

**Final Report for Meta Platforms Inc.**

# **Recalibrating policy for digital platforms in the EU Digital Single Market**

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**September 2024**

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# Executive summary



## Europe is falling behind on measures of prosperity and competitiveness, and the Digital Single Market, a key driver of these goals, has been hindered by growing regulatory complexity

Europe trails the US on key indicators of prosperity and growth, including productivity, access to capital and investment in R&D, resulting in a nominal GDP per capita of over USD80 000 in the US compared to USD40 000 in the EU in 2023.<sup>1</sup> European policy makers recognise the importance of digital technology as a driver of prosperity and economic growth. This is enshrined in the Digital Single Market (DSM) strategy, launched in 2015.<sup>2</sup> A successful DSM would boost long-term prosperity for Europeans, improve the competitiveness of European industry by enabling scale, and achieving ‘open strategic autonomy’ by cultivating the ability of the EU to source key resources and inputs as a means to grow and innovate.

Despite these ambitions, the DSM is not functioning as envisioned. Barriers to cross-border trade remain,<sup>3</sup> and fragmentation in the application of rules and their enforcement between member states limits the benefits that consumers and businesses can gain from the size of the European market. Fragmentation has also contributed to a scarcity of successful large-scale digital businesses in Europe, which hinders European innovation in the digital space. Although Europe creates many high-tech start-ups, few manage to scale up while remaining based in Europe, and many European start-ups consider starting their business in the US rather than Europe.<sup>4</sup> As a result, Europe is home to fewer ‘unicorns’<sup>5</sup> than the US,<sup>6</sup> and the largest platforms operating in Europe are largely based outside Europe.<sup>7</sup>

<sup>1</sup> In 2023; see World Bank Group, *GDP per Capita (current US\$)*.

<sup>2</sup> European Commission (2015), *A Digital Single Market Strategy for Europe*.

<sup>3</sup> Of 74 barriers to cross-border trade reported by businesses in 2002, 45 (61%) were still reported as barriers in 2020; see European Commission (2022), *30 years of single market – taking stock and looking ahead*.

<sup>4</sup> A 2022 Stripe report found that 25% of ~200 interviewed European start-ups considered starting their business in the US rather than Europe; see Stripe (2022), *European tech voices*.

<sup>5</sup> Start-ups valued at over USD1 billion.

<sup>6</sup> According to PitchBook, the US was home to 714 as of 1 July 2024, compared to just 215 in Europe (including the UK); see PitchBook (2024), *Unicorn companies tracker*.

<sup>7</sup> Of the 19 companies with platforms designated under the DSA as of 28 June 2024, only Booking.com and Zalando are members of the European Tech Alliance (EUTA), which represents leading European tech firms; see European Commission (2024), *Supervision of the designated very large online platforms and search engines under the DSA* and European Tech Alliance, *Members*.

The success of businesses active in the digital space is an essential measure of the success of the DSM. These businesses are characterised by high research and development (R&D) spending, both in absolute terms and as a share of their revenue. The relative scarcity of successful digital businesses in Europe has led to a marked difference in R&D spending and intensity between the US and Europe,<sup>8</sup> which acts as a further driver of divergence in long-term competitiveness and prosperity.<sup>9</sup> To support the ambition of the DSM and Europe's broader innovation strategy, Europe first needs to find a better balance between regulation and innovation, to unlock and support more investment in R&D and innovation from the private sector. This is even more critical in areas of 'deep tech', including Artificial Intelligence (AI), where the US is attracting massive private investments an order of magnitude greater than in the EU in 2023, illustrating a growing gap between the two.<sup>10</sup>

Meanwhile, DSM-related policy has focused on ensuring the availability of world-class digital connectivity,<sup>11</sup> and constraining the perceived harms and risks associated with large digital platforms, gatekeepers, and very recently AI providers. These policies include the General Data Protection Regulation (GDPR), Digital Services Act (DSA), the Digital Markets Act (DMA), the AI Act, and other instruments.<sup>12</sup> These efforts are bearing fruit, but not all as intended. Connectivity has improved and the GDPR is seen as setting a gold standard in personal data protection, but at the same time the DSM has been ineffective at reducing fragmentation in the adoption and enforcement of rules. Smaller companies are particularly affected by the cost and complexity of regulation.<sup>13</sup> This takes much-needed resources away from innovation and growth, and risks harming Europe's long-term competitiveness in the context of rapidly evolving digital technology.

## **Digital platforms contribute to the DSM by delivering benefits for consumers, facilitating cross-border trade, and empowering businesses with innovative tools and technology building blocks**

The vast majority of Europeans use the internet and digital platforms to interact and conduct a wide variety of activities online.<sup>14</sup>

Digital platforms facilitate online transactions at scale by connecting buyers and sellers,<sup>15</sup> and while platforms are commonly associated with advertising, businesses also use them to meet a wide variety of needs, including setting up web stores (e.g. Shopify), receiving payments (e.g. Stripe), and facilitating logistics and delivery (e.g. Fulfilment by Amazon). Individual platforms typically enable integration with other online tools and with one another, to easily onboard business customers.<sup>16</sup> Businesses also often have the option to use more than one provider for a particular need – this is referred to as 'multi-homing', which is a "powerful driver for contestability".<sup>17,18</sup>

<sup>8</sup> R&D equal to 3.8% of net sales for EU-based companies, compared to 8.1% for US-based companies in the World2500 dataset in European Commission (2023), *The 2023 EU Industrial R&D Investment Scoreboard*.

<sup>9</sup> European companies that invest the most in R&D belong in 'mid-tech' sectors such as automotive and manufacturing, which typically spend a lower proportion of their revenue on R&D than 'high-tech' digital platforms.

<sup>10</sup> Private investment in AI was EUR62.5 billion in the US and EUR5.5 billion in the EU, based on European Parliament (2024), *AI investment: EU and global indicators*.

<sup>11</sup> European Commission, *Europe's Digital Decade*.

<sup>12</sup> European Commission (2024), *Achievements of the von der Leyen Commission: Realising Europe's Digital Decade*.

<sup>13</sup> See Stripe (2022), *European tech voices*; as well as Union of entrepreneurs and employers (2023), *European tech companies face an*

*overwhelming amount of rules*.

<sup>14</sup> Eurostat, *Individuals – Internet activities*.

<sup>15</sup> Harvard Business School Online, *Digital platforms: What they are and how they create value*.

<sup>16</sup> For example, Shopify provides integrations with a number of third-party tools, sales channels and payment gateways, to allow businesses more flexibility in their interactions with customers; see Shopify, *Integrations, Sales channels, Online payment gateways and payment provider integrations*.

<sup>17</sup> Centre on Regulation in Europe (2022), *Interoperability in digital markets*.

<sup>18</sup> While dominant firms may have incentives to limit multi-homing, in Europe, the Digital Markets Act has been introduced to help address situations where platforms that serve as 'gatekeepers' may attempt to behave in anti-competitive ways.

Digital platforms help enable the DSM and mitigate European fragmentation by creating spaces that transcend national borders and reduce barriers associated with geographical, linguistic and cultural differences. This is achieved through relatively standardised processes or tools that users interact with in similar ways across Europe.

On Meta's platforms for example, most advertisements (measured using 'ad impressions' to end users)<sup>19</sup> going across borders within Europe are going to countries that do not share a common language with the seller's country.<sup>20</sup> Platforms are also of particular benefit to smaller businesses, as shown in an eBay study that highlighted how 97% of all eBay-enabled small businesses in Europe were exporting, with those in the EU exporting to 20 different international destination markets on average.<sup>21</sup>

Through digital platforms, European businesses are able to operate online efficiently, by using tools that are globally competitive, regardless of whether these tools were developed in Europe or in other parts of the world. For example, EU advertisers that use Meta's advertising services are able to achieve average returns on ad spend (euros in sales achieved per euro invested in ads) that are comparable to that achieved by advertisers in the US. The value provided by platforms such as Meta is growing, with AI-powered ads generating around 25% better average returns on ad spend for EU advertisers.

Digital platforms (as well as content and applications providers) operating at global scale also tend to develop technology building blocks in the form of digital infrastructure (e.g. cloud services) and open-source software (e.g. libraries and tools for AI). These building blocks are made widely available across the world, and are at the heart of European digital transformation, with European digital start-ups and scale-ups using building blocks provided by global suppliers to grow their operations securely<sup>22</sup> and develop innovative solutions for their own customers.<sup>23</sup> Without these building blocks, they would need to rely on smaller-scale, less competitive tools, dedicate resources to building these tools themselves, or simply not be able to operate.<sup>24</sup>

Digital platforms provide a wide variety of tools that enable European businesses to operate and grow rapidly and cost-effectively. This stands in contrast to the extensive range of digital regulations that increase regulatory complexity and compliance costs for European businesses.

## **In order to foster the emergence of globally successful companies that cement Europe's future competitiveness, EU digital policy should evolve to reduce complexity and support innovation**

As Europeans look to a near future filled with uncertainty and challenges, policy makers are calling for the single market to be strengthened, and also for large sums of new investment to boost the European economy. Europe already possesses some of the assets needed to deliver on these ambitions: high savings rates, a highly educated population and strong academic research institutions,<sup>25</sup> as well as an attractive

<sup>19</sup> An advertisement ('ad') impression is a metric used to measure the number of times an ad has been displayed to the users on, for example, Meta's platforms.

<sup>20</sup> In this analysis, a "common language" between two countries is defined as a language that is spoken by at least 5% of both populations as a first language, based on data from CIA World Factbook, *Languages*.

<sup>21</sup> As highlighted in eBay's 2022 Digital Density Report; see eBay (2022), *Digital Density in Europe*.

<sup>22</sup> For examples, see Google Cloud (2022), *How one e-commerce platform (PrestaShop) went from data mistrust to data confidence*; AWS, *Zendesk case study*; Sendcloud, *Security*; Trustpilot, *Security at Trustpilot*.

<sup>23</sup> For example, see Mirakl, *The most advanced technology and enterprise-grade security, Curated partners for your marketplace operations, Introducing AMI: How AI is embedded into Mirakl to help you transform your business, Mirakl introduces industry-first capability for suppliers to sell on marketplaces in one click*.

<sup>24</sup> Impact reports from Mirakl, Stripe, Shopify, eBay and others demonstrate how their customers build their digital transformation on top of the tools and platforms they provide.

<sup>25</sup> Policy makers acknowledge the need for further investment and support; see European Parliament (2019), *Europe – the Global Centre for Excellent Research* and European Commission (2022), *Communication on a European strategy for universities*.

environment for people to live and work. If it can “leverage the single market’s potential in mobilising both private and public resources more effectively”,<sup>26</sup> Europe will be better equipped to capitalise on opportunities to regain global competitiveness and leadership within the digital economy.

In practice, fulfilling these objectives requires making sure that regulation does not stand in the way of innovation and private investment, including by global platforms. This requires a shift from the approach of the last decade, and a recognition of the role that global digital platforms play in enabling the DSM and helping Europe realise its innovation ambitions.<sup>27</sup>

Digital regulation in the EU for the last decade has focused on constraining perceived risks, and this has led to a regulatory environment that is increasingly complex and costly, not only for large digital platforms operating at a global scale, but also for high-tech European digital businesses.<sup>28</sup> The risk of persisting with this approach is that it could widen Europe’s ongoing investment gap compared to the US and increasingly China, which is already particularly visible in AI, and as a consequence, further hamper Europe’s ambitions for technology leadership.

In future, policy and regulation can do more to support European innovation, growth and Europe’s competitiveness, in two main ways. Firstly, policy makers should include a competitiveness test in impact assessments for any new regulation they propose. In addition, they should provide regulators with a framework that allows them to consider both fundamental rights and other policy objectives like innovation and competitiveness. Secondly, digital policies under the DSM should focus on recognising the importance of private-sector investments and enabling them further in areas where innovation can support Europe’s global competitiveness, particularly in emerging areas of digital technology, including AI and other ‘deep tech’ sectors.<sup>29</sup>

To achieve the scale and pace of innovation required in digital ‘deep tech’, Europe needs to be strategic in how it directs innovation policy. The challenge will be to strike a perfect balance between the use of existing technology building blocks (provided by global providers), and fostering cutting-edge innovation and capabilities within Europe. This should encourage European companies to continue making use of technology building blocks from global providers, particularly when they relate to well-established technologies (e.g. cloud), while also empowering European companies in their pursuit of global leadership in more nascent fields (e.g. AI). European policy makers can also consider focusing efforts on value chain components where Europe is best positioned to develop comparative advantage.

Only by fostering a regulatory environment that allows innovation to flourish, and by equipping European companies with the best tools (including globally-competitive technology building blocks), can Europe achieve the innovation and growth needed to bolster its strategic autonomy and remain open to global markets. Building strategic autonomy on top of globally competitive, state-of-the-art technology will help unlock the massive new investment that policy makers are calling for, in areas where this investment can have a genuine impact. The next five years should be a period where European public policy works hand in hand with the private sector to solve big challenges, with digital technology as a core asset to build with, and not against.

<sup>26</sup> Letta (2024), *Much more than a Market*.

<sup>27</sup> The Strategic Agenda 2024–2029 published by the European Council lists priorities including “bolstering our competitiveness”, “promoting an innovation- and business-friendly environment” and “advancing together”; see European Commission (2024), *EU strategic agenda 2024–2029*.

<sup>28</sup> Businesses under the European Tech Alliance (EUTA) umbrella reckon that 30% of their resources may be taken up by regulatory compliance;

see European Tech Alliance (2023), *European tech companies face an overwhelming amount of rules*.

<sup>29</sup> ‘Deep tech’ sectors related to the DSM include AI, semiconductors, advanced and quantum computing, robotics and autonomous systems, and future communication technology; see European Commission, *The new European innovation agenda*; European Commission, *Target investment areas*.



# Get in touch

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