

CLOUD SERVICES MARKET INVESTIGATION

Summary of hearing with Microsoft on 05 March 2025

Introduction

1. The CMA explained the purpose for the hearing, noting the recent publication of the Provisional Decision Report (PDR), and provided an overview of the timetable for the market investigation to the Final Report.

Introductory statement from Microsoft

2. Microsoft said that the cloud services market is complex and the technology that drives it is constantly changing and evolving. Microsoft said that generative AI is radically reshaping cloud services both on the supply side and demand side in the following ways:
 - (a) Capital investment from cloud providers has provided new opportunities for growth for incumbents as well as new entrants.
 - (b) Customers are increasingly choosing their cloud provider based on their ability to transform their business processes and accelerate innovation through AI.
3. Microsoft said that customers' demand has changed: their demand for AI services as part of their workloads has grown over the past couple of years and that it is a critical part of their cloud workload demands.
4. Microsoft said that AWS and Google are well placed to compete effectively for customers that are increasingly looking to use AI. Google has made public statements about how it thinks AI is accelerating its cloud growth and Microsoft said that Google can compete in cloud services, based on Google's earnings reports and profitability, and what Microsoft observes in the market. Microsoft said that Google is investing to expand cloud infrastructure and services globally, demonstrating confidence in its opportunities to grow its cloud business. Microsoft has seen rapid change in market entry and Google has emerged as a highly effective competitor against Microsoft and AWS.
5. Microsoft considered that Google is investing to expand cloud infrastructure and services globally, demonstrating its confidence in its opportunities to grow

its cloud business. Microsoft has observed rapid change in market entry and Google has emerged as a highly effective competitor against Microsoft and AWS.

6. Microsoft said that it is not foreclosing its rivals partially via licensing practises and that any regulatory intervention in this area could have a negative impact on a dynamic and developing market which does not have tipping points or network effects.

Competitive landscape and the impact of AI on cloud

7. Microsoft said that technology innovates in response to changes and that AI is the next inflection point. It said that there is business value in current workloads and that cloud has always been about two things for customers:
 - (a) Taking advantage of cloud architecture to enable flexibility, agility and scalability; and
 - (b) Partnering with a trusted provider to enable transformation. In the last two years the rate at which technology is being introduced, particularly generative AI, has increased dramatically.
8. Microsoft said it considers the totality of Azure services, including the Azure AI Foundry, and the data, network, storage and governance components, help transform businesses.
9. Microsoft said that customers are thinking about how to leverage cloud capability to unlock innovation. It gave an example of businesses that are modernising their platforms and moving applications to the cloud to get their data estate in order and then leveraging AI models to unlock agentic capabilities to gain efficiencies in their supply chains or factories.
10. Microsoft said that customers are increasingly thinking about cloud and AI together and the distinction is blurred. Microsoft said that, in terms of AI services, the PDR's focus on demand for foundation models and GPUs was too narrow as businesses also need platforms to utilise those models.
11. Microsoft said that five to six years ago the revolutionary change in cloud capabilities was containers, and now AI is the latest change. The cloud has a suite of capabilities and cloud providers need to be competitive across all of them, including AI. Microsoft said this changes the dynamics from an IaaS standpoint because customers are looking to utilise AI on their internal workloads to transform their business.

12. Microsoft said that, despite the changes that AI is driving, the nature of competition in cloud services has not changed. It said that the fundamental change is that some cloud providers are more capable and ready to compete with data, machine learning and AI. Microsoft said it is in a strong position, but Google is also very strong and arguably stronger than AWS. It said that a few years ago, Google would not have been considered to be in a strong position in cloud services, but when it comes to positioning and readiness with its AI model and other advancements, it has been able to leverage its data and machine learning success and capability.
13. Microsoft said that Google is different from smaller competitors as it has some attractive services which are front of mind for a number of customers. It has a history of data analytics, and machine learning and is strong on data, which is closely associated with these services. Microsoft said that although Google is in a stronger position now, the market is vibrant and there are new competitors emerging such as partners and chip providers.
14. Microsoft mentioned CoreWeave and Oracle as examples of providers who have grown in cloud as a result of their AI capability. It said that fast growing technology companies require access to compute for inferencing at speed and they will go where they can get that capacity, capability and speed. Smaller cloud providers can then expand from a niche set of services to provide a wider range of services. It also noted that the rapid rise of DeepSeek demonstrates the dynamism of the market and the fact that there are no network effects.
15. Microsoft said that start-up customers have not historically come to Microsoft but that it positions itself as having an adaptive cloud platform, providing a choice of environments, workloads and technologies, noting also its strategic partnership with Open AI.
16. Microsoft said that AI workloads and accelerated compute are not separate from legacy migration workloads: there are no pure AI workloads with only machine learning and separate legacy database workload with just SQL Server. In fact, the database is more useful if it can use AI to interrogate data, and then the whole workload is more useful on the cloud.
17. Microsoft said that customer demand for AI was not affecting their ability to multi-cloud or switch and that competition has intensified over the last year. Cloud providers still compete for every workload on a workload by workload basis. AI is not narrowing competition or leading to a situation where customers choose one provider for all their needs.

18. Microsoft said that customers would not want to distribute components of workloads across different clouds as it would create technical complexities but they are more likely to split cloud usage by different parts of their business, for example HR versus supply chain.

Market structure and outcomes

19. Microsoft said that it agrees that persistent market shares and profitability are relevant, but there is also a lot of innovation, quality improvements and price decreases and that capital expenditure is exploding partly due to AI. Microsoft said that it agreed with five or six of these indicators of market outcomes but it believes they are all equally important, whereas the CMA had stated that some are less important than others. It said that, while the cloud market is not a market in which shares change overnight, the market had become more diversified and more profitable over time.
20. Microsoft said that once AI is incorporated into the cloud services market definition, it queried the exclusion of Google for proposed SMS designations, as it has the significant assets, capabilities and investments necessary to be a strong competitor. Microsoft said that the evidence reflects market dynamics 12-18 months ago and that these market dynamics have changed since with AI being a key element of that change.
21. Microsoft said that UK IaaS market shares understate Google's competitive significance and the CMA should place more weight on capital expenditure.
22. Microsoft said that it agreed with the relevance of a profitability assessment but it noted accounting changes across cloud providers and longer investment cycles which may lead to some adjustments to the CMA's analysis in terms of data and measurement.

Barriers to entry and expansion

23. Microsoft said that there is no question that significant capital investment is required to participate in the cloud market, and economies of scale matter. It said that AI is attracting a lot of investment not only from cloud providers but also from private equity and venture capital. This investment can fund competitors' expansion of data centres and entry into the cloud market, albeit perhaps at a more niche level.
24. It said that network effects may be present in some ways but are not strong, resulting in a market capable of having multiple competitors.

25. Microsoft said that Google does not face the barriers to entry and expansion identified in the provisional decision unlike other providers who may not be able to overcome issues of scale.

Egress fees

26. Microsoft said that evidence suggests that egress fees are not an important factor to customers. Using actual customer data is likely preferable to hypothetical scenarios – and customer data shows that customers are not changing behaviour based on egress fees.
27. Microsoft said that, due to the EU Data Act, it has removed egress fees for switching but customers generally have not switched as a result. Microsoft said that the lack of take up is not due to lack of awareness, nor eligibility criteria, but it reflects that customers are not likely to switch simply for the sake of switching.
28. Microsoft said that there could be unintended consequences if the UK took a different approach from the EU Data Act and global cloud customers could be impacted.
29. Microsoft mentioned its standard and premium levels of network performance and said that a complete ban on egress fees would mean that customers with low egress would pay for customers with high egress. The premium network allows for fast egress and the scarcity of the asset requires price discrimination to allocate it efficiently.

Technical barriers

30. Microsoft said that providers' ability to innovate and create differentiated features is a valuable inherent feature rather than detrimental to customers.
31. Microsoft agreed that technical barriers could be thought of in terms of cost-benefit analysis. It gave examples of how cloud providers and open source communities collaborate and said that those closest to the development of solutions should be the ones setting standards.
32. Microsoft noted that where customers operate in multi markets, possible bifurcation prompted by the implementation of standards could be a concern particularly in such dynamic markets.

Licensing

33. Microsoft said that it did not agree with the CMA's provisional finding that its licensing practices are foreclosing AWS and Google.

34. Microsoft said that AI and modernisation are acutely relevant to understanding competition when it comes to the licensing of infrastructure (Windows Server VM) components in a legacy workload.
35. Microsoft said the CMA's provisional finding is too vague as to which workloads are foreclosed and why Google and Amazon's margins are too low for them to compete for those workloads.
36. Microsoft said that even in the worst case scenario (i.e. when buying a very narrow set of components for a workload) Amazon and Google are not foreclosed.
37. Microsoft said that looking at breadth of margins and the revenues Amazon and Google are doing well. Both companies have made significant capital investments, comparable to Microsoft's. It noted that the wider provisional assessment differentiates between AWS (as the largest provider) and Google (as not big enough to warrant SMS designation) but that both were seen to be in the same position as victims of foreclosure from licensing practises.
38. Microsoft said that it competes fiercely every day, and its competitor set includes Google as well as AWS. It noted that the companies compete in different ways, with different offers including discounts, credits, incentives and technical assistance.
39. Microsoft described its SPLA (service provider licensing agreement) programme. It distinguished between the offering for 'hosters' (who are relatively small and do not have global coverage) and hyperscalers like Google and AWS. Microsoft views hosters as the 'end customers' and they participate in the regular SPLA programme which is a flexible programme that allows them to pay Microsoft monthly for products such as Windows Server and SQL Server to build solutions for their customers. Microsoft has custom contracts with hyperscalers. Microsoft said that its SPLA terms for AWS and Google do not result in a reduction in customer choice or higher prices significant enough to harm competition.
40. Microsoft said that the CMA should not assume that it does not want to make its intellectual property for Windows Server and SQL Server available to Amazon and Google, noting that doing so contributes to its profits and is important to its business. Microsoft said that it is very careful about the pricing of its SPLA – while it does not want to charge too little for the use of its software, if its software was too expensive it would create incentives for large providers to move their customers off Microsoft software and onto an alternative software platform.

41. Microsoft noted that the CMA's provisional findings raised concerns about productivity suites and Visual Studios which are SaaS (software as a service) products since they are typically not designed to be customised or managed by internal IT or third-party solution providers. It noted that the provisional findings otherwise note that SaaS is not part of the market investigation. Further, AWS and Google both have their own equivalents of Office 365 or Microsoft 365 and that these are fully hosted on their infrastructure and sold as finished services. Microsoft does not expect them to allow Microsoft to host those solutions, and would similarly be surprised if they wanted to host Microsoft's finished solutions.
42. Microsoft said that it would not be able to foreclose AWS and Google in scenarios where the licensing input is a very small share of what is being sold. It said that the CMA needed to be more precise regarding how workloads could be foreclosed. It noted that although the CMA has a foreclosure hypothesis relating to large customers, it does not explain what is in their workloads and how or when it is being bought.
43. Microsoft said that no customer buys just a Windows Server VM so when the denominator for calculating the effect on AWS and Google is expanded beyond compute to include essential services such as storage and networking, which must be part of any workload, it is apparent that Google and AWS have more than enough margin to compete and win customers migrating Microsoft software to the cloud.
44. Microsoft said that in the foreclosure analysis it is important to consider how material the Windows IP is in the workloads. It noted that customers need storage, bandwidth and back-up as well as software, but typically purchase many more services. Microsoft accepted that there could be foreclosure with a positive margin but said that the margins Amazon and Google could make are too high for there to be foreclosure.
45. Microsoft said that cloud does not replicate the on-premises environment and that migration to cloud only makes economic sense if workloads are modernised and optimised as well as migrated. It said that customers principally use IaaS and PaaS for back-office workloads and they would use or configure these differently on the cloud with customised solutions using many individual service components.
46. Microsoft said even in a worst-case scenario, Google's margins are sufficient, so there is no need for it to cross-subsidise or loss lead.