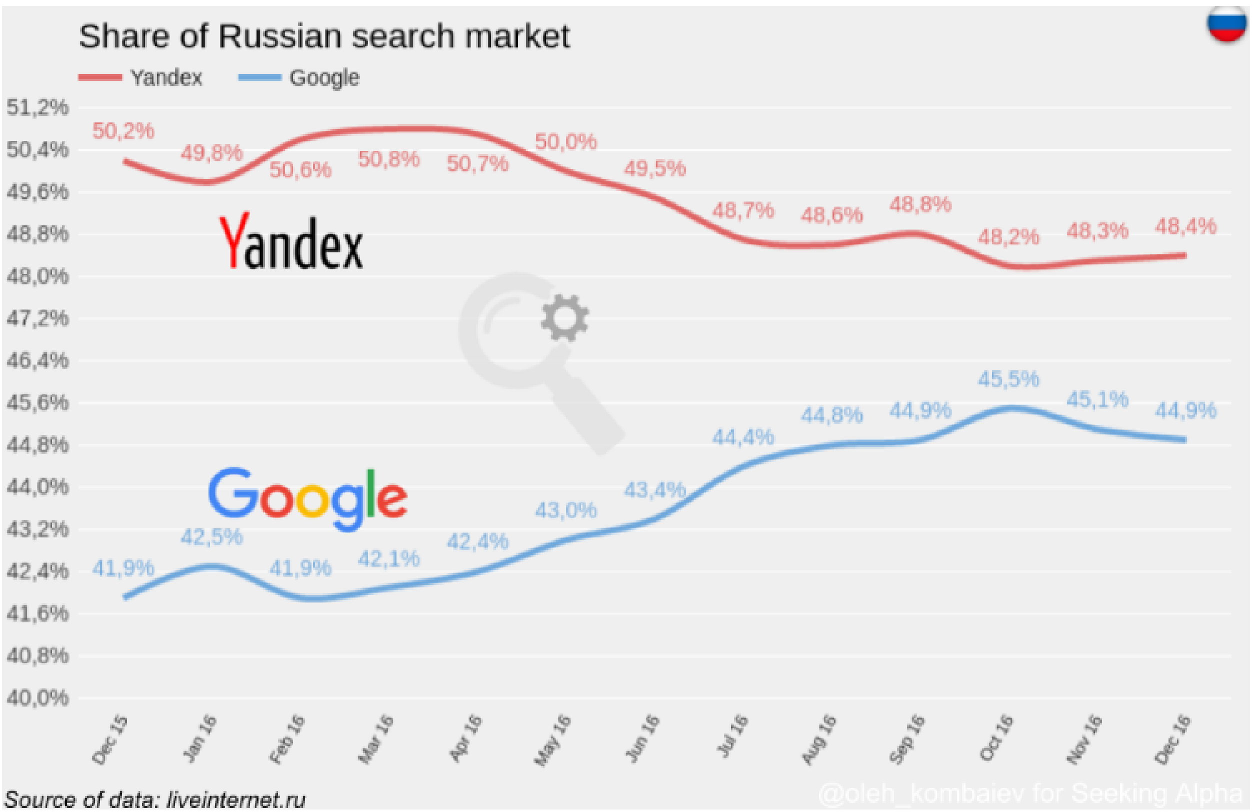
How Russia Defeated Google's Monopoly

This is a chart of the Russian search market. Notice anything? Choice screens can make a big difference on questions of market power.

By Matt Stoller

This submission is a copy of the July 23, 2019 issue from the newsletter BIG. You can access the original copy of the newsletter issue [here](). There is also updated data in a follow-on issue from November 25, 2020, which you can access [here]().



Yes, that's right. In this search market, there's *competition*. In fact, outside of China, there is only one search engine market with any rivals to Google, and that is in Russia.

We hear a lot these days about antitrust, and particularly big tech. But why do we not hear about the only success story in the entire world? I don't know, but my guess is that it's a social phenomenon. The agency that did the enforcement was the Federal Antimonopoly Service of Russia, and the story causes a great deal of embarrassment for the enforcers in Europe and America. Reporters, enforcers, and fancy prize givers don’t tend to trust the Russian government.

In this case, however, there’s a lot to learn from what the Russians did. The history of the competitive Russian search market isn’t just about aggressive and intelligent antitrust enforcement. It also involves innovation outside of California. So that’s where I’ll start.

The Rise of Yandex

For much of the Cold War period, Silicon Valley in the United States was a key center of innovation around computers. It wasn’t the only center, but it mattered a great deal, both in hardware and software. The Soviet Union also trained a large community of engineers and scientists to wage their Cold War, many of whom were amazing software creators. Tetris, for instance, was invented in Russia. After the Soviet Union fell apart, some of these engineers started tech companies.

In 1990, two Russians launched the company that would become the Russian search giant Yandex, which is now the fifth largest search company in the world and which has - like Google - become a tech conglomerate. By the mid-1990s these engineers were experts in Russian language search. In 1997 they launched a Russian-language search engine, and by 1998 Yandex (named for “Yet Another Index”) was in the contextual advertising business. Yandex chose a business model similar to what Google, founded that year, would also eventually select a few years later.

In the U.S., Google was a better search engine than its competitors (like Infoseek and Altavista), and beat them to dominate the market with a better experience and more relevant results. Google used a more efficient algorithm for indexing the web, had faster servers, and began plowing user data back into its search results to make the results more accurate. I remember the first time I used Google search, it was like magic. With the rest of the search engines you had to go through lots of results, whereas Google just helped me find what I wanted.

In 2000, Google took its search product global to beat out potential foreign competition, launching in ten languages. By 2001, it had an office in Tokyo. The company was quickly conquering the world faster than local search players could get up and running. In Russia, however, Google was never able to dominate. Instead, Yandex offered a competitive search product; it was as good as Google, but in Russian.

Google nonetheless came into Russia, and did fairly well. The two search engines had different strengths; Yandex was very good at indexing Russian, appealed to users in all regions of Russia, and had a smaller index. Google had superior results on technical topics in Russia, had appeal among IT professionals and young people, and was more popular in big cities. Up until 2012, Yandex held roughly 60% of the search market in Russia.

Google Makes Its Move on Yandex

Google had conquered the market for desktop search throughout most of the world, but Yandex had a majority (though not overwhelming) share in Russia. But as is often the case, the most vulnerable time for a monopoly, as well as its moment of greatest opportunity, at a technological inflection point when a new market structure is emerging. From 2007-2014, the computing world shifted to mobile, and this shift was such an inflection point. For example, in 2011, Facebook was a profitable social network without a mobile ad business, today the company gets roughly 90% of its revenue from mobile advertising and is far larger and more powerful. For search, the shift was similarly critical, people would search on their phones as much or more than they did on desktop computers, and would include geolocation data and maps in those searches.

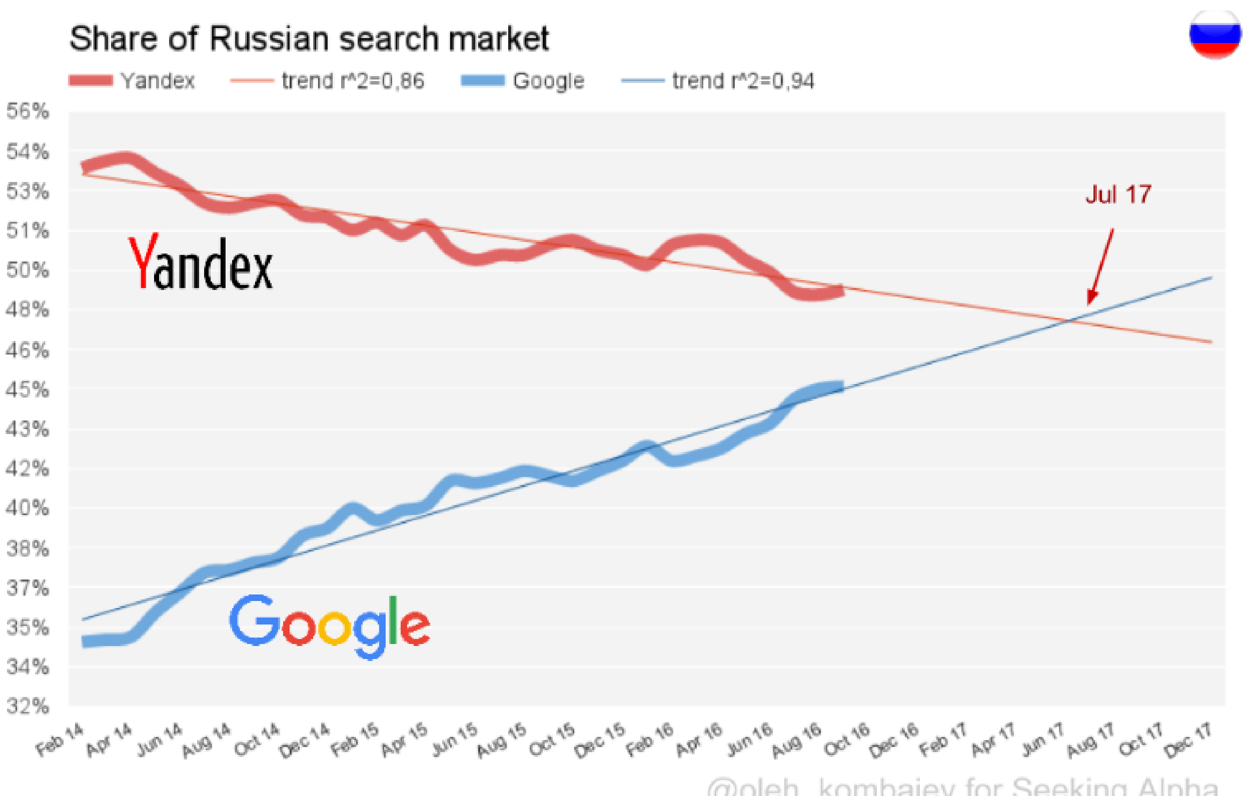
Desktop and mobile search are deeply related products, but they operate in slightly different contexts. In the early 2010s, mobile search was growing rapidly, but nearly all monetization took place on desktop. Google’s strategy to conquer mobile search took shape in 2012, and played out all over the world. It had to do with the company’s control of a mobile phone operating system, Android, which it bought in 2005.

In 2008, Google experimented by building its first Android phone. The company eventually settled on a strategy of having original equipment manufacturers (OEMs) like Samsung use Android as the brains of their phones. The price was irresistible: zero. Google gave away Android, and starting in 2012, gave away their app store known as Google Play. This pricing strategy was wildly successful. Global Android phone usage hit 1 billion users in 2014, and 2 billion by 2017. Android and Google Play are immensely valuable parts of the phone. Android offers the phone function, and Google Play and its service layer lets third party apps operate on a phone. The 'free' price and high functionality of the operating system was a compelling pitch. Google rapidly gained share everywhere. In Russia, at the beginning of 2011, Google had less than 20% market share of the phone operating system market. By 2012, it had over 50% market share, reaching 80% by 2013.

In return for a high-quality operating system and app store, Google imposed conditions on OEMs, forcing them to put Google search on the phone in a high profile area, and making Google search the default search engine. The company also in some cases paid OEMs to not install competitive software, like Yandex search. In other words, this was a kind of leveraged monopoly play, or dominance in a "home" market (Android) leveraged into a "destination" market (mobile search). Such anti-competitive behavior was exactly what Microsoft did in the late 1990s with its Internet Explorer, tying its browser to its Windows operating system with OEMs in order to beat back Netscape.

Default choices are extraordinarily powerful mechanisms to win power in consumer oriented network systems, as the excellent Australian Competition and Consumer Commission (ACCC) pointed out last December. The default bias problem is so significant that Google, at last count, pays $12 billion a year to Apple to make Google search the default search on the Safari iPhone browser. The ACCC even has an entire section and policy recommendations based on the power of defaults, and the rest of the world is catching up to Australia in terms of understanding their power.

In 2013, when the Android market share reached 80% of phones in Russia, Google search began gaining rapidly on Yandex, especially in mobile search. Why wouldn't it? Google could place its search engine at every point of entry into the phone, and could exclude competitors. Here's another chart of market shares. You can see the market share drop.



The Antitrust Cases: EU Versus Russia

In 2015, both the European Union and the Russian Federal Antimonopoly Service began investigating Google's Android deals with OEMs. The theory of harm in both cases was the same, and clear. Google was tying Google Play/Android to Google Search with unfair contractual arrangements.

Both the European enforcers and the Russians 'won' their case. In fact the European Commission team got the award in D.C. earlier this year from Global Competition Review for best antitrust case for its work on Android. But the European case failed to preserve or create competition, while the Russian one succeeded. Why?

One reason is because the European Competition enforcers were slow, while the Russians were definitive. Today the European Commissioner for Competition Margrethe Vestager has a reputation as a tough enforcer, but this reputation is both undeserved and overstated. She is deeply cautious, and hostile to penalties that reorganize markets. For instance, she came out strongly against Elizabeth Warren's proposal to break up big tech companies, on philosophical grounds that such a break-up would be an attack on private property. So while she gets headlines for big fines, she is largely weak and passive, and tolerated delays. When she finally did win the case, she even allowed Google to organize its own penalty.

But to put it all on the weakness of Vestager isn't quite fair, because she also faced difficult conditions. President Barack Obama, probably at the behest of Google, attacked her and the Europeans for engaging in protectionism as they investigated. It's hard to remember now, but 2015 and 2016 was a very different moment, when Google and Facebook represented a progressive and deeply profitable vision of social justice and liberation. The idea of criticizing Google was a bit outlandish.

Moreover, Microsoft, which had been supporting the European case, pulled out of its support in the middle of the fight. In Europe, while Google was dominant nearly everywhere, there was still a small bit of competition in the form of Microsoft's Bing and DuckDuckGo. Microsoft in particular was a key participant, having financed much of the anti-Google research since the mid-2000s and posing the only existing challenge in terms of global indexing to Google's web crawl. But in 2016, in the middle of the case, Microsoft, which had been leading the charge for the Europeans to enforce against Android, came to a truce with Google, both companies agreeing to remove all regulatory complaints against one another. This truce left Yandex as the only significant remaining complainant in both Europe and Russia.

Google also slowed the process down with procedural roadblocks and delays. And while Vestager did eventually come to a decision and fine Google a large amount of money and end the contractual restrictions, there were two significant problems. First, the process was very slow. In fact, the case is still on appeal. In antitrust, speed matters, because speed determines whether rivals can stay alive. Microsoft ultimately decided it just wasn't worth trying to compete with Google anymore (whether they could have done so successfully is a different question). Second, while Vestager imposed a large fine of $5 billion, she allowed Google to define the remedy.

Here's the language of the press release announcing the decision.

> It is Google's sole responsibility to ensure compliance with the Commission decision. The Commission will monitor Google's compliance closely and Google is under an obligation to keep the Commission **informed of how it will comply with its obligations.**

Google stopped its bundling practices, but without much change to the search market. As if to put a fine point on the remedy failure, Google has already modified its changes once in response to "feedback" from the competition authority. Going forward, we'll see how this plays out, but it's been three years since the investigation and seven years since the restrictive practices started, without a major change in Google's dominant market share.

In Russia, the anti-monopoly case played out quite differently. The Russians were not intimidated by American technology companies, not only because of residual bitterness over the end of the Cold War and a hostile geopolitical relationship with America, but because they had Yandex. Russian engineers and scientists were just as innovative as those in Silicon Valley, and they had their own search giant to prove it.

The FAS was also hostile to Google because of a very basic problem that the company brought upon itself. Google did not take the FAS as seriously as it should have, under the assumption the FAS would rule for Yandex for protectionist reasons. It wasn't an unreasonable assumption, to believe a Russian government agency would find for a Russian company. But Google never acknowledged Yandex had a serious argument, even though a respected economic consulting firm, the European arm of Charles River Associates, had done the economic analysis underpinning Yandex's complaint.

The Russians ruled in 2015, and again in late 2016, roughly a year and a half after the start of the case and far faster than that of the EU. In 2017, Google settled, agreeing to present a "choice screen" to all Android phone users letting the user pick in a neutral manner which search engine to use. Immediately upon implementing the choice screen, Yandex recaptured a chunk of market share from Google. And its market share then stabilized.

Outcomes

In Russia, the key outcome was the preservation of competition in desktop search, and the extension of this competition to the mobile search and mobile search ad markets. Tech markets are often prone to 'tipping,' which is to say, becoming winner take all markets. For instance, Google has the most data of any search engine company of how users find things, so it can optimize to improve its search engine. At the same time, web publishers often optimize their sites to be found by Google, leading to a feedback loop of a web where on both sides, users and publishers, Google is the natural intermediary.

In Russia, there are several options for search, both Google and Yandex, for users and publishers. This creates the possibility of using Google for queries that are more technical and Yandex for queries that involve more knowledge of Russian syntax and regional elements of the culture. Google also has less power to engage in vertical discrimination to block rivals, as it does with Yelp and TripAdvisor in Europe and the U.S.

There's also more innovation in the Russian search and internet software space than there is in much of the rest of the world. Yandex has a whole suite or products, including a taxi service, payments, mail, maps, business software, a superior weather forecasting product, and a voice assistant product called Alice. It also has a Turkish language product, and there's antitrust action in Turkey around Android.

Google is still doing well in Russia. It didn’t pull out of the country, it is making money, it has a reasonable market share. So reasonable antitrust actions don’t destroy anything, they simply create more space for more players.

In Europe, by contrast, there’s little evidence of significant changes in search engine market shares. The Competition authority is toying with the idea of choice screens and being pressed on defaults, but it has yet to adopt the firmness necessary to restructure the market. Google has retained its dominance in the market, though it has begun charging OEM phone makers for the use of Google Play. Microsoft is no longer aggressively challenging Google; that ship sailed. In other words, Google might come out ahead by charging money for what it previously gave away, while retaining its search monopoly regardless.