



ITS Webinar on Digital Platform Policies The perspective from South Korea

Seongcheol Kim, Ph.D

Professor, School of Media and Communication
Leader, BK21 Four R&E Center for Media and Communication
Chief, Center for ICT and Society
Chief, Smart Media Service Research Center
Director, Center for Media Industry



Agenda

- **Why is South Korea an IT powerhouse?**
- **Why has South Korea become a platform battlefield?**
- **How has South Korea responded to Google's in-app payment policy change?**
- **Why has South Korean ISP asked Netflix to pay for the use of the network?**
- **Is ex ante platform regulation required in South Korea?**
- **So what?**

Why is South Korea an IT powerhouse?

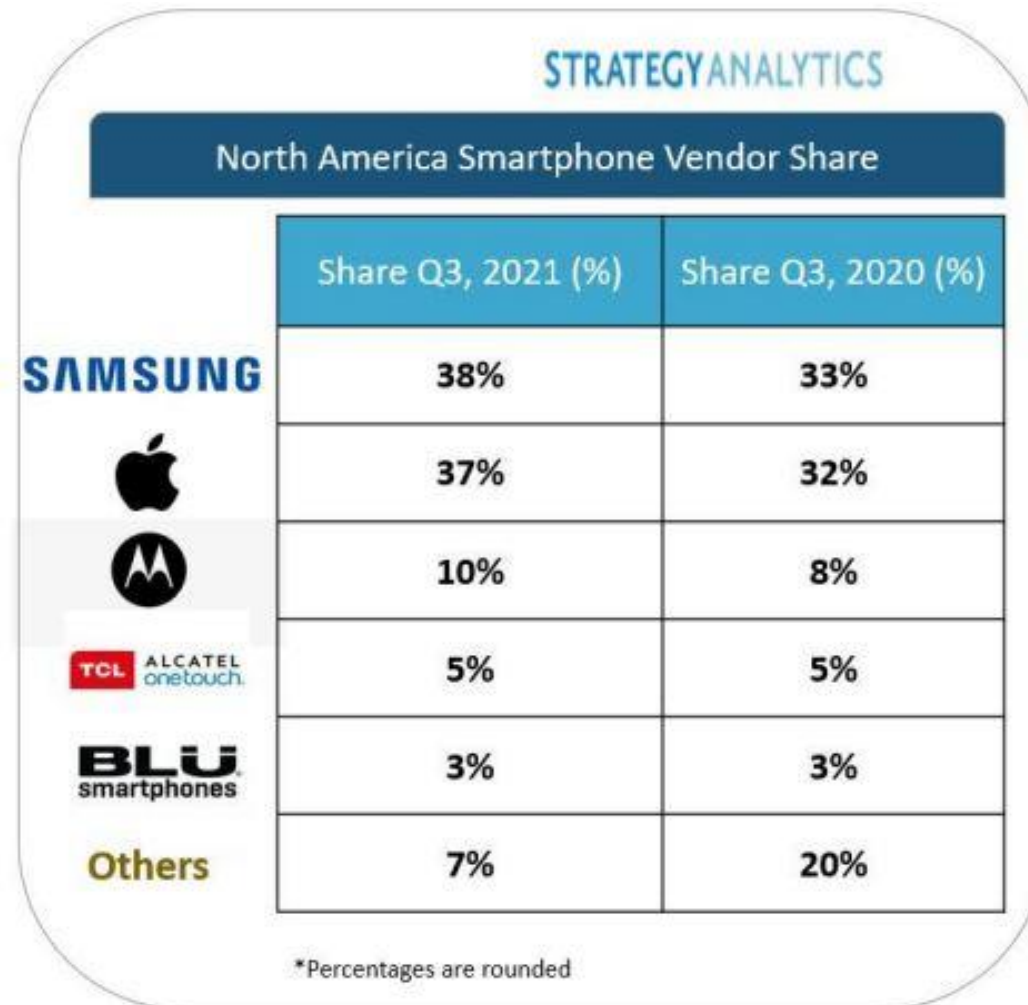
•

South Korea launched world's first national 5G networks



(Source: <https://thebifrastar.com/south-korea-to-launch-worlds-first-national-5g-networks/>)

Samsung, a Korean maker, keeps top spot in world smartphone market.



(Source: <https://cdn.mos.cms.futurecdn.net/yv873hwGdDveCXWQNJEVvX.jpg>)

Contents of South Korea

South Korea has world-class media contents: BTS, Parasite, Squid Game, Baby Shark

(Source: <https://the-latest.news/squid-game-becomes-a-massive-hit/>)

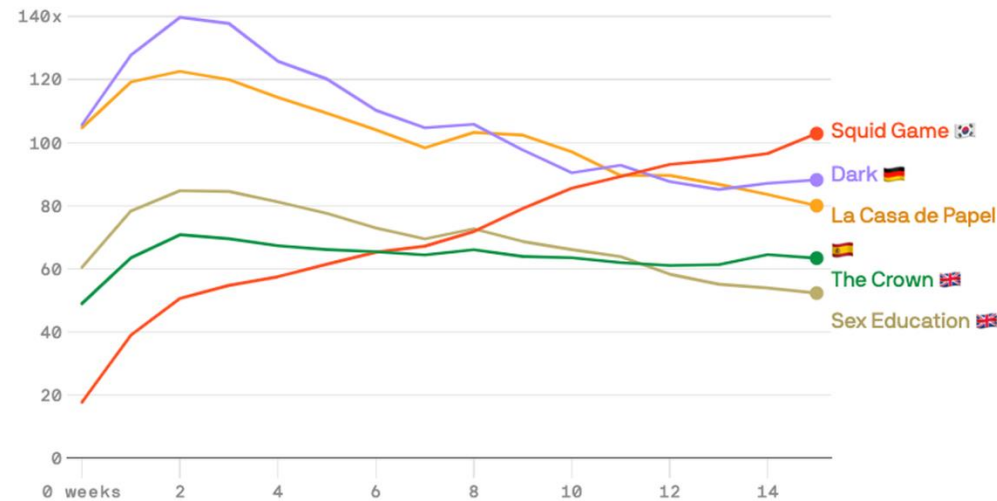


(Source: <https://www.tubefilter.com/2020/11/02/baby-shark-youtube-most-watched-video/>)

(Source: <https://www.bloomberg.com/news/articles/2020-02-10/brad-pitt-takes-home-night-s-first-oscar-for-once-upon-a-time>)

Demand multiplier for foreign series on Netflix

Weeks since most recent series debut, as of Oct. 4, 2021



'Parasite' makes history as 1st foreign language film to win Best Picture



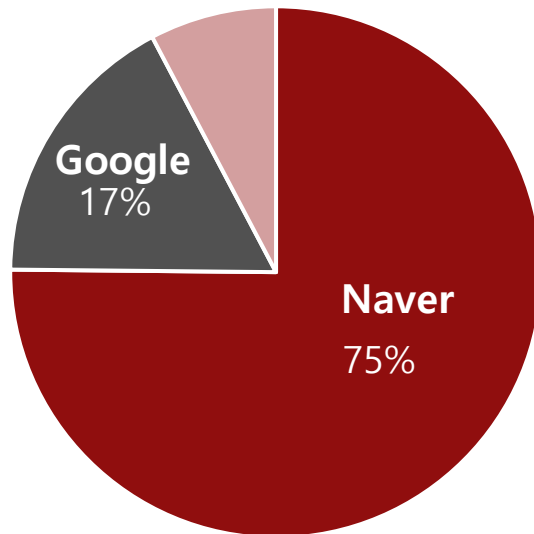
(Source: <https://twitter.com/rizeot7addict/status/1303364188031479809>)

Search platform of South Korea: Local > Global

Naver still ranks first in the search platform, but its share is decreasing.
Google's share in search platform is growing rapidly.

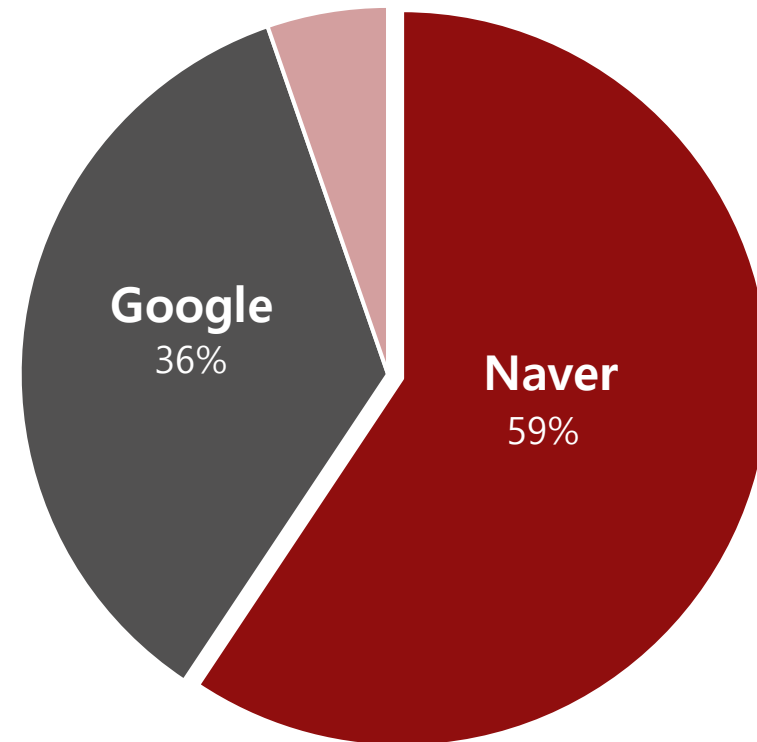
Search

2018



■ Naver ■ Google ■ Daum

2021



■ Naver ■ Google ■ Daum

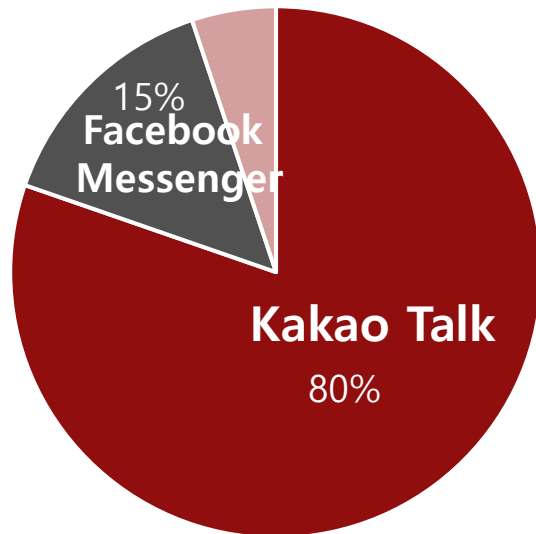
* Based on the number of monthly users (MAU) _ Unit: %

Mobile messenger platform of South Korea: Local > Global

Kakao Talk, a local mobile messenger, maintains its dominant position in South Korea.

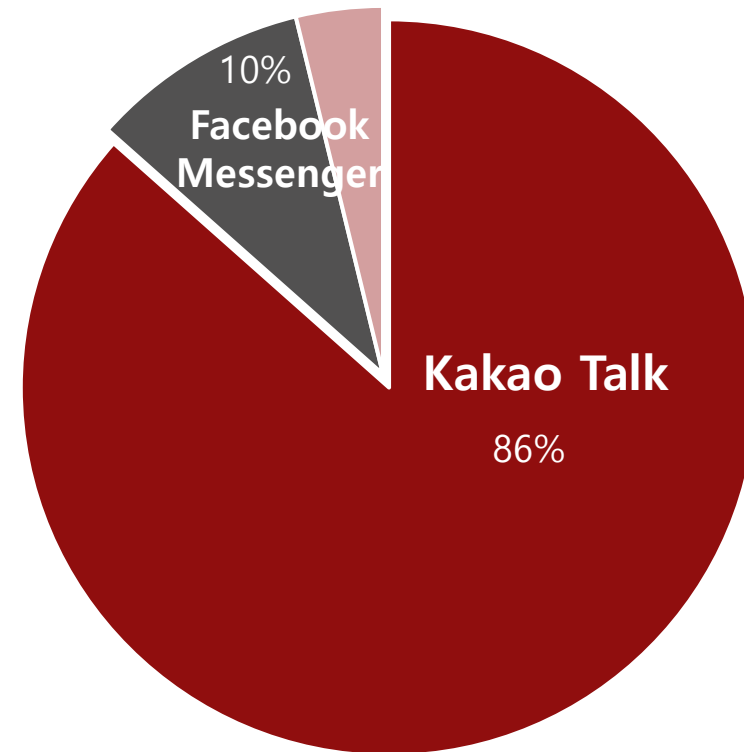
Mobile Messenger

2018



■ Kakao Talk ■ Facebook Messenger ■ Line

2021



■ Kakao Talk ■ Facebook Messenger ■ Line

* Based on the number of monthly users (MAU) _ Unit: 10,000 people

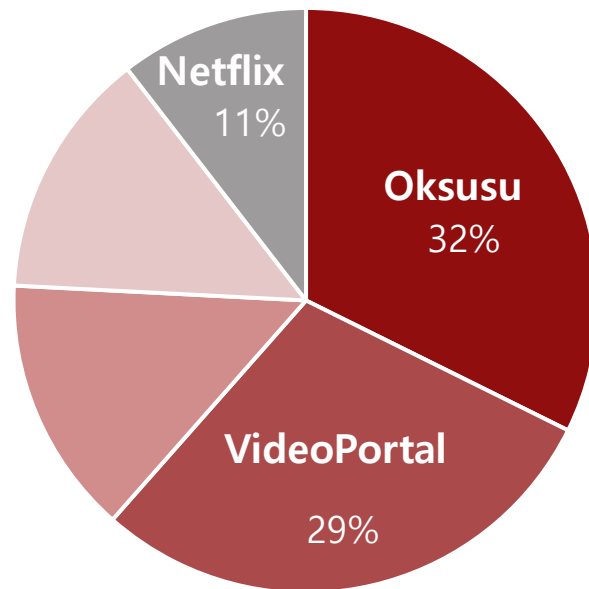
Why has South Korea become a platform battlefield?

OTT platforms: Local < Global

Local OTT platforms has lost their market shares.
Now Netflix with 47% market share is a dominant player in Korean OTT market.

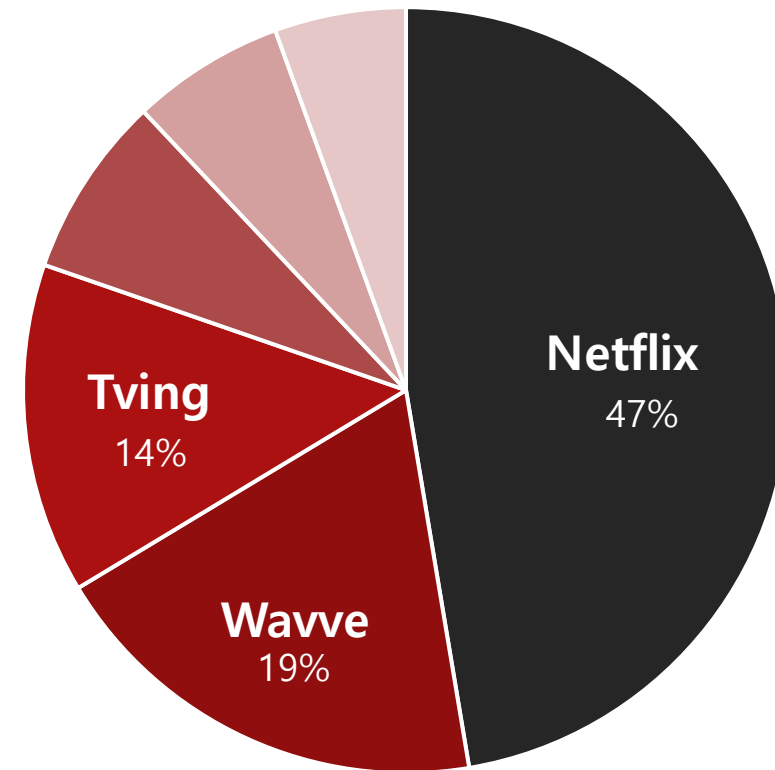
OTT (SVOD)

2018



■ Oksusu ■ Videoportal ■ Pooq ■ OllehTV ■ Netflix

2021



■ Netflix ■ Wavve ■ Tving ■ Seezn ■ U+MobileTV ■ Watcha

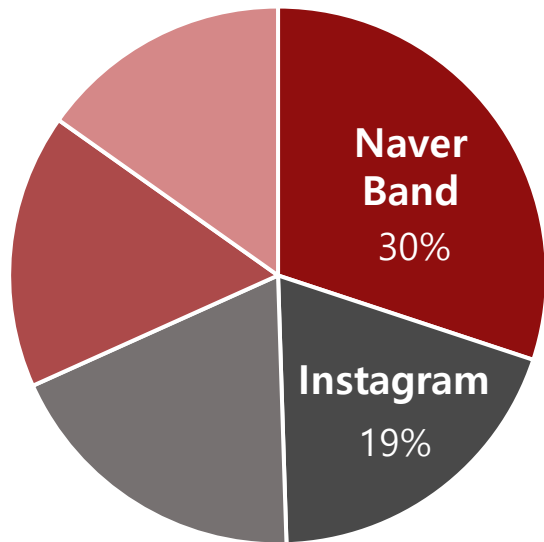
* Based on the number of monthly users (MAU) _ Unit: 10,000 people

Social media platforms: Local < Global

YouTube and Instagram are leading social media platforms in South Korea.
Local social media platforms have little presence.

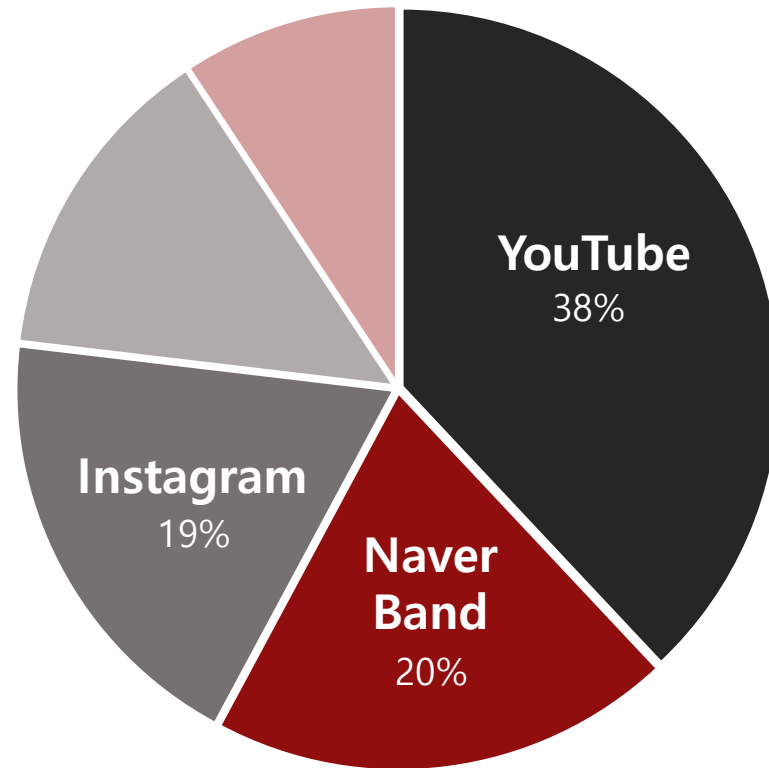
Social Media

2018



■ Naver Band ■ Instagram ■ Facebook
■ Kakao Story ■ Naver Café

2021



■ Youtube ■ Naver Band ■ Instagram ■ Facebook ■ Kakao Story

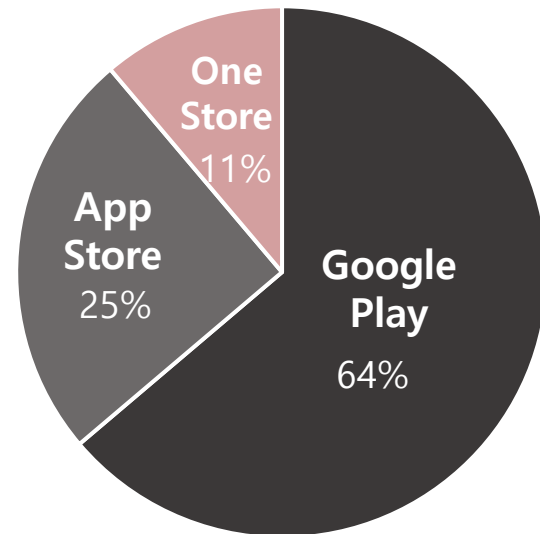
* Based on the number of monthly users (MAU) _ Unit: 10,000 people

App store platforms: Local < Global

Google Play and App Store dominate Korean app store platforms.
One Store, a local app store platform, has a weak position.

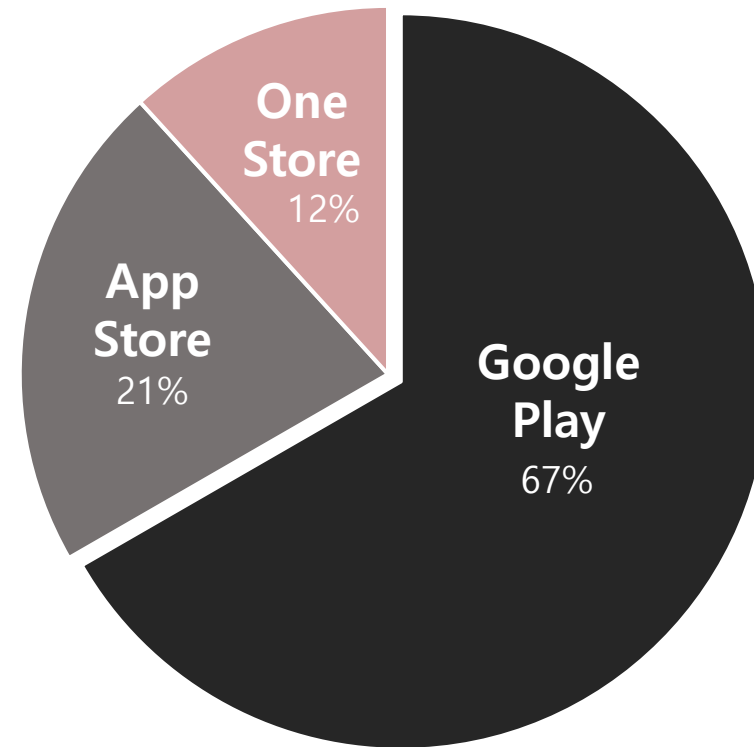
App Store

2018



■ Google Play ■ App Store ■ One Store

2021



■ Google Play ■ App Store ■ One Store

* Based on Sales Revenue (year)

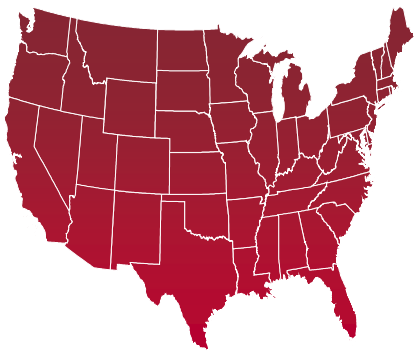
So what?

Two platform powerhouses - the U.S. and China - are fiercely competing for digital hegemony.

The EU, lacking its own digital platform, suffers from a so-called platform gap.

South Korea becomes a platform battlefield where local platforms compete with global platforms

U.S.



**Platform
Dominance**

EU



Platform Gap

China



**Platform
Autonomy**

South Korea



**Platform
Battlefield**

How has South Korea responded to Google's in-app payment policy change?

Google announced a new in-app payment policy to further strengthen Google Play's position which has 67% market share in South Korea

- In September 2020, Google announced a new policy to collect 30% commission for in-app purchases on Google Play
 - The core change to Google's billing policy was not only the 30% commission charge but also the enforcement to use Google's payment system
- Google set different timelines for firms and app developers to adjust to the new billing system
 - New apps were required to comply with Google's policy from January 2021, and existing apps had until September 30, 2021

Developer Program Policy Preview: Payments

To view the current Payments policy, visit [this page](#).

Effective January 20, 2021

1. Developers charging for apps and downloads from Google Play must use Google Play's billing system as the method of payment.
2. Play-distributed apps must use Google Play's billing system as the method of payment if they require or accept payment for access to features or services, including any app functionality, digital content or goods.
 - a. Examples of app features or services requiring use of Google Play's billing system include, but are not limited to, in-app purchases of:
 - Items (such as virtual currencies, extra lives, additional playtime, add-on items, characters and avatars);
 - subscription services (such as fitness, game, dating, education, music, video, and other content subscription services);
 - app functionality or content (such as an ad-free version of an app or new features not available in the free version); and
 - cloud software and services (such as data storage services, business productivity software, and financial management software).

Google's in-app payment policy change generated significant backlash over Google's abuse of monopolistic power

U.S

- 37 U.S. state attorneys filed a lawsuit against Google in July 2021, accusing Google of abusing its monopolistic power over the distribution of apps

EU

- Google is currently charged for antitrust conduct in shopping, Android mobile operating system, and AdSense advertising services
- European Commission's decision to charge Apple with antitrust breach after Spotify's complaint is likely to impact Google's in-app payment policy change

India

- India's antitrust regulator, Competition Commission of India (CCI) has initiated an investigation on Google's new in-app purchase policy and abuses of monopolistic power
- Google has extended the billing policy execution date to April 2022 due to accelerating outcry from local developers

Korea

- **A bill** to prevent Google and Apple from forcing app developers to use the platform's proprietary billing systems **was proposed in September 2020**
- After series of delays, **the so-called Anti-Google Law was passed by the National Assembly on August 31, 2021**

South Korea has become the first country to adopt so-called anti-Google Law to cope with Google's in-app payment policy

- **Google has made several compliances to accommodate local pressures:**
 - Postponed the policy effective date (Jan 2021 → Sep 2021) in November 2020
 - Reduced the commission fee to 15% for the first \$1 million revenue in March 2021
 - Introduced new developer programs with low commission fees in June 2021
 - Delayed the policy effective date for selective app developers in July 2021
- However, **the Anti-Google Bill was passed to restrict monopolistic gatekeepers and protect the local app store ecosystem**

2020

- **July:** Google's in-app purchase policy change is implicitly notified
- **Aug 11:** A revised Telecommunications Business Act is proposed
- **Sep 29:** Google Korea announces the in-app payment policy change
 - 30% commission to be charged on digital purchases made on Google Play
 - Google's proprietary billing system is enforced
- **Dec:** Concerns related to the bill and its counter effect on trade relations with the U.S. are delivered to the USTR

2021

- **Jun 24:** Google reduces commission fees to 15 percent for all digital content purchases
- **Jul 19:** Google selectively delays the in-app payment effective date from October 2021 to April 2022
- **Aug 24:** The revised Telecommunications Business Act was approved by the legislation and judiciary committee of the National Assembly
- **Aug 31:** The revised 'Telecommunications Business Act' was approved by the National Assembly

'Amendments to the Telecommunications Business Act' prohibits the use of monopolistic power in the app market and specifies the responsibilities of app store operators

Art. 50, 9-11

- (9) App store operators are prohibited from enforcing app developers to use only the app store operator's proprietary payment system
- (10) App store operators are prohibited from unfairly delaying the app approval and publishing process
- (11) App store operators are prohibited from unfairly removing apps from the app store

Effective date: September 14, 2021

Art. 22, 9

- (9) The Minister of Science and ICT or the Broadcasting and Communications Commission is empowered to conduct investigations on app market operations

Effective date: March 2022

Google seems to allow local app developers to use alternative in-app billing systems. However, it tries to invalidate the 'Anti-Google Law' by changing its commission fees.

- Google has responded to Korea's new law by enabling the option to **add alternative in-app billing systems**
 - However, commission fees are still charged to all app developers that publish and distribute apps on Google Play
 - **App developers using the alternative payment system are required to pay a 4% reduced commission fee based on the app developer's revenue** (i.e., 26% for games, 6% for apps signed on the Media Experience Program, and 11% for other apps)
- However, **Google's new policy change is perceived as invalidating the law** and forcing app developers to make risky decisions
 - With minor changes to the commission percentage, app developers are forced to make choices of remaining on Google Play with guaranteed support or using alternative app stores with probable disadvantages

Changes to Google Play's billing requirements for developers serving users in South Korea

As a result of recent legislation, we are now offering all developers the ability to offer an alternative in-app billing system alongside Google Play's for their mobile and tablet users in South Korea. If a user pays through an alternative billing system, the Google Play service fee will be reduced by 4%. Read [this blog post](#) and the updated [Payments policy](#) for more information.

Enabling alternative billing systems for users in South Korea

2021년 11월 4일 목요일

Posted by Wilson White, Senior Director of Public Policy

Click [here](#) to read this post in Korean

The South Korean government recently passed a law regarding app stores and billing systems for users in South Korea. We respect the decision of the National Assembly, and we are sharing some changes to respond to this new law, including giving developers that sell in-app digital goods and services the option to add an alternative in-app billing system alongside Google Play's billing system for their users in South Korea. These changes will allow us to comply with the law, continue to invest in Android and Google Play, and provide the seamless, safe and trusted user experience billions of people expect from Google Play.

**Why has South
Korean ISP asked
Netflix to pay for
the use of the
network?**

Conflict between local Internet service providers (ISP) and global platforms over the payment for the use of the network is serious

- More than one-third of domestic Internet traffic is generated by three global platforms

	Platforms	Traffic Share
Global platforms	Google	25.89%
	Netflix	4.81%
	Facebook	3.22%
Local platforms	Naver	1.82%
	Kakao	1.42%
	Wavve	1.18%

(Source: SKB report)

- Legal battle between SKB and Netflix



SKB

(Local ISP)
"Netflix should pay for the use of the network like local platforms"

Netflix

(Global platform)
"We don't have to pay for the use of the network because of network neutrality"

SKB and Netflix have shown considerable disagreements on 1) concepts of access and delivery, 2) network neutrality, and 3) status as network users

	SKB's position	Netflix's position
(Issue 1) <i>Access vs Delivery</i>	<ul style="list-style-type: none">• Delivery cannot be distinguished from access• There is no basic principle of the Internet that delivery is free• Almost all CPs are paying for the use of the network	<ul style="list-style-type: none">• Delivery is distinct from access and Netflix uses SKB's network only for delivery• The basic principle of the Internet is not to pay for delivery
(Issue 2) <i>Network Neutrality</i>	<ul style="list-style-type: none">• It is a principle that ISPs should not unreasonably discriminate against CPs, it is not a principle that prohibits CPs from paying for the use of the network.	<ul style="list-style-type: none">• It is a principle that prevents ISPs from discriminating against CPs, and even prohibits CPs from paying for the use of the network.
(Issue 3) <i>Usage of SKB's network</i>	<ul style="list-style-type: none">• Netflix uses SKB's network and has a "user" status in relation to ISPs under business law• Other CDN operators are currently paying for the use of SKB's network.	<ul style="list-style-type: none">• Netflix is building a CDN called OCA (open connect alliance)• It means that Netflix is not at the status of users who simply use SKB's network.

SKB vs Netflix Dispute: Timeline

**SKB and Netflix have been engaged in a legal battle since November 2019
and so far, SKB has the upper hand**

2019.11

SKB requests negotiation to Netflix

SKB requests the KCC
to mediate negotiations on
the payment for the use of the
network with Netflix
→ Netflix's non-compliance

2020.04

Netflix filed against SKB
**Netflix Korea filed 'a
lawsuit** of a check of the
absence of a debt' against
SKB

2020.10 – 2021.04

Arguments

Three times of arguments
→ **Fail to make consensus**

2021.06. 25

**A local court ruled
against Netflix**

The Seoul Central District
**Court rejected Netflix's
request** for confirmation
that it has no obligation to
negotiate with SKB

2021.07. 15

Netflix's Appeal

2021.09. 30

SKB's counter-claim

Several lawmakers are considering 'Anti-Netflix Law' because they think that Netflix is free-riding on the network in South Korea

- Netflix announced on November 18th a subscription fee increase of up to 17%
 - Local users will be notified of the price changes 30 days before their renewal dates, while the increased fees will immediately apply to new subscribers.
- The double-digit increase comes as Netflix is under increasing pressure to pay for the use of the network in South Korea.
- Several lawmakers at the National Assembly are also pushing for a **revision to 'the Telecommunications Business Act'** that would legally obligate major CPs to pay for the cost of network maintenance.

**Is ex ante
platform
regulation
required in
South Korea?**

Local dominant platforms after COVID-19

Naver is now the third largest listed company in South Korea by market capitalization.
Kakao is listed in Top 10, too.

Kospi market cap

Dec. 30, 2020

Rank	Company	Market Cap (tr won)
1	Samsung Electronics	483.6
2	SK Hynix	86.3
3	LG Chem	58.2
4	Samsung Biologics	54.7
5	Celltrion	48.5
6	Naver	48.0
7	Samsung SDI	43.2
8	Hyundai Motor	41.0
9	Kakao	34.4
10	Samsung C&T	25.8

*Source: each company

June 15, 2021

Rank	Company	Market Cap (tr won)
1	Samsung Electronics	483.0
2	SK Hynix	93.5
3	Kakao	64.1
4	Naver	63.6
5	LG Chem	57.9
6	Samsung Biologics	55.7
7	Hyundai Motor	50.6
8	Samsung SDI	44.9
9	Celltrion	37.9
10	Kia	35.8

Top five listed companies by market capitalization

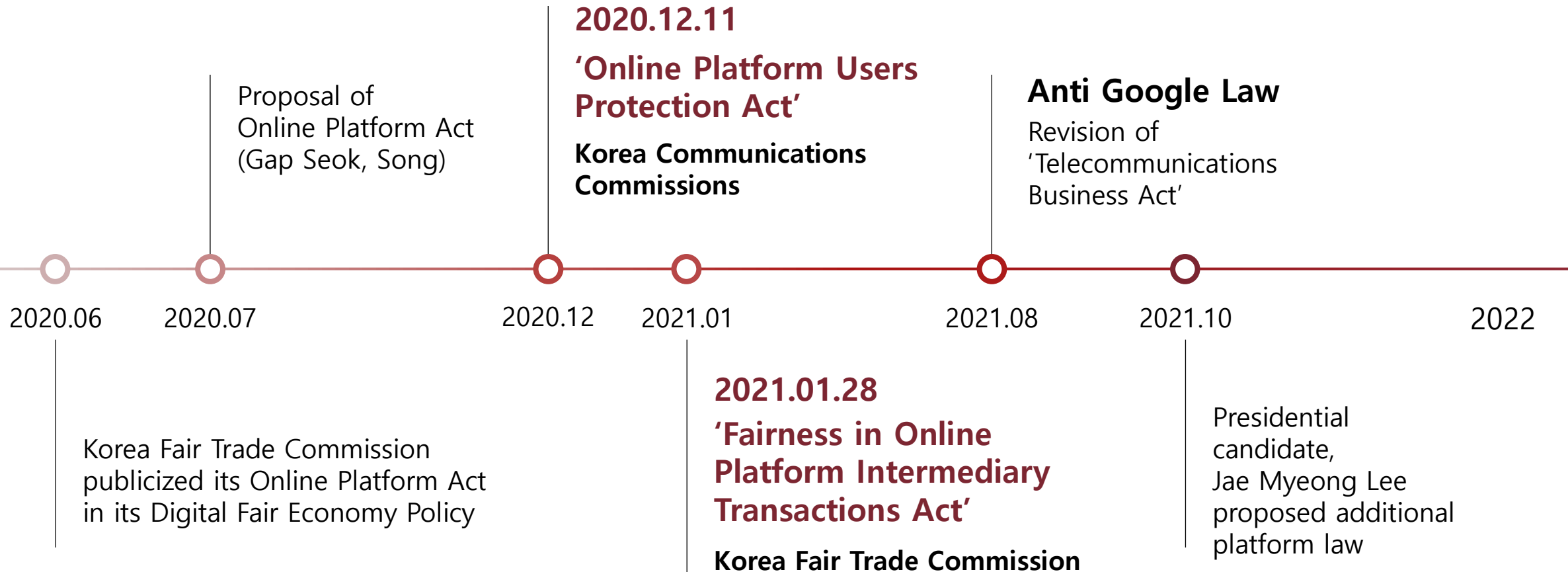
Unit: trillion won

1	Samsung Electronics	312.22
2	SK Hynix	61.66
3	▶ Naver	27.11
4	Samsung BioLogics	26.53
5	Hyundai Motor	26.49

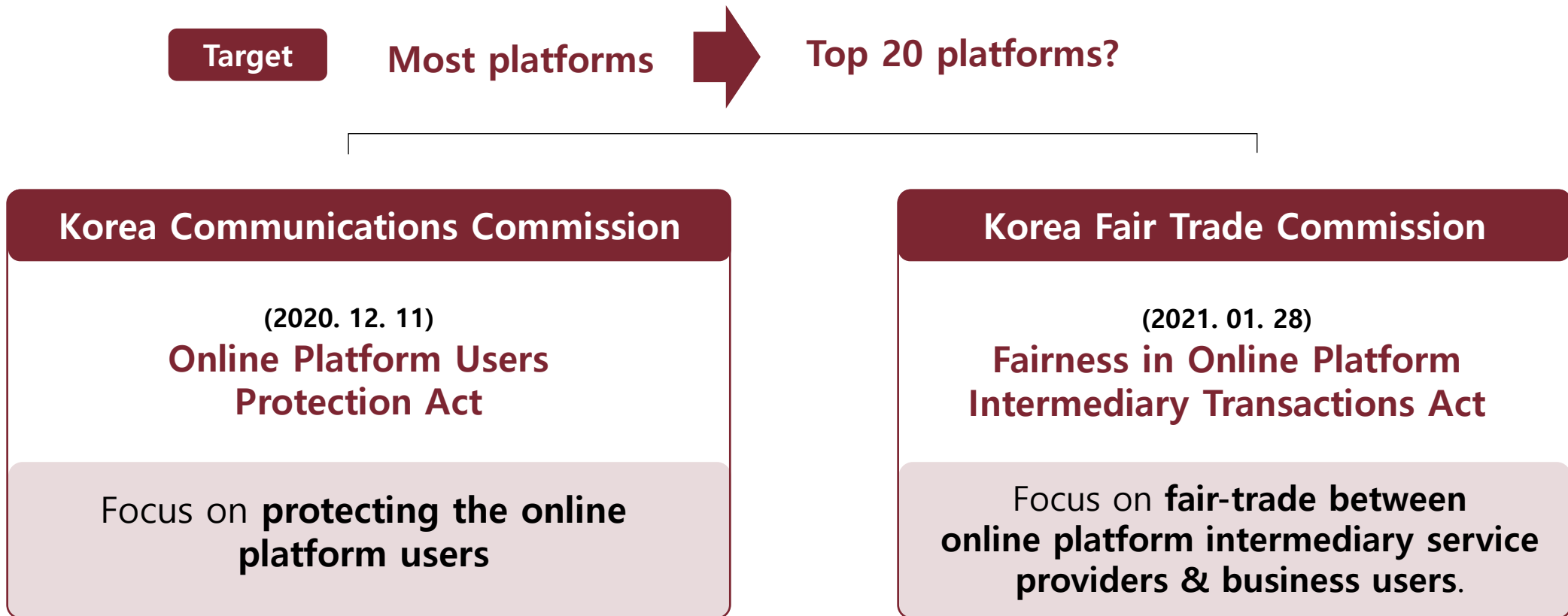
* As of Nov. 4

Source: Korea Exxchange

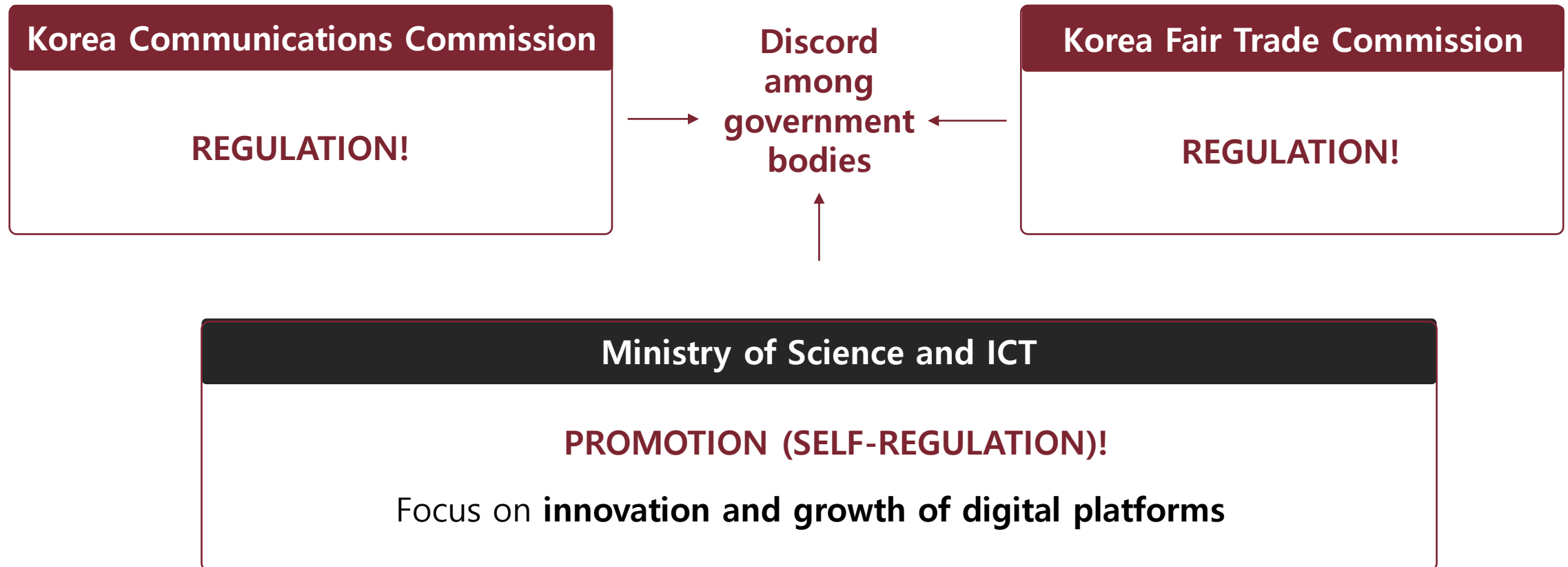
There are some proposed 'Online Platform Acts' in South Korea



KCC and KFTC try to take initiative in platform regulation by proposing their own Acts but there is redundancy between two Acts



South Korea has diverse perspectives on whether we should regulate digital platform, even in government. It makes the actual legislation delayed.

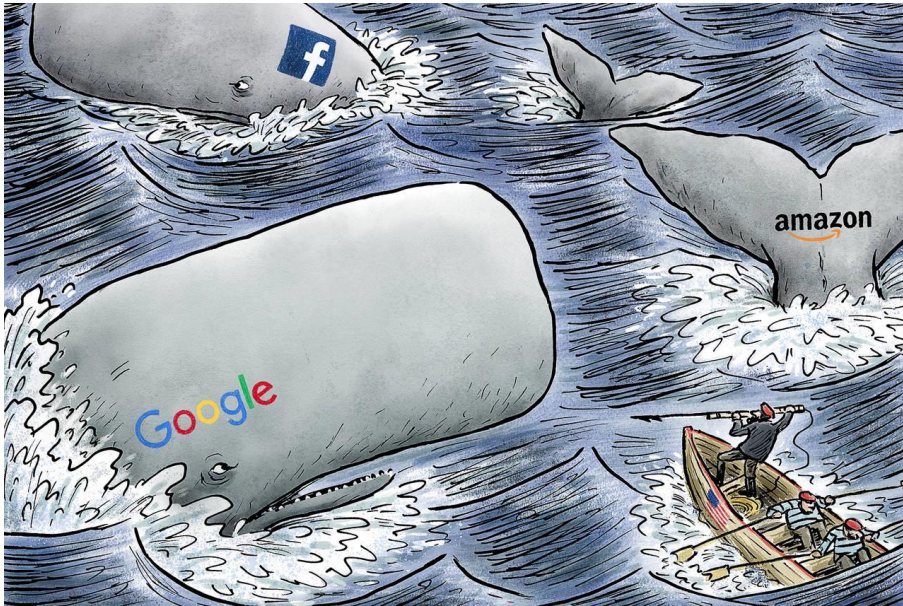


So what?

How to address concerns that digital platforms have grown too powerful?
Political attack or more regulation?

We should check whether consumers have been harmed by their dominance.
Is there any evidence?

At least in South Korea, maybe it's time to wait and see while we study and get evidence.



(Source: <https://www.wsj.com/articles/what-evidence-is-there-of-big-techs-harm-11600894918>)



(Source: <http://www.koreaherald.com/view.php?ud=20210906000915>)

So what?

We will find or make “South Korean Standard” of digital platform policies.



(Source: <https://leadwiththeleft.com/inspiration-to-beat-the-odds/>)