

Generative AI

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APN Promise S.A.

Domaniewska 44a

02-672 Warszawa

POLAND

Contact person:

Tomasz Bator

tomasz.bator@promise.pl

- 1) What are the main components (i.e., inputs) necessary to build, train, deploy and distribute generative AI systems? Please explain the importance of these components

Data is the cornerstone of any AI system. Generative AI requires large and diverse datasets to train the algorithms effectively. The quality, volume, and relevance of this data directly impact the AI's performance. For instance, in language models, text data from a wide range of sources is used to understand and generate human-like text.

Training generative AI models requires significant **computational resources**. Powerful GPUs (Graphics Processing Units) or TPUs (Tensor Processing Units) are often necessary for efficient training and processing. The hardware's processing power can significantly affect the speed and scalability of AI model training and inference.

Skilled personnel, including data scientists, machine learning engineers, and domain experts, are necessary to design, develop, and maintain AI systems. Their expertise is crucial in making key decisions about the model architecture, data preprocessing, and system optimization.

AI systems generate and process massive amounts of data, requiring robust **storage solutions**. Additionally, cloud-based or on-premises infrastructure is needed to host and run these systems, ensuring they are accessible and scalable.

Ethical considerations, such as data privacy, model bias, and responsible use of AI, are critical. Establishing ethical guidelines and standards ensures the AI system is developed and used responsibly and sustainably.

Compliance with data protection laws (like GDPR in the EU) and other regulatory requirements is essential. This includes considerations around intellectual property, data usage rights, and user consent.

Finally, for the deployment and distribution of AI systems, **platforms and networks** are needed. This could be through cloud services, APIs, or embedding the AI in applications or devices. Effective distribution ensures the AI system is accessible to its intended users.

Each of these components plays a vital role in the AI system's overall performance and utility. A deficiency in any one of these can hinder the system's effectiveness, underscoring the importance of a holistic and well-integrated approach to building and deploying generative AI systems.

- 2) What are the main barriers to entry and expansion for the provision, distribution or integration of generative AI systems and/or components, including AI models? Please indicate to which components they relate.

Access to high-quality, diverse, and large datasets is crucial for training effective AI models. Obtaining such data can be expensive and challenging, particularly for new entrants. This barrier is directly related to the data component necessary for training AI models.

The **computational power** required for training sophisticated AI models is immense, often necessitating expensive GPUs or cloud computing resources. This barrier relates to the hardware and computational power component of AI systems.

There is a high demand for **skilled professionals** in AI, machine learning, data science, and related fields. Attracting and retaining such talent can be a significant challenge, especially for smaller players. This is associated with the expertise and human resources component.

Although there are open-source **tools** available, developing proprietary tools or customizing existing ones can be resource-intensive. This barrier is linked to the software and development tools necessary for AI development.

Navigating the complex landscape of **data privacy**, intellectual property, and other regulatory requirements can be challenging, especially in regions with stringent regulations like the EU. This pertains to the legal and compliance framework for AI systems.

Addressing **ethical concerns** such as bias, transparency, and the societal impact of AI is crucial. Failing to do so can lead to public distrust and potential regulatory backlash. This barrier is linked to the ethical guidelines and standards for AI development.

Integrating AI systems into existing infrastructures or business processes can be complex and resource intensive. This barrier is associated with the integration of AI systems into broader ecosystems or platforms.

Scaling AI solutions to handle large user bases or data volumes requires substantial infrastructure, which can be a significant investment. This relates to the storage and infrastructure needs of AI systems.

Each of these barriers represents a significant challenge that companies and entities must navigate when entering and expanding in the generative AI space. Overcoming these barriers typically requires a combination of strategic investment, innovation, partnerships, and adherence to best practices in technology development and deployment.

- 3) What are the main drivers of competition (i.e., the elements that make a company a successful player) for the provision, distribution or integration of generative AI systems and/or components, including AI models?

Innovation and Technological Advancement Companies that consistently innovate and push the boundaries of what's possible with AI technology tend to lead the market. This includes developing new algorithms, enhancing model efficiency, and creating more sophisticated and versatile AI applications.

Data Access and Quality Access to high-quality, diverse, and extensive datasets is crucial for training effective AI models. Companies that can acquire and utilize such data efficiently have a significant competitive advantage.

Talent and Expertise The presence of skilled professionals in AI, machine learning, data science, and related fields is a critical driver. A talented team can accelerate innovation, solve complex problems, and develop superior AI solutions.

Computational Resources Having the necessary computational infrastructure, such as advanced on-site hardware and/or cloud computing capabilities, enables companies to train more complex models faster and more efficiently.

Partnerships and Collaborations Forming strategic partnerships and collaborations can enhance a company's capabilities, broaden its market reach, and provide access to additional resources and expertise.

Intellectual Property and Research Owning intellectual property rights to unique algorithms, models, or other technological advancements can provide a competitive edge. Continuous research and development activities are also crucial.

Regulatory Compliance and Ethical Standards Adherence to regulatory requirements and ethical standards not only mitigates legal risks but can also enhance a company's reputation and trustworthiness in the market.

Cost Effectiveness and Business Model Offering cost-effective solutions and having a sustainable and innovative business model can attract a broader range of customers and create new market opportunities.

These drivers collectively contribute to a company's ability to compete and succeed in the rapidly evolving domain of generative AI.

- 4) Which competition issues will likely emerge for the provision, distribution or integration of generative AI systems and/or components, including AI models? Please indicate to which components they relate.

Dominance in data access and usage can lead to monopolistic control. Companies with extensive data repositories may gain an unfair advantage, as AI models often rely on vast, diverse datasets for training and improvement.

The **concentration of intellectual property rights**, especially in algorithms and AI models, can lead to market dominance by a few players, hindering competition and innovation.

The **high cost and limited availability of advanced computational resources** (like GPUs and TPUs) can create significant entry barriers for smaller players or new entrants.

A scarcity of skilled professionals in AI can lead to competition for talent, with larger companies often able to offer more attractive terms, potentially stifling innovation in smaller firms or startups.

Variances in regional and international **regulatory frameworks** regarding AI can create uneven playing fields, where companies in less regulated environments may have competitive advantages.

Companies might develop **proprietary AI solutions** that lack interoperability, leading to technological lock-in for users and hindering competition from new entrants who offer potentially compatible or superior solutions.

Different standards and practices around data privacy and ethical AI use can lead to **competitive imbalances**, where companies neglecting these aspects might gain short-term advantages.

The rapid pace of innovation in AI can result in a 'moving target' for competitors, where **continuous and substantial investment** in R&D is required to stay competitive.

These emerging competition issues reflect the complexities and rapid evolution of the generative AI landscape. Addressing these challenges will require a balanced approach, involving industry collaboration, regulatory oversight, and the cultivation of open, competitive environments that encourage innovation while ensuring fair practices.

- 5) How will generative AI systems and/or components, including AI models likely be monetized, and which components will likely capture most of this monetization?

Licensing proprietary AI models to other businesses, offering AI as a service, and providing tailored solutions for specific industry needs. This is likely to capture a significant portion of monetization, as the core AI models and algorithms are the primary drivers of value in generative AI systems.

Selling or licensing datasets necessary for training AI models, providing data processing and analytics services, or monetizing insights derived from data. Data can capture substantial monetization, especially in sectors where access to large, high-quality datasets is a barrier to entry.

Offering cloud-based AI processing power (e.g., GPU as a service), or providing specialized hardware for AI computations. This component may capture less direct monetization compared to AI models but is crucial for enabling AI as a service and other cloud-based AI solutions.

Selling or licensing AI development tools, SDKs (Software Development Kits), and frameworks that facilitate AI model development and integration. Development tools can capture significant monetization, especially if they become industry standards or are widely adopted by AI developers.

Providing expert consultancy services for AI integration, custom AI solution development, and training AI models for specific applications. This component can capture a significant share of monetization, particularly in industries where AI adoption is complex and requires specialized expertise.

Developing and maintaining platforms that host generative AI applications, charging for access to these platforms, or taking a percentage of transactions made within the platform. Platforms and ecosystems can capture a large portion of monetization due to network effects and the central role they play in the AI ecosystem.

Implementing subscription-based models for ongoing access to AI tools and services or offering AI capabilities as part of a broader SaaS package. Subscription and SaaS models are likely to capture a growing share of monetization, given their recurring revenue nature and scalability.

Offering training programs for users of AI systems and providing ongoing support and maintenance services. This area might capture less direct monetization but is essential for customer retention and long-term revenue stability.

- 6) Do open-source generative AI systems and/or components, including AI models, compete effectively with proprietary AI generative systems and/or components? Please elaborate on your answer.

Open-source AI models are accessible to a wider range of users and developers, fostering a large community that can contribute to improvements and innovations. This communal development can lead to rapid advancements and diverse applications.

Open-source models provide a cost-effective solution for startups and smaller companies that might not have the resources to invest in expensive proprietary solutions.

The transparent nature of open-source models allows for greater scrutiny and trust, especially in terms of understanding how the model works, its limitations, and bias mitigation.

Open-source systems offer the flexibility to customize and adapt the code to specific needs, which is a significant advantage for specialized applications.

Proprietary systems often come with dedicated support, maintenance, and regular updates, which can be crucial for businesses requiring high reliability and support.

Companies that develop proprietary AI models may invest heavily in R&D, leading to potentially more innovative or advanced solutions that open-source models may not match immediately.

Proprietary AI systems are often part of an integrated solution, offering seamless compatibility with other products and services from the same company.

Proprietary systems offer a clear business model and path to monetization for the developing company, which can drive ongoing investment in the technology.

Open-source and proprietary AI systems often cater to different market segments.

For instance, startups and academic researchers might lean towards open-source models for cost reasons and flexibility, while large enterprises might prefer proprietary solutions for their integrated services and support.

While open-source models are rapidly improving and widely used, proprietary systems might hold an edge in performance or specific features, especially if significant resources have been invested in their development.

The open-source community-driven model can lead to broad innovation and quick iteration. In contrast, proprietary development can focus on specific commercial goals and tailored solutions for clients.

There is also a trend towards hybrid models, where companies use open-source AI as a base and build proprietary technologies or services on top of it, combining the best of both worlds.

In conclusion, open-source and proprietary generative AI systems can effectively compete, with each having unique advantages. The choice between them often depends on specific user needs, budget constraints, required levels of support and customization, and long-term strategic goals. As the AI field evolves, we're likely to see a continued coexistence and interplay between these two paradigms, driving innovation and diversity in AI applications.

7) What is the role of data and what are its relevant characteristics for the provision of generative AI systems and/or components, including AI models?

Data plays a pivotal role in the development and effectiveness of generative AI systems and components, including AI models. The characteristics of this data significantly impact the performance and capabilities of these systems. Here are the relevant characteristics and their role

Volume (Size of the Dataset) Generative AI models, particularly those based on deep learning, require large volumes of data for training. The size of the dataset can directly influence the model's ability to learn and generalize. More data typically leads to better performance and accuracy.

Variety (Diversity of the Dataset) Diversity in data is crucial for generative AI. Models trained on varied data can handle a wider range of inputs and generate more diverse outputs. This is important for avoiding bias and ensuring the model's applicability across different scenarios and populations.

Quality (Accuracy and Reliability of Data) High-quality data is essential for the effectiveness of AI models. This includes accuracy, relevance, and consistency of the data. Poor quality data can lead to inaccuracies in the model's output, a.k.a. "garbage in, garbage out."

Balance (Avoiding Bias) The dataset should be balanced and representative of different groups to avoid inherent biases. Imbalanced data can lead to biased AI models that perform unfairly or inadequately in real-world applications.

Timeliness (Currency of Data) The relevance of data over time is important. For some applications, having the most current data is crucial for the model to reflect the latest trends or information.

Accessibility and Legality Accessibility to large and diverse datasets can be challenging. Legal and ethical considerations, especially regarding privacy and intellectual property rights, play a critical role in what data can be used.

Format and Structure The format and structure of data (e.g., text, images, videos, structured, unstructured) are significant. They determine the type of preprocessing needed and the kind of AI model that can be used.

In summary, data is the foundation upon which generative AI systems are built. Its characteristics are fundamental to the development, training, and success of these systems. Effective and responsible data management, ensuring diversity, quality, balance, and legal compliance, is key to creating robust and reliable AI models.

- 8) What is the role of interoperability in the provision of generative AI systems and/or components, including AI models? Is the lack of interoperability between components a risk to effective competition?

Advantages

Interoperability plays a crucial role in the provision of generative AI systems and components, including AI models. Its impact on competition and the functionality of these systems can be significant. Here's an overview of its role and the risks associated with a lack of interoperability.

Interoperability allows for **seamless collaboration** and integration between different AI systems and components. This is particularly important in complex projects where components from various providers need to work together.

With interoperable systems, users have the **flexibility to choose** the best components from different providers, leading to customized solutions that fit specific needs.

An interoperable environment **encourages innovation**, as developers can build upon existing technologies and systems, knowing that their products can be integrated with others.

Interoperability can **increase the adoption** of AI technologies by ensuring that systems are compatible with a broad range of applications and infrastructures.

Establishing common standards and protocols, which are often a result of efforts to achieve interoperability, can make AI systems more **user-friendly and accessible**.

Risks

Without interoperability, there's a risk of **vendor lock-in**, where customers are dependent on a single provider for products and services. This restricts their ability to switch to other providers or integrate different solutions, potentially leading to monopolistic situations.

A lack of interoperability can create **high barriers to entry** for new players, as they would need to develop a full stack of AI solutions that are compatible with each other, rather than focusing on specific components that can integrate with existing systems.

In a non-interoperable environment, **innovation may be stifled** as new and potentially superior technologies may struggle to gain market acceptance if they cannot easily integrate with widely used existing systems.

The lack of interoperability can lead to a **fragmented market** where different systems cannot communicate or work together effectively, reducing overall efficiency and user experience.

- 9) Do the vertically integrated companies, which provide several components along the value chain of generative AI systems (including user-facing applications and plug-ins), enjoy an advantage compared to other companies? Please elaborate on your answer.

Vertically integrated companies in the generative AI space, which provide several components along the value chain, including user-facing applications and plug-ins, can indeed enjoy several advantages compared to companies that specialize in only one aspect of the value chain. However, there are also potential drawbacks to this approach.

Advantages

Vertically integrated companies have **control over the entire development process** of AI systems, from data collection and model training to application development and distribution. This control can lead to more efficient and streamlined operations, reduced costs, and faster innovation cycles.

Having access to each step of the value chain allows these companies to ensure the **quality and integrity of the data used**, which is critical for training effective AI models. It also allows for the creation of unique datasets, which can be a significant competitive advantage.

Companies can **protect their innovations** and maintain proprietary technologies throughout the value chain, potentially leading to unique offerings that are difficult for competitors to replicate.

Drawbacks

Building and maintaining expertise across the entire value chain requires **significant investment and resources**, which may not be feasible for all companies, especially smaller ones.

Over-integration can lead to **inefficiencies**, especially if a company maintains control over components that could be more efficiently outsourced or if the integration doesn't add substantial value.

Being self-reliant might **reduce innovation** through collaboration with external partners, potentially leading to missed opportunities for improvement or differentiation.

In summary, while vertical integration in the generative AI industry can offer substantial control, efficiency, and potential for differentiation, it also comes with challenges such as resource intensity and potential inflexibility. The decision to pursue a vertically integrated strategy should be weighed against these factors, considering the company's resources, strategic goals, and the dynamic nature of the AI market.

10) What is the rationale of the investments and/or acquisitions of large companies in small providers of generative AI systems and/or components, including AI models? How will they affect competition?

Large companies often invest in or acquire small providers of generative AI systems and components, including AI models, for several strategic reasons. These moves can significantly impact the competitive landscape of the AI industry. Here's an overview of the rationale behind such decisions and their potential effects on competition.

Small providers often develop **cutting-edge technologies** that may be highly specialized or innovative. Large companies can acquire these novel technologies to enhance their own offerings or enter new market segments.

Acquiring small providers allows large companies to bring in **talented individuals** and teams with specialized expertise in AI, which can be a significant asset in the rapidly evolving AI landscape.

Small AI providers may hold valuable **patents and intellectual property**. Acquiring these assets can help large companies strengthen their competitive position and generate new revenue streams through licensing or product development.

Investing in a range of AI startups allows larger companies to **diversify portfolios** and spread risk across different technologies and market approaches.

By acquiring promising AI startups, large companies can preemptively **eliminate potential future competitors**, particularly if the startup's technology has the potential to disrupt the market.

Effects on Competition

These acquisitions can lead to a consolidation of market power in the hands of a few large companies, potentially reducing competition in the AI field.

The trend of acquisitions might raise barriers to entry for new startups, as the path to success may increasingly be perceived as needing to be acquired by a larger company, rather than growing independently.

There is a risk that large companies might use acquisitions to engage in monopolistic practices, such as restricting access to key technologies or using their market power to set unfavorable terms for other players.

On the positive side, these investments can accelerate innovation in AI. Large companies often have more resources and distribution networks to bring acquired technologies to a broader market.

11) Do you expect the emergence of generative AI systems and/or components, including AI models to trigger the need to adapt EU legal antitrust concepts?

Traditional antitrust concepts regarding market definition and the assessment of market power might need to be revisited. Generative AI can create new markets and alter existing ones rapidly, challenging the conventional understanding of market boundaries and competitive dynamics.

AI markets are characterized by rapid innovation and dynamic competition. Traditional antitrust frameworks that focus on price and output may need to incorporate additional factors, like innovation trajectories and market potential.

The role of data in powering generative AI systems could necessitate a reevaluation of how data accumulation and access are viewed in antitrust analysis. Excessive control or exclusive access to large, diverse datasets by a few entities might raise competition concerns.

AI systems, especially those based on machine learning, often benefit from network effects, where the value of the system increases with more usage and data. This could lead to dominant positions that are hard to challenge, like issues seen in digital platforms.

The balance between protecting intellectual property rights and fostering innovation can be complex in the AI field. Antitrust laws might need to consider how IP regulations interact with competitive dynamics, especially around issues like access to algorithms and AI research.

The development of AI often involves significant collaboration and information sharing between entities, which could raise questions under current competition laws designed to prevent collusion and protect trade secrets.

AI technology transcends national boundaries, making international cooperation and harmonization of antitrust approaches increasingly important. The EU will likely need to consider how its policies align with or differ from other jurisdictions.

In response to these challenges, the EU might need to develop new guidelines, frameworks, or even legislation that specifically addresses the nuances of competition in the AI sector. This could involve closer scrutiny of mergers and acquisitions, regulations on data sharing and interoperability, and a more nuanced approach to analyzing market dominance in the context of AI technologies.

The key will be to find a balance that preserves the incentives for innovation and investment in AI, while ensuring that markets remain open and competitive.

12) Do you expect the emergence of generative AI systems to trigger the need to adapt EU antitrust investigation tools and practices?

Antitrust authorities may need to develop or adopt more sophisticated analytical tools powered by AI to analyze complex datasets and market dynamics. This can help in detecting anti-competitive practices that might be hidden in large volumes of data or executed through automated AI systems.

The complexity of AI technologies will require antitrust investigators to have a deeper understanding of computer science and AI. This might involve training current staff, hiring new experts, or consulting with external AI specialists.

Investigations will increasingly need to consider the algorithms' role behind market behaviors. This includes understanding how algorithms are designed, how they make decisions, and whether they could be leading to anti-competitive outcomes, either intentionally or inadvertently.

Given that data is a critical input for AI, antitrust authorities will likely place greater emphasis on how data is accessed, used, and controlled. Investigating data monopolies or the misuse of data to stifle competition could become a focal point.

AI operates on a global scale, making international collaboration more important. EU antitrust authorities might need to work closely with counterparts in other jurisdictions to effectively address competition issues that cross borders.

Existing legal frameworks and guidelines may need updates to encompass AI-specific issues. This could involve redefining market dominance or unfair practices in the context of AI-powered businesses.

With tech giants acquiring AI startups, antitrust authorities may need to adapt their approach to evaluating these mergers and acquisitions, considering not just current market impact but also potential future influence on innovation and competition.

AI markets are characterized by rapid innovation and changes. Traditional antitrust approaches, often backward-looking and based on historical data, may need to be supplemented with more forward-looking analyses, considering the fast pace of AI development.

In summary, the rise of generative AI systems will likely prompt significant changes in how EU antitrust investigations are conducted, requiring updated tools, more technical expertise, and new analytical approaches. The challenge will be to adapt to the fast-evolving nature of AI while ensuring that competition remains fair, and markets remain open and innovative.