

Comments on “Kill Zone”

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Selected Lawsuits and Antitrust Investigations on digital platforms

- Jun 2016: Japan FTC investigated Amazon for the suspected violation of AMA
- Feb 2020: FTC issues 6(b) orders to Alphabet, Amazon, Apple, Facebook and Microsoft
- Aug 2020: EU launches antitrust probe into Google's Fitbit takeover
- Aug 21: FTC to refile antitrust complaint against Facebook for “buy-or-bury” scheme to crush competition
- Sep 21: Japan FTC closed investigation against Apple

Selected Actions Taken by Governments and Antitrust Authorities

- May 2020: Bill on improving transparency and fairness of digital platforms was passed in Japan
- Jun 2021: US House introduced 5 antitrust bills targeting Big Techs
- Jun 2021: FTC lowers reporting thresholds for tech acquisitions
- Jul 2021: President Biden signs an executive order targeting Big Techs
- Jul 2021: EU fined Amazon \$855 mil.
- Sep 2021: S. Korea passed a so-called “anti-Google law”

Discussions (1)

- “Kill Zone” has been anecdotally regarded as a result of anticompetitive elimination of startups that are to be potential competitors against big techs.
 - In Japan, Abuse of Superior Bargaining Position would be applied to such anticompetitive conducts.
- The authors show nicely that “kill zones” could occur without relying on ASBP in an environment, where (1) dominant platform, (2) network externalities, and (3) switching costs are present.

Model Intuition

- Acquisition price of entrant is the outside option to go alone.
 - Value of entrant is the sum of (1) go-alone value and (2) number of customers
 - Customer's decision depends on the number of app designers.
 - High expectation of being acquired depressed the designers switching to entrant, depresses the number of customers, and depresses entrant's value and investment.
- ⇒ kill zones!

Assumptions that are interesting to test if empirically relevant:

- Single-homing of customers and designers.
- Nontrivial switching costs of customers and designers.
- Increasing acquisition prices with competition (say, the number of incumbents)

Discussions (2)

- A suggested policy response, according to the authors, includes interoperability between platform and entrant.
 - We have however seen failed attempts of common standard setting...
 - Say, video games, DVDs, and VCRs.

Discussions (3)

- The issue may be on how to identify big tech's intent of acquisitions, i.e.,
 - Healthy exits of startups, or
 - Kill competitors
- Current standard of proof requires CA to show harm to consumers.
 - Very difficult because of uncertainty in any innovation-related merger case
- One way out is to shift the burden of proof from CA to big techs.

Experimental attempt; Japan's transparency act

- Japan adopted “co-regulation approach” in May 2020 in attempt to shifting burden of proof from CA to big techs.
 - Platform companies address (or pledge) their intents, and government reviews their pledges.
- This “pledge and review” process could be expected to enhance mutual understanding between the government and big techs.
 - For this act to work, the CA should be ready to enforce AMA against the violation of the pledges and anticompetitive conducts.
- It remains to be seen if co-regulation approach performs better than:
 - ex-ante regulation (a risk of retarding innovation)
 - ex-post punishment (a downside of taking too long to implement)

Act on Improving Transparency and Fairness of Specified Digital Platforms

(Established on May 27, 2020 and published on June 3, 2020)

- **Basic philosophy:** It is based on the principle that measures for improving transparency and fairness of digital platforms should be implemented, primarily based on voluntary and proactive initiatives by digital platform providers, with government involvement or other regulations kept to the minimum. Adopt a "co-regulation" approach, in which the general framework of regulations is defined by law, but the details are left to the voluntary efforts of service providers.
- **Subject to regulation:** Digital platform providers that are particularly required to improve transparency and fairness are designated as "Specified Digital Platform Providers" by a Cabinet Order. (For the time being, large-scale online retail platforms and app stores. It will be enforced from next spring.)
- **Method of regulation:** Notification of information such as terms and conditions of business transactions and voluntary procedures and systems, and submission of a yearly report stating the outline of the business and the measures taken for mutual understanding **together with a self-conducted evaluation**.

A review of the operation of the platform will be conducted based on the report, and the results of the evaluation will be published along with a summary of the report. At that time, the opinions of product providers, consumers, and academics, etc. will be heard, and challenges will be discussed with a view to promoting mutual understanding among the parties involved.