What jobs do your companies provide for young people starting their careers? What skill sets do your companies require? Are there any skill gaps in the UK? If so, what do you do to address them?

Ed Couchman: We recently expanded our office in London and announced 800 new jobs, partly because we felt very confident that we could fill those jobs, based on the London talent pool that we see. We recruit from undergrad level, MBA level and PhD level. We see a shortage in computer science, because of the lack of graduates coming through with STEM degrees.

We do a whole host of other activities within the industry to try to equip people with skills and digital knowledge. One that stands out to me is a mentoring scheme called She Means Business, in which we focus on helping females to become more digitally literate. We have taken 10,000 young females through that course this year. We have plans to increase that next year to over 50,000.

Baroness Benjamin: How do you find them?

Ed Couchman: Through our own platform and tools. We have networks with most of the industry trade bodies, which also put forward candidates.

Adam Cohen: Google has over 4,000 employees in the UK. We have stated ambitions to grow to over 7,000 in the coming years. We recruit from across UK universities. In addition, we are very active across schools and universities in trying to enhance science and technology education. We have worked closely with and provided grants to the Raspberry Pi Foundation in the UK, the British Computer Society and the National STEM Learning Centre. We see a range of talent coming from the UK. We are trying to help to promote that.

Baroness Benjamin: Mr Milner, do you have anything to add?

Simon Milner: I have nothing to add to what Ed has said.

Baroness Benjamin: How can immigration policy better assist the UK's advertising industry and your businesses? Do you feel that you have enough talent in this country?

Adam Cohen: I will speak first for Google. This is a concern for us. We want to continue to attract skilled workers to the UK. This is a hub for us. I am American, obviously. I have been working in the UK for Google for almost eight years. Being able to attract a skilled workforce that can see the UK as a leader in digital advertising and computer science—as it is—and to continue to bring people here is very important to our business.

Ed Couchman: As I mentioned, the UK is excellent at the inflection between technology and creativity. We see it as a hotbed of talent. We have the 800 jobs that have been mentioned. Interestingly, there are 68 nationalities inside the London office right now, so clearly we are attracting talent from right across the globe. For me, it is about the Government providing certainty. When I speak to candidates who are joining us, it is clear that they want to come to the UK to settle. Any certainty that the Government could provide on that would be most welcome.

Baroness Benjamin: Do you find that people from BAME backgrounds are attracted to your industry? Do you do anything to attract them to come to you?

Ed Couchman: I feel that they are attracted, but we have a whole range of programmes to try to attract talent from different groups that are currently underrepresented.

Baroness McIntosh of Hudnall: Mr Couchman, I am not trying to catch you out; I just want you to help us to resolve what seems to me to be a tension in what you have said. You said—and have just repeated—that the UK was excellent at skills and technology, which was very encouraging. At the same time, you said that there was a lack of computing skills, so you were not getting that. I am struggling to understand what skills we are good at, which you can easily find in the UK, and what skills you have to look for elsewhere—or do look for elsewhere, in any event, whether or not you can find them here.

Ed Couchman: I mentioned creativity and technology. We excel at creativity. It is excellent.

Baroness McIntosh of Hudnall: Would you be a little more precise about what you mean by that?

Ed Couchman: I mean people who plan and buy media campaigns. We excel at that. I mean people who understand communications planning—how to reach consumers and to create visually arresting images to capture their attention. We are very good at that. I am talking about the arts of advertising, if that makes sense. We are getting better and better at the science and the more technical backgrounds. We want to attract the best talent possible. Sometimes that is from overseas, and sometimes it is from the UK. However, we see a shortage of computer software graduates.

Baroness McIntosh of Hudnall: Is that about data management and analytics? I am not a technologist. I am trying to understand the difference between the technology you say we are good at and the computer skills you say we are not good at.

Ed Couchman: I appreciate that there are some nuances between data analytics and hard-core programming in C++. The issue is with the latter—specific computer sciences—rather than in analytical skills.

Baroness McIntosh of Hudnall: It is at the furthest end of the scientific spectrum.

Ed Couchman: Yes, rather than with the more general skills.

Baroness Quin: I should declare an interest. My stepson is one of Google's 4,000 employees in the UK. Your hub is in London. In your recruiting in universities throughout the different regions of the UK, is there an accommodation problem for people from outside London? Does that act as a disincentive to taking up employment with Google or Facebook?

Adam Cohen: I am not directly involved in our university recruiting. The cost of living in London is sometimes a concern, but I have not heard that directly from our recruiting teams. One thing I can say is that we are working to expand our presence and involvement in other parts of the UK as well. We recently had a project known as the digital garage, which is a moving, semi-permanent establishment that is designed to provide local businesses with skills for advertising online. That is employing what we call Googlers, including your stepson, outside London.

Ed Couchman: When I talk to members of the team who have relocated from other parts of the country, I find that there is a willingness to do that. Some of the challenges that you have mentioned, especially around property prices, are unique to London. I do not think that they are unique to Facebook. They are a reflection of London itself.

Q136 **The Lord Bishop of Chelmsford:** In the course of this inquiry, we have received some evidence from advertisers that feel that they lack choice when they are looking to advertise in the digital media. We have also heard that there seems to be a tendency within your companies to acquire smaller companies that could grow to present you with a challenge. Some people find that rather alarming and see a market dominance emerging that is not healthy. May I ask you to step outside yourselves and to ask the following question? Do you see a downside to the digital advertising market of your platforms' preponderance in search and social media? I am almost tempted to say to you, "What is the downside?"

Ed Couchman: On balance, it is really exciting for brands and advertisers. There is plenty of choice of where people spend their time. There is a wealth of media channels and different social media outlets, from ourselves to YouTube, Pinterest, Snap and others. For me, advertising is around attracting people and trying to gain their attention. That is fiercely competitive. I remember from my time at Channel 4 and in the newspaper world that you are vying for attention with all those different channels, just as people and the commercial teams are. Actually, there is a large amount of choice.

My team spends the majority of its time working with creative agencies, media agencies, brands and advertisers to convince them of the benefits of our platform. We spend a lot of time doing that and trying to train and educate them about how most effectively and efficiently to spend their media investment on our platform. We have over 2 million business pages on Facebook, because it is free and provides a great presence for business.

The Lord Bishop of Chelmsford: Why do you think that people are saying this? Are you saying that they are wrong?

Ed Couchman: I think that there is disruption. We are living through a period of quite significant disruption, as people's behaviour changes, driven by the mobile phone. Disruption brings anxiety for some businesses, especially legacy businesses. I saw it first hand both at Channel 4, when people started to watch less linear TV and moved to catch-up services, and at Associated Newspapers. In 2000, newspapers were dominated by classified advertising: used cars, dating and property. Those revenues migrated online. That brings a wealth of opportunity at the same time, but, clearly, the disruption for legacy media brings its challenges. We try to help them and partner with many of them to use their platforms.

Adam Cohen: If this were a finite industry and the spending were being reapportioned to various different players, I might share this concern, but the industry is growing rapidly. As I indicated earlier, it has grown from less than £17 billion five years ago to over £22 billion now. We, Facebook and the other digital players that have been mentioned are bringing into this space new advertisers that have never participated in the market before.

There is significant competition among the different advertising venues. That has had an impact on the newspaper industry, for example. In the old days, there might have been one or two local newspapers in which local businesses could choose to advertise. There were only 10 or 20 advertisers in those papers, but they would advertise heavily with them. Now advertisers have a range of different media. They have digital search and social media. Increasingly, other types of old, legacy advertising formats, such as bus stops and ads in stores, are becoming digitised. We see advertisers distributing their advertising budgets across a range of different formats.

Viscount Colville of Culross: Are you concerned about the place that high-quality premium content, particularly high-quality journalism, has in the digital advertising space? We have heard from a number of publishers about the diminished returns that they get from advertising—particularly on Facebook, but generally across digital platforms—and the adverse effect that has on their revenues?

Adam Cohen: I will field this one first. This is a concern. We are working very hard with the publishing industry to address it. I described our business as twofold: we are both a venue for advertising and an agency, of sorts, to help newspaper publishers to monetise their content online. We place advertisements on the websites of most of the newspapers in this country and are helping them to achieve some sort of revenue for their content.

What is happening in the news industry is twofold. The demand for news content has remained relatively steady—it may have grown somewhat—but, due to the internet, there has been an explosion in the supply of content, which has an impact on prices.

The advent of new advertising formats, particularly measurable advertising formats, has had an impact on the margins of newspaper publishers. I am a former journalist. The old joke in the news industry was that half the money you spend on advertising is wasted; the problem is you do not know which half. With online advertising formats—the new digital formats—an advertiser can measure very clearly whether they are getting a good return on their investment.

There has been a twofold impact, but we are working very hard with the news industry. We have a range of different programmes, including our digital news initiative, a nine-figure project that has worked on a range of things such as digital paywalls for online news providers; enhanced video content, a project we are doing with Reuters; and sports visualisation, a project we are doing with the *Telegraph*. We see high-quality content as a very important part of the online ecosystem and are investing an awful lot in it.

Simon Milner: We agree with that. We recognise the challenge and want to be good partners for the news industry and for journalism. We have created the Facebook journalism project. I will not repeat what Mr Cohen said, because I know we do not have long, but it is similar to the programmes he described. It includes a number of initiatives to find ways to support journalists to make really good use of our platforms, to support the development of new business models, and to help people, including young people—Baroness Kidron may want to come to that point—to understand the new world of news online.

There are lots of things going on. It is still too early to say which of them really work. Lots of these things are in development. Some of them are experiments that we are trying in different countries or with different newspapers. One thing we are very clear about is that there will not be a single solution that will save high-quality journalism, but in both our companies there is tremendous endeavour. A lot of money and resources are being spent to see what we can do to help. There is lots of good will.

Baroness Kidron: I was going to ask another question, but may I ask about one point? In its written evidence, Google says it hands over 69.9% of revenue to publishers, but you have just said that you are both a venue and an agency. All the evidence that we are getting is that nothing like 69.9% gets to the end, because of the number of people involved. When you act as both a DoubleClick stack and the platform, what proportion do you expect to get to the person who creates the content? I would be interested to know that.

Adam Cohen: Basically, there are two separate businesses. When I talk about our being a venue, generally I am talking about search advertising, where somebody types in a query. In response to that query, we will show a relevant ad. If you search for "red shoes", you see ads for red shoes. The other type of ad, which is generally described as display, is part of the revenue share that we have described. For advertisers and publishers who work directly with us, that split is 70:30. Some online publishers will choose to use other services and a range of different data providers. There might be other layers involved. Typically, advertising on that scale has always involved a range of different industries. I understand that some of the participants might have added costs, but for direct relationships the split is basically 70:30.

Baroness Kidron: We have received evidence that the Australian competition authorities are looking at this issue. An *FT* report, which you have probably seen, states that worldwide online advertising has been captured by two companies, which are "expected to capture 84 per cent of global digital ad spending, China excluded". The Australian competition authorities feel that it is worth having a look at that. Do you expect that around the world people will say, "Hang on a minute. This is too much of the market"?

Adam Cohen: There are lots of different numbers floating around. From my reading of it, the figure of 84% that you cite refers to growth in a very narrow niche of the advertising sector. It is not the total market.

Baroness Kidron: I will check that.

Adam Cohen: In fact, what we see is that this market is growing. There are all the signs that you would want to see in a competitive marketplace: lots of choice for advertisers, lots of different ways to promote your products and services, and good prices. In markets that tend to suffer from concentration, or dominance, to use the term that was used earlier, you see that firms can raise prices at will. That is certainly not what we are seeing in the online digital ad space at the moment.

Baroness Kidron: You would not say that, collectively, you hold a duopoly of online advertising.

Adam Cohen: I would say that this marketplace is intensively competitive, with our colleagues at the other end of the table and with many other players.

Viscount Colville of Culross: Why has the German Cartel Office just found that Facebook has abused its dominant market position and ruled that your model of monetarising the personal data of your 2 billion users, through targeted advertising, is an abuse of your market position?

Simon Milner: That was issued just today. We have not had a chance to review it properly. The main thing to understand is that this is not a final determination. Although it is 200 pages, I understand, it is actually the office's first thoughts; it has still to do the investigation. We are a long way from it having concluded. We have genuinely not had time to look at the finding properly, so I cannot give you any response on it other than that.

Baroness Kidron: May I ask you a totally different question, Ed? In your introduction you said your job was to get advertisers to the people most likely to buy. Obviously, that is what we are all here for and hoping for. I am quite interested to know how you represent "most likely to buy". What qualities of your users are actually for sale?

Ed Couchman: I do not think they are for sale per se, but people share their likes, tastes and preferences on Facebook. Those are signals for us, which we try to understand as intense signals. For example, if you like a multitude of car pages in a short space of time, we may think that that is an indication that you are in the market to buy a car. We use signals of that sort to build our advertising campaigns, to try to make them as effective as possible for advertisers.

Baroness Kidron: Do you have a transparent list of those qualities for the world, as it were?

Ed Couchman: Absolutely. One of the great things about our tools is that they are transparent. Small and large businesses have access to the same tools to plan and buy their advertising campaigns. Those target interest segments are available for everyone to see.

Baroness Benjamin: I am interested to know how you safeguard what you advertise for children on your various platforms. When a lot of children click a button, inappropriate things happen at the side of the screen. What are you doing to safeguard children and to view what sorts of adverts are going on to the sites that they are most likely to watch?

Simon Milner: I guess that the things of most concern are age-restricted products: alcohol, gambling, dating, et cetera. Because we know age on Facebook, we can ensure that, if you are under 18, you will not see that content. For instance, you will not see the Carlsberg page or its ads. Various surveys done by the Advertising Standards Authority and others show that it is one of the safest places to advertise age-restricted products. For instance, there is not the equivalent of the betting ads that you often see when watching Premier League football; in fact, they may be the only ads that you see. In television, the rule is that you can show those ads only where a maximum of 25% of your audience is under 18. We do not have that kind of rule. There is nothing that says, "As long as you make it 75% safe, that is enough". That is not the approach that we take.

Baroness Benjamin: There is a problem of online gambling for young children. They are viewing things that they should not be watching and that are inappropriate for them. What does Google do about things like that?

Michael Todd: It is not dissimilar, in many respects. Products such as gambling and alcohol are age restricted, so they will be labelled with a certain age category and shown only to signed-in users on YouTube who are registered as being 18-plus. They should not be shown around any children at all.

Baroness Benjamin: How do you know that they are 18-plus? What sort of age verification do you use? There are children who are getting through and are watching. How do you protect them? We are talking about 10 year-olds now.

Michael Todd: If you are a 10 year-old who is using YouTube,[1] you probably have not created an account. If you have not created an account, you will not see age-restricted product adverts at all. Does that make sense?

The Chairman: We will move on, first to Baroness Kidron, and then to the next question.

Baroness Kidron: I would love to ask you a little more about this. Is the issue not more about the advertising that is next to things you are not quite sure about, rather than the advertising that is formalised and regulated? There is another part of it. I did not say that very well, but I feel that you understand me.

Michael Todd: I will try. Essentially, you have two types of content on YouTube. Is that what you are referring to?

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[1] The witness has requested that this be amended to read "13 year-old" as YouTube is not open to anyone under 13 years of age.

Baroness Kidron: Yes.

Michael Todd: You have paid-for content and adverts. If it is a paid-for piece of content, it will be subject to the advertising rules that we have in place. Therefore, if it is an age-restricted product such as alcohol or gambling, it will be shown only to signed-in users who are registered as 18-plus. If it is not advertising content and is essentially user-generated content, the user will be asked as they are uploading a video whether they want to classify it in certain categories. Our algorithms will also pick up different things and automatically categorise age-restricted products, based on their machine learning. It will be categorised as adult content. Therefore, it will not be shown to people who are under age.

Adam Cohen: It is not good for the advertiser if we are showing ads for cars and things like that to younger people. It is not useful.

Ed Couchman: There is an interesting point around the more illegal aspects of advertisers. We know Carlsberg or Heineken and can protect for that. We police much more actively those advertisers who are trying to advertise in a greyer area. We look to remove those ads if they are inappropriate content to begin with or if they are targeted inappropriately.

Baroness Kidron: You are all aware of the figures for kids not understanding what sponsored and advertising content is.

Ed Couchman: We have tried to address that recently with a charity called Childnet and with Princess Diana's trust. The scheme involves teaching young people critical thinking, to help them to understand that type of content, and emotional resilience. We are planning to have a digital ambassador in every secondary school across the UK, to help to equip young people with that knowledge.

Q137 **Viscount Colville of Culross:** We have heard from a number of witnesses about the problems of getting metrics for digital advertising. There is a reluctance to share information about the reach of the adverts and the data that underpins them. In the case of Facebook Audience Network, is it possible for you to tell us whether you can inform advertisers about where the advertising has been placed and the price that has been paid for those ads? Do you make your auction data available? How does that differ from Google's Ad Exchange reporting tools?

Ed Couchman: There are a few things there. Let me try to unpack some of them, because I appreciate that there are some nuances that are relatively technical. Facebook Audience Network is an option for advertisers to use Facebook data targeting off Facebook, on other websites or mobile apps. It is a way in which those publishers, game developers or app developers can monetise their ads. By the new year, we will be able to provide advertisers with a choice of apps they are likely to appear on before they make that selection—pre-buying. Once the campaign has been delivered, we will be able to provide the delivery report, showing where the ads actually ran.

Some of the auction is commercially sensitive. Some of the skills and attributes of the individuals planning and executing those campaigns give them a competitive advantage, so making the auction price completely transparent would be commercially sensitive.

Michael Todd: You mentioned the Google Ad Exchange. Again, there are different parts to this. The Google Ad Exchange is essentially an open marketplace. It is at the centre of our programmatic advertising offering. On one side you have a publisher or, in the case of programmatic advertising, many publishers who have inventory to sell. On the other side you have numerous advertisers who are looking to buy specific audiences around the web. The unique selling point of programmatic advertising is that it is using technology to automate the digital advertising purchase process, in real time, at scale and in a very open, transparent way. An advertiser will see whether its ad was shown, whether someone clicked on the ad, how long they interacted with the ad and whether the ad resulted in a purchase. The granular detail that you can measure via programmatic advertising is one of its unique selling points.

This is a really dynamic part of the industry that is growing very rapidly. Recently, the *New York Times* said it was going 100% programmatic with its inventory. News Corp launched an ad exchange this year. The reason it is growing so rapidly is that is open and transparent. Google allows independent verification of our measurements. We work with a range of independent companies that are accredited by the Media Rating Council and allow them to double-check the data we give to advertisers, to ensure that our stuff can be trusted.

Viscount Colville of Culross: Why do many advertisers such as Procter & Gamble feel that they are not being told how their advertising money has been spent? The whole system has been called murky, even fraudulent.

Michael Todd: I can take this, from our side. You are talking about Marc Pritchard's speech at the start of this year, which is a legendary speech in the industry now. We welcomed the speech broadly. We think that it was an important point. We can only defend the services that we offer. Like anything, this is a very fast-moving, dynamic industry. Generally speaking, it is very open, transparent and trustworthy, but at the edges of the industry there are always areas that we can improve and people who are trying to game the system. We are working hard to address that. Marc Pritchard was referring to the fact that we need to make sure that, as an industry as a whole, we are cleaning this up and making sure that it is as transparent, open and clean as it can possibly be. He made another speech in the summer in which he said that we were 60% there. The industry broadly has responded quite well in this space, but there is still more that can be done.

Baroness Bertin: You talk about things at the edges, but some people put ad fraud at £16 billion. That is enormous; it is not at the edges. I would like to know in a little more detail how you are trying to tackle that. It cannot just be swept under the carpet, because it will erode trust in the system overall.

Ed Couchman: That is a very fair point. It feels as if the Marc Pritchard speech has been quoted in the aftermath almost as many times as "Hamlet". It is fair to say that there is a murkiness or opaqueness around the digital supply chain in some areas. From a Facebook perspective, I think that we are on really solid ground. As Simon mentioned, we know that people log in and are their real selves on Facebook. We know from our research that around 99.6% of all ads on Facebook are seen by human beings. However, this is one where the industry needs to come together. We really welcome the Internet Advertising Bureau's stance on the gold standard for online advertising.

Baroness Bertin: Are you fully signed up to that?

Ed Couchman: Yes. We are signatories to the IAB gold standard.

Baroness Bertin: Are you also signed up to JICWEBS?

Ed Couchman: The gold standard commits us to a JICWEBS process. We are in the very early stages of that. It is a two-stage process, where we commit through a verification and there is then an audit. We are at the verification stage of that.

Baroness Bertin: Why are you not running towards both those organisations? Given that you are being criticised, rightly or wrongly, surely you should want to overcompensate and throw the kitchen sink at it, so that you can be completely beyond reproach?

Ed Couchman: One of the challenges with JICWEBS is that it was born from an era of traditional online advertising—display advertising, with shapes appearing alongside content. We will be the first platform that consists of mobile, feed-based environments. That has nuances, as every single person has a different Facebook experience. JICWEBS is rising to that challenge at the same time. Certainly, we are engaged, participating and absolutely committed to the gold standard.

The Chairman: May we hear from Google on this point?

Michael Todd: I will come in from a Google perspective. You are right. I certainly do not want to play down the importance of the issue of fraud. We take it very seriously as a company. At the core of our work around this, we have about 120 data scientists and engineers who work permanently and full time on tackling the issue and looking at trends. They are at the centre of a much bigger team of many thousands of people who keep our platform safe.

We report on our work in this area every year. We publish what we call the bad ads report, which outlines the work that we have done to keep our platform safe. In 2016, we took down 1.7 billion ads for violating our systems. We kicked out over 100,000 publishers for policy violations, and we accept only around 12% of applications to our publisher networks. We work incredibly hard to keep the platform safe.

In relation to the broader industry question, we are compliant with a global standard called TAG—the Trustworthy Accountability Group—that is run out of the US. It has the most recognised fraud standard globally in the industry. We are compliant with that standard.

We are also part of a global trade body called IAB Tech Lab. Recently, it developed something, in partnership with us and others, called Ads.txt. That sounds quite technical, but it is actually a very simple way for publishers to ensure that the people selling their inventory are approved, and for advertisers to be assured that, if they are buying inventory, they get what they think they are getting. It was filling a gap in the market that everyone knew existed, in response to the kind of thing that Marc Pritchard raised. Early results indicate that it has been very effective.

Lord Gordon of Strathblane: Normally I associate the internet with disintermediation. ISBA sent me a chart prepared by the World Federation of Advertisers, and I have never seen so many middlemen in my life. Why can you not eliminate some of those middlemen and let more of the money go to the content provider—or even have more of it yourselves?

Adam Cohen: As I explained earlier, for advertisers and publishers who want to work with us directly, there is no need to work with the middlemen. It is up to them whether they choose to use other adjacent or complementary services.

Lord Gordon of Strathblane: So we could be back to the stage of the media owner and the advertising agency dealing directly.

Adam Cohen: You can deal directly with us. If you are a small business, for example, you can run your advertising campaigns directly with Google. You do not have to work with an agency. Many of our large advertisers choose to work with advertising agencies, but that is an option.

Baroness Quin: You talked about bad advertising and taking that down. Can you explain to me how quick that process is? Given how quick the internet is generally, I imagine that an awful lot of people can see something very quickly before it is taken down. Will you explain how that works?

Michael Todd: Generally speaking, it is immediate. Like anywhere in society, there are unscrupulous players who want to try to game the system. Generally, we catch it at the point at which they are trying to game the system, so it never actually happens. On the occasions when we find something afterwards, we will recompensate whomsoever is affected, but that happens very rarely. We are constantly tracking. The team of data scientists I talked about will track trends over periods of weeks, months and longer to try to establish whether there is something bigger going on. There is an immediate-term, a mid-term and a long-term game that we are constantly playing.

Ed Couchman: There are some interesting nuances. For example, we have some very clear policies around shock and gore. Our policies, if we adhered to them correctly, would not allow us to run a campaign for Public Health England around stopping smoking. You may have seen the anti-tobacco ad with human lungs, et cetera. We need to have some human overlay and decision to make sure that, where the intent of the campaign is correct, we can still run that.

Baroness Kidron: How much of your revenue, in both companies, is ad related?

Simon Milner: For us, it is the great majority. We can let you have the numbers, but a very substantial proportion of our revenues is from advertising.

Adam Cohen: It is the majority for us, too. I can send you our publicly stated figures on this.

Baroness Kidron: While I was listening to the conversation, I was thinking about the earlier conversations about dominance in the market and the idea that there are these little guys who are the competition. Actually, you represent two of the biggest companies in the world, with very healthy balances. You have just said that people can go directly to you and get a better share, possibly. Was that the implication of what you were saying?

Adam Cohen: For one type of advertising, if they want to.

Baroness Kidron: For one type of advertising.

Adam Cohen: There may be higher returns from using adjacent services as well. That is not our business. I am not familiar with how some newspaper publishers or other venues for advertising may choose to add additional services to their online advertising practices. What I can say is that we are a venue for small businesses. We are easy to use, measurable and easy to access. We are a proven, measurable way for businesses to promote themselves regionally and even globally.

Baroness Kidron: The issue is the developing of content.

Adam Cohen: What do you mean by the developing of content?

Baroness Kidron: We have talked a little about news. I am thinking about music and what is happening to film. In all those content-driven, very high investment places, there is a move.

Adam Cohen: There are lots of different business models online. There are subscription services for high-value media content—Netflix, Amazon and others.

Baroness Kidron: But the money is in advertising.

Adam Cohen: I would say two things. There are lots of opportunities online. There is a huge amount of growth in the advertising sector, both online and offline, and there is a huge amount of growth in the consumption of other products and services online as well. It is not a finite economy. We have seen tremendous expansion.

Baroness Kidron: None of you is worried about the amount of control and market share that you have.

Adam Cohen: I will add one other thing. You have made the point that Google and Facebook are side by side here and everyone else is small. That is definitely not the case. We are in competition with Amazon and Snapchat. Adobe and Oracle are in the ad tech space. News Corp has just led a consortium with Axel Springer for online programmatic advertising. There are big agencies such as WPP and Publicis. There are lots of enormous players in this space. What we see, from the competition perspective, is all the qualities that you would want: an enormous amount of choice, low prices and high quality.

Baroness Stowell of Beeston: I should declare that I am a former colleague of Simon Milner's at the BBC. Indeed, Simon was my boss for a short while.

Simon Milner: Those were the days, Tina.

Adam Cohen: I thought you were going to say that you had a relative at Google.

Q138 **Baroness Stowell of Beeston:** I am going to ask a question about regulation. You have both just said that the majority of your income comes from advertising, yet neither of you is regulated for the content that you publish as advertising on your platforms; I know that that is the word that you prefer. As I am sure you know, that has been raised with us by many of the witnesses we have seen. I would like to know what you think about that.

Simon Milner: Shall I take this first? Actually, there are two different types of regulation that are applied to advertising on Facebook in the UK. One is data protection. Our advertising products are based on the use of people's data, but there is extensive data protection regulation of how we can use people's data when it comes to advertising to them and providing that service.

The second is advertising regulation. The Advertising Standards Authority's rules around the content of advertising apply to adverts on our platforms. The people who are regulated are the advertisers, not the platforms. None the less, we work very closely with the Advertising

Standards Authority. If it is aware of something happening on our service that should not be happening, there are channels for it to let us know about that. It is wrong to suggest that advertising on our platforms is unregulated; actually, it is just as regulated as many other services.

That is separate from the question of whether we should be regulated as publishers, which is what I think you, Baroness Stowell, might be driving at. We recognise that there is a sense that we are something in between a platform such as an ISP, my old company BT, and a publisher such as the BBC, where you and I both worked. We are something in between. It is not right to think of us as just a dump. We are far from that; we are a hosting provider, and we have to take significant responsibility for the behaviour and content on our services.

We also think that it is wrong to suggest that we need a model whereby we are responsible for something even if we have no knowledge of it. That is essentially the notion that we should regulate like a publisher, as if we know everything that is happening on our platform all the time.

We would characterise it in this way. We are striving really hard to acquire as much knowledge as we can about bad things that might be going on on our platform, so that we can deal with them without waiting for somebody to report them to us. The classic area here is terrorist content. About 99% of the terrorist content that we take down from Facebook is content that we have found, not content that has been reported to us. That is not because we have been regulated to do that; it is because it is the right thing to do for the people who are on our platform and for brands that want to use our platform for advertising.

We are doing lots of things, in the absence of a new form of regulation for platforms such as ours, to address concerns about the nature of some of the content and behaviour that we have seen on our platform.

Baroness Stowell of Beeston: Does Google want to add anything to that?

Adam Cohen: We are similarly regulated, both on the advertising side and when it comes to a range of issues. For example, 10 overlapping European Union directives, including the AVMS directive on audio-visual media services, govern YouTube. I do not think that it is accurate to say that our products and services are unregulated.

Baroness Stowell of Beeston: This has come up time and again. I cannot escape from the fact that people are paying to appear on your platforms and you are receiving revenue for that. If the current regulatory model is not working properly, do you think that it needs to be adapted to catch up with the technology and your emergence as a competitor to others, such as broadcasters and the print publishers?

Simon Milner: One of the key drivers here is accountability. What is regulation for? It is there to provide trust about services such as Facebook, which 40 million people in the UK use regularly, so that you as legislators and regulators can trust you are doing the best you can to ensure that people are safe and have a good experience. We feel accountable for that.

We are not accountable in a traditional way, as the BBC or ITV is. One of the reasons why we always accept requests to give evidence to Committees such as this and the Home Affairs Committee, at which I appeared this morning, is that this is a form of accountability. It is you holding us to account. You do not regulate us in the traditional way, but you have a reasonable expectation that we will come here to explain how we deal with these issues of concern.

We are not waiting for legislators and regulators to find the perfect form of regulation that can work well for a platform such as ours to address the areas of concern. Where you have areas of concern, it is quite likely that we share them and are working on them. We may not have got there yet, but we are definitely seeing improvements in this area.

We definitely know that we need to be more transparent. Part of accountability is explaining what you do and providing data to enable a degree of assurance. We recognise that we have quite a long way to go to provide more data to reassure, particularly in the areas of content, reporting and take-down.

The Chairman: Does Google have anything to add?

Adam Cohen: I have described the areas of regulation. I think that our business is regulated. When it comes to the quality of the advertising options that we offer to various businesses, large and small, the tremendous growth of online and digital advertising formats reflects a market that is functioning very well.

Lord Gordon of Strathblane: When both of you were answering questions on advertising, you said that the universe was much larger than simply digital, as you were competing with traditional media, et cetera. If you are competing with them, should you not compete on the same terms? Should the content regulation for both not be exactly the same?

Simon Milner: The nature of content regulation is extremely different across all those services. There is not a single standard. There is a very different standard for the BBC, compared with radio and newspapers. How is the *Daily Mail* online regulated, for instance?

Lord Gordon of Strathblane: Let me say immediately that I would find it very difficult to spot regulation for the *Daily Mail* online. If we take traditional media such as television and radio, which are subject to regulation, why should you not be subject to the same degree of regulation? After all, in the case of YouTube, you get more of an audience among young people than traditional media get.

Michael Todd: There are two different areas here. To reiterate, when it comes to content, of course, the press will be regulated differently from

TV or outdoor billboards. When it comes to advertising, it is all held to the same standard. For the past 60 years, the ASA has regulated advertising across different media. The rules change, but they change only as necessary, to reflect the way in which the different media work. The role of the ASA is to maintain a level playing field of regulation, despite the fact that different media operate in different ways.

Lord Gordon of Strathblane: May we stick to content for the moment? Unfortunately, I missed the session that you ran last week, which was very informative, I gather. In her blog, after paying tribute to YouTube for the immense good work it has done, which we would all acknowledge, the chief executive of YouTube goes on to say, "But I've also seen up-close that there can be another, more troubling, side of YouTube's openness. I've seen how some bad actors are exploiting our openness to mislead, manipulate, harass or even harm". Surely it would be sensible, in your own self-interest, to have a regulatory system that made that impossible.

Adam Cohen: We do have systems. We are working very hard to address these problems, as Mr Milner mentioned. A colleague of ours testified alongside Mr Milner at the Home Affairs Committee. He described how we are investing in machine learning tools to identify this type of harmful content before it ends up on our platform or is seen. We are growing the number of people working in our teams from 4,500 or so this summer to over 10,000 by the end of next year. Currently, we are quite successful at addressing this type of harmful content, removing 70% of it within eight hours. We can do more and move more quickly, but we are very responsive to this concern.

Lord Gordon of Strathblane: Is there a way in which you could stop it getting on to the screen in the first place, rather than react to it?

Adam Cohen: We think that, with machine learning tools, we can remove some of this content instantaneously. The size of our platforms is enormous. YouTube has an additional 500 hours of content every minute. We have dedicated a lot of resources to better technology tools that can address this. We calculated that the equivalent would be 180,000 people, working 40 hours a week, for the tasks that we have currently assigned to machines.

Baroness Kidron: The size of your platform is indeed enormous, as is the size of the profit margin. Do you not think that the size of your responsibility is equal? Even if you had to have 140,000 people, is that a problem, in a sense?

Adam Cohen: As I said, we are investing in a range of different tools: both automated tools, which are designed to address a scale problem, and human resources, where we can have a combination of people and technologies to address these issues.

Baroness Kidron: Are both companies committed to jurisdictional regulation? When I ask, "Why don't you?", I often hear you say, "That wouldn't work here", and, "That wouldn't work there". Are you properly committed to meeting individual nations' needs? You are here. We are in the UK. The standard that we have may be different from that in Norway or, indeed, Silicon Valley.

Adam Cohen: I can tell you unequivocally that we follow the law wherever we do business.

Baroness Kidron: So the law is a tool.

Adam Cohen: The law is the law wherever we are doing business.

The Chairman: I will take a very brief question from Baroness McIntosh. We then need to move on to the final question.

Baroness McIntosh of Hudnall: It relates directly to this point. It is absolutely understood that you conform to the legal requirements that are placed on you; I would expect no less. Those requirements will vary. What I am struggling to understand is what standards you hold yourselves to. Mr Cohen, you said, "We are regulated". I understand that you are referring to some extent to external regulation having an impact on you, but it appears that you are also saying, "We regulate ourselves. We hold ourselves to standards that we regard as appropriate in managing the challenges to which unsuitable content, for example, gives rise". We need to understand a little better how you set the standards to which you hold yourselves.

Simon Milner: To be clear, when we say that we regulate ourselves, we mean that we set community standards for people who want to be on Facebook—the rules they have to abide by. We apply those globally. Many of them are foundational. They have been there almost from the very beginning of Facebook, although we are not quite 14 years old yet. We have an extensive team of experts who are there to ensure that, when we see new phenomena, we are very quick to understand how those fit in with our rules and whether we need to develop new rules for that kind of behaviour, which we have not seen before. For example, on the issue of hate speech, we have teams of people who are focused on new organisations as they emerge, assessing their content and looking at what they do outside Facebook, as well as on Facebook, to determine whether they are hate organisations and, therefore, should not have a presence on Facebook.

I can share with you a lot more detail on that, but the key is that we develop community standards and have significant numbers of people who are involved in enforcing those standards.

The Chairman: If you have some materials on that, we would be happy for you to send them to us.

Simon Milner: We have lots.

Adam Cohen: I will add a little bit to this. It is a combination of very clear formal regulation, to which we are subject, and community standards that we set for ourselves and our advertisers. I will give you an example—Holocaust denial. That is not illegal in this country, so we do not eliminate it from our platforms, but we have taken a decision, based on standards to which we want to hold ourselves, that we will not prioritise such content. When somebody comes to Google with the search query, "Did the Holocaust happen?", we want to be in a position to do two things. One is not to let that content be monetised, through advertising. The other is to show counterviews—accurate information—in a context where somebody may be looking for something that is hateful. That is a decision we have wrestled with and taken ourselves. It is not a formal regulation in the UK.

The Chairman: Our final question is from Baroness Quin.

Q139 **Baroness Quin:** Do you have any particular concerns about Brexit? You are both large organisations. I do not know whether you feel you can withstand any challenges from Brexit or whether you have some specific concerns you would like to highlight to us.

Ed Couchman: We continue to invest in the UK. We have announced our new office and 800 roles. We think that it is a great place to attract and retain talent. As I mentioned before, it is a hotbed of creativity and technology innovation. The key ask that we have is around certainty. The more certainty that we can provide to people about what will happen, the better that will be for attracting and retaining talent. Either way, we are very confident of the UK and its ability to continue to be a great place to invest and for the creative community.

Adam Cohen: There are two specific things from us, which you will also see in our written submission. One is about the ability to attract talent from around the world and across Europe. We see the UK as a hub. As I said, we will grow from over 4,000 employees here to over 7,000, probably, in the next few years.

The other issue is the free flow of data. As you have probably seen from recent trade agreements not involving the UK, the flow of data is a very important aspect of international trade. We hope that that can continue unrestricted.

Baroness Quin: Would it be fair to say that you favour continuing greater regulatory alignment with the EU, or are you not too worried about diverging regulations?

Adam Cohen: Our central concern is about data flows.

Ed Couchman: It is the same for us.

The Chairman: We had hoped to talk to you a little about net neutrality, but time has pushed on. We may write to you, gentlemen, to ask you about that issue.

Thank you very much for coming to give evidence to us today. For at least one of you, it has been the second hearing today. Thank you for everything you have said to us and for what you have provided to us in writing. As I have said, we may want to follow up and ask you for further information on some of the subjects that we have covered and on the issue of net neutrality.