CATEGORISATION OF INTEROPERABILITY
CATEGORISATION OF INTEROPERABILITY

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
HORIZONTAL INTEROPERABILITY

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 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

<table>
<thead>
<tr>
<th>COMMISSION AND COUNCIL PROPOSALS</th>
<th>Vertical Interop.</th>
<th>Horizontal Interop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 6(1)(c)</td>
<td>Interoperability of OS with third party apps and app stores</td>
<td>✓</td>
</tr>
<tr>
<td>Article 6(1)(f)</td>
<td>Mandated interoperability of ancillary services</td>
<td>✓</td>
</tr>
<tr>
<td>Article 6(1)(h),(i)</td>
<td>Real time data portability for (business) users</td>
<td>-</td>
</tr>
</tbody>
</table>

**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
THANK YOU FOR YOUR ATTENTION

DOWNLOAD THE REPORT
HTTPS://BIT.LY/3JNK75F

FOR MORE INFORMATION,
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