EU alleges Google's abuses hurt consumers, innovation

April 15 2015, by Raf Casert And Michael Liedtke

European Union's competition chief Margrethe Vestager listens to questions during a media conference at EU headquarters in Brussels on Wednesday, April 15, 2015. The European Union's executive hit Google with an official antitrust complaint on Wednesday that alleges the company abuses its dominance in Internet searches and also opened a probe into its Android mobile system. (AP Photo/Virginia Mayo)

The European Union's escalating legal attack on Google is likely to ignite a debate about whether the Internet search leader makes life more convenient for consumers or abuses its power to squeeze out rivals who might have something better to offer.

The contrasting views of Google's business practices came into sharper
focus Wednesday after Europe's antitrust regulators challenged the Mountain View, California, company on two different fronts.

Drawing upon a nearly five-year probe, the regulators filed a complaint alleging that Google has been improperly favoring its own shopping comparison service in its own search results. The charges could still be expanded to include other services highlighted in Google's search results, such as travel recommendations and merchant reviews, mounting a challenge to the digital advertising system that generates most of the company's revenue.

As if that blow wasn't enough, Europe's regulators also announced they are opening a separate inquiry into whether Google has been illegally using its popular Android software to bully smartphone and tablet makers to feature Google's products on their mobile devices.

Google staunchly denied any wrongdoing, setting up a showdown that could still take years to resolve. The company has 10 weeks to respond to Wednesday's complaint.

Here are a few things to know for now.

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GOOD OR BAD FOR CONSUMERS?

For now at least, Europe's case is focused on Google's shopping comparison service, known as Google Shopping, which shows various products and prices when consumers make a search request indicating they are looking to buy something.

Google Shopping consistently ranks at the top of Google's search results page to the detriment of competitors, including U.K.-based Foundem
and Ciao, owned by Microsoft. Both those rivals are among the companies that spurred the EU's investigation into Google.

Regulators allege Google elevates its shopping service even when other options might have better deals. They maintain that Google Shopping is getting favorable treatment because the company wants it to succeed, unlike an earlier version called "Froogle," which wasn't pushed to the top of the search rankings.

Google maintains that it is just trying to package its search results in a way that makes it easier for consumers to find what they want.

But Google's shopping comparison service doesn't include all products in any category. Google began locking out some merchants in late 2012 when it began requiring an upfront payment—the equivalent of an ad—to be included in the index of the shopping comparison service.
"People don't realize there's a pay-to-play element of Google Shopping," said William Poundstone, author of "Are you Smart Enough to Work at Google?" People tend to assume it's more of a level playing field than what it really is."

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POWER PLAY

The popularity of Google's search engine is the main reason why European regulators are trying to force the company to change its ways. Google processes about 90 percent of the searches in the EU, compared to 66 percent in the U.S.

"Dominant companies have a responsibility not to abuse their powerful market position," said Margrethe Vestager, the EU's competition commissioner. She contends Google is limiting the choices of European consumers and stifling innovation among smaller companies.

Google maintains people use its search engine because of its reputation for delivering the best results.

The company also points out that it is facing more competition than ever, including: other search engines such as Microsoft's Bing and DuckDuckGo; e-commerce sites such as Amazon.com and eBay, where consumers go directly to compare products; mobile apps, where people increasingly spend their time online; and relatively new networking tools such as Pinterest that have unleashed new ways for people to discover
intriguing ideas and products.

European regulators are taking a different tack than their U.S. counterparts. In 2013, the Federal Trade Commission settled an antitrust investigation into the market power that Google wields through its search engine without requiring the company to make any major changes.

That means whatever happens in Europe might not necessarily change the way that Google does things in the U.S., tough company critics such as the group Consumer Watchdog are urging the FTC or Justice Department to take another look.

ASSAULT ON ANDROID?

When Google began giving away its Android software in 2008, the company was just trying to counter the runaway success of Apple's iPhone. Now, Android powers billions of mobile devices, largely because it doesn't cost phone and tablet makers anything to use the software.

But Google isn't giving away Android for altruistic reasons. The operating system is designed to feature Google's search engine, maps, Gmail, YouTube video service and other products that give the company more opportunities to sell digital ads. Device makers don't have to use Android as Google wants it to be, but European regulators are now looking into complaints that the company penalizes those that deviate, or "fork," from its Google-centric design.

Apple also bundles many of its own services in the iPhone, but its software is only used on the devices that it makes—a distinction from Android.
Google, again, portrays its bundling as something most people appreciate. There is some evidence to support that thesis. For instance, when Apple dropped Google's digital maps as the iPhone's built-in navigation service in 2012, Google introduced a stand-alone version of its maps that quickly became one of the top apps that people wanted to install on their iPhones.

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HIGH STAKES

If regulators can prove Google has been breaking the law in the European Union's 28-country bloc, it could be costly even for a company as rich as Google.

The EU can impose fines of 10 percent of annual revenue, or some $6 billion, and force the company to overhaul its system for recommending websites in Europe.

It seems unlikely that the fine will be that high, as long as Europe's case remains limited to Google's shopping comparison service, said Nomura analyst Anthony DiClemente. The narrow focus so far "suggests maybe they didn't have a strong enough case against the core search product and Android," DiClemente said.

Investors certainly don't seem concerned. Google's stock gained $2.14 to close Wednesday at $542.55.

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