Parliamentary Joint Committee on Corporations and Financial Services - Questions on notice relating to Mobile payment and digital wallet financial services inquiry

Apple Pty Limited

QoN001-06

Apple currently mandates the use of its own Apple Pay payments platform for most types of app-based transactions on its mobile devices. According to several submissions to this inquiry, Apple's share of the value of these transactions (which is understood to be considerable at up to 30 per cent of the transaction value) is not disclosed to consumers and limits competition from other payment platforms (see for example submissions 8 and 11). Apple's terms and conditions are also understood to restrict developers from informing customers about alternative off-app payment options.

Would Apple assist the committee to understand Apple's position by providing:

- a. a response to the submissions noted above; and
- b. further information to that provided in Apple's submission on:
    - i. Apple's approach to app-based transactions; and
    - ii. the reasons for using that approach.

Apple response: As a preliminary matter, the Committee appears to be conflating Apple Pay and the App Store's in-app purchase (IAP) system. Apple Pay is a service enabling consumers to use their existing payment cards to make payments (online and in-store) via an Apple device, such as an iPhone or MacBook. IAP is the payment feature used when a developer chooses to sell digital content or services within their app on the App Store.

There is no requirement to use Apple Pay on the App Store, and developers must use IAP only when selling digital content or services. When a developer chooses to use IAP, they must pay a commission to Apple for each transaction as compensation for tools, technology and distribution Apple provides from running the App Store. However, Apple does not realise any revenue from the vast majority of apps on the App Store (84%), as the majority of activity on the App Store does not result in a commission to Apple. This includes apps with advertising (e.g. BuzzFeed, Instagram); apps that sign-up customers themselves on their own websites (e.g. Amazon, Netflix, Spotify); apps that sell physical goods and services (e.g., Airbnb, Qantas), and free apps (e.g. Wikipedia) and apps with other business models (e.g., Chase).

It is correct that Apple does not disclose Apple's commission to consumers, as consumers do not pay any commission to Apple. The commission is only paid by developers, and they are informed of the commission in their license agreement with Apple.

Apple's App Store and IAP policies are not unique to Apple. Indeed, all of the App Store rules – including both its commission levels and its policies regarding use of Apple's IAP system and free-riding (anti-circumvention) – are commonplace in the industry across other digital platforms, regardless of the size or importance of the operator. These policies are implemented to protect users' security and privacy, as well as platforms' business models and their ability to earn a return on investment.

The requirement to use IAP for sales of digital content through the App Store does not mean that developers are paying Apple to "use" IAP. Rather, developers pay for the use of the App Store when they sell digital content within iOS apps, and Apple collects its commission through IAP.

IAP is the technical implementation of Apple's monetisation strategy and commission model for the App Store – the mechanism that Apple uses to facilitate developer sales within iOS apps and to collect its commission on those sales. The functioning of IAP is dictated by the structure of Apple's commission, not vice versa. A decision to exempt IAP from Apple's commission would have undermined the entire business model of the App Store. Removing the obligation to use IAP would in turn make it practically impossible for Apple to collect its commission. This is why the requirement on developers to use IAP is coextensive with their obligation to pay Apple's commission – i.e., when selling digital goods and services through their iOS apps, but not when selling physical goods and services. Thus criticism of IAP is little more than a disguised complaint about Apple's commission itself.

It has been suggested by some that IAP is "payment processing" and that the 30% commission is Apple's fee for processing payments. This is a deliberate mischaracterisation of IAP. IAP is not a payment processor. Third-party payment processors, such as PayPal and Stripe, do not drive business to developers or provide tools, services and intellectual property to help them create apps. Payment processors do not invest in app distribution platforms that allow developers to access billions of customers in 175 countries. Payment processors also provide no benefits to iOS users that rely on the use of a single, centralised payments feature. Likewise, Apple does not charge a commission for payment processing. The commission reflects Apple's business judgment as how to obtain a return on its significant investments in its third-party technology platform and the value of its distribution platform.

Apple's practice of charging a commission on certain types of transactions is not unique. Many platforms charge commission rates comparable to or in excess of Apple's standard 30% or 15% commission. Many platforms also charge users a service fee for payments on top of their commissions, while Apple does not. In addition, the App Store Small Business Program benefits the vast majority of developers who sell digital goods and services on the store, providing them with a reduced commission of 15% on paid apps and in-app purchases.

Equally, anti-circumvention provisions are necessary to protect consumers and partners alike and reduce free-riding by requiring transactions to take place on their secure platforms and to safeguard the business model adopted. The App Store's anti-circumvention rules are narrowly designed to prevent developers from acquiring users through the App Store and then re-directing them through the app to make purchases somewhere else so that the developer can avoid paying Apple's commission (i.e., compensating Apple for operating the App Store). Allowing this would be akin to Apple placing a sign inside of a Telstra store, informing customers there that they can get a better deal on an iPhone at the Apple Retail Store down the street. Thus, the Guidelines do not "restrict developers from informing customers about alternative off-app payment options" — developers are free to email their customers about off-app payment methods and prices, or include those options in any marketing or advertising campaign.

Each of Amazon, Google, Samsung, and Microsoft have digital application stores that charge commissions similar to those charged by Apple, and each of these platforms have rules requiring certain transactions to occur within their proprietary in-app or in-store mechanisms. Anti-circumvention provisions are a common feature of other app stores, including those from Amazon, Google and Samsung.

Moreover, there are multiple ways for app developers to reach iOS users that do not involve the Apple App Store and therefore provide avenues for developers to avoid paying commissions to Apple. For example, under the Multiplatform Rule, so long as developers integrate IAP, they can also sell their digital content and services outside of the App Store and allow customers to access those content or services within the app, thereby paying no commission to Apple. In addition, developers always have access to the open web and can reach Apple customers via a web browser or a web app, thereby avoiding all App Store rules, including the requirement to pay Apple's commission on digital goods and services.