Meta

Meta response to the ACCC's Digital Platform Services Inquiry March 2025 Final Report - Issues Paper

13 September 2024

Executive Summary

Meta appreciates the opportunity to respond to the ACCC's Issues Paper for the final report in the Digital Platform Services Inquiry (**DPSI**). The DPSI has canvassed a very wide range of issues and areas over the last five years, and we recognise the significant amount of work the ACCC has conducted with an ongoing commitment to transparency and consultation as it has produced its series of interim reports.

A lot has happened in digital markets in the last five years. It would be well beyond the time and scope of consultation for this Final Report for the ACCC to seek to properly update its analysis with respect to all the topics it has produced interim reports on, let alone the many other topics that are raised in the Issues Paper on which interim reports have not been produced. Nonetheless, Meta recognises the ACCC's desire to examine developments and new areas as part of concluding this inquiry.

This submission addresses four of the focus areas in the Issues Paper.

International regulatory developments

The digital platform landscape - and the ways in which countries are seeking to regulate it - has undergone significant changes since the ACCC began its DPSI five years ago, and it continues to evolve in Australia and globally. While there is a desire to explore ex-ante regulatory frameworks among some jurisdictions, there is no consensus on the effectiveness of ex-ante regulatory regimes in addressing perceived harms and promoting competition.

The implementation of the EU's Digital Markets Act (**DMA**) is only in its early days and already concerns are being raised about the potential unintended consequences of broad-based ex-ante regulations on small businesses, consumers, and local economies. Likewise, implementation of the UK's Digital Markets, Competition and Consumers Act has only just begun. Notably, Korea's competition regulator has decided not to pursue a separate ex-ante competition regulation[1], while India is also revising its ex-ante approach to the Digital Competition Bill.[2] Many other countries are attempting to understand and carefully balance the likely costs and benefits and far reaching implications of ex-ante regulations on their local economies.

Australia is in a unique position to carefully consider and learn from what are effectively natural experiments of regulatory frameworks. In doing so, it will be crucial that any future reform should be grounded in a thorough and robust impact assessment on Australia's economy and a principles-based analysis.

[1] GCR, Korea scraps DMA-style bill, seeks to amend existing antitrust law instead (10 September 2024).
[2] GCR, India plans to revise digital competition bill following stakeholder criticism (9 September 2024).

Private messaging

Private messaging services continue to play a vital and ever-increasing role in keeping Australian households connected with their friends, family and colleagues. In the past, private messaging was limited to costly SMS text messages, but now Australians can communicate freely with much richer and more diverse functionality using messaging services such as WhatsApp and Facebook Messenger.

We previously raised concerns that the ACCC's examination of private messaging services in its first DPSI Interim Report was based on limited competition analysis grounded in a selective functional comparison of different messaging services, which did not properly consider the competitive constraints posed by a range of alternative private messaging services. Among other things, it significantly downplayed the competitive impact that other private messaging services imposed on Meta (in particular, iMessage) and omitted key competitors from its competition assessment, such as Google Messages. Nonetheless, even on that limited analysis, the ACCC did not find that Meta has market power in relation to private messaging.

We remain concerned that the Issues Paper does not suggest that a more in-depth examination of dynamics, informed by comprehensive data, will be conducted for the ACCC to update its analysis. In that context, we caution against overreliance on this previous framework of analysis and any attempt to reach generalised conclusions about competitive dynamics in private messaging given the limited scope within the current process to conduct the necessary fact-intensive inquiries required to form robust conclusions.

As we said in our March 2021 submission responding to the first DPSI Interim Report and again in our April 2022 response to the fifth DPSI Interim Report Discussion Paper, the supply of online private messaging services is highly competitive. This competition has only continued to intensify in recent years.

As one example, iMessage is a significant and growing competitor enjoying significant competitive advantage from its status as the default, pre-installed messaging service in a uniquely prominent position on iOS devices. Apple's recently announced roll-out of Rich Communication Services (**RCS**) support in iMessage will put it in even closer competition with Meta's messaging services. On the other hand, Apple's announced changes to the iPhone contacts-access flow will benefit Apple while threatening to harm competition amongst messaging and other apps.

Overall, Australians have significant consumer choice when it comes to private messaging services. Consumers benefit from continuous and rapid innovation which sees firms constantly deploying new features to attract consumers and compete for their attention. These are strong indicia of a healthy, competitive and dynamic market for private messaging services.

App distribution and mobile ecosystems

Mobile operating system (**OS**) providers' control over mobile ecosystems allows them to set the 'rules of the game' for competitors who seek to use their app stores, and they have both the ability and incentive to provide their own apps with a competitive advantage. That dynamic continues to persist and we welcome the ACCC's consideration of regulatory developments with respect to app marketplaces and whether they are opening up mobile ecosystems to greater competition. In particular:

- Entrants proposing to offer alternatives to mobile OS providers' app stores face several obstacles, including needing to convince consumers to forego the convenience of stores with which they are already familiar and overcome barriers created by indirect network effects.
- Against that backdrop, successful entry has several prerequisites. These include: competitive fees, a seamless user experience, effective discovery and flexibility to innovate and differentiate.

We also encourage a broader look across other aspects of the mobile ecosystem where competition and innovation remain restricted, which has the potential to stifle development of new frontier technologies. This is the case in relation to hardware and service interoperability with wearable devices. Wearable devices today and for the foreseeable future will depend on smartphones and that creates an opportunity for providers of today's dominant smartphone OSs to leverage their dominance to hamper competition and innovation.

In respect of both app marketplaces and hardware / service interoperability in wearables, it's not clear that regulatory interventions have been successful in promoting competition and innovation in the mobile ecosystem.

Generative AI

The excitement around generative AI (**GenAI**) has unleashed a flood of investment and innovation from both established and new players and the pace of development is rapid. GenAI models are enabling us to develop new types of products and experiences to help users better connect and express themselves on our family of apps, as well as better serve businesses that use our platforms to reach and engage with customers. In April this year, we announced the release of a new Meta AI assistant, together with our most advanced open large language model, Meta Llama 3, in Australia.

Meta has been at the forefront of open source in AI for over a decade. At Meta, we believe that to fully realise its potential, AI must be democratised across a wide range of stakeholders. Open sourcing AI models, if incentivised by policymakers, can lead to safer products and ensure state-of-art AI creates opportunities for everyone, especially small developers with limited resources or even individuals. But GenAI is still in its infancy, and with the rapid pace of developments, it is difficult to predict the direction for GenAI - the foundational technology itself, the downstream applications and use cases that will catch on, the business models, and even how these experiences will be delivered. Crucially though, we believe - and the CMA and FTC both acknowledge - that AI built on open innovation leads to more innovation, better and safer products, and more robust competition.

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1. Views on international regulatory developments

The competitive landscape with respect to digital platforms - and the way in which countries are seeking to regulate it - has evolved significantly in the last five years since the ACCC began the DPSI and continues to evolve considerably in Australia and around the world. We support the ACCC's consideration of these developments within a rigorous and evidence-based analytical framework and reflection on international developments.

While there has been commonality among many jurisdictions in the desire for a lower threshold for regulatory intervention with respect to digital markets, it would be a mistake to think there is any consensus that ex-ante regulatory regimes are successful at remedying perceived harms and creating effective conditions for competition.

Indeed, recent developments in enforcement matters in the US and EU add to the increasing questions about whether there is any compelling need for an ex-ante regulatory intervention. For instance, despite multiple bills being considered by Congress, none got support because of the strong belief in the US' robust system of ex-post antitrust enforcement which the US continues to aggressively use to address competition concerns in the digital economy on a case-by-case basis based on evidence. Further, one key justification for ex-ante frameworks - that they are less time-consuming and resource-intensive than ex-post enforcement - is not necessarily proving to be the case. And the challenge of an ex-ante approach remains that it is a blunt and inflexible instrument to adapt to changing and nascent markets that characterise the digital economy.

As the EU's DMA is in its early days of being implemented, there is a growing concern that broad-based ex-ante regulations such as the DMA may lead to unintended consequences on small businesses, consumers, and the local economy and may not be achieving better consumer outcomes.

- **Broad-based ex-ante regulations may erode the benefits of digital platforms for small businesses.** According to a Deloitte report, 82% of Australian small businesses use free, ad-supported Meta apps to kickstart their business ventures. Digital platforms have greatly helped small and medium-sized enterprises (**SMEs**) by lowering the barriers to entry, making it easier to access resources, and allowing for cost-effective customer acquisition and market expansion through network effects, both within a country and internationally. However, broadbased ex-ante regulations may reduce such benefits. A recent study on the benefits of digital platforms for small businesses raised concerns about adopting untested regulatory approaches like the DMA. Such broad ex-ante regulations may stifle productivity and innovation, particularly in crucial areas like AI, and harm the very SMEs they aim to protect, that rely on various digital tools and AI to gain efficiency and compete globally.

- **Broad-based ex-ante regulations may cause disproportionate delays to accessing innovations.** Another unintended consequence is Europe's delayed access to the latest innovative digital tools. For instance, due to regulatory uncertainty, Meta had to postpone the launch of Threads in Europe. There are numerous other examples of the delayed launch of products, including Microsoft's Copilot and Google's Gemini. This delay in the rollout of new digital services, such as AI tools, will have a negative impact on GDP and productivity growth in Europe, relative to peer countries. A PwC report estimates AI could add $15.7 trillion to global GDP by 2030, with $2.5 trillion for Europe. A one-year delay in AI deployment could cost Europe over $200 billion annually. As a result, European firms' international and export competitiveness will be harmed, as they will be unable to take advantage of the latest technologies and innovations. It is important to carefully consider the potential consequences of regulations like the DMA, in order to avoid unintended negative impacts on businesses and the economy.

- **Costs of ex-ante regulation to productivity and competitiveness are a growing concern.** For example, GDP per capita in the EU is half of that in the US, at about $40,000 (€37,400) per European compared to $80,000 per American (Australia's GDP per capita is about $65,000). European companies are growing slowly even in industries that were traditionally Europe's strength like manufacturing. There are four times more semiconductor plants planned in China than in Europe.[3] A recent study observes that potential negative economic impact resulting from digital regulations adopted in Europe, including the DMA and Digital Services Act, is projected to amount to billions of dollars due to the significant compliance and operational costs these impose for US digital service suppliers.

This is why recent policy discussions around potential ex-ante regulations in India[4] and Korea[5] are attempting to carefully balance the likely costs and benefits of ex-ante regulations and their far-reaching implications on the local economy. This is also why it will be very important for Australia to observe how the UK Digital Markets Competition and Consumers Act is implemented.

A robust impact assessment is a must-have step before introducing any new ex-ante regulations. New regulations should be based on evidence of a clear and genuine risk to be addressed, and there are undoubtedly areas where there is evidence of that risk and which could benefit from targeted interventions to improve contestability, like mobile ecosystems, but that is not the case across all services and areas.

Importantly, the impact needs to be understood specific to the Australian context.

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[3] Nick Clegg, The new European parliament faces an existential crisis (27 June 2024).
[4] MeitY May Advise MCA To Exclude Ex-Ante Provision From Digital Competition Bill For Now
[5] Korea should prioritize innovation, not misguided platform regulation.

Australia is rapidly emerging as a leading digital innovation hub. The tech sector is on a remarkable trajectory, growing 80% in just five years, with home-grown companies like Canva, Atlassian, and WiseTech achieving global recognition. By 2030, Australia's GDP is set to increase by $250 billion annually, with 1.2 million tech jobs created, driven by contributions from both local startups and large global tech firms. The digital sector is Australia's third-largest sector and seventh-largest employer. Australian policymakers are rightly asking how the sector can further deepen its contribution to Australia's economy. A consistent policy focus will ensure the sector delivers on these ambitions. Australia has produced over 100 tech companies valued at $100 million or more, including 39 unicorns, ranking just behind China and India in the Asia Pacific region. In 2024, Australia is rated as the 11th best country for startups, 2nd in APAC behind only Singapore.

In that context, and with existing concerns about the level of productivity and investment in Australia, it will be crucial that any future reform should be grounded in a thorough and robust impact assessment and a principles-based competition analysis, and be carefully weighed against real-world impacts and user preferences. The DPSI has provided only an initial, point-in-time view of that and it will be necessary to ensure that any policy decisions are informed by a more comprehensive, accurate and nuanced understanding of how competition has developed and is continuing to evolve.

We look forward to engaging constructively with the ACCC and the Government throughout its work in this space, sharing our learnings about implementation of international frameworks and working together to create a regulatory framework that promotes healthy competition and innovation in the digital economy.

2. Private messaging remains highly competitive

In March 2021, Meta raised detailed concerns that the first DPSI Interim Report examining private messaging services[6] was based on a limited competition analysis grounded in a selective functional comparison of different messaging services which did not properly consider the competitive constraints posed by a range of alternative private messaging services. We raised five primary flaws in the ACCC's previous analysis, including that:

- it downplayed the competitive impact of other private messaging services on Meta;
- switching is so easy and inexpensive that many Australians already use multiple, competing services;
- barriers to entry and expansion in private messaging are low;
- innovation in private messaging services is continuous; and
- it did not include conventional elements of competition analysis, such as evidence of competition and consumer benefits.

[6] Facebook response to the ACCC's Digital Platform Services Inquiry September 2020 Interim Report (8 March 2021).

Nonetheless, the ACCC did not find that Meta has market power in relation to private messaging. Since then, the ACCC has not updated its analysis. The Issues Paper suggests that the ACCC will continue the same limited approach to its analysis. For example, the ACMA survey data cited in the Issues Paper does not include data on two of the largest providers of private messaging services in Australia, iMessage and Google Messages. Both of these services come pre-installed on Apple and Android devices respectively and are set as defaults on the vast majority of smartphones.

As evidenced in our March 2021 response and again in our April 2022 response to the fifth DPSI Discussion Paper[7], the supply of private messaging services is highly competitive, and that has only continued to intensify.

This is more than ever the case with iMessage.

1. **iMessage is a significant and growing competitor enjoying a significant competitive advantage from its status as the default, pre-installed messaging service in a uniquely prominent position on iOS devices.** It is the most popular messaging app among iPhone users in Australia and New Zealand by a wide margin. iMessage has 7.8 million DAU across Australia and New Zealand, which is more than Facebook Messenger and WhatsApp combined.[8] Since March 2021, Apple's iOS has increased its overall share of the mobile operating system market in Australia from 54% to 60%.[9] This means, as at 2024, more than 14 million Australians (or 52% of the population) owned an iPhone with iMessage pre-installed as their default messaging service - the only messaging service allowed as default for sending an SMS on iOS devices.[10]

2. **Apple's recently announced[11] roll-out of RCS support in iMessage will put it in even closer competition with Meta's messaging services.** As a messaging protocol developed as a feature rich alternative and successor to SMS, RCS will bring the features offered by iMessage even closer in direct competition with OTT messaging services like Facebook Messenger and WhatsApp and other RCS messaging services like Google Messages. Apple's RCS roll-out will enable Apple device users to message Android device users with similar feature rich functionality as standalone OTT services, further elevating Apple's competitive constraint on those services.

[7] Meta response to the ACCC's Digital Platforms Services Inquiry September 2022 Report Discussion Paper (28 April 2022), section 2.4.
[8] The Success of Third-Party Apps on the App Store (April 2022), Analysis Group report by Juliette Caminade and Markus von Wartburg, p 22.
[9] Statista, 'Market share of mobile operating systems in Australia from January 2023 to January 2024'.
[10] Based on a total smartphone penetration rate of 86.6% of the Australian population in 2024 (Source: Statista), the total population in Australia being 27,095,255 in 2024 (Source: ABS) and the market share of Apple iOS in Australia being 60% in 2024 (Source: Statista).
[11] Apple WWDC 2024, 'Keynote address' (video).

3. **Apple's announced changes to iPhone contacts-access flow threaten to harm competition among messaging and other apps.** In June 2024, Apple announced that, as part of iOS 18's fall roll-out, Apple would change the way in which iOS apps must request access to a user's contacts. The new high-friction contacts-access flow, which discourages users from granting apps access to their contacts, will apply only to third-party apps, not to Apple's own apps - which automatically receive and will retain full access to a user's contacts. This change in policy is likely to have a significant impact on third-party messaging and communication apps which (like Apple's messaging app) rely on a user's contacts to provide their services, and will raise entry barriers, slow innovation, help Apple maintain its dominance over the iOS ecosystem and dampen cross-platform competition, not just with respect to messaging services.

Likewise other competing apps with messaging functionalities have continued to grow, design and innovate. For example:

- TikTok's growth since 2021 has been undeniable - it has become the fifth largest social media platform worldwide with 1.58 billion MAU as at April 2024.[12] TikTok continues to innovate and improve its direct messaging functionality with the introduction of new features familiar to other OTT messaging services including message reactions, video sharing, sticker customisation, group chats (for up to 32 people) and additional safety features.[13]
- Snapchat has roughly doubled its Australian user base since 2021,[14] to 8 million MAU as at August 2023, and reaches 75% of 13-24 year olds but has appeal extending beyond the younger demographic, with almost 45% of its user base in Australia being 25 or older.[15]
- Discord has doubled its global user base from 100 million to 200 million MAU between 2021-2023.[16]
- An even more recent entrant, BeReal, has grown to 23 million MAU worldwide as at January 2024,[17] and launched (in 2023) direct messaging functionality, RealGroups, which includes features such as emoji message reactions.[18]

Traditional mobile services, including SMS, also continue to exercise a strong constraint on Meta's messaging services, and that close substitutability between OTT messaging services and person-to-person SMS services was recently recognised by the ACCC.[19]

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[12] Statista, 'Most popular social networks worldwide as of April 2024, by number of monthly active users'.
[13] TikTok, 'Share your favourite TikTok moments with Direct Messaging' (13 August 2024).
[14] Per the ACCC's first DPSI Interim Report which reported just under 4 million Australian users of Snapchat in June 2020.
[15] Snapchat, 'An update on our Australian community: 8 million and growing!' (27 August 2023).
[16] Business of Apps, 'Discord revenue and usage statistics' (2024).
[17] Business of Apps, 'BeReal Revenue and Usage Statistics' (18 April 2024).
[18] BeReal, 'HMU: RealChat is here' (2023).
[19] ACCC, 'Public inquiry into the declaration of the domestic mobile termination access services – Final report' (June 2024), p. 35.

Switching between private messaging services continues to be easy and inexpensive. Unlike products offered by Apple and Google, Meta's WhatsApp and Facebook Messenger (and many other third party apps with messaging functionality like Snapchat, Signal, Telegram, Viber, Teams, Zoom and many others) can be used across operating systems and do not have features or limitations intended to capture audiences within an ecosystem. More Australians than ever are also multi-homing across messaging services as switching has become more prevalent. As ACMA reports in 2023, 73% of Australians used an average of 4 or more communication and social media websites or apps in H1 2023, up from 66% in 2022 and 70% in 2021 (during the COVID-19 pandemic when use of private messaging services surged), and used an average of 5.9 websites or apps.[20]

This competition is driving continual innovation and consumers are benefitting from better features and functionality. WhatsApp and Facebook Messenger have continued to respond to this competition by rolling out new product features - like default end-to-end encryption, message editing and disappearing messages released in December 2023 on Facebook Messenger, multiple accounts (introduced in October 2023) and chat filters (introduced in April 2024) on WhatsApp, as well as Meta AI, AI Studio and other AI tools being introduced on both services.

Overall, Australians have significant consumer choice when it comes to private messaging services, benefitting from access to a wide range of alternatives. Consumers benefit from continuous and rapid innovation which sees firms constantly deploying new features to attract consumers and compete for their attention against numerous other messaging services that consumers typically switch between. These are strong indicia of a healthy, competitive and dynamic market for private messaging services in Australia. In these circumstances, it is difficult to see how any significant competitive harms could arise.

To put this in context, our success critically depends on our ability to deliver a great experience to Australian consumers, small businesses and advertisers - that is fundamental to the way multi-sided platforms work within a competitive environment. We are committed to providing positive and safe experiences for users across our platforms, including our private messaging services, so they can connect with the people and content that matters most to them. Our previous public submissions[21] outline Meta's significant investments and multi-faceted approach to protecting users on our platforms from scams and other harmful content. Some of Meta's recent measures to combat scam activity targeting Australians on private messaging services include:

- the launch of a new WhatsApp Trusted Partner Reporting Channel for the NASC to streamline scam content reports;

[20] ACMA, 'Communications and media in Australia: How we communicate' (December 2023).
[21] Meta response to the ACCC's Digital Platforms Services Inquiry March 2023 Interim Report Issues Paper (28 September 2022); Meta response to the ACCC's Digital Platform Services Inquiry September 2022 Report Discussion Paper (28 April 2022).

- the development of a new anti-scams resource hub to educate users and businesses on how to identify and avoid scams; and
- a new scam awareness and consumer campaign, including education materials addressing scam prevention on WhatsApp and cybersecurity for small businesses.

3. App marketplaces and mobile ecosystems

As we have previously said,[22] mobile OS providers' control over mobile ecosystems allows them to set the 'rules of the game' for competitors who seek to use their app stores, and they have both the ability and incentive to provide their own apps with a competitive advantage.

That dynamic continues to persist. We welcome the ACCC's consideration of regulatory developments with respect to app marketplaces, including Australian and international enforcement actions and regulatory frameworks, and whether they are opening up mobile ecosystems to alternative providers and greater competition. To assist, we have outlined what conditions for successful entry would look like below. We also encourage a broader look across other aspects of the mobile ecosystem where competition and innovation remain restricted and this has the potential to stifle development of new frontier technologies.

3.1 Conditions for successful entry into mobile app distribution

Entrants proposing to offer alternatives to mobile OS providers' app stores face several obstacles:

- As an initial matter, entrants are proposing to compete against established incumbents in circumstances where consumers are accustomed to using incumbent app stores and have often saved payment and other credentials with these stores. Entrants may need to convince consumers to learn new behaviors and to forgo the convenience of stores with which they are already familiar.
- Entrants may need to overcome barriers created by indirect network effects. A conventional app store often requires an extensive catalog of apps to attract users, but requires a large user base to attract app developers.

Against this backdrop, successful entry into mobile app distribution has several prerequisites. These include the following:

1. **Competitive fees:** An entrant must be able to offer its solution to developers on terms that (1) justify the investments that developers must make to support an additional app-distribution solution, and (2) allow developers to offer their apps to consumers on terms that encourage them to use an app-distribution solution other than the app store

[22] Meta response to the ACCC's Digital Platform Services Inquiry September 2022 Report Discussion Paper (28 April 2022); Meta response to Australian Government Consultation on ACCC's regulatory reform recommendations (February 2023).

they are accustomed to using. Mobile OS providers may impose fees that prevent entrants from offering their solutions to developers on these terms:

- While a mobile OS provider is entitled to charge developers fees for the services it provides (e.g., for the distribution services it provides to apps listed in its store), fees that apply when developers do not use the OS provider's services but use a competitor's services instead (e.g., distribute apps using an entrant's solution rather than the OS provider's app store) penalise use of competitors' services and deter entry.
- New fees requiring an app developer to pay on its installed user base if the developer chooses to distribute its app using an entrant's solution will have the same penalising and deterrent effects.

2. **Seamless user experience:** An entrant must be able to offer consumers a seamless user experience. If consumers must navigate past multiple screens (or switch between apps) to install and use an entrant's solution, that solution is unlikely to gain traction.
    - Entrants' app-distribution solutions will likely gain traction only if (1) any OS provider-mandated user-experience requirements are strictly necessary and proportionate to safeguarding device integrity or user security, and (2) any information that OS providers present to users of alternative app-distribution solutions is presented in a manner that is objective, unbiased, and non-disruptive.
    - OS providers should allow entrants to work with OEMs and wireless carriers to pre-install their app-distribution solutions on mobile devices.

3. **Effective discovery:** Consumers must be able discover an entrant's app-distribution solution. Developers have invested considerable resources in developing the apps they distribute through mobile OS providers' stores and in growing the user bases of those apps. Developers must be allowed to leverage those investments to help users to discover entrants' app-distribution solutions, e.g., by incorporating ads or other recommendations in their apps that link to entrants' solutions. If OS providers prevent entrants from informing consumers of their solutions through these means (and relegate entrants to less effective means such as television advertisements and email messages), entrants' solutions are unlikely to gain traction.

4. **Flexibility to innovate and differentiate:** Entrants must be able to provide app developers and consumers with innovative solutions that offer features and functionalities that mobile OS providers' stores do not offer. An entrant that simply replicates the features and functionalities that incumbent app stores already offer is unlikely to gain traction. Instead, entrants must have the flexibility to innovate and to differentiate their app-distribution solutions, including by offering seamless and customized app-installation flows and by offering a more efficient and secure app-installation process. Again, any restrictions on this flexibility should be strictly necessary and proportionate to safeguarding device integrity or user security.

3.2 Hardware and service interoperability remains challenging

Meta and other companies have made substantial investments to develop wearable devices. While these devices may one day challenge the smartphone's status as the dominant mobile platform, today and for several years to come, wearable devices (including smartwatches, smart glasses, and augmented reality glasses) will likely depend on the smartphone. Lightweight wearable devices generally have smaller batteries, weaker processors, and more limited wireless connectivity than smartphones do. As a result, they depend on smartphones for internet connectivity and computational offload, a dependence that is likely to persist for the foreseeable future.

This dependence creates an opportunity for providers of today's dominant mobile smartphone OSs to leverage their dominance to hamper competition and innovation. By providing its own wearable devices with access to smartphone functionality that it denies to third-party devices, a mobile OS provider can degrade the functionality of competitors' devices, forcing them to make less efficient use of batteries and internet bandwidth and to offer a more clumsy user experience than if they were able to compete on a level playing field.

Overall, in respect of both app marketplaces and hardware / service interoperability, it's not clear that regulatory interventions have been successful in promoting competition and innovation in the mobile ecosystem.

4. Generative AI

GenAI is a transformative technology that has the potential to bring tremendous opportunity, growth, productivity, and innovation, but is in its infancy. GenAI will have a significant impact across all industry sectors, and can substantially increase labor productivity across the economy. It is estimated that GenAI could add between ~ US$2.6 trillion and US$4.4 trillion to the global economy.[23] In Australia, it is estimated to potentially contribute up to AUD$115 billion (around US$76 billion) annually to the economy by 2030.

As the Issues Paper recognises, this is a highly dynamic, evolving space and the pace of development is rapid. Against that backdrop, it's difficult to predict the direction for GenAI - the foundational technology itself, the downstream applications and use cases that will catch on, the business models, and even how these experiences will be delivered. We recognise the ACCC's interest in examining potential risks but would welcome a proper examination of the industry and thoughtful consideration of the dynamics - which is well beyond the scope of this inquiry - before any conclusions are drawn.

[23] McKinsey & Co The economic potential of generative AI: The next productivity frontier (June 2023).

4.1 GenAI development is nascent and rapidly evolving

Since the emergence of ChatGPT, there has been extraordinary interest, investment and development in the GenAI space. Numerous firms continue to experiment with new use cases, business models and technologies from existing technology players to startups.

For foundation models, the number of capabilities continues to increase. As the CMA has noted, between September 2023 and March 2024 alone, over 120 foundation models have been released, bringing the overall number of known foundation models globally to over 330.[24] Models are increasingly complex and capable, with companies taking different and diverse approaches in how foundation models are released or deployed.

For consumer use cases, the landscape is characterised by continued experimentation, focussed on understanding how GenAI is evolving and how users are seeking to interact, for example, whether they interact via text or audio, or whether they are seeking to use them for productivity purposes, for entertainment, to spark creativity or other uses.

For Meta, while GenAI is still at a nascent stage of development, it is already enabling new forms of connection and expression for people across our family of apps and devices. We're invested in GenAI to build new product experiences that will power expression and creativity for people, businesses, and creators. Many of these experiences are underpinned by technology from our Llama 3.1 foundation models.

4.2 Open innovation increases competition and democratizes access

Meta and many other AI leaders believe that AI should be built to benefit everyone across society. Making AI models available openly can deliver benefits across a wider range of stakeholders and unlock opportunities for everyone. As Meta's President for Global Affairs Sir Nick Clegg has said, *"Openness isn't altruism — Meta believes it's in its interest. It leads to better products, faster innovation, and a flourishing market, which benefits us as it does many others."* [25]

This open approach mitigates many of the potential issues the Issues Paper refers to, lowering or eliminating barriers to adoption and addressing other concerns like transparency and safety. It increases competition by providing an alternative to proprietary or closed models, and democratizes access to AI technology, allowing firms to build AI-powered experiences based on open models. Both the CMA and FTC have recently recognised open source models are an important force for competition and innovation.[26]

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[24] CMA, AI Foundation Models: Update Paper (11 April 2024), pg 5.
[25] Financial Times, Sir Nick Clegg: Openness on AI is the way forward for tech (2023).
[26] CMA, AI Foundation Models: Update Paper (11 April 2024), pg 6; FTC Technology Blog, On Open-Weights Foundation Models (10 July 2024).

1. This open approach **allows more people to build GenAI powered experiences without the need to develop a foundation model from scratch.** One of the biggest challenges of working with AI is the level of resources required (e.g., research, data, computing power). Meta and other developers of open models have released pre-trained and fine-tuned models in a range of sizes and capabilities, which allows firms to pick the option that works for them without needing the expertise, data, or computing infrastructure to build and train a model from scratch. In this way, open innovation and open models provide a wide range of stakeholders who may not have the capital or resources to make these investments independently (developers, academics, civil society, etc.) with access to AI models that will allow them to compete. Furthermore, open models, unlike closed models, can more easily allow for interoperability and compatibility between many different inputs and components, which can facilitate productivity and innovation gains.

2. This open approach **allows developers to innovate on top of open models without steering or restrictions.** Open innovation will create opportunities for a broad range of firms to build whatever they can imagine, including smaller enterprises that otherwise would not have access to these tools. Open models also allow firms to customise them as they see fit, including by using their own data to fine-tune models for various use cases (e.g., a firm using customer data to fine-tune a customer service chatbot, or a pharma firm using research data to train a model for drug discovery). Open innovation will contribute to the development of a larger number of AI use cases representing diverse interests, diverse backgrounds, and diverse goals, ultimately democratizing the AI industry.

3. Open innovation **benefits those that develop and use GenAI as it can also lead to safer products.** A mistaken assumption is that releasing source code or model weights makes systems more vulnerable. On the contrary, an open community of external developers and researchers can more quickly identify and address problems than individual teams holed up inside company silos. Potential toxicity, bias, bugs, and vulnerabilities can be continuously identified and mitigated in a transparent way by an open community. We can learn from that work to build safer, more robust, and more effective products. The transparency of open models helps build trust in the technology. Meta has built and open-sourced a variety of safety-related evaluations and tooling known as Purple Llama.[27]

4. An open approach to innovation **enables research in nearly limitless areas of AI.** Allowing researchers access to state of the art models vastly increases the potential sources of innovation. Meta's open approach to foundation models has already led to impressive technical innovations by the community. For example, researchers from the University of Edinburgh, Google Research, and Macquarie University determined two factors[28] which they propose are major sources of "hallucination" (providing incorrect or inappropriate

[27] Meta, Introducing Purple Llama for Safe and Responsible AI Development (7 December 2023).
[28] McKenna, N. et al., Sources of Hallucination by Large Language Models on Inference Tasks (2023).

information in a factual manner) among Llama and other LLMs, so companies can use these factors to further fine-tune their models.

Meta has been at the forefront of open source in AI for over a decade. For example, in 2016 Meta developed and open-sourced PyTorch, a powerful, flexible and easy-to-use workflow for building machine learning models. Since then, PyTorch has become the leading tool for AI research and the development of such models around the world, with an extensive community of open source developers continuously contributing to improvements and innovation across the ecosystem (over 2,400 contributors have built more than 150,000 projects on the framework).

Open innovation in this way will help ensure the competitive process remains dynamic by creating opportunities for a wide range of market and societal stakeholders. As such, open innovation will help close the inequality gap by more widely distributing economic opportunity. In turn, economic growth will be more sustainable with so many market participants pursuing many different ideas and approaches.

5. Conclusion

We look forward to continuing to engage constructively with the ACCC as it concludes this DPSI and in future consultations as it continues its work in relation to digital platforms.