EC opens antitrust probe into Apple Pay, Apple’s App Store

Enlarge / 08 January 2019, Hessen, Rüsselsheim: ILLUSTRATION – The App Store (M) logo can be seen on the screen of an iPhone. Photo: Silas Stein/dpa (Photo by Silas Stein/picture alliance via Getty Images)

reader comments

88 with 37 posters participating

Share this story

The European Commission has opened two formal antitrust investigations into Apple’s App Store and its Apple Pay payment system.

The investigation into the App Store comes after a complaint from Spotify in March 2019 and a subsequent complaint from e-reader company Kobo over how Apple takes a 30 percent commission on every subscription signed up through its App Store in the first year, and then a 15 percent cut.

At the same time, the companies complained, Apple has promoted its own music and books services. The European Commission is also looking at whether App Store rules stifle competition in gaming and cloud services, according to people with direct knowledge of the situation.

Apple’s global App Store fees are estimated to generate more than $1 billion for the company every month. Apple said in January that consumer spending on the App Store hit a new single-day record of $386m on January 1—likely generating $50 million to $100 million for Apple itself.

The EU said that, following a preliminary investigation, “the commission has concerns that Apple’s restrictions may distort competition for music streaming services on Apple’s devices.”

It added that by forcing companies to sell to customers through Apple’s own in-app payments system, Apple seemed to have “full control over the relationship with customers of its competitors.”

The commission said that Apple appeared to cut off its rivals from data about their customers and was able to obtain “valuable data about the activities and offers of its competitors.”

“Apple sets the rules for the distribution of apps to users of iPhones and iPads. It appears that Apple obtained a ‘gatekeeper’ role when it comes to the distribution of apps and content to users of Apple’s popular devices,” said Margrethe Vestager, the EU’s competition chief.

The EU could theoretically impose a maximum penalty of 10 percent of Apple’s global revenues for breaching competition rules, but rivals suggested they were more interested in other remedies.

“It has been shown in other fines against Google, for example, that these are merely the cost of doing business and have no meaningful impact in changing long-term business practices. Fines are not in the interest of Apple rivals or consumers,” said one adviser to an Apple rival.

In the EU, App Store users spent $3.4 billion in 2019, or $4.8 billion including the UK, according to Sensor Tower data. Apple’s digital revenues in the region are far behind China, the US and Japan, which saw $16.4 billion, $15.4 billion, and $10.2 billion of sales, respectively.

Separately, the EU is launching an investigation into Apple Pay and whether it undermines competition by limiting access

to near-field communication for contactless payment in stores.

Ms. Vestager added, “It appears that Apple sets the conditions on how Apple Pay should be used in merchants’ apps and websites. It also reserves the ‘tap and go’ functionality of iPhones to Apple Pay.

“It is important that Apple’s measures do not deny consumers the benefits of new payment technologies, including better choice, quality, innovation, and competitive prices.”

Apple said the company followed the law and embraced competition. It added, “It’s disappointing the European Commission is advancing baseless complaints from a handful of companies who simply want a free ride and don’t want to play by the same rules as everyone else.”

In the past, the company has defended its fees by saying that its businesses are free not to sell through the App Store but that the platform allows access to billions of users.

Apps that pay the 30 percent commission are able to sell directly to consumers and to charge upfront for downloads.

Strong momentum in Apple’s services business has become increasingly important to the company in recent years, especially as iPhone sales have fluctuated. At about 18 percent of Apple’s annual sales, services are its second-largest source of income after the iPhone.

Overall services revenues grew 16 percent last year to $46.3 billion, including App Store commissions, its own music and video services, iCloud and AppleCare extended warranties.

As well as growing more rapidly than most of its hardware products, these services are much more profitable, with gross margins increasing from 55 percent in 2017 to 64 percent last year—a total of $29.5 billion—compared with 32 percent for devices.

Analysts at Morgan Stanley estimated in a research note this month that App Store net revenues had consistently exceeded $1 billion a month in recent years, likely reaching $5.2 billion for the quarter ending in June.

They predict that App Store growth will have accelerated during the coronavirus lockdowns, as consumers spend more on digital entertainment while stuck at home. Apple will hold its annual event for app developers next week, with Monday’s online keynote expected to show off improvements to iOS and new Mac computers.

Apple has been under intense scrutiny in Brussels in recent weeks. Last month, tracking-app maker Tile argued in a letter sent to the commission that Apple was abusing its power to unfairly favor one of its own products.

© *2020 The Financial Times Ltd. All rights reserved. Not to be redistributed, copied, or modified in any way.*

https://arstechnica.com/?p=1684120