

August 4, 2025

Honorable Andrew N. Ferguson, Chair  
Federal Trade Commission  
600 Pennsylvania Avenue NW  
Washington, D.C. 20590

CC:

Honorable Melissa Holyoak, Commissioner  
Honorable Mark R. Meador, Commissioner

**Re: Investigate Meta's de facto vertical acquisition of Scale AI**

Dear Chair Ferguson:

We are a coalition of organizations that are deeply concerned by Meta's latest efforts to further entrench its market power in generative AI model development, personal social media networking, and digital advertising via its investment in Scale AI. This transaction follows Meta's familiar anticompetitive *buy or bury* strategy, for which it is already facing an FTC lawsuit.<sup>1</sup>

The structure of the transaction – a non-controlling stake that falls just below the 50% threshold for mandatory reporting is a deliberate attempt to evade FTC scrutiny. This is a familiar playbook, which includes key aspects typical of Big Tech's minority investments in generative AI companies like Microsoft's investments in OpenAI,<sup>2</sup> Amazon's hiring of top executives and researchers from Adept AI Labs Inc,<sup>3</sup> and Google's investment-plus-talent acquisition from Character.AI.<sup>4</sup>

When viewed in totality, the Meta Scale AI transaction functions as a **de facto vertical merger, enabling control over a critical supplier in the data annotation market**. The transaction includes:

- A near-majority financial interest in the company via a \$14.3 billion investment for 49% of Scale AI. While the shares are designated as "non-voting," this represents a near-majority financial interest in the company.<sup>5</sup>

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<sup>1</sup> FTC v. Meta Platforms, Inc: FTC Matter/File Number 191 0134 (April 15, 2025):

<https://www.ftc.gov/legal-library/browse/cases-proceedings/191-0134-facebook-inc-ftc-v-ftc-v-meta-platforms-inc>

<sup>2</sup> The Wall Street Journal: OpenAI and Microsoft Tensions Are Reaching a Boiling Point (June 16, 2025):

[https://www.wsj.com/tech/ai/openai-and-microsoft-tensions-are-reaching-a-boiling-point-4981c44f?st=5YgiLX&ref=link=desktopwebshare\\_permalink](https://www.wsj.com/tech/ai/openai-and-microsoft-tensions-are-reaching-a-boiling-point-4981c44f?st=5YgiLX&ref=link=desktopwebshare_permalink). According to The Wall Street Journal, the relationship between OpenAI and Microsoft has gotten so contentious that OpenAI's executives have discussed seeking federal regulatory review of the terms of the contract for potential violations of antitrust law.

<sup>3</sup> Reuters: FTC seeking details on Amazon deal with AI startup Adept, source says (July 16, 2024):

<https://www.reuters.com/technology/ftc-seeking-details-amazon-deal-with-ai-startup-adept-source-says-2024-07-16/>

<sup>4</sup> The Washington Post: Google Hires Top Start Up Team, Fueling Concerns over Big Tech's Power in AI

(Aug. 2, 2024): <https://www.washingtonpost.com/technology/2024/08/02/google-character-ai-noam-shazeer/>

<sup>5</sup> Businesswire: Scale AI Announces Next Phase of Company's Evolution (June 12, 2025):

<https://www.businesswire.com/news/home/20250612873954/en/Scale-AI-Announces-Next-Phase-of-Companys-Evolution>

- The transfer of a significant portion of Scale AI's core intellectual capital to Meta via the hiring of Scale AI's founder and CEO, Alexandr Wang<sup>6</sup> and potentially other key employees.
- Key channels to influence Scale AI's future strategy via its near majority financial stake and Mr. Wang. Mr. Wang will lead the development of Meta's 'superintelligence' lab,<sup>7</sup> and continue serving on Scale AI's board of directors.<sup>8</sup> This dual role creates a direct channel of influence and information flow between the two formally separate entities. It gives Meta a formal say in the governance of a company that, until the deal, served its biggest rivals.

The explicit **rationale for the transaction** is to accelerate Meta's AI development and close the perceived gap with competitors, particularly after the underwhelming public reception of its Llama series models.<sup>9</sup> The deal provides Meta with privileged access to Scale's critical data infrastructure, effectively transforming a neutral market supplier into a captive strategic asset.

High-quality data annotation—the process of labeling, categorizing, and tagging data to train Large Language Models (LLMs)—is a critical, non-commoditized input for developing state-of-the-art generative AI models. And Scale AI is a dominant force in the industry. It offers an enterprise-grade solution that includes advanced tools for Retrieval-Augmented Generation (RAG), a critical technique for grounding models in factual data, as well as sophisticated platforms for model testing, evaluation, and custom model building.<sup>10</sup> The company's approximately \$29 billion valuation as of mid-2025 underscores its strategic importance.<sup>11</sup>

Given this strategic rationale and the substantial control Meta will exercise over Scale AI, **Meta has both the ability and incentive to foreclose existing<sup>12</sup> and potential competitors from Scale AI's data annotation services.**

By controlling a critical input that its rivals depend on, Meta can raise their costs, slow their innovation, and disrupt their operations and gain an undue competitive advantage not through superior innovation but by handicapping its competitors. Analysts have described the deal as a "very effective asymmetric attack" on Meta's rivals, designed to achieve Meta's strategic goals.<sup>13</sup>

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<sup>6</sup> Scale: Scale AI Announces Next Phase of Company's Evolution (June 12, 2025):

<https://scale.com/blog/scale-ai-announces-next-phase-of-company-evolution>

<sup>7</sup> The New York Times: Meta Is Creating a New A.I. Lab to Pursue 'Superintelligence' (June 10, 2025):

[https://www.nytimes.com/2025/06/10/technology/meta-new-ai-lab-superintelligence.html?unlocked\\_article\\_code=1.VE8.UTqD.lwZNEsznxuA5&smid=url-share](https://www.nytimes.com/2025/06/10/technology/meta-new-ai-lab-superintelligence.html?unlocked_article_code=1.VE8.UTqD.lwZNEsznxuA5&smid=url-share)

<sup>8</sup> Scale: Scale AI Announces Next Phase of Company's Evolution (June 12, 2025):

<https://scale.com/blog/scale-ai-announces-next-phase-of-company-evolution>

<sup>9</sup> Forbes: Meta Invests \$14 Billion In Scale AI To Strengthen Model Training (June 23, 2025):

<https://www.forbes.com/sites/janakirammsv/2025/06/23/meta-invests-14-billion-in-scale-ai-to-strengthen-model-training/>

<sup>10</sup> Scale: Generative AI Data Engine (Accessed July 21, 2025): <https://scale.com/generative-ai-data-engine>

<sup>11</sup> Ivan Mehta, Scale AI Confirms 'Significant' Investment From Meta, Says CEO Alexandr Wang Is Leaving, TechCrunch (June 13, 2025, 12):

<https://techcrunch.com/2025/06/13/scale-ai-confirms-significant-investment-from-meta-says-ceo-alexandr-wang-is-leaving/>

<sup>12</sup> Scale: Customers (Accessed July 21, 2025): <https://scale.com/customers>

<sup>13</sup> Enterprise Value: If I Did It: How Meta Should Have Structured Its Non-Acquisition of Scale AI (June 20, 2025):

<https://enterprisevalue.substack.com/p/if-i-did-it>

The transaction also creates **untenable conflicts of interest**, giving Meta, a major downstream competitor, an unprecedented window into the strategic plans, development methodologies, and proprietary data of its rivals. This risk aligns with concerns the FTC has articulated regarding the structure of AI partnerships.

In its January 2025 report on AI partnerships,<sup>14</sup> the FTC explicitly warned that such deals could give dominant firms access to sensitive technical and business information of their partners. The report noted that this could include development methodologies, confidential chip co-design, product improvement suggestions that could give the acquiring firm an informational advantage.

That is the effect of this deal. According to Reuters, Google, Microsoft, xAI have all ended contracts with Scale AI following Meta's investment.<sup>15</sup> The same is true for OpenAI according to Bloomberg.<sup>16</sup> The common concern is that doing business with Scale AI could expose research priorities and roadmap to Meta, a chief rival.

**The anticompetitive harms of the Meta-Scale AI transaction extend beyond AI model development.** They are understood within the broader context of Meta's market power and alleged history of anticompetitive conduct. The deal will help further solidify Meta's existing dominance in related markets such as personal social media and surveillance advertising.

It follows a pattern of neutralizing competitive threats, as the FTC has already alleged in its ongoing antitrust lawsuit against the company.<sup>17</sup> Meta, facing a new technological paradigm shift in AI where it was perceived to be lagging, identified a critical chokepoint in the AI supply chain—the data annotation services provided by Scale AI. Instead of competing by developing its own data annotation capabilities, Meta has moved to absorb the market leader. This action neutralizes Scale AI's role as an independent, neutral resource for the entire industry and transforms it into a captive asset for Meta's exclusive benefit. This is a repeat of Meta's *buy or bury* playbook.

Meta's investment in Scale AI must be analyzed based on its competitive impact. Indeed, the joint FTC-DOJ merger guidelines<sup>18</sup> clearly cover this transaction. For example, Guideline 11 states:

*In many acquisitions, two companies come under common control. In some situations, however the acquisition of less-than-full control may still influence decision-making at the target firm or another firm in ways that may substantially lessen competition. Acquisitions of partial ownership*

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<sup>14</sup> FTC: Partnerships Between Cloud Service Providers and AI Developers: FTC Staff Report on AI Partnerships & Investments 6(b) Study (January 17, 2025):

[https://www.ftc.gov/system/files/ftc\\_gov/pdf/p246201\\_aipartnerships6breport\\_redacted\\_0.pdf](https://www.ftc.gov/system/files/ftc_gov/pdf/p246201_aipartnerships6breport_redacted_0.pdf)

<sup>15</sup> Reuters: Exclusive: Google, Scale AI's largest customer, plans split after Meta deal, sources say (June 13, 2025):

<https://www.reuters.com/business/google-scale-ais-largest-customer-plans-split-after-meta-deal-sources-say-2025-06-13/>

<sup>16</sup> Bloomberg: OpenAI Is Phasing Out Scale AI Work Following Startup's Meta Deal (June 18, 2025):

<https://www.bloomberg.com/news/articles/2025-06-18/openai-is-phasing-out-its-work-with-scale-ai-after-meta-deal>

<sup>17</sup> FTC v. Meta Platforms, Inc.: FTC Matter/File Number 191 0134 (April 15, 2025):

<https://www.ftc.gov/legal-library/browse/cases-proceedings/191-0134-facebook-inc-ftc-v-ftc-v-meta-platforms-inc>

<sup>18</sup> FTC: Merger Guidelines Issued December 18, 2023:

[https://www.ftc.gov/system/files/ftc\\_gov/pdf/2023\\_merger\\_guidelines\\_final\\_12.18.2023.pdf](https://www.ftc.gov/system/files/ftc_gov/pdf/2023_merger_guidelines_final_12.18.2023.pdf)

*or other minority interests may give the investor rights in the target firm, such as rights to appoint board members, observe board meetings, influence the firm's ability to raise capital, impact operational decisions, or access competitively sensitive information.*

*....*

*Partial acquisitions that do not result in control may nevertheless present significant competitive concerns. The acquisition of a minority position may permit influence of the target firm, implicate strategic decisions of the acquirer with respect to its investment in other firms, or change incentives so as to otherwise dampen competition. When viewed holistically, the deal functions as a de facto vertical merger, a strategic maneuver that appears calculated to achieve control over a critical supplier while circumventing mandatory antitrust review.*

This transaction, therefore, represents a critical test case for antitrust enforcement. The largest technology firms are increasingly utilizing complex, non-traditional deal structures—including minority stakes, strategic partnerships, and acqui-hires to secure control over assets and talent without triggering automatic regulatory reviews.

These structures are intentionally designed to exploit the gray areas of traditional merger law. If the FTC fails to investigate and, if warranted, challenge the Meta Scale transaction, it will establish a dangerous precedent, encouraging further concentration in technology markets.

**We urge the FTC to investigate Meta's de-facto acquisition of Scale AI.**

Sincerely,

NextGen Competition  
Public Citizen  
The Tech Oversight Project  
Tech Justice Law Project  
Revolving Door Project  
UltraViolet  
Consumer Federation of America  
Open Markets Institute  
American Economic Liberties Project  
Institute for Local Self-Reliance  
Public Knowledge  
Demand Progress Education Fund