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INTEROPERABILITY IN DIGITAL MARKETS

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CATEGORISATION OF INTEROPERABILITY

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Different products or services are *interoperable* if they can 'work together'

Horizontal interoperability

When *substitute* products or services operating at the *same* level of the value chain can work together


Sharing of *direct network effects*

Vertical interoperability

When *complementary* products or services operating at *different* levels of the value chain can work together

Sharing of *indirect network effects*

Structurally very different → different economic assessment



HORIZONTAL INTEROPERABILITY

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CENTRAL INSIGHT

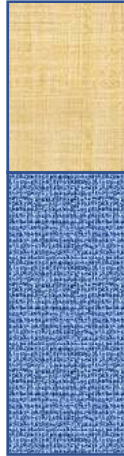
Horizontal interoperability is likely to be a harmful remedy

Limits innovation and
differentiation opportunities

Tends to enshrine incumbency

REDUCED INNOVATION AND DIFFERENTIATION

Imperfect
degree of
interoperability



Competition for
'non-common'
features

Costly & complex
standardisation
of 'common'
features

**Common features
more valuable?**

Reduced ability & incentive to
innovate and differentiate

**Non-common features
more valuable?**

Interoperability inoperative

REDUCED MARKET CONTESTABILITY

Horizontal interoperability may enshrine the dominance of dominant digital players

Imperfect degree of interoperability → dominant players may remain 'focal'

Interoperability reduces multi-homing, an important driver of contestability

CASE FOR HORIZONTAL INTEROPERABILITY

Case for horizontal interoperability if:

- (i) slow pace of innovation,
and/or (ii) multi-homing is limited

Horizontal interoperability harmful if

- (i) fast pace of innovation
and (ii) multi-homing is easy

Scrutinise attempts to limit consumers' ability to multi-home



VERTICAL INTEROPERABILITY

VERTICAL INTEROPERABILITY

Benefits

- **Modularity:** allows 'mixing and matching' of digital services
- **More competition** in complementary markets
- Decentralised, open **innovation by complementors**

Risks

- Modularity reduces **ability for radical innovations**
- **Too much openness** reduces innovation incentives of complementors
- Lower **innovation incentives for platform providers**

PRECONDITIONS FOR REGULATORY INTERVENTION

Vertical integration (or intent) of platform provider as necessary but not sufficient condition for regulation

Further indicators:

- (i) Changing access conditions after (intent) to vertically integrate
- (ii) Three criteria test:
 - (a) high entry barriers, (b) no trend towards competition
 - (c) competition alone not sufficient

DMA does not consider 'vertical integration' specifically as designation criterion for gatekeepers

VERTICAL INTEROPERABILITY REQUIRES A COMPLEX ACCESS REGIME

Technical Access Conditions

- Design of interfaces by access provider
- Built on non-proprietary standards where possible
- Initiative to develop standards where they are missing
- Equivalence of input for third party access




Economic Access Conditions

- Transparent and non-discriminatory access licensing regime by platform provider with third party scrutiny board
- Access price may well be above marginal costs
- Mark-up depends i.a. on risk taken, ability for non-price discrimination and balancing of innovation incentives



POLICY RECOMMENDATIONS

STATUS QUO IN THE PROPOSED DMA

COMMISSION AND COUNCIL PROPOSALS		Vertical Interop.	Horizontal Interop.
Article 6(1)(c)	Interoperability of OS with third party apps and app stores		-
Article 6(1)(f)	Mandated interoperability of ancillary services		-
Article 6(1)(h),(i)	Real time data portability for (business) users	-	-
EP PROPOSAL			
Article 6(1)(fa), (fb)	Interoperability of number-independent communications services and social networks	-	


IMPORTANT TO DIFFERENTIATE BETWEEN HORIZONTAL AND VERTICAL INTEROPERABILITY OBLIGATIONS

Horizontal Interoperability

- Reduces multi-homing and potentially **undermines market contestability**
- Only warranted for services with low rate of innovation or with high cost of multi-homing
- **Should not be included in DMA**

Vertical Interoperability

- **Facilitates market contestability** through niche-entry-and-growth by complementors
- Only warranted in case of vertically integrated platforms
- **Should be considered more widely for a future-proof DMA**, but involves complex trade-offs on a case-by-case basis



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