Statement of

The Honorable Herb Kohl

United States Senator

Wisconsin

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Today we examine the internet advertising market. We have read daily news accounts of Microsoft's efforts to buy all or part of Yahoo, and proxy wars being fought for control of Yahoo's future. No one knows the outcome of those events. But today we will examine what we do know. Google and Yahoo - the two largest competitors in search-based advertising - have reached an agreement where Yahoo will outsource a portion of its advertising business to Google -- and the two companies will split the proceeds. Yahoo contends that this will add $800 million annually and enable them to become a stronger, independent competitor to Google.

Critics, on the other hand, ask how the agreement could possibly be good for competition. They argue that Google is paying its largest competitor a premium not to compete as vigorously as Yahoo had previously. And, the higher ad rates it will earn will encourage Yahoo to compete even less. So, we are forced to ask today whether this agreement will reduce Yahoo to nothing more than the newest satellite in the Google orbit.

While we will need to study this deal carefully, what is indisputable is the vital importance of internet advertising to the national economy. As we increasingly rely on the internet for commerce, entertainment, communication and news, advertising on the internet has become ever more essential to business. In 2007, more than $ 21 billion dollars were spent on internet advertising in the United States, more than the amount spent on advertising on cable TV, broadcast TV networks, radio, or billboards. And it has tripled in just the last five years.

Google, Yahoo, and Microsoft perform essential functions. Not only do they serve as gateways to the internet, but in doing so, they help businesses and consumers find each other with the most relevant advertising ever seen.So the stakes are very high in maintaining a vibrant and competitive internet advertising sector. One type of internet advertising - the advertising that is displayed with internet searches - is particularly impacted by the Google/Yahoo deal. The two companies together have a 90% market share in internet search advertising, with Google alone controlling more than 70% of the market.

In examining the competitive impact of this deal, we will need to find answers to a number of important questions. What will be the effect of Yahoo outsourcing a portion of its search advertising to its biggest competitor? Will it lead to higher advertising rates, or will it work to advertisers' benefit by giving them a bigger audience? Do other types of internet advertising factor into this equation?

The history of the development of the computer industry gives us reason to be cautious as we evaluate this deal. A decade ago, today's witness Microsoft, came dangerously close to quashing competition throughout the high tech economy. We're pleased that Microsoft has reformed its business practices. But this experience teaches us the importance of acting, and acting early, to ensure that competition is preserved in this vital sector of the economy.