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## It's the Year 2030. What Will Artificial Intelligence...

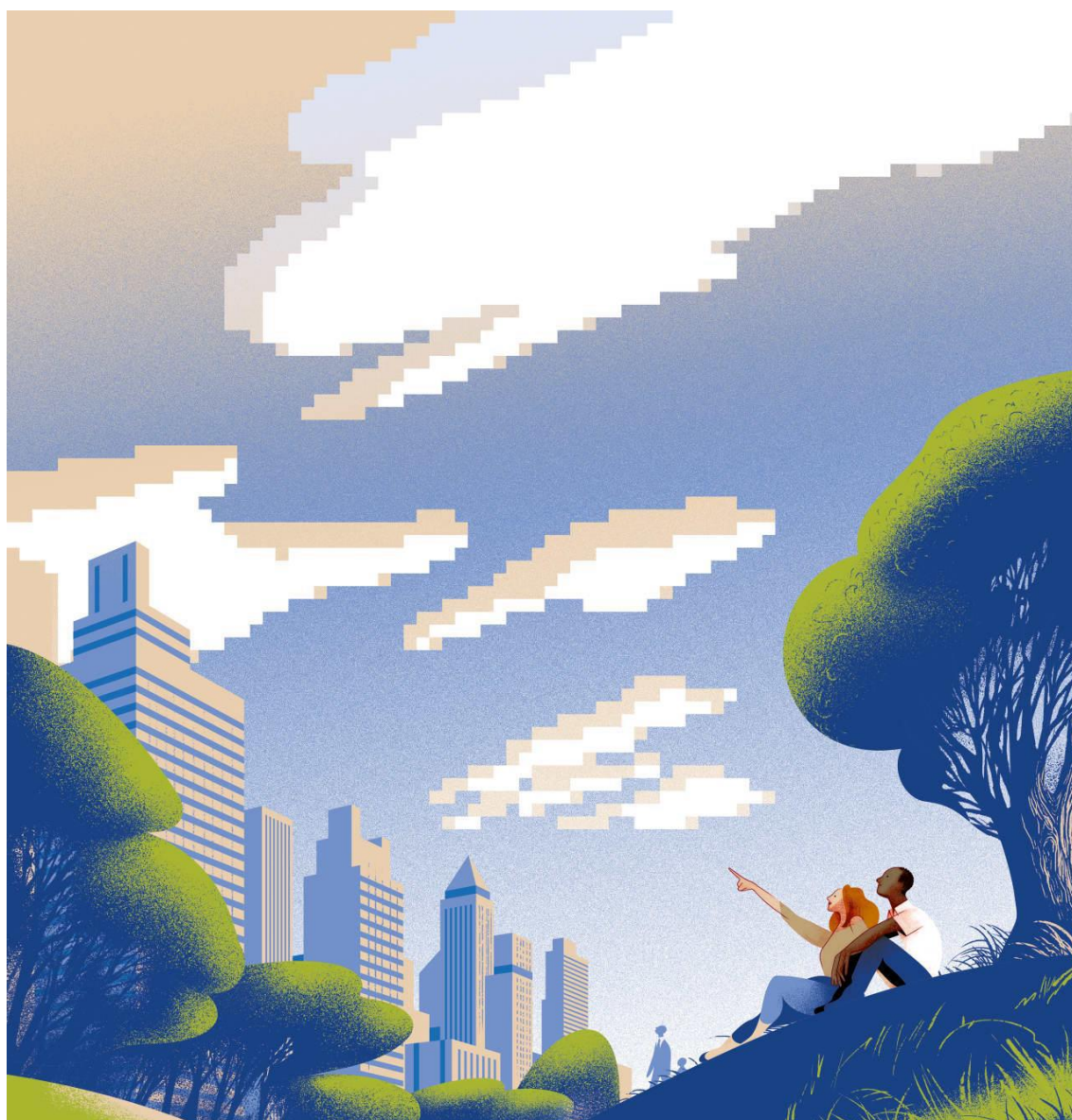
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The Wall Street Journal

21.09.2024

### It's the Year 2030. What Will Artificial Intelligence Look Like?

We asked a range of experts to predict whether, in five years, AI will have lived up to the current hype. Be warned: They don't all agree.



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## It's the Year 2030. What Will Artificial Intelligence...

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Where will artificial intelligence be in 2030?

Will it live up to the hype—boosting economies, creating breakthrough medical treatments, simplifying everyday life and increasing our knowledge? Or are such forecasts overly optimistic: Will it fizzle out, or change the world for the worse? What about concerns that AI will eliminate millions of jobs, replace human relationships and challenge society with an onslaught of fake media?

The Wall Street Journal asked a selection of experts from academia, business, consulting firms and think tanks to weigh in on what AI will be doing in 2030. Below are some predictions.

### **A gradual, but profound change**

Artificial intelligence is advancing rapidly. Some experts suggest we may achieve artificial general intelligence—machines that can outperform humans in virtually every task—as soon as 2033. The implications are profound, potentially reshaping industries, economies and the very nature of work.

But there's a crucial disconnect between technological advancement and mass adaptation by organizations and society. As scientist and futurist Roy Amara famously observed, "We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run."

The year 2030 will likely put us right between the short- and long-run implications of AI.

So despite AI's lightning-fast technological progress, we shouldn't expect to see immediate, sweeping global effects in the next few years. The integration of AI into our daily lives, workplaces and institutions will be gradual, as these things change much more slowly than technology does.

As we navigate this dual-speed reality, we must prepare for a future where AI's long-term effects surpass our current imaginations of what it can do—even as its short-term influence may fall short of the most ambitious predictions.

*—Ethan Mollick, professor of management at the University of Pennsylvania's Wharton School*

### **AI as smart as humans? Not likely.**

Researchers and entrepreneurs often say that we will reach artificial general intelligence—machines that can do essentially any of the cognitive work that humans can—before the end of the decade, or even within a couple of years.

I seriously doubt it.



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To begin with, there is the rampant tendency of the current systems called large language models to hallucinate and make stupid errors; worse, there is no principled solution in sight to solve these problems. Only hope. Hope that more data and more powerful processing chips will magically fix all the issues.

But we are running out of the fresh, valuable data that are needed for LLMs to improve. They already have swallowed up nearly the entire internet. Now they are starting to choke on their own hallucinatory fumes. From 2020 to August 2022 there was rapid progress in the power of LLMs, but already that has slowed. We need genuine innovation, and that takes time.

From a technical standpoint, 2030 may be just like 2023, with better graphics. Behind all that, there is a risk that the AI investment bubble may soon burst, which will leave many people rushing for the exits; it may take years to regroup.

Anticipating artificial general intelligence by 2030 is just not realistic.

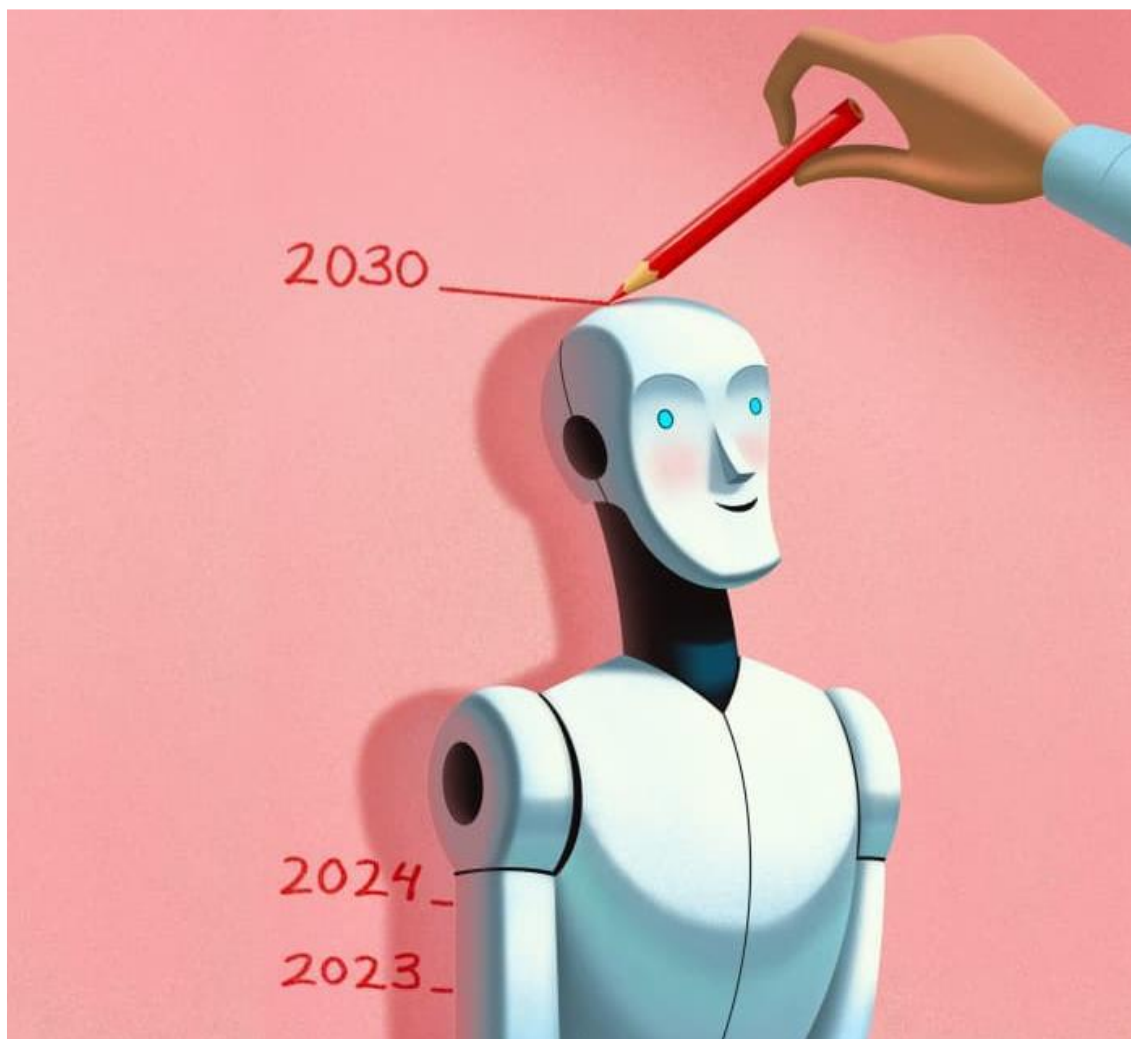
—Gary Marcus was a founder and chief executive of a machine-learning company that was sold to Uber and is the author of “Taming Silicon Valley”

### **Transformation, not job loss**

Here's what happened in the second half of the 2020s: AI advances fueled the most profound business transformation in history. By 2030, AI systems reached unprecedented levels of capability, reshaping industries and jobs alike. While fears of widespread joblessness persisted, reality unfolded differently—transformation, not job loss, defined the era.

The reason lies in the nature of business evolution. Even groundbreaking technologies—in fact, *especially* groundbreaking technologies—require time and effort to translate into productivity gains. New skills, processes, and business models must be invented. Fortunately, enough businesses were up to the challenge and as a result, the late 2020s witnessed a surge in productivity.

Yet the transformation was uneven. Over half the Fortune 500 vanished, replaced by a wave of new titans, including an unprecedented number of trillion-dollar enterprises. Occupations evolved similarly—some went the way of the elevator operator, while new ones emerged. The set of occupations and tasks affected were quite different from those of earlier transformations. This time, creative workers, professionals, writers, managers and programmers were among the most affected.

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The successful companies all had one thing in common. They didn't simply buy into AI hype. Instead, they methodically applied a task-based approach. This recognizes that tasks—not jobs, products, or skills—are the fundamental units of organizations. AI revolutionized certain tasks like coding and customer service, while others remained relatively unaffected.

As of 2030, humans still retained an edge in handling situations where there was a lack of historical data or structured rules available. Our ability to improvise outperformed machines.

—Erik Brynjolfsson, director of the Stanford Digital Economy Lab and co-founder of Workhelix



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### **AI everywhere, like the internet**

The biggest difference between AI in 2030 and AI now will be its degree of integration into companies. In the early 2000s, another rapidly evolving general-purpose technology—the internet—was just being broadly adopted. Organizations that bolted it onto existing structures saw some benefit, but those that built from the ground up around internet access soon became the world's most valuable companies.

Something similar will likely happen with AI. By 2030, we'll see many organizations—some new, some radically transformed—with AI embedded in their structure. Every employee will access it regularly and seamlessly: to bounce ideas off it, to manage and automate tasks and to get feedback about a company's services or products. Even by 2030, such organizations will be in the minority, but their productivity gains will highlight the value of this approach.

Only when AI stops being seen as a new technology—and becomes just an assumed part of everyday work and life like the internet—will its true potential be realized. The year 2030 will mark the midpoint of that shift.

—Alex Singla, global leader of QuantumBlack, AI by McKinsey

### **AI personal assistants to handle our lives**

By the year 2030, we will each have a Personal Large Action Model, or PLAM. These are advanced AI agents designed to replicate and emulate our unique decision-making processes.

Today, a system like ChatGPT does its best to approximate how individual people speak and write using limited data; in the future, a PLAM will use data collected from the devices we wear (earbuds, continuous glucose monitors) and the devices we use (smart toilets embedded with sensors, digital wallets) to understand our likely behaviors and act on behalf of us.

Our PLAMs, which we will train through repeated use, will learn and adapt to our individual unique behaviors, actions, mood expressions and preferences, and they will invisibly and autonomously handle complex tasks, such as negotiating rates with CLAMs, or Corporate Large Action Models. Here's how that could look: As a business traveler, you have a coming trip from New York City to Munich, and there are no direct flights. Your PLAM would let airline carriers know it wants a deal and allow them to compete for your business.

After brokering an itinerary optimized to what you specifically like (preferred seating configuration, just the right amount of time to make your connection, ability to accumulate points), your PLAM completes all of the tedious steps involved in actually purchasing the ticket: signing in to the airline and authenticating, entering your information, selecting which credit card to use, authenticating for payment, submitting payment details, entering the receipt details in your company's accounting system and posting travel details to your calendar. With enough PLAMs deployed, yours could work to find you the perfect seatmate, too.

—Amy Webb, chief executive, Future Today Institute



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### AI agents as collaborators at work, too

The advent of “AI agents” will be the turning point for artificial intelligence in the next five years. AI agents trained on what is highly relevant to the user, both professionally and personally, will protect us from receiving email, phone calls, texts and instant messages that aren't of much use to us. These agents will handle this automatically—possibly through negotiations with other people's agents—to keep most of this communication at our periphery. They will respond to these messages, organize them and push away those that aren't germane.

Today, after a meeting, Microsoft's AI tool called Copilot will give me a summary based on what was discussed—but future AI agents will know what is really important to me.

Rather than simply automating tasks, AI agents will become true collaborators. It will be the difference between yet another tool to enhance our everyday tasks, and the advent of true technology companions that will transform the way we work, buy, learn and interact.

—*Erick Brethenoux, artificial intelligence chief of research, Gartner*

### 'Empathy' bots for sale to kids

By 2030, it will be commonplace to use AI emotional companions, not just for romance, therapy and eldercare, but also to provide love and “empathy” for children and teens.

Currently there are bots that educate and entertain children, but nothing like the huge upsurge of intimate-relationship bots we see in adults. Yet by 2030, the market opportunity businesses see in loneliness will accelerate the development and dissemination of the child version of love or “empathy” bots. For younger kids, there will be physical “buddies,” perhaps taking the form of cute Teletubby-like robots with expressive faces. Older kids and teens may wear a smart device that is “always listening” and providing frequent validation.

But there are serious risks to replacing early experiences of mutual human empathy with fake bot “empathy.” In real-life relationships, children encounter disagreements and challenges through which they recognize that other people have their own actual feelings and perspectives. This is the engine for developing mutual empathic curiosity, which is crucial for successful adult relationships. In contrast, bots, even if programmed to provide some disagreement or questioning, can only provide one-way simulated “empathy,” passively received by the child. The child cannot learn about the authentic inner life of another human.

It isn't just that bot “empathy” is fake and unidirectional. Adults develop strong attachments to their relationship bots, making them vulnerable to dangerous manipulation. With profits depending on capturing the user's attention, tech companies already use irregular rewards, such as social-media likes, to create addiction. Children are more susceptible. Given that childhood is the critical time to develop one's capacities for relationships, stealing attention away from real life is likely to have much more serious consequences.

—*Jodi Halpern, Chancellor's Chair and professor of bioethics, University of California, Berkeley*



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### **Autonomous robots gain independence**

By 2030, AI will greatly enhance the capability of robots to function independently in complex environments.

Robots will reach advanced levels of autonomy, making high-level decisions with minimal human input while collaborating and learning from each other. Through cloud communication, new capabilities and data will be easily shared among multiple robots, enabling them to work together on a task.

With enhanced agility, collaboration, adaptability and dexterity, autonomous robots will better navigate difficult environments such as off-road terrain, forests or cities. Robots will also perform tasks in human environments like homes and hospitals, such as cooking, helping the elderly, serving food or cleaning in buildings.

Human-robot interaction will improve, with robots communicating more naturally and understanding human emotions and intentions.

Robots' new abilities will boost productivity, streamline operations and enhance safety, transforming how work is done. For instance, ground and aerial robots that collaborate with each other and with humans will provide aerial delivery and search and rescue after natural disasters. Automation will have a particularly big impact on sectors like manufacturing, logistics, construction, security, healthcare, transportation and space exploration.

The shift will create new human roles in robot oversight, AI system design, and maintenance, but it may also require significant workforce reskilling. Ensuring the safety and reliability of AI-driven robots will be crucial; when an AI system is embodied in a robot, faulty actions could lead to damage in the real world. This highlights the importance of robust safety mechanisms and thorough testing to ensure AI-driven robots operate securely.

—Prof. Giuseppe Loianno, director of the Agile Robotics and Perception Lab at New York University

### **The AI-powered doctor's office**

By 2030, AI will be deeply integrated into healthcare, transforming how patients and providers interact.

AI tools that quickly analyze lab results and scans will help speed detection and diagnosis of conditions like cancer or heart disease. Systems that combine different types of data, like images, genetic information and medical records, will give doctors a more complete picture of a patient's health, leading to better diagnosis and treatment. Critical conversations about diagnoses and treatment will remain the responsibility of healthcare professionals, but AI will offer support. For example, AI will ensure patient information is customized to their age, education level and health condition.





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While human empathy and judgment will still be critical in delivering the best care, AI will help nurses by monitoring patients' vital signs. It will suggest treatment plans based on a patient's medical history and warn doctors about possible problems like worsening symptoms or harmful drug interactions. AI will also handle time-consuming paperwork by automating tasks like coding, billing, and managing electronic health records. All this will reduce stress for doctors and nurses, enable them to spend more time with patients, and lead to quicker, more personalized care.

Even when patients aren't at the doctor's office, wearable devices will be able to monitor more disease indicators and send real-time information to AI systems that alert patients and their doctors about potential health risks. This will shift healthcare toward preventing illnesses, rather than just treating them after they occur.

With AI's use, ethical and legal concerns will become more important, and concerns about safety and fairness will be addressed by clearer rules, monitoring and education.

—Metin N. Gurcan, director of the Center for Artificial Intelligence Research, Wake Forest University School of Medicine

### Societal trust is at risk

AI-generated content in 2030 will be far more realistic than it already is, further blurring the boundaries between reality and fiction. The mere existence of such high-quality, AI-generated content will give people, including politicians, cover to question the truth—even if AI wasn't used.

In August, Donald Trump claimed that a photo showing the size of the crowd at a rally for Vice President Kamala Harris was AI-generated, an assertion media outlets said was unfounded based on photos and video of the event.

Without decisive action, we may be operating in a bifurcated reality, where anything can be true or false depending on whether an individual is already primed to believe it. In this dystopian future, truth is subjective, and reality is whatever reinforces one's prior beliefs.

What is certain is that over the next five years, AI-generated media is likely to become only more realistic and more pervasive. Without widespread education about the danger, the shared reality and an informed public on which democracies so depend may be at existential risk.

—Valerie Wirtschafter, a fellow in the Foreign Policy, Artificial Intelligence and Emerging Technology Initiative at the Brookings Institution



## How Five Pros Are Inflation-Proofing...

The Wall Street Journal

01.01.2025

### How Five Pros Are Inflation-Proofing Their Investments

Some on Wall Street think the fight to stabilize prices isn't over



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## How Five Pros Are Inflation-Proofing...

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Some on Wall Street are worried that inflation and interest rates could rebound.

Stock indexes are setting new records, bitcoin hit \$100,000 and the Federal Reserve just cut rates for the third time in less than six months. Still, some investors are switching to defensive strategies as they enter 2025 because they think the fight to stabilize prices isn't over.

There was persistently hot economic data even before Donald Trump won the election on a platform of trade tariffs and immigration crackdowns, both historically inflationary policies.

Bond yields also rose sharply in the last quarter of the year, stoking fears that rates and inflation would jump in tandem, sparking a repeat of the 2022 market selloff.

Here is a look at what some money managers are doing to protect their portfolios:

### Greg Lippmann



You know him as the trader played by Ryan Gosling in “The Big Short” who made a fortune betting against subprime mortgage bonds. Nowadays Greg Lippmann runs his own \$11 billion hedge-fund firm called LibreMax Capital. It made money in 2022—a down year for most investors—thanks to another unconventional bet, this time on interest rates.

Lippmann doubted consensus views that postpandemic inflation was transitory. He purchased derivatives that gained when rates rose, outweighing, or hedging, losses from the asset-backed bonds LibreMax primarily invests in.

The firm profited from the hedges in 2023 and 2024 too, and still holds about 50% more interest-rate swaps than it normally owns, a person familiar with the matter said.

“There is complacency out there that rates are going to go down and there’s an unappreciated risk of the 10-year suddenly spiraling to 5% or 5.5% in a matter of weeks,” Lippmann said.

Chances of a rate surge are less than 50% but will increase if Trump boosts spending and lowers taxes, pushing the already worrying deficit higher, Lippmann said. The danger is that the Fed’s waning influence over the U.S. economy and, by extension, bond yields, keeps weakening.

Typically economic activity slows when the Fed raises the interest rate it charges banks to borrow, making bank loans more expensive for their customers. But more than 70% of all U.S. consumer debt consists of mortgages, over 90% of which are fixed rate, Lippmann said. That means interest rates will need to stay higher for longer to damp spending.

“The Fed raised rates faster and higher than anyone thought and yet we’re not in a recession,” Lippmann said.



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### Mina Pacheco Nazemi



Ask Mina Pacheco Nazemi what worries her going into 2025 and it is a no-brainer: inflation. Pacheco Nazemi heads up diversified alternative equity at Barings where she advises pensions, endowments and other investors on private-equity strategies. Right now she is steering them toward funds that specialize in real assets that she says should hold their value if costs escalate again.

Handicapping what the Trump administration will do in January is speculation at best, but taken at face value, his campaign promises would push prices up, she said.

Tariffs—like the levies Trump pledged on Chinese, Mexican and Canadian goods—will increase costs for U.S. manufacturers and retailers that they will pass on to consumers. Deporting undocumented immigrants will shrink the supply of labor in industries like home-building, hotels, food processing and restaurants. Fewer workers usually means higher wages.

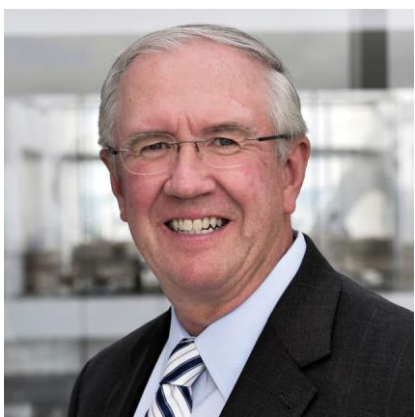
Pacheco Nazemi is recommending clients consider a Barings strategy that takes stakes in new-economy infrastructure projects like data centers, and renewable power such as industrial batteries and geothermal energy.

“Regardless of what ends up happening, we believe there’s going to continue to be a demand for power and bandwidth, whether it’s from AI or our kids playing more videogames or more people working from home,” Pacheco Nazemi said.

There is one potential check on inflationary policy: popular opinion, Pacheco Nazemi said. Rising costs are already forcing more Americans to spend most of their income on staples such as rent, food, vehicles and internet access.

“What is the administration going to do if the public realizes, ‘Oh wait, inflation isn’t going down, it’s actually going up?’ ” Pacheco Nazemi said.

### Tim Schmidt



Tim Schmidt is chief investment officer for [Prudential Financial](#), the Newark, New Jersey-based insurer with \$1.5 trillion of assets under management. A lifelong insurance executive, Schmidt expects the Fed to tame inflation, but only after a difficult battle that threatens to catch corporate America in the crossfire. Insurers are relatively insulated from interest-rate moves. They sell life insurance policies and annuities, then invest the money they collect in long-term bonds. Rising rates may temporarily push bond prices down, but that isn’t a problem as long as the bonds pay out on time.



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What worries Schmidt about prolonged high rates and inflation is their impact on the companies Prudential lends to.

“We’re going to be more defensive in our overall corporate investments, especially in lower quality credits that tend to finance themselves with floating-rate debt,” Schmidt said. “Syndicated bank loans, direct lending and private equity, those are the sectors that tend to be more exposed to floating rates.”

Direct lending is part of the private-credit craze that has swept Wall Street, and much of the interest expense on that debt “floats” in tandem with benchmark rates, increasing the risk of default.

Default rates on private debt were 4.7% in October, according to Fitch Ratings. That is more than twice the 1.6% default rate on junk bonds, which have fixed interest rates.

Prudential will buy private debt, Schmidt said, but primarily fixed-rate private bonds arranged by banks for mostly investment-grade companies.

### Will Smith



Will Smith is director of high-yield credit at AllianceBernstein, where he manages the mutual-fund company’s \$31 billion holdings of below investment-grade corporate bonds. His market has had a good year, outperforming most other types of bonds, but that performance comes at a cost.

High-yield bond prices have run up so much that they are more susceptible now to fallout if interest rates jump again in 2025. Junk bonds gained 8.7% in 2024 through November. That is double the return for U.S. credit broadly and slightly more than the 7.86% of emerging-markets bonds, according to research by Barclays.

As Trump’s victory and expectation of Fed rate cuts drove bullish sentiment, investors bought riskier corporate debt, echoing the ebullience lifting stocks. Now high-yield bonds look expensive relative to safer kinds of debt because when bond prices go up, their yields go down.

The difference, or spread, between the yield of double-B rated bonds and Treasury-bond yields fell to about 1.58 percentage points in November, the lowest level since at least 2019, according to Barclays. That makes high yield more sensitive than usual to moves in benchmark interest rates.

“There seems to be more ways to lose than win if spreads are this tight,” Smith said. AllianceBernstein started to reduce high-yield bond risk in the portfolio about six months ago and redoubled those efforts in September, he said.



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### Sonal Desai



Sonal Desai, chief investment officer of fixed income at Franklin Templeton, oversees more than \$200 billion in assets and doesn't expect inflation to return to the Federal Reserve's 2% target even at the end of 2025.

Fiscal deficits are already alarmingly high, with deficit spending reaching \$1.83 trillion in fiscal year 2024. Absent significant reductions in expenditures, the country's debt will expand further. President-elect Trump's proposed tax cuts, tariff increases, military expansion and mass deportations would widen budget deficits by an estimated \$7.5 trillion over the next decade, keeping inflation high over the long term.

Meanwhile, investors have dialed back rate-cut expectations. The Federal Reserve signaled greater doubt over how much it would continue to cut after agreeing to a reduction at its December meeting. If economic strength holds up and rate-cut expectations scale back, yields on the 10-year Treasury note could grind higher to 5% in 2025, she said.

Plus, monetary policy may not be as tight as previously thought. Desai believes the Fed's "neutral" rate, one that neither spurs nor slows growth, is closer to 4% rather than the 2.5% to 3% anticipated by most economists.

After a stellar year of bond returns, Desai said she doesn't see fixed-income securities providing stocklike returns in 2025, but investors should stay invested rather than being in cash.

"This is not a great time to be positioned in cash," she said. "Rates are going to be cut so you can start getting invested within the fixed income space. At this point, I don't see fixed income providing massive capital gains, but I do see it providing income."

## Europe's quest for corporate champions

Financial Times

20.04.2024

### Europe's quest for corporate champions

Worries about the EU's competitiveness against the US and China have prompted a rethink of takeover rules that prioritised consumers. But not everyone is persuaded it will have the intended effect.



When Thyssenkrupp and Tata Steel agreed a merger in 2018, one rationale was to defend both businesses from a flood of cheap Chinese steel. But the European Commission, worried about the impact on consumers and industry, blocked the deal the following year.



## Europe's quest for corporate champions

Six years later, Tata is in the process of closing its last integrated UK steelworks while Thyssenkrupp has announced plans to axe 11,000 out of 27,000 jobs across its steel business. Although the failed merger is far from the only reason for their current troubles — worldwide overcapacity, flagging demand and high energy costs are the main culprits — serious debate has begun in Brussels about how EU competition policy can better support industrial policy.

“European merger control must be reformed,” said Friedrich Merz, the centre-right candidate for German chancellor. “We must allow European champions,” he told journalists at the weekend.

He described past decisions to block combinations involving Siemens and Alstom and the German and British stock markets as decisions “legally correct, but politically incorrect”.

Mario Draghi's landmark report on EU competitiveness last year also called on the authorities to facilitate consolidation as a way of promoting Europe's innovation drive. Although he stopped short of calling for a complete overhaul, the former ECB president argued that the continent was facing an “existential challenge” if it wanted to remain a global economic superpower.

A change of personnel in Brussels is helping fuel the debate. Margrethe Vestager, a Danish liberal who served two terms as competition commissioner with a clear agenda to protect European consumers, is being replaced by Teresa Ribera, a Spanish socialist charged with making changes “fit for the new realities” of global competition.

Against a backdrop of persistently weak economic growth, some are urging a complete rethink. “The geopolitics are quite different this time,” says Damien Geradin, a Brussels-based lawyer who specialises in competition law. “We see the US becoming aggressive, the Chinese also. The situation in Europe is not optimal. Growth has stalled.”

A similar debate is under way in the UK, an EU member when the Tata/ Thyssen deal was blocked and now facing similar challenges — weak growth, declining competitiveness and subscale companies — outside the bloc.

Regulators in Brussels are for the first time in a decade contemplating allowing large EU-based companies to gain scale through mergers, so they can cut costs and better compete with international rivals — even if such combinations could reduce competition or increase costs for consumers.

Cecilia Bonefeld-Dahl, director-general of Digital Europe, which represents the continent's technology sector, says that while Europe has world-class companies in several fields, it has been “too focused on regulating instead of promoting them”. She adds that “we won't create the next Apple or Nvidia through the Data Act or the AI Act.”

Investors, national governments, regulators in other jurisdictions and company bosses will be watching for signs of changes in policy that suggest the approval of mergers that might have been blocked by the previous regime.





## Europe's quest for corporate champions

But some in Brussels are resisting calls to relax the rules and pushing back against the notion that bigger mergers are needed to promote investment and innovation. They point to the fact that the number of mergers the EC has cleared far exceeds those it has blocked, and the many significant cross-border deals that have been waved through.

“Will the political willingness to go big outweigh the institutional need to protect consumers?” asks one seasoned EU observer.

“Do we have companies in Europe that can gain the scale needed to help the bloc gain economic supremacy?”

Brussels began regulating larger mergers in 1990, at the dawn of the EU's single market. Combinations below certain revenue thresholds are left to national competition regulators.

The first combination that it blocked was the 1991 purchase of De Havilland, a Boeing-owned manufacturer of shorthaul aircraft, by France's Aerospatiale and Alenia of Italy, on the grounds that it would create a duopoly in such planes.

The EU has blocked relatively few mergers since then and some of those were overturned on appeal. Some companies have withdrawn merger proposals voluntarily, after failing to agree remedies with the commission.

Merger rules have rarely changed since they were drafted and senior officials have recently warned that changes could risk further harm to smaller companies and consumers. Many EU states share the Commission's concerns.

But key countries are applying pressure on the EU to be more lenient. Last May, France and Germany called for regulators to enable the creation of larger companies, particularly in the telecoms and airline industries.

“We need to review the current European competition rules and practices to check whether they are still appropriate to contribute to achieving this goal and allow for establishing consortiums and consolidation in key sectors in order to strengthen European resilience,” their joint paper said. Paris and Berlin also called for reform in 2019, after the EU vetoed a proposal to merge the trainmaking units of Siemens and Alstom.

“The choice is simple when it comes to industrial policy: unite our forces or allow our industrial base and capacity to gradually disappear,” they said.

The commission's president, Ursula von der Leyen, has asked incoming competition commissioner Ribera to “modernise competition policy” by giving more importance to aspects that may have been neglected in previous analysis — including considerations of future innovation and defence.

Some have interpreted this as a green light for European companies to grow via mergers. “It will be a matter of degree,” predicts another long-serving EU official. “You will see the EU being a bit more generous in how we assess mergers. A Siemens/Alstom deal would have better chances of being waved through today.”



## Europe's quest for corporate champions

But Agustín Reyna, director-general of the European consumer organisation BEUC, says the notion that allowing more consolidation will make Europe more competitive is “a fallacy,” adding that “what’s happening instead is that incumbent operators are trying to consolidate their market power to be able to extract more rent from consumers.”

Tensions within the commission are also likely. “There will be internal resistance,” says Alec Burnside, senior counsel at law firm Dechert. “The question is whether the political appetite for any meaningful reform is strong enough.”

Guillaume Lorient, deputy director-general of mergers in the commission’s competition unit, said in a recent speech that some “seem to hope for merger control rules to be more lenient, in the name of the ‘scaling up’ imperative.”

“It is good to remind everyone that merger control is not about scale as such,” he continued. “The point of merger control is addressing excessive market power, the increase of market power. Competition enforcement, for me, is not part of the issue or the problem, but an integral part of the solution.”

Some offer a more nuanced interpretation of Ribera’s mandate. “Regulators are thinking about competition rules to advance the EU’s standing in the world,” says Martijn Snoep, the head of the Dutch competition watchdog. “That doesn’t mean everything has to change.”

There could also be shifts in other areas of competition policy aimed at allowing small players in Europe to grow, rather than being snapped up by US rivals or listing on US exchanges. Following von der Leyen instructions to Ribera, EU officials plan to expand their powers to block “killer acquisitions” that pose a threat in particular to European start-ups. People briefed on the plans say officials are considering new thresholds on the value of deals so as to catch mergers that currently fall outside their jurisdiction.

“This goes hand in hand with the notion that Brussels will now be backing EU champions,” says one person familiar with the EU’s thinking, adding that Brussels wants to reduce the risks of large foreign companies “scooping” smaller rivals in Europe to eliminate future competitors.

The commission’s decisions can be appealed in the courts in Luxembourg, which have on occasion overturned its rulings. “There is a margin of political manoeuvre because the law contains flexible criteria and policies can change,” says Sir Jonathan Faull, a former senior official at the EU’s competition division and now chair of European public affairs at Brunswick Group.

“But there are limits set by the rules and 70 years of case law.”

The telecoms sector offers a case study in the challenges of competition regulation. Reformers such as Draghi argue that Europe needs bigger groups in sectors like mobile and broadband, where investment costs are considerable and payback periods long.



## Europe's quest for corporate champions

But the commission blocked the 2016 acquisition of O2 by Hutchison while TeliaSonera's attempt to merge its Danish unit with that of Telenor was abandoned in 2015 after Brussels objected.

In order to get around competition concerns, he has proposed defining telecoms markets at the EU rather than national level, and increasing the weight of innovation and investment commitments required for clearing mergers.

Treating telecoms as a single European market would make mergers more acceptable to regulators by increasing cross-border competition and reducing monopoly risks, Draghi argues.

But Lorient, of the competition unit, told another conference last year that enforcers cannot “pretend that the [telecoms] market is European when it is not, just because we should wish it to be. We are not in Wonderland.”

Last month, the UK's Competition and Markets Authority cleared the merger of Vodafone's UK business with that of CK Hutchison's Three, to create the country's largest mobile operator.

Like the EU and peers elsewhere in Europe, the CMA had in the past rejected transactions in the sector that reduce four players to three, and had warned that this combination could lead to higher bills for customers. But it eventually assented after the companies agreed to provide guarantees for customers and invest billions of pounds rolling out a 5G network across the UK.

Sector analysts say that the clearance signalled the willingness of watchdogs to approve deals contingent on investment pledges, though it is still not clear whether the new EU regime will clear mergers on investment plans if they still risk increasing costs for consumers.

But sceptics say the combination of carmakers Fiat Chrysler and PSA to form Stellantis, the takeover of steelmaker Arcelor by India's Mittal Steel, and various airline mergers show the commission has supported the creation of bigger, stronger companies.

They also note that for all the controversy, Siemens and Alstom are still global players in train-building six years after their merger was blocked.

“Competition policy can be useful at the margins,” says Geradin, the competition lawyer. “But it won't change whether big companies can compete at a global level. That's a matter of fundamentals.” Even Draghi acknowledges that it is not the only, or even the main reason for the widening gap between Europe and the US.

Other factors include lower spending on research and development — EU companies spent €270bn less than their US rivals on R&D in 2021, he said in his report — and underdeveloped capital markets. “The problem is not that Europe lacks ideas or ambition . . . We are failing to translate innovation into commercialisation, and innovative companies that want to scale up in Europe are hindered at every stage by inconsistent and restrictive regulations.”



## Europe's quest for corporate champions

FINANCIAL TIMES

“As a result, many European entrepreneurs prefer to seek financing from US venture capitalists and scale up in the US market.”

Bonfeld-Dahl of DigitalEurope insists that competition rules play a major part. “We need to ensure companies here can merge more easily to be able to grow and compete on the world's stage,” she says.

“Tech is global, all sectors are becoming digital — but we are still thinking Europe is a market.”