

Microsoft woos Brussels as battle over the cloud intensifies

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Will the future of global information technology be dominated by a handful of US cloud computing groups, along with one or two Chinese companies operating in a separate sphere of digital influence carved out by Beijing?

That possibility is causing growing anxiety in Europe, where there is a fear that the region's digital future will essentially be controlled from the other side of the Atlantic. And it raises worrying issues for many big users of IT, who could see much less competition in the tech world as the cloud oligopoly takes shape.

So Microsoft's attempt in Brussels this week to tackle both concerns head-on marks a welcome public acknowledgment of what is at stake. Unfortunately, the software company raised more questions than it claimed to answer.

Microsoft's pitch to Brussels directly addressed competition worries, but it also had a clear geopolitical purpose. It was prompted by recent complaints from smaller European cloud companies that the US giant has been unfairly squeezing them out.

After a long and damaging war with the European Commission in the 1990s, Microsoft has learnt its lesson. Brad Smith, the company's president, top lawyer and chief diplomat, came to

Brussels this week to try to head off the next fight before it really gets going. Smith also said he was addressing news reports, including in the FT, that showed customers were unhappy about some of Microsoft's business practices.

The unrest stems from changes Microsoft made to its licensing practices three years ago. These were part of a bigger war it is waging with Amazon and Google in the cloud computing market.

The effects of the 2019 licensing changes are complex, and even many customers haven't yet understood their full impact. Smith's promises this week included rewriting Microsoft's licences to make them simpler – something that has about as much likelihood of happening as a politician's vow to make the tax code clearer.

At heart, the 2019 changes have meant that when customers of Office and Windows move to the cloud, it has become more expensive for them to use rival cloud companies rather than stick with Microsoft's Azure service.

Thanks to tactics like this, Microsoft has been steadily eating into Amazon Web Services' dominant position in cloud computing. According to figures from Synergy Research, its share of the market has doubled to more than 20 per cent since 2017, while AWS's position has held steady, at around 32 per cent.

But what might seem a valid tactic when used against a bigger rival like AWS feels like bullying when smaller cloud companies are concerned. And when those companies are European, it looks like a US giant is deliberately squashing efforts by the region to build an independent tech future.

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Hence all the high-flown language this week, as Smith laid out "principles" that Microsoft says it will follow out of respect for Europe's concerns. Behind the talk, there was also one substantive concession. Any customer who has paid to license Windows or Office under the company's standard "Software Assurance" licence will not have to pay extra if they want to use the software in the cloud – that is, as long as they are using a European cloud company.

Microsoft's pitch was carefully targeted to head off a recent EU investigation. But it raises two bigger issues that are harder to answer. It is questionable whether concessions like the one Microsoft offered this week are enough to give local European cloud groups a real shot at breaking the grip of the dominant US and Chinese rivals.

Smith himself acknowledged Microsoft's pitch may be seen as an attempt to turn Europe's cloud companies into nothing more than resellers for Microsoft's software. The economics of the cloud infrastructure and platform businesses, where massive scale really matters, will always make it hard for smaller players to present real competition.

The other issue is that, while Microsoft is making concessions when it comes to smaller rivals in Europe, it is not doing much to change the way cloud competition is shaping up in the rest of the world.

As a result, it does nothing for customers who worry about becoming overly dependent on a single cloud provider. A big hope for the fast-growing cloud industry was that it would be free of the kind of customer lock-in that has characterised so many tech markets in the past. Microsoft's tactics suggest that hope was in vain.

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