

**HEARING BEFORE
THE UNITED STATES HOUSE OF REPRESENTATIVES
JUDICIARY COMMITTEE
SUBCOMMITTEE ON ANTITRUST,
COMMERCIAL AND ADMINISTRATIVE LAW**

July 16, 2019

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I. Introduction

Chairman Cicilline, Ranking Member Sensenbrenner and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today. My name is Matt Perault, and I am a director of public policy at Facebook. I have been at the company for eight years, and I focus on competition and economic policy. It's an honor to be here today to discuss these important issues.

Facebook is a quintessentially American story. The company was founded in a college dorm room fifteen years ago and, since that time, we have transformed the way people around the world communicate, connect and share. We believe deeply in the values of competition and innovation—values that are fundamental to the success of the American economy. It is precisely because of these shared values that Facebook could grow from a dorm room idea to a vibrant and successful American company that now employs almost 40,000 people around the world.

Our heritage is one of invention and iteration. We work constantly to improve our services and products, including by introducing new features that bring people closer together and help keep them safe. This innovative spirit is what drives us to build and enhance our family of free services and products that billions of people now use to connect with friends and loved ones. Facebook also provides entrepreneurs and small and medium-sized businesses the opportunity to advertise inexpensively, to grow their businesses and engage with customers. We recognize that we are a work in progress, and we are committed to addressing the challenges we face as a company in protecting people using our services around the world. But we are incredibly proud of what we have accomplished so far.

II. Innovation and Competition in the American Digital Economy

Facebook is proud to be part of the American innovation economy, which is the envy of the world. The digital sector is a rapidly evolving and dynamic environment in which competition is vigorous. In seven of the last ten years, investment in technology has grown at a faster rate than other sectors, driven by transformative developments like artificial intelligence and virtual reality, two areas in which we have made significant contributions. During the past decade, innovative digital platforms have delivered untold

value to consumers in industries such as payments, transportation, travel, food, retail, and entertainment. The growth and success of these new entrants shows the dynamism in digital markets, the health of the innovation ecosystem in the United States and the value these companies bring to consumers and to the millions of businesses, large and small, that use them to connect and grow.

A. We face vigorous competition for our products and services

In the United States and around the world, new apps enabling users to connect, discover, communicate, and share are emerging all the time. Facebook faces intense competition for all of the products and services that we provide. To name a few examples, Twitter, Snapchat, Apple, iMessage, Pinterest, Skype, Telegram, Viber, Google, YouTube, and Amazon offer photo and video sharing, messaging, advertising, and other services that compete with Facebook.

And the competition we face is not just here in America. We have competitors all around the world, notably in China, including companies like WeChat and TikTok. TikTok, which was launched less than three years ago, has been downloaded more than a billion times and was the most downloaded iOS app in the world in 2018.

Users increasingly spread their time between more and more services. The decreasing cost of high-speed Internet connectivity and the increasing processing power and storage space on personal devices allow people to move easily between different apps, add new ones or use several at the same time. The average smartphone user has more than 80 apps on their phone, and they use close to 40 of those apps every month. And because so many services are low-priced or free, users are able to try new technologies as often as they like. If a user does not enjoy a product or experience, they can—and do—abandon it and explore the myriad other options available. This creates strong competition for every product and service Facebook offers and pressure to develop new features to attract and retain users.

B. There is fierce competition for advertising revenues

The advertising sector is incredibly dynamic, and competition for advertising spend is increasingly fierce. Companies have more options than ever when deciding where to advertise. Unlike a few decades ago, when companies had more limited options, today there are numerous different advertising channels and platforms, and hundreds of companies offering them.

As a result of this competition and choice, advertisers spread their budgets across multiple outlets and channels. Today, more than 92 percent of advertising happens off Facebook. Less than a quarter of new U.S. online ad spend goes to Facebook. To attract advertisers, we must continually demonstrate the value of placing an advertisement on our platform.

And Facebook is able to provide nearly all of its consumer services free of charge because we sell advertising. Millions of Americans use Facebook to connect with the people they care about. Recent research has shown that though Facebook offers these services at no cost, they offer significant value—a huge consumer surplus.

C. Low barriers to entry allow new entrants to compete effectively with established competitors

Constant competition keeps us on our toes and acts as a powerful force that drives us to innovate. Tech is, after all, an industry where major players rise and fall quickly. We continue to witness and experience a sector undergoing seismic change, and history shows that it is very difficult to predict which online companies will thrive over the next few years. Although we are successful today, our continued success is not guaranteed. Neither Facebook nor any other company in the tech sector can rest on its laurels, and we never take our customers for granted.

This is particularly true because barriers to entry for digital platforms are low. Software-based services can be rolled out, adopted and built upon more quickly and inexpensively than industrial products. Launching a new mobile app or online service typically requires minimal staff, capital investment and infrastructure. With the rise of cloud computing, young companies no longer need to build expensive and complex data centers; they can rent (and seamlessly scale) computing power, dramatically decreasing the time and capital necessary to start and grow their businesses. And new entrants can easily distribute their applications to millions of people through app stores that provide instant access to a global audience.

III. Facebook's Investments in Innovation

Facebook was transformative and groundbreaking when it launched fifteen years ago, and we work hard to remain so today. The intense competitive pressures we face push us to evolve and experiment with new ideas and approaches. We work every day to develop the next big technologies that will change how people connect and communicate in the future. We know that if we don't keep improving, our competitors will, and we will lose our users and advertisers.

A. Facebook delivers innovative new ways for people to connect, share and build community

When Facebook was first created, the site consisted primarily of text details about each user. Now, we offer an incredible variety of capabilities through the Facebook family of products and services. Facebook users can create new content, read news, broadcast or watch live video, play games, connect with businesses, buy and sell their own products, send and receive payments, organize groups and events, and raise money for important causes, among many other options. WhatsApp provides secure communication, including voice and video calls. Instagram offers a social experience centered around photo sharing with tools to connect and create. And the Facebook family goes beyond software, with hardware products like Portal and Oculus. In each of these areas, we face numerous

competitors at home and abroad. We are proud of how much we have invented and innovated, and of how much our products and services have improved compared to when we first began.

Providing the highest-quality features and best experience for consumers is at the heart of what we do. We offer innovative services that people use to connect and share with their friends, families and wider communities. Since we launched in 2004, Facebook has introduced new products and features, including News Feed (2006), the Like button (2009), video calling (2011), Messenger (2011), Safety Check (2014), Instant Articles (2015), Facebook Live (2015), Marketplace (2016), peer-to-peer payments (2017), personal fundraisers (2017), Watch (2017), and Watch Party (2018). Features such as our News Feed and the Like button were ground-breaking when we created them, and they have served as models for other companies and apps that have used and iterated on our ideas.

B. Facebook is investing in innovation

In order to stay relevant, Facebook invests heavily in research and development to improve the user experience. We devoted nearly 20 percent of our revenue last year to investments in innovation. We have made significant innovations and contributions in areas such as artificial intelligence (AI), augmented reality (AR), virtual reality (VR), and energy-efficient data centers.

In an effort to share our AI research and learning, we open-sourced one of our most successful AI development tools, PyTorch. PyTorch is freely available for use, lowering the barrier for other companies to create AI technology. We also released Pythia, a deep learning framework designed for vision and language tasks that is built on the PyTorch framework. Pythia enables researchers to quickly build, reproduce and benchmark AI models. Similarly, we are sharing AI Habitat, a new simulation platform created by Facebook AI Research (FAIR) that is designed to train embodied agents (such as virtual robots) in photo-realistic 3D environments. We have hundreds of projects like these available to developers on Facebook Open Source and GitHub, where our projects have hundreds of thousands of followers.

In addition to advancements in these technical areas, our innovations have also advanced our users' sense of community. Our Crisis Response feature allows people to let family and friends know they are safe using Safety Check. This feature also enables users to learn and share information about what's happening and how to help affected communities recover. Safety Check has been activated for more than 1,400 crises, and in 2018 alone, the community used Facebook's Crisis Response for over 300 crises in more than 80 countries.

We have developed charitable giving tools that make it easy for our community to raise money for causes they care about directly on Facebook. We offer tools for people, nonprofits and verified Pages to collect donations from their friends and supporters, and together, our community has raised more than \$1 billion. For example, the nonprofit No

Kid Hungry has raised over \$5 million from more than 200,000 donors on Facebook to help feed kids across the United States.

American innovation takes many forms: new products or services may be built from scratch, achieved through partnerships or made possible through mergers and acquisitions. Like most major American companies, Facebook's acquisitions have played an important role in fueling innovation—both for our own products and services and for the startup community. Acquisitions directly facilitate innovation by bringing together parties' complementary strengths. An acquirer, for instance, may be able to contribute resources, know-how, technology, personnel, and more to an acquired company. In turn, an acquired company may possess specialized experience or other resources that it can contribute to the buyer, allowing the combined firm to grow and succeed. This is particularly significant in the startup context, where established players help fledgling companies thrive over the long term.

These synergies accelerate innovation. They enable the development of new products and technologies and yield improvements in features and services for users. For example, Instagram and WhatsApp have had more opportunity to innovate as part of Facebook than they would have on their own—enhancing users' experience and resulting in more choice for more people overall, not less.

C. American small businesses are growing with Facebook

Facebook has democratized advertising, helping millions of small and medium-sized businesses along the way. Our advertising platform can accommodate almost every budget, and we help advertisers reach their target audience and maximize their impact. Our advertising services have enabled small and medium-sized businesses to grow, create jobs and more effectively compete with larger companies, leading to more choice and better products for consumers. We've heard countless examples of small entrepreneurs across America who could not afford print or TV ads, but who have been able to succeed by using our advertising services to reach a national—or even global—audience. Indeed, recent research shows that digital platforms like Facebook have lowered the cost of advertising and delivered better results for customers.

Our business model makes it possible for businesses of all sizes to reach the exact audiences they want to reach. Today, more than seven million businesses around the world choose to advertise with us every month, and two-thirds of small businesses on Facebook say they've increased sales because of Facebook.

IV. Competition and Regulation

Facebook is where it is today because we have worked hard and taken risks. Our efforts have resulted in significant success, and America does not punish success; it rewards it.

Facebook is working hard every day to meet the challenges we face. In tackling issues like terrorism, misinformation, hate speech, and harassment, we view our size as an asset: we can dedicate 30,000 people to keeping our users safe, invest in industry initiatives to

jointly combat terrorism, and develop the new technologies that are needed to confront these evolving threats.

As we have said previously, we believe in a more active role for governments and regulators in helping address the important and difficult issues that companies confront. Companies like Facebook shouldn't be the only ones developing the rules of the road for these issues, and we would welcome an updated regulatory framework. The rules should reflect the American ideals that have guided and shaped the creation of the Internet: they should incentivize and reward innovation, preserve the freedom for people to express themselves and for entrepreneurs to build new things, and protect society from harm. We would be happy to work with Congress to create policies that protect people, give them choices and enable developers to innovate and compete.

V. Conclusion

Facebook is constantly working to find new ways to help people connect, communicate and share. Like many successful American companies before us, we have grown by taking risks, learning from our mistakes and constantly striving to improve. I appreciate the opportunity to be here today, and I look forward to your questions.