











CMA's invitation to comment on AI partnerships and other arrangements **Submission from CSOs: May 2024**

Introduction

Thank you for inviting comments on the next wave of roll-ups in the Al industry: Microsoft/Inflection, Microsoft/Mistral, and Amazon/Anthropic. We are a coalition of civil society groups concerned about growing corporate concentration in Al and technology markets more generally. This comment builds on our previous submission about the OpenAI / Microsoft tie-up.¹ and we seek interested party status in these investigations.² The submission covers:

- 1. Why these partnerships should be investigated in general:
- 2. Specific issues with Microsoft/Inflection, Microsoft/Mistral, and Amazon/Anthropic;
- 3. Ways forward for the CMA to preserve competition in the Al sector now.

Unless the CMA intervenes now, Big Tech is going to swallow up the next 20 years of computing innovation. As pointed out in the CMA's own recent report on AI, at least 90 partnerships already exist involving GAMMAN (Google, Amazon, Microsoft, Meta, Apple and Nvidia) firms and GenAl partners³. These 'partnerships' distort competition. They also transfer yet more power to existing digital monopolies. To understand what is at stake, we only need to look across the Atlantic.

On 2 May 2024, the US Justice Department began closing arguments in the "antitrust trial of the century"—the Google search monopoly case. The case showed Google spends more than \$20 billion each year on partnerships and exclusive deals "to lock up search queries for itself, deprive rivals of scale, and thwart entry by innovative competitors".

While we celebrate the DOJ's action, as the CMA knows, unwinding a monopoly of Google's scale is no mean feat. Google will litigate this case until the bitter end. And even if it succeeds, Google's search monopoly—defended by search partnerships, which Google uses to infiltrate every major mobile operating system and browser—will prove difficult and expensive to unwind.

There was nothing inevitable about this situation. Antitrust enforcers should, and could, have acted early to keep the search market open—stopping acquisitions and anticompetitive

¹ ICCL et al., "Submission to CMA on Microsoft-OpenAI "partnership" merger inquiry," 8 January 2024. URL: https://www.iccl.ie/news/submission-on-microsoft-openai-partnership-merger-inquiry/

² Balanced Economy support this submission but do not seek interested party status.

³ CMA. Al Foundation Models, Technical update report, 16 April 2024. URL: https://assets.publishing.service.gov.uk/media/661e5a4c7469198185bd3d62/AI Foundation Models tec hnical update report.pdf

partnerships (and more) before Google locked in its dominance and hurt competitors who offered alternative search tools that, for example, didn't spy on people.⁴

The CMA must not allow history to repeat itself. All may be the most critical enforcement challenge of this decade. It is not too late to preserve competition in All markets—but the CMA should step in now. These "partnership" deals have different formal structures but they all reflect the same underlying strategy by Big Tech: to bring insurgent All startups into their fold (and under their control) so that they never pose a serious competitive threat. Big Tech knows enforcers are watching: so they have carefully structured deals to avoid scrutiny. This gambit should not succeed.

As a start, the CMA should take all three of these "partnerships" to a full Phase 1 investigation and assess their effects on the whole AI sector and ecosystem, with a focus on three key risks. First, that these "partnerships" give the investing firms "material influence" over the startups. Second, that they will result in a "substantial lessening of competition" overall. Third, that the "partnerships" represent anti-competitive agreements under Chapter 1 of the 1998 Competition Act and will distort competition in the UK AI market and in adjacent markets (for example, cloud computing). Where the CMA uncovers practices and developments that may reduce competition (as is likely here), it should unwind the partnerships.

These partnerships must be investigated

A clear pattern is emerging: dominant tech firms are acquiring AI technology and expertise while dodging merger control regimes. By pouring money into AI startups and hiring their key staff, these incumbents (particularly the three cloud computing giants Google, Amazon, and Microsoft) hope to replicate the benefits of mergers—and dominate AI development in the process—without attracting the scrutiny of competition authorities.

Financiers of AI deals understand these partnerships as incumbents' bids to grandfather their dominance into the AI age. As one partner at Silicon Valley VC firm Menlo Ventures described Microsoft/Inflection⁶: "[m]any people are getting this deal wrong. This is the new way the

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⁴ Dara Kerr, "U.S. v. Google: As landmark 'monopoly power' trial closes, here's what to look for," 2 May 2024. URL: https://www.npr.org/2024/05/02/1248152695/google-doj-monopoly-trial-antitrust-closing-arguments ("Gabriel Weinberg, DuckDuckGo's CEO, said his privacy-centric search engine company tried relentlessly to negotiate deals with device makers but it never panned out. 'We ultimately decided after three years of trying this that it was a quixotic exercise because of the contracts,' Mr. Weinberg testified.")

⁵ As defined in the 2021 Merger Assessment Guidelines. URL: https://assets.publishing.service.gov.uk/media/61f952dd8fa8f5388690df76/MAGs_for_publication_2021_--.pdf

⁶ Menlo Ventures, a Silicon Valley venture capital firm, has a stake in Anthropic AI. Chris Mckay, "Microsoft Reportedly Paying Inflection \$650 Million for AI Talent and Tech," 21 March 2024. URL: https://www.maginative.com/article/microsoft-reportedly-paying-inflection-650-million-for-ai-talent-and-tech/

Magnificent Seven are going to do acquisitions. You get the IP and team without FTC scrutiny or approval."⁷

A 2019 exchange between Microsoft's CTO Kevin Scott and CEO Satya Nadella—released to the public in the Google search trial—effectively concedes that Microsoft's investments are seeking to make up for competitive failures. Scott explicitly worries that Microsoft has fallen behind the competition (including OpenAI) in AI, complaining to Nadella that "we are multiple years behind the competition in terms of ML scale." Nadella replies that Scott's "very good email" "explains why I want us to do this [invest in OpenAI]," and "also why we will then ensure our infra folks execute."

The EU Competition Commissioner, Margrethe Vestager, has also noted "that this is happening... in a way so that it escapes our scrutiny from our usual boxes."¹⁰

More specifically, we see several competition issues that the CMA should investigate:

- Operational independence: whether Microsoft and Amazon are allowing Mistral, Inflection and Anthropic to independently compete for customers, including against themselves:
- Strategic independence: whether Microsoft and Amazon are directly or indirectly "driving" the direction of innovation at these startups away from what they would otherwise do (for example, by pushing them to closed-source, or away from Al model development altogether);
- Privileged access: whether (i) Microsoft or Amazon have privileged access to Mistral, Inflection and Anthropic's models, conferring an unfair advantage in developing their own products compared to other market participants; and (ii) the startups have privileged access to Amazon or Microsoft's technologies and platforms, compared to their competitors;
- Actual or de facto exclusivity: whether the licensing deals are tailored in a way that
 prevents Mistral, Inflection and Anthropic from using technologies or services that
 compete with those of Microsoft and Amazon, and whether Microsoft and Amazon have
 exclusive access to any of the startups' technologies;

⁷ The Economist, "How to build a global business empire in the 21st century," 22 April 2024. URL: https://www.economist.com/business/2024/04/22/how-to-build-a-global-business-empire-in-the-21st-century?giftld=c34181fb-bec7-4ecf-8906-af6515528e96; and Jacob Schaal and Tekla Emborg, Verfassungsblog, "Overcoming Big Tech AI Merger Evasions: Innovating EU Competition Law through the AI Act," 29 April 2024. URL: https://verfassungsblog.de/overcoming-big-tech-ai-merger-evasions-innovating-eu-competition-law-through-the-ai-act/: "In the recent case of the AI startup Inflection, Microsoft took over central talent (leaders and employees) from Inflection, which announced it would stop improving its model. This is essentially a killer acquisition without any formal acquisition, and it falls outside the application of the Merger Regulation".

⁸ Kevin Scott and Satya Nadella, email exchange,12 June 2019. URL: https://assets.bwbx.io/documents/users/iqjWHBFdfxIU/r22rfPap2wyQ/v0.

¹⁰ Sahm Capital, "Is Microsoft's Talent Poaching of Inflection Staff Inviting EU Scrutiny?" 4 Apr 2024. URL: https://www.sahmcapital.com/news/content/is-microsofts-talent-poaching-of-inflection-staff-inviting-eu-antitrust-scrutiny-margrethe-vestager-warns-if-things-become-a-trend-2024-04-04).

- Access to inputs: whether (i) Microsoft and Amazon will make it difficult for Mistral, Inflection and Anthropic to offer their products and services to other firms; and (ii) the partnerships incentivise Microsoft and Amazon to restrict access to inputs to rivals of Mistral, Inflection and Anthropic;
- Killer (or reverse killer) acquisitions: whether the deals have slowed and/or stopped innovation in the startup firm, or by the investing incumbent;
- Collective effect of these partnerships: whether, taken together, these deals significantly reduce competition by creating oligopolies throughout the Al value chain and by reinforcing dominance in existing ecosystems.

Microsoft

It isn't just Inflection and Mistral. Microsoft is busy buying its way out of the hole its CTO Frank Scott described to CEO Satya Nadella in their June 2019 email exchange—just 40 days before the OpenAI partnership was announced. Since then, Microsoft's aggressive "land and expand" strategy has sought to capture each link in the AI value chain by leveraging its dominance upstream (in cloud infrastructure and compute) and downstream (in user-facing applications and platforms). It has now infiltrated several AI startups developing large language models. To date, these deals include:

- 2019-present: a \$13 billion investment in Open AI and a 49% stake in the firm, the apparent power to dictate the firm's leadership, and a 'non-voting' board seat;
- February 2024: a €15 million investment in Mistral and an agreement giving Mistral access to Microsoft's Azure infrastructure, with Mistral making its models available to Azure customers and collaborating with Microsoft on "purpose-specific" models;
- March 2024: a \$620 million licensing deal with Inflection, in addition to Microsoft absorbing the US-based startup's CEO and most of its staff;
- April 2024: a \$1.5 billion investment in the UAE company G42, giving Microsoft a minority stake and a board seat.

All these deals deserve scrutiny, as well as any similar partnerships yet to be announced. ¹² We address Inflection and Mistral in this submission.

Inflection

Through this deal, Microsoft has completely hollowed out a competing startup. It is hard to see how Inflection will survive as a meaningful market force. There are good reasons to see the deal as a "killer acquisition" which has destroyed a potential rival.

For one, all the core staff are gone. Now, instead of developing products for a wider market and competing against the likes of Microsoft and OpenAI, Inflection CEO Mustafa Suleyman, former

¹¹ Kevin Scott and Satya Nadella, email exchange, *supra* note 8.

¹² On Microsoft/OpenAI, see our submission to the CMA of 8 January 2024, *supra* note 1.

Chief Scientist Karén Simonyan and other ex-Inflection staff have become "Microsoft AI", working to integrate OpenAI's technology across Microsoft's product suite.

But it's not just that Inflection lost its core talent¹³ in a market where human capital is essential. Microsoft also agreed to pay \$30 million compensation to the rump of Inflection to head off any legal challenge to the acqui-hires and secured a non-exclusive licensing deal worth \$620 million that lets Microsoft use Inflection AI's models. There are hints that the deal may in practice be worth more than \$1 billion after various fees. The licensing agreement was omitted in Microsoft's public announcement.¹⁴

What's left of Inflection is now giving up on its own chatbot, which directly competed with Microsoft and OpenAI. Instead of focusing on the personalised AI models which made its name and raised \$1.3bn in investment (in particular Pi, a ChatGPT rival), Inflection has retreated to testing and fine-tuning models as an "AI studio business". This raises doubts about the future of "Inflection-2.5", a direct competitor to OpenAI's GPT-4 and Google's Gemini—launched just weeks before the Microsoft deal went public. 16

The Microsoft deal almost certainly influenced Inflection's pivot away from model development, and internal documents are likely to show as much.

Absorbing Inflection's talent will help Microsoft use AI to entrench its dominance in productivity software, operating systems and cloud computing. Microsoft's licensing of Inflection's models will also boost its position in AI, for example by integrating it into its Copilot assistant.

Meanwhile, will we hear from what is left of Inflection ever again? We doubt it. 17

Mistral

With this investment, Microsoft took a minority shareholding which will convert to an undisclosed equity stake after Mistral's next funding round, and may hold voting rights in the future. While the initial investment figure is small, the infrastructural tie-in with Microsoft is likely to give

¹³ The role of Reid Hoffman may also raise concerns. Sitting on both Microsoft and Inflection's boards may have helped Microsoft influence Inflection's decisions.

¹⁴ Microsoft, "Mustafa Suleyman, DeepMind and Inflection Co-founder, joins Microsoft to lead Copilot," 19 Mar 2024. URL: https://blogs.microsoft.com/blog/2024/03/19/mustafa-suleyman-deepmind-and-inflection-co-founder-joins-microsoft-to-lead-copilot/.

¹⁵Inflection, "The new Inflection: An important change to how we'll work," 19 Mar 2024. URL: https://inflection.ai/the-new-inflection

¹⁶ Inflection, "Inflection-2.5: meet the world's best personal AI," 7 Mar 2024. URL: https://inflection.ai/inflection-2-5

¹⁷ Devin Coldewey, "After raising \$1.3B, Inflection is eaten alive by its biggest investor, Microsoft," 19 Mar 2024. URL: https://techcrunch.com/2024/03/19/after-raising-1-3b-inflection-got-eaten-alive-by-its-biggest-investor-microsoft/

¹⁸ Karen Gilchrist, "Microsoft invests in Europe's Mistral AI to expand beyond OpenAI," 26 Feb 2024. URL: https://www.cnbc.com/2024/02/26/microsoft-invests-in-europes-mistral-ai-to-expand-beyond-openai.html

Microsoft far more influence than this first investment would suggest. And if Microsoft's serial investments in OpenAI are any indication, this initial stake will likely expand.

There are reasons to believe that Microsoft has already influenced Mistral's commercial strategy and has material influence over the startup. Before the partnership, Mistral focused on developing open-source Al. The day the Microsoft deal was announced, Mistral launched a closed Al model, Mistral Large, with some suggesting that Microsoft triggered this strategic shift. This is one of the precise risks the CMA underlined in its recent report: "we would be concerned if the market did not sustain a range of FMs, including open-source models". After the move to closed-source, competing businesses may find themselves locked out of later iterations of Mistral's Al.

And while the partnership may well help Mistral develop its products and increase its revenues²¹, we fear it will also distort competition in several important ways.

First, the partnership will bind Mistral to Microsoft's Azure platform for years. Although the licensing agreement may not be formally exclusive, Mistral will have limited incentive, given high switching costs, to move from Azure to a competing cloud platform and will become dependent on Microsoft's infrastructure. The partnership will therefore strengthen Microsoft's entrenched position in cloud computing, where it already enjoys a market share of around 25%.²²

Second, the partnership is likely to further reinforce Microsoft's growing dominance in AI, building on the advantage it has secured by investing in OpenAI, Inflection and other AI startups. Crucial here is the extent to which Microsoft will gain privileged or exclusive access to any of Mistral's technology under the terms of the agreement, particularly when it comes to Microsoft and Mistral's plans to collaborate on "purpose-specific" models.

Third, the partnership risks empowering Microsoft to steer Mistral away from direct competition with Microsoft and Microsoft partners such as OpenAI, and away from open-source. This would alter the direction of AI innovation in a way that ultimately limits diversity and choice.

We urge the CMA to investigate the extent to which Microsoft has the ability to influence, and has influenced, Mistral's commercial strategy, as well as the impact the partnership will have on the broader cloud computing, productivity software and AI markets.

Amazon / Anthropic

Through this deal, Amazon has implemented a strategy similar to Microsoft's. Both companies are seeking to capture innovative AI developers by flexing their market dominance in cloud and

¹⁹ Daphné Leprince-Ringuet, "Mistral's deal with Microsoft is causing controversy," 28 Feb 2024. URL: https://sifted.eu/articles/mistral-microsoft-deal-controversy.

²⁰ CMA, "Al Foundation Models Update Paper," 11 Apr 2024, para. 57. URL: https://assets.publishing.service.gov.uk/media/661941a6c1d297c6ad1dfeed/Update Paper 1 .pdf

²¹ Accessing the Azure platform and being able to sell its products to the wide range of customers using the platform is a significant asset for Mistral.

²² Felix Richter, "Amazon Maintains Cloud Lead as Microsoft Edges Closer," 2 May 2024. URL: https://www.statista.com/chart/18819/worldwide-market-share-of-leading-cloud-infrastructure-service-providers/

other critical inputs and markets. Here, Amazon has leveraged its AWS cloud platform and advanced semiconductors, both of which are crucial to developing advanced AI models.

Several aspects of the deal appear problematic from a competition perspective, while seeming to show that Amazon has material influence over Anthropic. These include:

- Anthropic's dependence on Amazon as its "primary" cloud provider for "mission critical workloads" including, notably, future foundation model development;
- The apparent requirement for Anthropic to use Amazon's proprietary chips in building, training and deploying its future foundation models;
- The requirement for Anthropic to provide AWS customers with early access to unique features of its models, and to allow Amazon's engineers and developers to integrate Anthropic's technology into their work;
- The \$4 billion that Amazon has invested into Anthropic to date.

Since AWS is Anthropic's "primary" cloud service provider, the partnership may also give rise to a *de facto* exclusivity agreement. This may be so if Anthropic has no incentive to seek another cloud service provider or is prevented from doing so (for instance by switching costs, contractual restrictions or interoperability barriers). Conversely, Amazon may also use its control of AWS to make it more difficult for competing AI developers to have access to Anthropic's technology.

By tying Anthropic into what appears to be a *de facto* exclusivity arrangement, and giving AWS customers access to better features, Amazon is well positioned to strengthen its dominance in cloud computing while restricting rivals' access to Anthropic's technology and custom. Similarly, by seemingly requiring Anthropic to use Amazon's chips for training its models, it is artificially restricting the ability of other chipmakers to seek Anthropic's business.

Meanwhile, Amazon may be able to use privileged access to Anthropic's technology to strengthen other parts of its ecosystem, including its dominant Marketplace and smart device suite. Finally, Amazon's major funding will help it influence Anthropic's commercial strategy, while disincentivising the startup from innovating in ways that compete directly with Amazon.

Way forward

While we appreciate the CMA's careful study of the AI market and note its growing "concern" about "negative market outcomes", words are no longer enough; now is the time for action. "Urg[ing] firms to align their business practice with the [CMA's AI] principles" is tantamount to asking dominant players to stop their monopolistic behaviour of the last 20 years. It is, in our respectful view, unrealistic.

We reject claims that rigorous action to disperse power will harm the Al market. To see why this is wrong, consider the history of Silicon Valley itself, which was largely *created* by robust antitrust action in the wake of the Second World War.

²³ CMA, "Al Foundation Models Update Paper," supra note 19, at 10.

In 1956, American Telephone and Telegraph (AT&T) was the largest private firm in the world.²⁴ It had some 598,000 staff, revenues of \$2.9bn, and a monopoly not just over US telephone networks, but on the research and manufacturing of telecommunications equipment through Bell Labs. In short, it was much like the tech giants we now face—a vertically integrated monopoly. This slowed innovation and change. Bell Labs, for example, had developed the transistor—but AT&T was slow to ratchet up manufacturing, preferring to protect the rest of its monopoly portfolio.

In stepped the US Justice Department. As a result of an antitrust lawsuit which sought to break up AT&T, the DOJ in 1956 won a consent decree that had two critical pro-competitive effects. First, AT&T was quarantined out of computing, making room for upstarts to compete. Second, AT&T was made to open up its IP—making over 7,000 US patents available to competitors royalty-free, sparking a wave of innovation which kicked off the computer age. This offers a lesson for today's enforcers in the age of Al. If the transistor was "the defining general purpose technology of the 20th century," 25 artificial intelligence may well fill that slot in the 21st.

There is already precedent for similar formal separation and common carrier-like requirements²⁶ in UK law. British Telecom Openreach, for example, was formally separated from BT retail.²⁷ Rather than a full break-up, the Openreach-BT arrangement drew up rules for separation, acknowledging it might need to change depending on technological developments. The remedy was designed to be flexible and to accommodate future innovations. Under the scheme, Openreach had to give access to its broadband structure on the same terms to competing firms as the rest of BT—any new technology applied upstream had to be supplied on the same fair and equal terms to everyone else. Ofcom—through the Openreach Monitoring Unit²⁸—formally polices this separation to ensure it is still working.

No similar protection has yet been achieved in cloud computing infrastructure (or AI)—making an intervention to rein in market power badly overdue. If Amazon, Microsoft, and Google can project themselves into controlling the next wave of technologies, the direction of innovation will trend towards ever-greater scale and concentration. And any innovation will preserve the narrow interests of Big Tech, to the detriment of open, fair and effective competition, ultimately harming businesses, consumers and the wider public interest.

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²⁴ This story is set out in detail, with economic analysis, in Watzinger, Fackler, Nagler, and Schnitzer, "How Antitrust Enforcement Can Spur Innovation: Bell Labs and the 1956 Consent Decree", 9 Jan 2017. URL https://economics.yale.edu/sites/default/files/how_antitrust_enforcement.pdf ("In the first five years [after the 1956 consent decree] alone, the number of patents increased by 25% in fields with compulsorily licensed patents compared to technologically similar fields without; and it continued to increase thereafter. This increase is again driven by small and new companies outside the telecommunications industry.") See also Wu, Cohn, and Richman, "Antitrust/Pro-Internet", podcast, 9 April 2024. URL: https://www.eff.org/deeplinks/2024/04/podcast-episode-antitrustpro-internet.

²⁶ More commonly known in the UK as 'FRAND' access - Fair, Reasonable, and Non-Discriminatory.
²⁷ This separation was done under Ofcom's competition powers and involved an agreed settlement with BT. Georgina Hutton, House of Commons Briefing Paper, "BT And Openreach," 11 Jan 2019. URL: https://researchbriefings.files.parliament.uk/documents/CBP-7888/CBP-7888.pdf

²⁸ Ofcom, "Openreach Monitoring Unit." URL: https://www.ofcom.org.uk/phones-telecoms-and-internet/information-for-industry/telecoms-competition-regulation/openreach-monitoring-unit

The US Federal Trade Commission has warned that "the cost of inaction can be outsized in AI markets because excessive market power can distort the path of innovation and discourage future investment in AI research and development"²⁹. History teaches us that Big Tech firms will wield their power to expand into new areas, while preventing any disruption to their dominance in existing markets from new technologies. Whatever the incumbents claim about the models sitting on top of their infrastructure, unless enforcers take action upstream in the market, AI markets are likely to tilt towards monopoly.

Conclusion

As a start, these partnerships should all be taken to Phase 1. If, upon investigation, the CMA finds the agreements are anticompetitive by (for example) tying developers of key AI models to incumbent cloud platforms, the CMA should unwind the partnerships.

But policing these three investments, while important, is unlikely to be enough. Very soon, antitrust authorities will likely need to move towards remedies which proactively *shape* the Al market, inspired by those the DOJ used with AT&T and Ofcom negotiated in BT/Openreach. This includes structural interventions, common carrier/public utility ('FRAND') rules, forced licensing, and, if necessary, full corporate quarantines—to keep Al a vibrant, competitive landscape.

Stakes are high and time is short. We urge the CMA to act swiftly before tech giants lock themselves in, in a way that will be very hard to unpick later. The CMA has all the powers needed to respond to this threat. It should not hesitate to wield the tools it has now and will be made available to it under the new competition regime³⁰, whether via pro-competition interventions (to impose structural remedies or fair access to inputs) or investigations (with a wider breadth of remedies, including guarantine measures).

Yours sincerely,

Foxglove
Open Markets Institute
ICCL Enforce
Article 19
Rebalance Now
Clean Up The Internet
Balanced Economy Project (supporting)

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See Comments by Henry Liu, FTC Bureau of Competition Director, "FTC Tech Summit," Transcript, 54, 25 January 2024. URL: https://www.ftc.gov/system/files/ftc_gov/pdf/transcript-ftc-tech-summit-1.25.24.pdf
 We note Professor Jason Furman's comments on the powers under the Bill (now Act) being needed with reference to Microsoft and OpenAl: Jason Furman, Hansard, 13 June 2023, column 27. URL: https://hansard.parliament.uk/commons/2023-06-13/debates/13b543c3-603a-4a1e-96b1-9b0ef902dbeb/DigitalMarketsCompetitionAndConsumersBill(SecondSitting)