

April 13, 2021

DuckDuckGo asked my views of the possibility of the Australian Competition and Consumer Commission's (ACCC) adopting an EU approach for consumer selection of search engines on new Android mobile handsets. This short note responds to this request. Briefly, I do not find the EU approach, which has Google conduct an auction for being listed as one of three options to be automatically loaded on new handsets, as effective in improving competition among search engines.

Google's proposal is justified in part by the argument that, as a 2<sup>nd</sup> price or Vickrey auction, the outcome of this auction is efficient. However, as was noted in the Politico editorial (see <https://www.auction-technologies.net/images/Papers/competitive-edge-the-google-auction-that-may-turn-into-a-trap.pdf>), there really is no need to limit consumer choice to three options, unless Google lacks the technology to provide search features for consumers wanting to select a search engine based on its features. A choice menu may be beneficial as without such a menu consumer may need to wade through an unordered list of hundreds or thousands of possible search engines. However, there is no reason to restrict such a choice menu to such a small number of options.

Further, an auction, no less Google's auction, is unlikely to be an optimal way to determine which three search engines are listed on consumer's choice screen. While the idea that the highest bidder will have the highest value offering sounds right, these bids only reflect the ability of the search engine to translate searches into advertising revenues. These revenues do not fully account for consumer values. For example, in many cases, search engines sell information about the searchers. Further, some search engines spend more on protecting consumer privacy and will generate less ad revenue, but perhaps higher total values. In extreme cases, a search engine having more lax policy toward fraudulent sites will be able to outbid more legitimate rivals.

In a perfect world with frictionless markets, consumers would be required to pay a premium for accessing higher quality search engines. Unfortunately, this is impractical. So, some intervention into the market is needed to ensure privacy and protection against Internet abuse.

Google is entitled to some return to investment in Android. Google receives license fees for the Android operating system which may already provide an ample return; auction revenues would then just be adding to an already high return. Finally, the auction Google itself uses for the choice screens may have a bias toward lower market share rivals, as has been explained by Mike Ostrovsky (<http://web.stanford.edu/~ost/papers/csa.pdf>).

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