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Competition in the Provision of Cloud Computing Services – Note by Türkiye

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1. An Overview of Cloud Computing Services

1. The evolution of technology has significantly enabled the shift of both economic and social activities to online platforms. Facing high costs associated with developing and maintaining in-house infrastructure, many organizations have turned to more efficient alternatives, primarily by outsourcing or renting cloud computing services. This model allows organizations to scale resources according to their business needs while minimizing upfront investment in physical infrastructure.

2. Cloud computing has emerged as an essential and cost-effective solution, providing remote access to data storage and software applications over the internet on-demand. With cloud services, companies can rent information technologies infrastructure rather than purchasing it outright, allowing them to adopt a "pay-as-you-go" model for computing resources. This model allows businesses to use resources for defined periods, based on specific needs, eliminating the need for substantial capital investment in physical data centers and servers.

3. Cloud computing business models vary significantly among providers, with new frameworks continually emerging to meet evolving technological and market needs. The most widely adopted models include Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS). SaaS allows users to access software applications through thin-client interfaces such as web browsers or programmatic interfaces, eliminating the need for local installation and maintenance. This model offers enhanced accessibility and operational flexibility for businesses. PaaS, on the other hand, enables users to develop, run, and manage applications without the burden of handling the underlying infrastructure. By offering a suite of development tools and services supported by the cloud provider, PaaS allows organizations to concentrate on application functionality and innovation. IaaS provides users with fundamental computing resources—including processing power, storage, and networking—while allowing them to deploy and operate their own software, including operating systems and applications. This model offers a scalable and cost-efficient alternative to traditional information technologies infrastructure, supporting dynamic business needs without the requirement for physical hardware investment.

2. Cloud Computing Services Market in Türkiye

4. The cloud computing services market in Türkiye has witnessed significant growth over the past decade, driven by the country's ongoing digital transformation efforts across both public and private sectors. As businesses increasingly adopt cloud-based solutions to enhance scalability, flexibility, and cost-efficiency, demand for cloud infrastructure, platform, and software services continues to grow.

5. Aligning with global trends, cloud computing has become a key pillar of digital transformation worldwide. In 2023, the cloud services market in Türkiye gained substantial momentum, with a growth rate exceeding 30% and over 16% of businesses investing in

cloud solutions¹. However, despite this rapid growth, the market remains in the maturing phase and is yet to reach its full potential when compared to global benchmarks.

6. The competitive landscape of the Turkish cloud computing sector is characterized by a high number of players, including both global technology leaders and domestic providers. Global companies such as Amazon Web Services (AWS), Microsoft Azure, Google Cloud Platform (GCP), Alibaba Cloud, IBM Cloud and Oracle Cloud Infrastructure (OCI) are actively competing in the Turkish market, leveraging their advanced technological infrastructure, extensive service portfolios and international experience. These firms have either directly entered the Turkish market or established partnerships with local stakeholders, contributing to the dynamic and competitive environment.

7. In addition to these international players, local firms such as Bulutistan, Türk Telekom and Turkcell have played an instrumental role in shaping the market. These companies offer tailored cloud solutions, often designed to comply with national regulations, data residency requirements, and sector-specific needs. Their investments in domestic data centers and hybrid cloud offerings have strengthened their competitive positions and fostered further innovation within the sector.

8. The coexistence of international and local firms within the cloud computing market creates a competitive and dynamic environment, driving innovation and service diversification. As demand for cloud services continues to rise, the competitive intensity is expected to increase, prompting providers to differentiate based on factors such as security, performance, localization and value-added services. This competition is essential for ensuring that the Turkish cloud computing market remains vibrant and responsive to both domestic and international needs.

3. Major Competitive Concerns About Cloud Computing Services²

9. The large volumes of data collected through cloud services contribute to enterprises gaining a competitive advantage. In this context, it can be stated that among the potential competition concerns in the sector, those related to data are of primary importance. In particular, certain challenges and disadvantages concerning privacy and security have also emerged.

10. According to the information gathered from market participants, key issues that need to be addressed within the sector include data transparency, data portability, and interoperability. There is a general view that, as cloud services continue to grow, the core competitive factors of the future will revolve around interoperability, open-source adoption, and data portability. Interoperability implies that products and services can function across multiple cloud environments, rather than being confined to a single one, thereby intensifying competition among infrastructure providers. This would help prevent customer lock-in to specific providers and enable users to try new offerings and switch providers more freely. Furthermore, this dynamic would encourage providers to compete based on the quality and cost of their services, ultimately leading to increased innovation incentives.

¹DELOITTE and TÜBİSAD, “*The Future of the IT Sector and Ecosystem Economy*”, Available in Turkish at: <https://www.tubisad.org.tr/tr/images/pdf/tubisad-ekosistem-ekonomisi-deloitte.pdf>.

² This section draws on data obtained from the legislative study conducted by the Turkish Competition Authority. Available in English at: <https://www.rekabet.gov.tr/en/Guncel/the-study-the-impact-of-digital-transfor-12f67aa700e2ee1193c80050568585c9>.

11. Responses from enterprises regarding data sharing and privacy indicate that contractual agreements generally include clear information about how user-related data is collected and used. These responses also emphasize that customer privacy and data security are taken seriously, that the sharing of customer data is prohibited, and that customers can access, export, and delete their own data.

12. From a competitive standpoint, market entry in cloud storage services requires a sufficient level of infrastructure and storage capacity to offer services effectively to users. Other relevant entry considerations include security, privacy and data transfer speed. Based on the number of active players and the written responses provided by enterprises, it can be concluded that there are no significant barriers to entry, including regulatory ones. However, it has been observed that local providers (e.g., Vodafone, Turkcell, Türk Telekom) have reported a degree of technical and commercial dependence on large, established firms operating across various sectors, which may negatively impact their competitiveness. At this point, certain conduct by enterprises that favor their own applications and services could adversely affect new entrants and local firms. For example, some enterprises are reportedly offering their cloud services pre-installed on their own hardware devices.

13. In conclusion, it is observed that the sector currently hosts a wide range of competing players, with no significant barriers to market entry. Most market participants have indicated that there are no practices of concern and that the market remains competitive. Considering the growing volume of data, it can be concluded that promoting data transparency, portability, and interoperability is crucial for maintaining fair competition and addressing potential concerns in the cloud computing sector.

4. Experiences of the Turkish Competition Authority (TCA)

14. The first action taken by the TCA regarding the cloud computing services market was the inclusion of cloud computing services among the core platform services as part of the legislative work³ on digital markets. Although the cloud computing services market in Türkiye is still in a developmental phase, it has been concluded that, due to both the rapid growth trend and increasing importance of the market, as well as alignment with the EU's Digital Markets Act (DMA) – which serves as a model regulation – it would be appropriate to include such services among the core platform services. In this context, cloud computing services have been defined as “*online services that provide access to a scalable and flexible shared pool of computing resources*” yet the discussion regarding their classification as core platform services is ongoing.

15. On the other hand, TCA has not undertaken any competition enforcement activity specifically targeting cloud computing services to date. Similarly, there have been no merger or acquisition cases involving this market that have proceeded to the final review stage. However, there have been certain proceedings in which cloud computing services were addressed, though not directly.

16. As part of a preliminary investigation conducted by TCA, allegations were examined regarding Microsoft’s cloud-based Dynamics 365 ERP system being tied to its cloud computing services (Azure). It was claimed that Microsoft was leveraging its position in the enterprise resource planning (ERP) software market to compel customers to adopt

³ The draft legislative amendment has been submitted to the Grand National Assembly of Türkiye and the legislative process is currently ongoing.

its cloud-based ERP product, which operates on Azure, thereby allegedly transferring its market power to the cloud computing market. Specifically, it was alleged that customers wishing to purchase the on-premise version of Dynamics 365 were being pushed toward the cloud-based alternative operating exclusively on Azure.

17. Based on the information obtained, it was concluded that the operating principles of cloud-based ERP systems blur the line between ERP systems and cloud computing services, and that these systems are inherently interconnected. In other words, it was assessed that cloud-based ERP systems do not constitute the imposition of a tied product on customers, since the cloud platform is designed as the environment in which the ERP system operates. Therefore, it was concluded that from the perspective of cloud-based ERP services, the service purchased by customers (or consumers) constitutes a single integrated service rather than two tied products.

18. Furthermore, even if the existence of technical tying is accepted in the context of cloud-based ERP systems, it was understood that enterprises using such systems can only utilize cloud computing services directly related to the ERP system, and they are free to work with any cloud service provider of their choice for other needs such as storage or data sharing solutions. Additionally, within the scope of the case, Microsoft stated that enterprises using third-party cloud computing services or hosting their operations on such platforms can connect with the cloud-based Dynamics 365 running on Azure and can use import/export data features. At this point, considering Microsoft's relatively small market share in ERP software services, it was assessed that the likelihood of any potential exclusionary effect arising is low.

19. Taking all these factors into account, it was concluded that the structuring of Microsoft's cloud-based ERP system to operate on its Azure platform does not pose a potential or actual exclusionary effect in the cloud computing services market, and therefore, Microsoft's behavior does not constitute a tying practice in violation of Article 6 of Law No. 4054. As a result, the process was not escalated to the investigation stage.

20. On another front, in the TCA's decision regarding Microsoft's acquisition of Activision, it was noted that one of the markets to be examined under vertical effects was the cloud gaming services market. In this context, it was found that Microsoft is active in providing cloud gaming services, while Activision Blizzard is engaged in game development and publishing. In line with the evaluations of the European Commission and Competition and Market Authority (CMA), the investigations indicated that cloud gaming is expected to grow and become profitable within five years, and that short-term losses are common in emerging technology markets, but do not hinder the market's growth or continuity. The market holds significant potential. Despite currently being a small and emerging market, it was observed that the cloud gaming services market hosts many players, most of whom are powerful enterprises operating ecosystems across multiple global markets. Accordingly, it was assessed that there is intense competition in the market, which is expected to continue and increase in the near future⁴.

21. Lastly, in order to provide a comprehensive understanding of the market structure and to identify any potential anticompetitive effects, TCA plans to initiate a sector inquiry into cloud computing services in 2025. This planned inquiry aims to shed further light on

⁴ In the context of the relevant case, it was concluded that concerns regarding the market's closure to competitors were fully alleviated within the framework of the commitments submitted by Microsoft to the Commission. It was also determined that the commitments are valid for Türkiye and will remain valid for future entrants to the market. Considering that Microsoft is currently in contracts with many companies, it was concluded that the transaction would not create any anticompetitive concerns in terms of unilateral effects in the cloud gaming market.

market dynamics, assess the degree of competition and evaluate potential concerns that may arise in light of the sector's rapid growth, increasing strategic importance, and evolving technological landscape.