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Chairman Conyers, Ranking Member Chabot, honorable members of the Task Force, my name is David Drummond, and I am Google's Senior Vice President of Corporate Development and Chief Legal Officer.

Thank you for inviting me to discuss the state of competition on the Internet. Because of its founding principles of openness and interoperability, the Internet is an extraordinarily competitive environment, where competition and choice are only a click away. Consumers, creators, and entrepreneurs come together online to communicate and discover information, create and distribute new types of content, and develop and expand new business opportunities. Online advertising is playing a critical role in fueling economic growth and furthering innovation across the Web, benefiting users, promoting free speech, and helping businesses of all sizes succeed.

My message to you today is simple: While there are other threats to the continued competitiveness of the Internet, the online advertising marketplace is competitive, robust and dynamic. Our recent advertising agreement with Yahoo! will maintain and expand that competition, while growing the reach of consumers' favorite instant messaging chat programs. As I will explain, the non-exclusive commercial arrangement creates new efficiencies that make the pie larger, benefiting users, advertisers and publishers, while protecting privacy and spurring innovation.

Yahoo!'s Advertising Agreement with Google:
On June 12th, we announced a non-exclusive advertising agreement giving Yahoo! the option to display Google-supplied ads alongside Yahoo!'s search results, web pages, and partner properties in the United States and Canada. Yahoo! can use Google ads on as many or as few of its search result and content pages as it chooses. The agreement lasts for four years, and can be renewed for two additional three-year terms.

The agreement will not affect Yahoo!'s natural search results. Yahoo! will continue to operate its own search engine and display natural search results in the same manner it does today. The arrangement therefore will not increase Google's share of search traffic, contrary to some claims.

This arrangement is not a merger, nor a joint venture. It is much simpler than that - it is a non-exclusive agreement to supply advertising. Google is providing access to our back-end search and contextual advertising systems to Yahoo! We currently provide these services through our AdSense for Search and AdSense for Content programs to sites like WashingtonPost.com and Ask.com, as well as many other partners. Moreover, this is a non-exclusive agreement. Yahoo! could enter into similar arrangements with any other company, including Microsoft. Indeed, Yahoo! can - and will - continue to supply much of its advertising through its own internally developed ad platform.

We are not required to receive approval from antitrust authorities prior to implementation. We notified the Department of Justice (DOJ) in April, when we conducted a limited two-week test of Yahoo! running Google ads. We stayed in contact with DOJ, and voluntarily agreed to delay implementation for three-and-a-half months, giving regulators time to understand the arrangement.

Benefiting Consumers, Website Owners, and Advertisers:

Why did Google enter into this agreement? We think we'll make money of course, and we think we'll do so by giving millions of consumers, publishers, and advertisers access to more relevant online ads. Where Google's system may provide better results, Yahoo! will be able to use it to complement its own advertising program. The whole system becomes more efficient: people see and click on more ads that are useful to them, publishers get more revenue from ads on their sites, and advertisers get more potentially interested customers. This is not unusual – a large portion of Google's business is simply to partner with thousands of diverse website owners and, in return for a small portion of the revenue, provide these web publishers with ad services.

Consumers

Consumers will not only get better, more interesting ads, but also benefit from continued online competition and innovation. Users value ads that connect them to the information, products, and services they seek. This is the driving philosophy behind Google's advertising business – we strive to deliver ads that are the most relevant to our users, not just the ones that generate the most revenue. We do this through our innovative ad auction system, which factors in the relevancy, or usefulness, of the ad to our users.

Here's how it works: Through a simple online interface, advertisers create short text ads for their products and services and choose associated keywords. Advertisers then place bids indicating how much they are willing to pay if a user clicks on their ad. When a user enters a word or phrase (referred to as a "query") into our search engine, our technology matches the words with those entered by advertisers and selects ads that will appear above or to the right of the search results. The ads are selected and ranked based on advertisers' bid prices, along with a quality score factor. Most search advertising systems now use a measure of ad quality, which provides an incentive for advertisers to show useful ads and reduces ad spam, which is distracting and frustrating for consumers. Advertisers typically pay us only when someone actually clicks on their ad. When Google supplies ads to our content partners' websites, the ads are matched based on search terms or the content of the page displaying the ad.

Google has built a sophisticated tool for matching search queries to highly relevant text ads, and we're constantly experimenting with new algorithms to show users relevant ads. The benefits of our ad system can now be extended to Yahoo!'s users. Consumers will see ads that are better targeted, which will help them get where they want to go online.

The arrangement will also help Yahoo! remain a vibrant and innovative presence on the Internet. Yahoo! may find that its own advertising platform generates similar revenue on much of its search traffic, and thus not want to use Google for those searches, as that would result in sharing revenue that Yahoo! could otherwise keep fully. For the ads that are supplied by Google, if users find them more useful and click on them more often, this will give Yahoo! additional revenue to invest in its own search engine, advertising tools and other services. That should benefit Yahoo!'s content portal, email, instant messaging, productivity software, photo sharing service, music services, games, finance offerings and all the other products and services Yahoo! offers.

Website Owners

Online publishers (website owners who earn revenue by running syndicated ads from companies like Google and Yahoo!) will benefit from better ad matching technology, potentially increasing the revenue they earn from their site. Simply put, if an ad is better matched to the content of a particular web page, a user is more likely to click on the ad, resulting in more revenue to the owner of the website where the ad appeared.

Google partners with thousands of web publishers, large and small, to place ads on their web pages. Much of Google's success is based on the success of our business partners. When a visitor to our partner's site clicks on a Google-supplied ad, Google shares a majority of the advertising revenue with the website operator. In 2007, we paid out $4.5 billion in advertising revenue back to our partners. A significant portion of that revenue went to small businesses, including bloggers and web entrepreneurs. In this way, online advertising promotes freer, more robust, and more diverse speech, and lets small businesses across the country compete in the global marketplace.

The arrangement lets Yahoo's content partners benefit from Yahoo's ability to use Google-matched ads. Publishers may find that visitors click on their site's ads more often, generating more revenue.

Advertisers

Lastly, advertisers will benefit from better ad-matching capability, giving them improved ways to reach online customers more efficiently.

Google does not control the prices charged to an advertiser when a user clicks on a Google ad. Rather, advertisers themselves determine prices through an ongoing competitive auction for particular keywords. We have found over years of research that an auction is by far the most efficient way to price search advertising and we have no intention of changing this approach.

Advertisers care most about the number of users who ultimately buy the product or service being sold or consumed on their website. The famous department store pioneer John Wannemaker once said that "half the money I spend on advertising is wasted; the trouble is I don't know which half." Online advertising helps solve that problem, by letting advertisers pay only for ads that are of interest to their target audience. The more likely an ad is to result in a user buying something, the more valuable that ad is to the advertiser.

Large and small advertisers have indicated that the arrangement with Yahoo! will benefit them because Google will better match ads to web users who want to purchase the advertiser's goods or services. Here's what advertisers and other ad industry participants are saying:

- "*[The agreement] is something that isn't threatening to clients, they are not merging, they are independent and they remain competitors. . . . I view it as very positive.*" Maurice Levy, Chairman and CEO, Publicis Groupe (the Guardian, 6/20/08)

- "*The agreement between Yahoo and Google should help the relevancy of our advertising on Yahoo, which should actually make the dollars we spend more efficient.*" Geoff Atkinson, Vice President of Tactical Marketing at online retailer Overstock.com (Bloomberg, 6/20/08)

- "*We are happy with that agreement. . . . It's not a lack of competition.*" David Kenny, CEO, Digitas Inc. (Reuters, 6/20/08)

- "*What it will ultimately do is allow us to get broader distribution out of Google's ad platform. . . . [The partnership] is going to be good news for advertisers.*" Matt Greitzer, Vice President of Search Marketing at Avenue A/Razorfish, acquired by Microsoft through its purchase of aQuantive (Bloomberg, 6/20/08)

When Microsoft's own ad firm – the group within Microsoft that knows online advertising best – confirms the benefits of the agreement for advertisers, we should rest our case right there.

Fostering Competition in the Dynamic Online Advertising Space:
The arrangement will also promote competition and innovation. Google and Yahoo! will remain vigorous competitors, and that competition will help fuel innovation that is good for users and the economy.

Unlike other alternatives, such as Microsoft breaking up Yahoo! by acquiring Yahoo!'s search assets or taking over all of Yahoo!, this arrangement will not remove a competitor from the playing field. Yahoo! will continue to operate its own search engine, ad platforms, and web properties, will continue to control its user interface and the display of advertising on its site, and will maintain relationships with its own advertisers. Indeed, for any given search query, Yahoo! could, for example, choose to keep prominent ad placements for its own ad system and its own advertisers, while using Google's system to supply lower ranked ads. Advertisers using only Google's system will not be guaranteed in advance particular placements on Yahoo! We fully expect that advertisers using Yahoo!'s system today will continue to do so after the agreement is implemented.

Yahoo! has indicated that not only will it continue to use and promote its own search advertising platform, but that the revenue from this arrangement will fuel continued investment and improvement in its platform. Yahoo! will also need to continue using its own ad system outside of the United States and Canada, in supplying ads to new content partner sites worldwide, and in supplying ads to mobile users, a rapidly emerging growth area for online advertising. Moreover, Yahoo! and Google will continue to compete across a wide variety of other products and services, giving both companies an incentive to keep improving and innovating.

Supplier arrangements are commonplace in many industries. For example, Toyota sells its hybrid technology to General Motors, even though they are the number one and number two car manufacturers globally and compete vigorously. Canon supplies laser printer engines to Hewlett Packard, while also competing in the sale of laser printers. Despite the fact that an underlying service or technology is supplied by a competitor, these and many more examples show that companies can compete aggressively even with their partners.

Outsourcing arrangements have been a common feature as web search has evolved. Yahoo! used Google's search engine to generate its search results until 2004, when Yahoo! transitioned to the search engine that it had developed. Through an ad company it acquired called Overture, Yahoo! also supplied advertising for Microsoft's search site until 2006, when Microsoft phased in its own system.

We are not aware of any similar non-exclusive arrangement that has been blocked by antitrust authorities. As a starting point, DOJ recognizes that competitor collaborations can have pro-competitive benefits. In fact, the Antitrust Guidelines for Collaborations among Competitors, issued by DOJ and the Federal Trade Commission in 2000, state as a matter of principle: "In order to compete in modern markets, competitors sometimes need to collaborate. . . . Such collaborations are not only benign but pro-competitive." The Guidelines recognize that consumers may benefit, especially if, as here, one company has technical expertise that enables another participant to lower its production cost or improve the quality of its product. With its non-exclusive terms and the fact that Yahoo! will remain a strong competitor in this space, we are confident that this arrangement will promote competition, innovation, and consumer choice online.

The Online Advertising Marketplace is Robustly Competitive Today:

Online advertising is critical to the continued growth of our economy, and beneficial to consumers. Although online advertising is a small piece of overall advertising dollars, it is characterized by strong competition, significant innovation, and tremendous growth. Brian McAndrews, Microsoft's Senior Vice President of the Advertiser and Publisher Solutions Group, has commented that the online advertising space is "in the first or second inning of a long game here. There's no monopoly on innovation. I don't think you're going to see two or three big players and then game over. There will continue to be a broad range of companies." (MediaPost, 6/15/07)

There are many formats for online advertisements, including text, display, and rich media ads, and also many ways ads can be matched to users, most notably through search terms, contextual matching, behavioral targeting, and demographic targeting. Google has focused on search-targeted text-based ads. Display advertising – static or moving images that appear on a website you're visiting – are also common. Yahoo! has one of the leading display ad platforms in the world. Advertisers increasingly use multiple forms of online advertising, and multiple targeting technologies. For instance, advertisers and publishers who work with us have asked us to complement our text-based advertising with display advertising to support multi-format campaigns. We know that Microsoft, Yahoo!, AOL, WPP and countless others are building out their array of capabilities as well.

The online advertising space is marked by strong competition. There are thousands of companies selling online advertising, including websites that sell ad space directly and intermediaries. Last year saw several major transactions and capital infusion of more than $10 billion. Microsoft, for example, spent $6 billion to acquire the online ad firm aQuantive. These acquisitions are strong signals that the market believes this space has significant room for growth and competition.

More players and more capital are combining to create not only more competition but also more innovation in technologies and business models. Facebook, for example, is experimenting with ways to target advertising to its 80 million active users, aided by Microsoft, which is the exclusive third-party supplier of ads for the social network. With its goal of creating an advertising platform across devices and media (including TV and gaming), Microsoft is aggressively taking steps to grow its search and advertising capabilities. Capitalizing on 2007 annual revenues of $51 billion, Microsoft last month launched a search cash-back program through which searchers can earn cash back from Microsoft for eligible purchases. Clearly, this is an area in which Microsoft expects to compete aggressively for a long time to come.

Google will Continue to Protect Online User Privacy:
Google believes deeply in protecting the privacy of our users. We design our policies and products in way that provides transparency, choice, and security for user data.

Google was the first leading Internet company to decide to anonymize IP addresses and cookies (very small files stored on your computer to, for example, remember language preferences). We've also decided that our cookies will expire after two years of inactivity. We continue to innovate in our privacy protection practices. For example, we're exploring better forms of notice within display ads, which we think would benefit consumers if offered industry-wide.

Google is also committed to industry best practices – including the privacy guidelines of the Network Advertising Initiative – and to continuing to work with the Federal Trade Commission to develop workable and widely-adopted behavioral advertising principles. Google supports passage of a comprehensive federal privacy law that would enhance consumer trust and protections, establish a uniform privacy framework, and penalize and dissuade bad actors.

Every day we spend significant time and resources designing products on the principles of transparency, choice, and security - transparency about what information we collect and how we use it, user choice about whether to provide us with personal information at all, and security to protect information stored with us. We lead the industry in making our privacy notices and education efforts clear, concise, and understandable. Many of our products are designed to let people use them anonymously. None of our products use any personally identifiable data unless fully disclosed in our privacy policy.

We have taken a number of steps in the Yahoo! agreement to protect user privacy. As Google supplies ads to Yahoo! and its partners, personally identifiable information of individual Internet users will not be shared between the companies. Yahoo! will also anonymize the IP address of a Yahoo! searcher's computer before passing a query to Google. Moreover, Google will not provide real time pricing data to Yahoo! and will restrict the information that Yahoo! receives when a user clicks on an ad supplied by Google. These enhanced privacy firewalls demonstrate how vigorously the companies plan to continue competing against one another.

Interoperable Instant Messaging Will Benefit Users:
Google is particularly excited for our users that as part of this agreement, Yahoo! will make its instant messaging (IM) network interoperable with Google's. This will mean easier and broader communication among a growing number of IM users, and enable users to choose among competing IM providers based on the merits and features of the services.

Unlike email, not all instant messaging networks are interoperable. Microsoft and Yahoo!, the two leading global IM providers, made their IM systems interoperable in 2006. In contrast to other leading IM systems, the Google Talk IM network is built on an open, standards-based IM protocol. Yet, neither Microsoft nor Yahoo! are interoperable with Google's IM systems.

The lack of IM interoperability has broader implications for competition on the Internet. As websites become more interactive and users more familiar with online chat, the use of instant messaging is growing at home and at work. Rather than walled gardens, interoperability benefits users by breaking down barriers to communication with users of other systems. With interoperability, users can exchange messages across networks, see friends' online presence, view status, and add contacts from either service. This brings more control and convenience to users.

Ensuring Continued Competition on the Internet:
Competition on the Internet is thriving today because, with a few notable exceptions, most Internet companies are staunchly committed to basic principles of openness and interoperability. The web's open standards and protocols allow users to use any browser on any operating system to visit any web site. In the next phase of the Internet's evolution, known as "cloud computing," users increasingly will manage and store their files online, rather than through software stored on their PCs. All consumers will need to access and use their information is a simple device that can connect them to the Internet.

Openness and interoperability are central to Google's mission to organize the world's information and make it universally accessible and useful. Like many companies, we provide Internet users with a variety of products and services, most for free, that let users share, receive and organize digital information - from our search engine to Google Maps to YouTube. We also offer Google Apps, a web-based suite of collaborative productivity tools (*e.g.*, email, calendar, word processing, spreadsheets and presentation software), which provides a cost-effective solution that is popular with small businesses. Google is not alone, as established companies and Internet upstarts alike are heavily investing in revolutionizing the next wave of innovation online.

Unfortunately, some of our competitors have a fundamentally different approach to competition, one that promotes closed systems and limits consumer choice. On the desktop, too often users are trapped within the confines of a single operating system, word processor, or web browser. Dominance of the desktop can let one company favor its own products and services and obstruct the interoperability of competing products or services, overriding the desires of consumers.

Microsoft continues to maintain dominant positions in desktop computing that could be leveraged to harm competition online. For example, Microsoft maintains more than 90% share in operating systems, more than 95% share in productivity applications through Windows Office, and approximately 80% share of the browser market through its Internet Explorer browser that comes bundled with its other software. Microsoft has a long history of abusing and extending its dominant positions through anticompetitive practices. Seeking to control technical standards or deny interoperability, Microsoft often abuses the licensing process, reveals less than complete information, or prevents data portability. While it's easy to imagine using a different search engine – others are just one click away, and millions of people use different search engines every day – Microsoft has locked consumers into its PC-based software monopolies. For years, Microsoft has been working to leverage that lock-in onto the freer and more open world of the Internet.

Despite publicly proclaiming a new attitude toward opening its products, Microsoft frequently returns to its old habits. Just last year, Microsoft tied its own desktop search into its new Vista operating system, with no way for users to choose an alternate provider from numerous built-in shortcuts. State antitrust regulators stepped in and Microsoft ultimately made some changes to give users partial choice. Similarly, Microsoft's Internet Explorer browser was set up with defaults to send users to Microsoft's search service, until the European Commission stepped in to block Microsoft's attempted tying. Microsoft is currently being investigated for using improper tactics to manipulate the vote of an international standards body. These are troubling examples of Microsoft's longstanding practice of using its control over desktop computing to harm competition.

As you consider the state of competition on the Internet, this Task Force should ensure that Internet users remain in control of their Internet experience. Be wary of a company's attempt to restrict user choice. Companies should compete for users based on the quality of their services, and the innovation they create. That has been the hallmark of the Internet's transformative power as a medium for free expression and economic growth. As the web evolves to become even more interactive and more useful than it is today, we should demand no less.

I appreciate the opportunity to share our view of the competitive dynamics at work on the Internet. Thank you.