The Mario Draghi report:
The Future of European Competitiveness

Part B: "In-depth analysis and recommendations"

Building on the direction set out in Part A, in Part B, Mario Draghi goes into more detail regarding his recommendations by focusing on key sectors. Not all the recommendations are necessarily new or groundbreaking; for example, the Capital Markets Union initiatives were initially introduced by former Commissioner Jonathan Hill during the Juncker Commission but the ideas behind these initiatives got a new momentum following this year's European Council conclusions followed by Enrico Letta's report on the Single Market.

The report reflects an attempt on Draghi's part to secure institutional recognition that the days of classical free trade are over and that economic issues should be guided by foreign and security concerns. He has stressed this point before – during a June speech, Draghi mentioned that Europe needed to revise its approach to industrial capacity in strategic sectors like defence, space, critical materials, and pharmaceuticals, in part to reduce dependencies on countries "we can no longer trust."

Although the recommendations address a variety of sectors, ranging from large-scale reform to amending current policies, there is a consistent strand regarding Europe's response to a less stable world. For example, on energy the recommendations focus on leveraging the EU's market power through diversified trade partnerships, improved procurement and storage, decarbonization, competitive energy sourcing, and fostering innovation and infrastructure development.

Beyond the focus of the report on key sectors, the report also delves into more horizontal topics that also require some degree of reform, such as the governance of the EU where the report suggests developing a competitiveness coordination framework, while also suggesting to reform the Council voting system so it would be subject to qualified majorities as opposed to unanimity.

Energy

The **EU suffers from a major competitiveness gap with its trading partners, due to its energy price levels**. With both gas and electricity retail prices being two to five times higher than the US and China, the energy crisis has exacerbated price differences – both between EU Member States and with third countries.

Structural issues and price volatility hamper the EU's energy-intensive industries, and therefore the wider EU economy. Substantial volatility in energy markets appear to be more structural in nature, which poses a real threat to EU competitiveness in conjunction with concerns about security of supply. These high prices, together with EU dependence on imports, hinder investment and place major pressure on EU resources compared to its competitors.

Without adequate, swift action, **the EU's competitiveness gap is expected to persist if not worsen, largely driven by the lack of cheap domestic fuels and limited fiscal resources**. Energy system decarbonisation is an opportunity for the EU to reduce its dependence on fossil fuels and ensure affordability and security of supply, by fostering the massive deployment of clean energy sources with low marginal generation costs such as renewables and nuclear.

However, **the full competitiveness benefits of the clean transition will only materialise when renewables combined with nuclear get regular investments and price settings.** Renewables will need to keep up with the demand for electrification, despite permitting issues, increased cost of capital, and potential supply chain challenges.

Therefore, the EU will **need to be prepared to make large-scale investments** to avoid bottlenecks, particularly in its grids and networks, while also preparing for the possibility of higher and more volatile prices as the energy system becomes less flexible.

To address the EU's competitiveness challenges related to the cost of energy, it should pursue two parallel objectives: 1) the cost of energy must be lowered for the end user and 2) decarbonisation must be accelerated by leveraging all available technologies and solutions through a technology-neutral approach.

Recommendations

Key proposals to leverage the EU's market power include:

- Establish partnerships with reliable and diversified trade partners, also reinforcing long-term contracts.
- Encourage a progressive move away from spot-linked sourcing.
- Reinforce joint procurement.
- Further develop selective strategic import infrastructures and improve the coordination of storage management across Europe.
- Improve the quality of data and forecasts.
- Limit the possibility of speculative behaviours: financial position limits, dynamic caps, an EU trading rule book and an obligation to trade in the EU.
- Progressively decarbonise moving to H2 and green gases in the industry when cost-efficient.
- Ensure natural gas price formation mechanisms are more cost-reflective of different sourcing conditions.
- Facilitate industries exposed to international competition to get access to competitive energy sourcing.

The following proposals aim to accelerate the supply of cheaper power generation sources, and detach the remuneration of renewables and nuclear power from fossil-fuels commodity price variation on electricity prices. They would also facilitate investments in the necessary infrastructure to prevent future bottlenecks.

- Simplify and streamline permitting and administrative processes to accelerate renewables, flexibility infrastructures and grids deployment.
- Foster network upgrades and investments in grids to address the electrification of the economy and avoid bottlenecks.
- Decouple the remuneration of Renewable Energy Sources (RES) and nuclear from fossil-fuel generation though long-term Contracts [Power Purchase Agreements (PPA) and 2-way Contracts for Difference (CfDs] to limit the impact of natural gas on electricity prices.
- Support PPAs for industrial users.
- Encourage self-generation by energy-intensive users.
- Reinforce system integration, storage and demand flexibility to keep total system costs in check with a competitive uptake of renewables.
- Facilitate industry exposed to international competition to get access to competitive EU energy sources.
- Maintain nuclear supply and accelerate the development of 'new nuclear' (including the domestic supply chain).
- Promote the role of carbon capture, utilisation and storage (CCUS) technologies as one of the tools needed to accelerate the EU's green transition.
- Additional proposals consider taxation, price support schemes, innovation and the governance of the energy sector from a 'horizontal' perspective. These include:
    - Lower and level the energy taxation playing field and the strategic use of taxation measures to reduce the cost of energy.

- Harmonise price reliefs and avoid distortions in the Single Market.
- Foster innovation in the energy sector.
- Develop the governance needed for a true Energy Union.

Critical Raw Materials

Driven by the deployment of clean energy technology, the demand for critical raw materials has experienced unprecedented growth. To cope with demand, **investment in critical mineral development has increased globally - largely outside of the EU**. However, uncertain supply levels and the lack of diversity among providers persist, making the EU's supply chains increasingly vulnerable to disruptions, sustained higher prices and export restrictions.

The **EU's dependence on both mining and refining critical minerals can put the bloc's green and digital transition ambitions at risk**. New dependence on these critical raw materials concentrated in a handful of providers is emerging, potentially slowing the progress of the EU's green and digital transitions or making them more costly.

Other world regions are moving faster to secure critical mineral supplies. Some of the EU's main trading partners have secured their positions in the global critical mineral supply chain, with countries such as China dominating it. Projects such as the Belt and Road Initiative, intense investments in assets in Africa, Indonesia and Latin America, as well as into refining facilities, has allowed China to secure strategic access to raw minerals abroad. The United States, similarly, has the Inflation Reduction Act (IRA) to accelerate the development of domestic processing, refining and recycling capacity. Japan, like the EU, has a large dependency on other world regions for critical raw materials, but it has developed a more strategic approach - focusing on a 'resource diplomacy' to enhance access to overseas mining projects.

The EU, by contrast**, lacks a comprehensive strategy covering all stages of the supply chain** as well as an approach to critical raw materials encompassing all internal and external tools at the EU level. It is also limited by fragmentation across Member States, particularly related to funding opportunities. Companies wishing to become involved in the value chain find navigating it a complex and arduous task, particularly as the extraction of commodities in the EU is largely left to private companies and the market. Similarly, the EU has untapped potential in domestic mining and recycling. Accelerating the opening of domestic mines could enable the EU to meet its entire demand for some critical minerals, reducing dependencies and making sourcing more sustainable.

While the **recent Critical Raw Materials Act (CRMA) constitutes progress, further efforts are needed**. To secure competitive and stable access to commodities through a strengthened supply chain and reduced dependency, the EU will need a coordinated strategy covering the entire value chain from raw materials to final products.

Recommendations

Full and rapid implementation of the CRMA

- Enhance domestic production, processing and recycling the EU along the CRM value chain.
- Support the diversification of supply chains.
- Simplify permitting procedures.

- Advance the Strategic Projects to speed up application processes.

Priority actions beyond the CRMA

- Develop a comprehensive strategy at the EU level building on the CRMA from mining to recycling.
- Establish a dedicated EU Critical Raw Material Platform to deliver on the EU strategy and leverage market power.
- Develop financial solutions supporting the critical raw materials value chain.
- Develop further critical raw materials resource diplomacy for securing supply and diversification.
- Further develop joint strategies with other global buyers in the G7/OECD (e.g. Japan).
- Further promote the untapped potential of domestic resources in the EU linked to better standards and integration with industry at different levels of the value chain.
- Boost European excellence in research and innovation in alternative materials or processes to substitute critical raw materials in various applications.
- Create a true Single Market for waste and recycling in Europe.
- Accelerate the creation of a sustainable CRM market in the EU.
- Develop strategic stockpiles for critical minerals in the EU.
- Enhance financial market transparency for critical minerals wholesale contracts in the EU.

Digitalisation and advanced technologies

The report argues that the EU's competitiveness will increasingly depend on the digitalisation of all sectors and on building strengths in advanced technologies (notably AI). Reasons include benefits for public administration, open strategic autonomy, supporting decarbonisation and social inclusion. It notes that **the EU's industrial model does not reflect the pace of technological change**, being based on imports of advanced technologies and exports from more traditional manufacturing/industries.

The report highlights that **EU tech players lack the scale to support R&D and deploy investments in telecoms, cloud services, AI and semiconductors**.

In the press conference announcing the report, Draghi highlighted that a weak digital/tech sector would not only rob Europe of the opportunities of the coming AI revolution but hinder innovation across sectors.

High-speed/capacity broadband networks

Draghi's report echoes many **similar concerns regarding the state of Europe's telecoms sector as were raised by fellow former Italian Prime Minister Enrico Letta's April 2024 report** on the Single Market and the European Commission's February 2024 White Paper on Europe's digital infrastructure needs. Above all is the matter of scale: Draghi points out that the EU has dozens of telecom players compared to only a handful in the US and China.

Draghi argues that while such competition helped to promote lower prices to the benefit of European citizens and businesses, over time it has reduced telecom industry revenues and profitability, investment and therefore innovation in new connectivity technologies. This presents a

much broader risk across EU industries due to the need for digitisation to deliver industrial competitiveness.

Draghi notes that an '**ex-ante' approach to regulation and competition policy has disincentivised consolidation** in Europe, while 'ex-post' regulation has allowed consolidation in the US. He argues that this has led to a proliferation of new and non-investment-based operators, reducing the benefits that could be gained from consolidation, while spectrum policies have been uncoordinated. A multi-country rather than pan-EU set-up of the sector has also led to costly proliferation of differing obligations for telecom operators.

At a time when **substantial investment in digital infrastructure is needed to reach the 2030 Digital Decade goals**, Draghi identifies four main factors negatively impacting the telecom industry:

1. An enormous growth in fixed and mobile broadband data traffic in recent years.
2. Lack of harmonisation of spectrum auctions, which were designed to deliver high prices with little consideration of investment commitments, service quality or innovation.
3. The limited financial capacity of operators hamstrings development of innovative services that would generate revenues but require upfront investment.
4. A growing shift towards software-managed network services rather than dedicated telecom equipment threatens the business models of traditional equipment providers historically based in Europe.

Draghi notes that the telecoms equipment and software sector are key for the EU's cyber-resilience, infrastructure and data security, but identifies fierce competition from Chinese vendors as a problem.

On the other hand, edge computing as an alternative to connecting to the remote cloud, as well as open network services, are identified as strategic opportunities for European telecom players.

Satellite connectivity is recognised as becoming increasingly critical, both in terms of technological sovereignty and meeting communication needs, but **faces domination by US players**. Draghi **worries that EU companies have been largely absent from the Low Earth Orbit (LEO) segment**, while incumbent Medium Earth Orbit (MEO) and Geostationary Equatorial Orbit (GEO) services are "unable to deliver speeds competitive to newcomers like the US' Starlink". He underlines the importance of the governmental use case of the planned EU satellite constellation IRIS2, but raises concerns that its deployment for commercial services will again see fierce competition from outside the EU.

Recommendations

Draghi calls for a "new 'EU Telecoms Act'" – echoing discussions in Brussels of a possible "Digital Networks Act" in the new Commission mandate. Key specific recommendations include:

- Reduce country-level ex ante regulation and favour ex post competition enforcement.
- Encourage the definition of commercial contractual agreements for terminating data traffic and infrastructure cost-sharing between internet service providers/telecom operators and very large online platforms (VLOPs).

- In the EU's rules for clearing mergers, increase the weight of innovation and investment commitments.
- Define telecom markets at EU level rather than Member State level. Focus remedies on commitments to invest rather than partial de-consolidations or transfer of physical assets.
- Harmonise EU-wide spectrum licensing rules and processes, including for satellite uses. This involves immediately harmonising the release of new frequency bands and harmonising all other frequency bands by 2035, as well as introducing a Commission veto on auctions not following harmonised guidelines. It also calls for at least doubling the duration of frequency licenses.
- Define cut-off dates for older connectivity technologies.
- Introduce 'passporting' of business-to-business services and apply regulation of 'country of origin' as a harmonising factor to facilitate multi-country offerings.
- Support EU-based telecom equipment and software providers to strengthen open strategic autonomy in the EU's technology sourcing, including favouring EU trusted vendors for spectrum assignment in future tenders and enforcing compliance with the EU Toolbox for 5G Security.
- Coordinate EU-wide technical standards for the deployment of Network APIs, edge computing and Internet of Things, through appropriate EU bodies.

Finally, it is worth noting that there is a small overlap with the Transport section of the report, which calls for better integration of the EU's plans for telecommunications and satellite services with other network industries (transport and energy), including in efforts to achieve the EU's 2030 Digital Decade targets.

Computing and AI

The report notes the EU is falling behind in research and development (R&D), as well as on the creation of innovative tech companies, compared to its competitors. Its industrial innovation model is more diversified, but also focuses more on established technologies instead of new ideas. Therefore, there are few homegrown EU-based digital platforms – a competitive disadvantage also applying to the cloud services industry. The gap will likely widen due to investments elsewhere, economies of scale, and specific players offering multiple services. On a positive note, the report underlines that the EU has managed to secure a strong international position when it comes to high-performance computing (HPC).

Draghi points out that **AI developments constitute an opportunity for European industry players to boost their competitiveness**. At the same time, if AI is not rapidly integrated into the products/services they offer, Europe may end up being dependent on AI models designed and developed elsewhere. Companies building generative AI models in Europe need investment in order to compete with US players. A weak AI ecosystem could hinder the digitalisation and productivity gains of EU companies and threaten the EU's current leadership in advanced robotics.

The report argues that **quantum computing will play a foundational role in next-generation digital ecosystems**. The EU can rely on some key strengths, including large public investment and skills and research capabilities, but has limited private investments in quantum technologies. To address the issues related to quantum, cloud, and AI, the **EU needs to secure capital and financing while developing its skills and human capital**.

Recommendations

The report **calls for the adoption of a new "EU Cloud and AI Development Act"** which would aim to enhance European HPC. The Act would have the following objectives:

- Increase the computational capacity dedicated to the training and fine-tuning of AI models and create an EU-wide framework for providing 'computing capital' to innovative SMEs in the EU.
- Identify priority AI vertical applications for the EU, encouraging EU companies to participate in their development and deployment in key industrial sector.
- Leverage the EU-wide coordination and harmonisation of national AI sandbox regimes, and ensure harmonised and simplified implementation of the GDPR.
- Define a single EU-wide policy and residency requirements for public administrations' cloud services, as well as EU-wide sensitive data security policies for collaboration between private cloud providers and hyperscalers.
- Adopt a Single Market 'passporting' regime for all EU-provided cloud services.
- Support data brokers as preapproved data intermediaries with regulatory clearance ensured by a Data Ombudsman. The report mentions the certification of ex-ante compliance.
- Step up cooperation between the EU and the US to ensure access to cloud and data markets, as part of a "low-barrier 'data transatlantic marketplace'".

Semiconductors

As in several other high-tech sectors covered in the report, Draghi raises concerns that while the EU has some key strengths in specific segments of the chips market, it is affected by **strong dependencies on non-EU players and lack of presence in many of the most high-value and innovative segments**.

He notes that the EU has strengths in segments including sensors, power controls and mature chips for automotive use cases, but this could be increasingly eroded by industry users insourcing design and by low-cost manufacturing competition (e.g. from China). The EU's strategic leadership, notably in lithography machines, meanwhile, could be challenged by export controls in the context of geopolitical tensions.

The EU's lack of capabilities in memory and advanced processors for HPC and GPUs, meanwhile, is identified as a weakness for Europe's AI industry, while Europe currently has no foundry capable of producing below 22 nm nodes.

The EU Chips Act is identified as a "good first step" but overall investment and public support for semiconductor production in the EU remains lower than in the US. The report points out that the governance of the Chips Act relies on Member States according to often lengthy, conflicting and uncoordinated processes, while the US CHIPS Act rolls out substantial subsidies at federal level alone.

Recommendations

- Create a dedicated EU budgetary allocation for semiconductors complementary to Member States' allocations.
- Launch a new "EU Semiconductor Strategy" providing funding, incentives and other support in key segments of the semiconductor value chain.
- Define chips procurement preferences for EU products and a new 'EU Chips' certification for public and private procurement tenders.
- Introduce a new 'fast-track' IPCEI (Important Project of Common European Interest) with co-financing from the EU budget and shorter approval times for semiconductor projects.
- Support European leadership in semiconductor manufacturing equipment (lithography, depositions, etc.), and roll out a strategy to negotiate partnerships with third countries to strengthen the EU's value chain autonomy. Increasingly manage export controls at EU level.
- Launch a long-term EU Quantum Chips plan.
- Measures to attract world-class talent in advanced electronics and semiconductors.

Energy-intensive industries

There has been a sharp decline in Energy-intensive industries' (EIIs - chemicals, basic metals, non-metallic minerals; pulp, paper and printing) competitiveness compared to other regions. The EU is increasingly reliant on imports to meet domestic demand for EII products.

The EII were particularly hard hit by the energy crisis and accompanying cost increases, as well as high emissions costs from comparatively ambitious EU carbon pricing. An **uneven playing field in global markets also hinders European competitiveness, as EU ambition in decarbonisation targets requires higher investments**. In turn, this leads to cost increases for consumers or, in more mobile industries, offshoring. Tariff reduction has stagnated, and non-tariff barriers are increasingly prevalent.

Competitors also offer more funding support to EIIs than the EU does, and such subsidies lead to overproduction, therefore causing companies to have to contend with cheap imported surplus goods. Finally, EU funding and regulation are more complex than in other regions. The business case for a circular economy is strong for some materials and weak for others, so uptake may not be economically viable in some sectors.

The EU's Carbon Border Adjustment Mechanism (CBAM) is a market defence measure that will be at the heart of maintaining EU competitiveness against players with lower/no carbon pricing. However, its **implementation will be challenging due to its complexity**, and it could be circumvented by selling low-emissions products on EU markets and retaining high-emissions products for the domestic (or non-EU) markets or producing scrap to export to the EU. Importers may also switch to downstream products not covered by the CBAM, and the export playing field will not be affected by it.

EU EIIs could benefit from scaling up investment in EU decarbonisation, which would accelerate this process and help reshape comparative advantage in the EU by reindustrialising areas with cheap, stable, renewable energy supplies.

Recommendations

- Increase the level of coordination across the multiple policies impacting the EU's EIIs (e.g. energy, climate, environment, trade, circularity, and growth).
- Ensure access to a competitive supply of natural gas during the transition, and sufficient and competitive decarbonised electricity and clean hydrogen resources.
- Simplify and accelerate permitting, and reduce compliance costs, red tape and regulatory burden. Further develop financial solutions (such as financial guarantees) for the EU's EIIs to improve market financing conditions. For example, by simplifying the EU Taxonomy for Sustainable Finance.
- Reinforce relevant funding to support the decarbonisation of EIIs, starting by earmarking ETS revenues and potentially CBAM revenues.
- Simplify, accelerate and harmonise subsidy allocation mechanisms. Adopt common instruments across Member States, such as the European Hydrogen Bank and Carbon Contracts for Difference. Consider EU-level competitive bidding, to widen the number of participants and support comparative advantage across the EU.
- Closely monitor and improve the design of CBAM during the transition phase. Evaluate whether to postpone the reduction of free ETS allowances if CBAM's implementation is ineffective.
- Stimulate demand for green products by promoting transparency and by introducing standardised low-carbon criteria for public procurement.
- Improve the circularity of raw materials (recycling rates, Single Market for circularity, stimulate demand where needed).
- Ensure the effective design of global trade arrangements and the ability to react, where justified, including international commitments to decarbonise.
- Coordinate the establishment of green regional industrial clusters around the EU's EIIs.

Clean technologies

The EU is one of the world's largest markets for clean technologies thanks to its decarbonisations targets and has opportunities to lead innovation in the sector. It was an early mover in solar PV, and early leader in wind turbines, and Germany is the EU leader in production of inverters and polysilicon.

However, there are **persistent barriers to scaling-up and competing with other countries**. These vary between kinds of clean technology and are leading the EU to increase its reliance on imports. Some EU companies are cutting production within the EU, announcing shutdowns, or relocating part or all of their business outside the EU –China (for lower production costs), the US, and Canada (both of which have stronger incentives to offset production costs.)

Causes of this loss of competitiveness include higher costs than competitors for building and operating new production facilities, raw materials, and energy, with longer lead times also increasing costs. **The EU is also strongly dependent on non-EU countries for critical raw materials and experiences supply chain bottlenecks as a result**.

China and the US subsidise clean technology manufacturing more than the EU does, with the EU policy being very new and providing less generous financial support. EU public funding is not well

targeted to manufacturing, despite high levels of investment in deploying clean technologies, Member States retain control over allocating a substantial part of this funding.

Trade barriers compound the issue, as import duties and local content requirements in places like the US and India, mean Chinese overcapacity is often redirected to the EU. Local content requirements also impede European exporters and limit the market size open to them. Other barriers include the complexity and length of manufacturing permit application, a persistent skills gap with a lack of Member State investment, and falling behind other countries in investing in innovation. EU research and innovation spending is not well-connected to its industrial policy, and the EU is losing venture capital market share due to faster growth in the US and China. Furthermore, EU regulation creates uncertainty for manufacturers seeking to invest in clean technology. Chemicals policy is one of the main drivers of such uncertainty, with the European Chemicals Agency having the power to limit or ban use of chemicals at any time.

The report describes the overall objective in this area as securing a minimum share of EU autonomy in the supply of selected clean technologies and their components throughout the value chain, to diversify and ensure resilience to supply chain shocks, and to create the conditions to develop and scale up competitive EU industries in the most innovative, sustainable and highest value-added parts of the supply chain.

Recommendations

- Ensure full, accelerated implementation of the Net-Zero Industry Act.
- Introduce in public procurement and in Contract for Difference (CFDs) auctions an explicit minimum quota for selected locally produced innovative and sustainable products and components – where needed to reach EU manufacturing targets.
- Promote other forms of offtake for selected locally produced technologies, such as requirements and rewards in EU and EIB financing schemes, and in national support schemes.
- Mobilise private and public financing for clean tech solutions, in particular by:
    - streamlining and simplifying access to EU public funding, increasing the level of resources, extending the support to OPEX;
    - reinforcing dedicated financing schemes to attract private capital;
    - introducing dedicated growth equity instruments.
    - Define clean technologies as one of the strategic priority areas of a refocused 10th EU Framework Programme for research and innovation (with prioritised access to funding for innovation, a dedicated new Competitiveness Joint Undertaking, and breakthrough innovation programmes).
- Diversify supply sources and establish industrial partnerships with third countries.
- Develop and enforce a single model of sustainable and innovative technology certification.
- Optimise foreign direct investment and protect EU know-how, by leveraging knowledge transfer clauses and protecting intellectual property rights.
- Pool a skilled workforce, via mutual recognition of skills across the EU and facilitation of work permits to attract talents.

- Reinforce EU level coordination, in collaboration with industry and research centres, starting with: supply chain monitoring, definition of standards and minimal critical capacities, and coordination of R&D efforts (e.g. Joint Undertakings and IPCEIs).

Automotive

The automotive sector is undergoing its biggest transformation in a century, with effects on multiple other industries and value chains. The shift in demand towards third country markets is seen through the rise in demand in China, for example, and less dynamic growth in the EU.

The **rise of electric vehicles is changing the technology**, production processes, skills and inputs needed by car manufacturers and network suppliers, requiring a major industrial reorganisation. Additionally, cars – previously solely hardware-based – are increasingly integrated with the digital value chain.

The **EU's automotive market is already showing clear signs of declining competitiveness**. This is particularly true for the new energy vehicle space, in which China excels. The automotive industry's reduced production in the EU is due to its higher costs, lagging technological capacities, increasing dependencies, and eroding value chain.

The transition from traditional internal combustion engine (ICE) vehicles to battery electric vehicles (BEV) is among the issues with the most profound impacts on the industry. BEVs are much less mechanically complex than ICE vehicles, and suppliers can increasingly compete to provide Original Equipment Manufacturers (OEMs) with components. The new use of software in vehicles also affects the ability of suppliers to compete with OEMs in the after-market. While many EU suppliers have been global market leaders in their segments, Chinese OEMs are now catching up and reducing the amount of supplies they source from the EU.

China has created a regulatory framework classifying New Energy Vehicles as a strategic industry as part of its efforts to dominate the global industry. It has done so through securing upstream and downstream supply chains, developing at scale the battery production needed for BEVs, and encouraging foreign OEMs to produce and sell in the Chinese market.

Production costs and the final sales price of BEVs also pose an obstacle for the EU. Despite increasing tariffs on EV imports from China, operational expenses and higher investment costs - primarily energy and labour - continue to affect the EU. Even though robotisation is widespread in the EU's automotive industry, China is catching up and investing heavily in robotisation despite its lower labour costs. **This makes the EU's BEVs comparatively more expensive and slows down the fleet's electrification**, especially as EV uptake in the corporate sector remains low and charging infrastructure continues to be a point of concern.

Recommendations

- Ensure competitive transformation costs, starting with energy sourcing and labour automation.
- Develop an EU industrial action plan for the automotive sector, increasing coordination both vertically and horizontally in the value chain.

- Ensure regulatory coherence, predictability and appropriate timing and consultation for upcoming regulation. Adopt a technology-neutral approach in the review of the Fit-for-55 package.
- Encourage standardisation.
- Set up reinforced Net-Zero Acceleration Valleys dedicated to the automotive ecosystem.
- Support the development of recharging and refuelling infrastructure.
- Ensure that a coherent digital policy for the automotive sector is in place, encompassing the data ecosystem and AI development needs.
- Support common European projects in the most innovative areas, such as affordable European EVs, software-defined vehicle and autonomous driving solutions of the future, and the circularity value chain.
- Bridge skills gaps and address reskilling needs.
- Level the global playing field and enhance market access.

Defence and Space

Europe's defence and space industries face significant challenges related to underinvestment, fragmentation, and insufficient innovation focus. While the European defence industry is globally competitive, it suffers from lower demand compared to its allies (namely the US) and limited R&D investment and defence spending, which hinders its ability to keep pace with disruptive technologies. Additionally, the EU's defence market fragmentation leads to supply and standardisation issues exacerbated by the war in Ukraine.

The EU's space sector is world-class, in areas such as satellite navigation (Galileo) and Earth observation (Copernicus), **but is losing ground due to a significant investment gap**. European spending on space programs is significantly lower than in the US and is expected to be overtaken by China in the coming years. Both the defence and space industries have fragmented procurement processes and a lack of demand aggregation among EU member states, further weaken Europe's industrial capacity.

The report calls for increased coordination and integration of defence and space assets across the EU.

1. In defence, measures such as joint procurement and industrial consolidation are recommended to improve standardisation and scale.
2. In space, the report suggests updating governance structures and pooling resources to enhance technological development.

For both sectors, strengthening R&D investment, fostering cross-border cooperation, and providing better financial support for innovative SMEs are the driving factors of maintaining competitiveness.

Defence

The EU's defence sector is crucial for maintaining Europe's strategic autonomy and driving economic innovation. However, it faces significant challenges, including limited capacity, outdated technological capabilities and a growing divergence from US defence priorities. This gap in

capabilities is concerning as new geopolitical threats and emerging hybrid threats, such as cyber-attacks and targeting of critical infrastructure, highlight the need for the EU to enhance its defence capacity. The EU is currently addressing immediate threats from Russia and broader security issues in Africa, the Mediterranean and the Middle East. With a potential shift in US focus towards the Pacific Rim, the EU must bolster its own defence responsibilities and address nuclear deterrence issues. The growing global defence budgets further emphasise the need for advanced technological and industrial competitiveness in the EU's defence sector.

Historically, the defence sector has been a major source of innovation, with military advancements and defence research discoveries often spilling over into civilian applications. **Despite its competitive edge in specific domains—evidenced by significant turnover and export volumes—the EU's defence industry struggles with structural issues including inadequate public spending, limited industrial coordination, and international dependencies**. These challenges affect overall innovation, product standardisation, and governance, which are critical to ensuring the sector's future competitiveness and effectiveness.

Draghi's proposed reforms focus on the need to expand the EU defence base with industrial and technological bases to meet new security needs with greater scale, speed, and autonomy. A second objective is to reinforce defence capacities by improving the capacity, readiness, and efficiency of the EU's defence industry for long-term sustainability and competitiveness. The final objective is to strengthen European defence R&D to advance technology and maximise spillovers with other sectors.

Recommendation

- Implement EDIS and EDIP by swiftly adopting and executing the European Defence Industrial Strategy (EDIS) and the European Defence Industry Programme (EDIP).
- Increase aggregate defence asset demand among Member States and standardise equipment to consolidate industrial capacities and enhance interoperability.
- Develop a medium-term EU Defence Industrial Policy to support industrial cooperation, integration of SMEs, and consolidation of defence assets.
- Leverage new EU financial resources for developing defence capacities, joint R&D, and procurement of critical capabilities.
- Remove restrictions on EU-funded financial instruments to improve access to finance for defence companies, including SMEs.
- Introduce a European preference principle and financial incentives to prioritise EU defence solutions over non-EU alternatives.
- Adjust EU competition policy to support industrial consolidation, focusing on innovation and resilience.
- Prioritise common EU R&D initiatives and maximise technological spillover between civilian and defence sectors, encouraging cross-sector collaboration.
- Enhance EU-level governance for defence industrial policy, including creating a Defence Industry Commissioner and a centralised EU Defence Industry Authority.
- Improve coordination and joint procurement of US defence systems by Member States to achieve better terms and support European specifications and local production.

Space

The space industry is undergoing substantial changes, with private companies and start-ups introducing disruptive technologies and novel business models. This shift is encouraging increased private investment and public-private partnerships in space exploration and infrastructure. The European Union (EU) maintains significant strategic capabilities, particularly in satellite navigation (Galileo), Earth observation (Copernicus), and secure communications (IRIS^2). Nevertheless, the EU faces growing competition from the US and China, especially in rocket propulsion and telecommunications mega-constellations, and remains dependent on imports for critical technologies like semiconductors.

Despite its technical strengths, the EU has struggled with commercial launch systems and satellite applications due to reduced public funding, supply chain issues, and reliance on non-EU providers like SpaceX. To address these challenges, the EU is exploring new governance models for launchers, such as the "Flight Ticket Initiative," aiming to enhance competition and support European launch service providers. However, this initiative could risk further fragmenting the EU's industrial base if not managed carefully to unify Member States' space programs.

Inadequate investment in European space assets and capabilities could have serious consequences for the EU's space industry, leading to missed opportunities in emerging space markets, late entry into the fast-growing New Space economy, and deepening dependence on foreign technologies, particularly from the U.S.

To counter these risks, the European Commission has launched initiatives such as the CASSINI Space Entrepreneurship Initiative, which provides funding and support to New Space companies through venture capital, the European Investment Fund (EIF), and other mechanisms. However, **these programmes need to be significantly expanded to foster a competitive, self-sustaining European space sector capable of reducing reliance on foreign suppliers and securing its place in the global space economy.**

The report calls for ensuring European sovereignty in space access, defence capabilities, and key space applications such telecom, Earth Observation, navigation, and security. The recommendations focus on maintaining global industrial leadership in selected areas and emerging space sectors and promoting innovation and scaling of European space companies.

Recommendations

- Simplify and streamline the governance framework to reduce complexity, fragmentation, and overlaps by enhancing cooperation between the EU, ESA, and national space agencies.
- Modernise ESA procurement rules by reducing fragmentation and remove ESA's geographical return principle, focusing on competitive industrial outcomes and supporting the best providers, regardless of location.
- Create a Single Market for space by develop a common EU legislative framework with harmonised standards and licensing to promote a seamless space market across Member States.
- Create a multi-purpose fund to support joint procurement, collaborative projects, private investment attraction, and acquisition of critical companies to ensure strategic autonomy.

- Increase financial support for EU space SMEs, start-ups, and scale-ups by providing better access to capital and risk-oriented lending policies.
- Introduce European preference rules by implanting targeted rules to help European space companies scale up, accompanied by financial incentives and funding eligibility criteria favoring EU-based firms.
- Align research and innovation priorities at the EU level with pooled resources and coordinated funding to support large-scale projects, focusing on key areas like launchers and in-space operations.
- Leverage synergies between space and defence industrial policies, strengthen dual-use technologies and defence-related space projects, recognise space assets as critical security infrastructure and expand institutional demand through increased defence spending.
- Develop an EU framework for launches by creating a policy framework for launchers to secure European access to space, aggregating demand and supporting innovation.
- Promote access to international markets by boosting efforts to remove trade barriers, establish space diplomacy, and support EU companies' access to emerging space markets.

Pharma

The pharmaceutical market in the EU and Norway has seen significant shifts in the last decade, with a notable rise in the sales of biologicals, orphan medicines, and advanced therapy medicinal products (ATMPs). However, the **EU is lagging in these rapidly growing segments**, with US companies dominating the market for top-selling biologicals in Europe in 2022. In 2022, none of the top ten best-sellers were marketed by EU companies, a stark contrast to 2012 when EU companies held over 40% of the market. The US now dominates with 70% market share.

Multiple causes underpin the EU's emerging competitive gap. R&D public investment in the EU, for example, is lower than elsewhere and more fragmented; this is accompanied by reduced private R&D investment in the EU as well. The **environment is less supportive of innovation than in other regions**; in particular, the regulatory framework is both slow and more complex. For example, even though there is one body, the European Medicines Agency (EMA), companies need to interact with 27 different national procedures for pricing and reimbursement. This, along with a longer median approval time for new medicines compared to other regions, increases the time till a medicine is accessible in all Member States.

There have been reforms in recent years to the regulatory landscape, aiming to spur innovation, such as the revision of the General Pharmaceutical Legislation. However, **greater reforms are needed**. The report emphasises developing biologicals, orphan products, and ATMPs, strategising to secure leadership in the ATMP market. It sets out a series of proposals to close the competitiveness gap: attracting new R&D activities to the EU, accelerating market access, increasing targeted R&D funding, and improving long-term business predictability. These actions build upon recent reforms and are designed to encourage manufacturing and overall R&D growth within the EU.

Recommendations

- Maximise the impact of the European Health Data Space (EHDS).
- Streamline the set-up and management of multi-country trials in the EU.
- Expedite access to markets through coordinated action by medicines agencies, HTA authorities, and public payers to issue guidance on clinical evidence required from industry and to co-operate on pricing and reimbursement as well as procurement:
- Provide clear and timely guidance on the use of AI in the lifecycle of medicines.
- Rapidly and fully implement the HTA regulation and ensure the required resources are allocated to ensure the delivery of joint clinical assessments as of 2025, to establish an EU agency in the long term.
- Improve business predictability through a continuous evidence-based dialogue with stakeholders to underpin EU policymaking on protection mechanisms for novel medicines.
- Increase and focus public R&D investment in the EU.
- Mobilise private R&D investment in the EU and bolster the supporting environment.
- Develop strategic international partnerships to solidify and bolster the EU's international trade position in pharmaceuticals.

Transport

As the most connected region globally, the EU is the largest trader of domestically manufactured goods and services. EU ports are increasingly specialised, and the bloc hosts four out of ten of the world's largest airports. An extensive rail network, of which 80% is electrified, also adds to the EU's connectivity. With such an extensive transport network, decarbonisation can be a challenge, but it is also a unique opportunity to put the EU at the forefront of decarbonisation solutions - reflected by the fact that EU companies are among the first movers in sustainable transport. The EU's technological edge helps, as the world leader in mass manufacturing of state-of-the-art transport technologies.

However, **the bloc does experience a myriad of challenges with transport**. Massive investments are required to modernise the transport infrastructure and create links where they are absent, and flagship policies like the Trans-European Transport Network (TEN-T) are not accompanied by the necessary financing and investment. Investments are becoming more challenging to secure, especially as network maintenance costs rise and administrative obstacles slow down project times.

This is underpinned by suboptimal planning. The EU is not properly considering the connection between network industries (e.g. transport, energy and telecommunications) leading to increased challenges in securing investments. National planning also lacks provision for alternative fuels and their relevant infrastructure. The **EU therefore finds itself facing many barriers for transport integration, including unevenly interpreted rules, reluctance to update outdated legislation, and favouring national operators and services at the expense of EU integration**. In its current state, the transport network has unoptimised airspace and airport capacities, fragmented rail markets and road transport infrastructure, limited interoperability and deployment of innovative (digital solutions), a lack of digital infrastructure, and an absence of multimodal solutions. It also requires many more trained professionals and a massive reskilling programme.

One **particularly difficult group of transport modes to decarbonise are the hard-to-abate sectors of aviation and maritime transport**. These sectors will require 61 billion euros (for aviation) and 39 billion euros (for maritime) between 2031 and 2050 to decarbonise. The EU is particularly losing out on its ownership share of the global maritime fleet. Sustainable renewable and low-carbon fuels can help in the decarbonisation of these sectors but are scarce and could also be needed for heavy-duty vehicles.

Finally, **compared to global players, the EU's transport sector is no longer on a level playing field with production**: shipbuilding is moving massively to China where shipbuilding is 30%-40% cheaper, and rail equipment and supplies are at much lower prices.

The EU must ensure infrastructure development and harmonisation of rules across the bloc, secure the resilience of infrastructure and routes, services, and the industry, lead decarbonisation and the adoption of digital and automated solutions, and secure a leading manufacturing industry. To do so, it must:

Recommendations

- Improve infrastructure planning with a primary focus on competitiveness as a complement to cohesion and an evolution towards fully multimodal transport.
- Mobilise public and private financing:
- Increase EU and Member State resources for cross border connectivity, military mobility, climate resilience;
- Introduce or reinforce schemes to attract and de-risk private financing.
- Remove barriers to integration and interoperability in all segments.
- Accelerate digitalisation to enhance efficiency, through the development and enforcement incentives and standards.
- Launch dedicated EU innovation projects leveraging public-private partnerships and cross-border cooperation for decarbonisation and automatisation challenges in different segments.
- Introduce schemes to de-risk and finance decarbonisation solutions in hard-to-abate segments.
- Level the playing field for EU industries, leverage public procurement, foreign direct investment screening, and an EU export credit facility.
- Establish international partnerships and develop strategic infrastructure to increase global integration, including in climate policy and resilience.
- Align job profiles to the green and digital transition for diverse and flexible employment opportunities and provide enhanced professional mobility.

Horizontal policies

Building on the work done in Part A, Part B attempts to provide more colour to some of the recommendations included in Part A. This section of the note will expand on the supplementary recommendations.

Accelerating innovation

In order for Europe to achieve its green and digital transition, it is necessary to stimulate innovation and reinforce Europe's resilience. Innovation capacity in Europe lags behind the US, and with the rise of China, competition for innovation is no longer just between Europe and US. **This weakness can be seen across the lifecycle of innovation**, with the EU's scientific position not reflected in its presence in innovative markets. Many new start-ups face issues scaling up and move to the US for financing support.

Despite Europe's diversified industrial innovation base, the lag in innovation is readily apparent in the digital tech sector. This gap has the potential to impact the performance of other sectors. Slower-paced technological innovation is an underlying cause of low productivity growth. Draghi notes that the only way to reduce this gap is via targeted policy actions. **Even in areas where the EU is strong, such as green technologies, there is a risk that this dominance is being challenged,** with China in particular creating issues for homegrown European green technology companies.

The areas that Europe **dominates are those that require medium-to-low R&D investment**. This dominance of middle technology is in part due to the lower private R&D spend in Europe. The R&D spending in Europe is fragmented, with a few countries spending significantly more than others. For public R&D, the situation is different but not much better. While public R&D spending is higher, it is fragmented and not well coordinated across Member States. The programmes that are coordinated like Horizon Europe have multiple weaknesses which has resulted in it not fully reach its full potential.

Additionally, Europe suffers from a fragmented R&I ecosystem, with a lot of the EU's innovation potential going unused. This is further exacerbated by the lack of world-leading research universities and underdeveloped innovation clusters. The lack of financial support via venture capital and European capital markets often forces European start-ups to look for funding somewhere else.

Recommendations

- A better financing environment for disruptive innovation, start-ups, and scale-ups. Increase the support for innovation through a new agency supporting high-risk projects with the potential for delivering breakthrough advancements.
- Design a simpler and more impactful tenth EU R&I Framework Programme
- Promote academic excellence and world-leading institutions, for example, by increasing the budget for fundamental research through the European Research Council.
- Increase investment in world-leading research and technology infrastructure.
- Elevate excellence as a criterion for participation in European research and innovation systems.
- Strengthen R&I coordination of policies through a Research and Innovation Union
- Develop a more favourable and simplified regulatory ecosystem for innovative companies.
- Enable shared prosperity as a fundamental enabler of EU innovation.

Closing the skills gap

Even **though the EU has a highly skilled workforce, it does suffer from a skills shortage**. **Demographic challenges are only expected to exacerbate these challenges**. Digital skills are one of the key areas in which the EU workforce is lacking, and are evident in throughout sectors and within companies. A lack of skills can act as a drag on the competitiveness of the future of the European economy.

There are **numerous reasons for this skills gap, including the deterioration of European education systems, limited adult learning, low labour mobility, and poor working conditions, all aggravated by a shrinking active population**. Despite current policies to address the skills gap, Draghi argues that increasing funding is necessary as well as rethinking how that funding is spent.

Recommendations

- Get a better understanding of skills needs, stocks and flows to design skills policies.
- Revise educational curricula in light of changing skills needs.
- Improve and harmonise skills certifications in Member States.
- Rethink the design, funding and implementation of skills policies. For example, by focusing on strategic sectors and occupations.
- Focus on adult learning, ensuring sufficient available funding by Member States and private organisations.
- Promote and reform vocational educational training
- Attract more non-European highly skilled workers by launching a new Tech Skills Acquisition Fund for a new EU-level visa programme.
- Reduce the misallocation of future talent by implementing programmes to support talented children from disadvantaged backgrounds
- Address skills shortages in critical value chains.
- Promote managerial skills in SMEs. For example, by creating accreditation systems and incentives to elevate the quality of managerial training.
- Improve the availability and working conditions of teachers.
- Increasing labour market participation.

Sustaining investment

The report notes that Europe is in a situation of account surplus, as investments are low, and private savings are high. **The report finds that in order to achieve the targets within it, it is necessary to make a minimum annual additional investment of EUR 750 to EUR 800 billion, amounting to 4.4%-4.7% of EU GDP.**

Capital markets in Europe remain fragmented, although the Commission has recently introduced several measures to reduce the fragmentation of EU capital markets. This includes an agreement to create a single point of access to public financial and sustainability-related information about EU companies and EU investment products (ESAP).

Despite the work done by the Commission, the EU lacks a single security market regulator and a single rulebook for all aspects of trading. Furthermore, the post-trade environment for clearing and settlement in Europe is far less unified than in the US. Finally, despite the recent progress made

on withholding tax, tax and insolvency regimes across Member States remain substantially unaligned.

The report notes that Europe relies excessively on debt financing via banks, and that, even though the role of non-bank finance (bonds) has increased over time, companies in the EU continue to rely much more on bank lending. In general, banks are not best placed to finance innovation, which requires a greater presence of patient and risk-tolerant equity investors.

The report finds that EU banks face challenges in financing major investments due to lower profitability, higher costs, and smaller scale compared to US banks. This limits their ability to provide risk capital. Furthermore, unlike US banks, EU banks rely less on securitisation, which could enhance balance sheet flexibility, support capital markets, and act as a substitute for the lack of capital market integration.

Finally, EU prudential regulations, seen as overly restrictive, add to the challenges. Additionally, European banking remains fragmented along national lines, partly due to the incomplete Banking Union.

While the inefficiency of capital markets is a key reason that EU savings do not flow into productive investments, another important factor is barriers to innovation and firms' growth that limit demand for financing. The incomplete Single Market in goods and services prevents innovative, high-growth companies from expanding in the EU, leading them instead to seek out investment from US venture capitalists and scale up in the US market. At the same time, Europe's static industrial structure leads to mature companies investing much less in new technology.

The report argues that investments also have to deal with the limitations of the EU budget and the planned repayment of NextGenerationEU (NGEU) bonds. Fragmentation, complexity, and rigidity in EU spending – across nearly 50 programmes – prevent the budget from reaching the scale needed for large pan-European projects and lead to duplication.

The report **suggests that issuing a common safe asset would greatly facilitate the completion of the Capital Markets Union (CMU), as it would provide a key benchmark to measure the uniform pricing of corporate bonds and derivatives, while at the same time increasing market transparency**. This asset would serve as safe collateral for use across all EU countries and market segments, improving liquidity in cross-border transactions. A large, liquid market for the common asset would attract global investors, lower capital costs, and make EU financial markets more efficient. Additionally, it would bolster the euro's role as a global reserve currency and provide households with a safe, liquid retail asset at a common price. The issuance of such assets could fund joint investment projects, as demonstrated by the NextGenerationEU (NGEU) model. However, systematic issuance would require stronger fiscal rules to ensure any increase in common debt is balanced by sustainable national debt paths.

Europe needs to raise investment at both massive scale and rapid speed. In its current state, the European financial system and the EU budget in its current form are unlikely to succeed in meeting these investment needs.

Recommendations

- Introduce a European Security Exchange Commission, transforming the European Securities and Markets Authority (ESMA) into a single common regulator for all EU security markets, entrusting it with exclusive supervision over large multinational issuers, central counterparty platforms (CCPs), and major regulated markets with trading platforms in various jurisdictions.
- Reduce regulatory fragmentation to deepen the CMU, by means of **harmonising the insolvency framework, eliminating any taxation obstacles to cross-border investing in the EU, and creating a single central counterparty platform (CCP) and a single central securities depository (CSD)** for all security trades.
- Encourage retail investors through the offer of second pillar pension schemes. The report encourages Member States to evaluate different forms of second pillar products and systems in order to increase the options available to all citizens in the workforce, while at the same time ensuring transparent and simpler pension dashboards.
- Assess whether further changes to the capital requirements under Solvency II are warranted by further reducing the capital charges on equity investments held for the long term.
- Enable the European securitisation market: by adjusting prudential requirements and capital charges for certain securitised assets. Transparency and due diligence rules need reviewing, while a securitisation platform should be established. Public support, such as guarantees, could boost issuance and lending.
- Assess whether the current prudential regulation, also in light of the possible upcoming implementation of Basel III, is adequate to have a strong and international competitive banking system in the EU.
- Complete the Banking Union by creating a "country blind" and **separate jurisdiction for cross-border European banks**, preventing regulatory ring-fencing, ensuring group cohesion during crises, resolving failures via European authorities, and establishing a distinct deposit insurance system, separate from national banks' schemes.
- Overcome fragmentation in the Single Market for goods and services removing barriers for innovation and company growth
- Refocus EU funding on strategic priorities: EU funding should focus on strategic priorities, directing resources to public goods, multi-country industrial projects, and growth-stage critical technology companies, particularly in strategic sectors like semiconductors, grids, space, and clean technology manufacturing.
- Simplify and streamline the EU budget to reduce programme duplication, enhance flexibility for reallocating resources, harmonise rules to lower administrative burdens, and create a single contact point to expedite access to funding for strategic projects and beneficiaries**.**
- Increase leveraging on the EU budget, expanding the use of guarantees, loans, and financial instruments, especially for strategic sectors. The EU guarantee for the InvestEU programme should grow to mobilise greater private investment in key areas.
- InvestEU programme should integrate unfunded and funded components, focusing on higher-risk investments, scaling strategic EU companies, and long-term projects with the support of the **European Investment Bank (EIB) Group. This includes taking on larger high-risk projects and creating a fully funded equity arm**.

- Increase coordination among National Promotional Banks with the aim to focus financing in support of innovative and strategic investment.
- Member States could **defer the repayment of NGEU in order to increase the resources available to the Commission** and finance a variety of programmes focused on innovation and on raising productivity.
- The EU should issue common debt instruments, building on the NGEU model, to finance joint investment projects. This would boost competitiveness and security, create a deeper, more liquid bond market, and support the integration of Europe's capital markets over time.

Revamping competition

Draghi advocates for rethinking how competition policy can stimulate innovation. While he acknowledges the benefits and importance of free and fair competition, Draghi makes a case for adapting competition policy to a changing world. There is a question of whether competition policy can act as a hindrance to European companies' ability to scale. It is true that competition can lower prices. However, there is the risk that overly tough competition policy can erode product rents from innovation and therefore disincentivise R&D. In recent years, the Commission has come under criticism for preventing the merger of certain European companies that would have allowed them to compete with Chinese or American companies.

In light of an economic shift towards much more innovation-heavy sectors, where both scale and innovation are necessary to compete, Draghi **advocates for reforms of current competition policy to make competition authorities much more forward-looking and agile**.

Beyond competition policy, **Draghi argues that deepening the Single Market is a powerful tool for strengthening competition**. The single market for services is underdeveloped compared to goods. Some of the reforms that Draghi advocates for are radical changes, while others are just revisions of current approaches.

Recommendations

- Emphasise the weight of innovation and future competition in DG COMP decision, enhancing progress in areas where the development of new technologies would make a difference for consumers. DG COMP has already started to consider more factors beyond price impacts on consumers, such as evaluating quality and innovation. Draghi argues for changes in operating practices and updated guidelines to make Merger Regulation fit for purpose.
- Clear guidance and templates on novel agreements, coordination, and co-deployment between competitors. To enhance horizontal cooperation, Draghi argues for a streamlined process that groups of EU industries can follow to work together to reach scale.
- Develop security and resilience criteria and include them in DG COMP assessment. Current competition policy enforcement practices do not emphasise security, resilience, and disruption risks to the EU economy. Draghi advocates for greater emphasis on these factors, with a security and resilience assessment performed by a body outside the Competition Unit.
- Return to normal enforcement of State aid control to accompany the new industrial strategy.

- Reform and expand the Important Projects of Common European Interest. The report calls for the conditions to finance these projects to be expanded and include a broader definition of innovation.
- Incentivising the adoption of open access, interoperability, and adherence to EU standards through State Aid and other competition tools.
- Apply the new powers associated with the enforcement of the Digital Markets Act and the Foreign Subsidies Regulation.
- To facilitate the enforcement of competition policy, the EU should reinforce ex-post versus ex-ante regulation and monitoring.
- Introduce a 'New Competition Tool' in four areas 1) tacit collusions 2) markets where the intervention for consumer protection is more likely to be needed 3) markets where economic resilience is weak 4) past enforcement action where the information/data received by the authority indicated that commitments or remedies are not delivering competition. This tool is a market investigation instrument designed to address structural competition problems and to determine a solution together with firms.
- Accelerate the decision-making process and increase the predictability of decisions.

Strengthening governance

While the report acknowledges that strengthening the EU political and institutional model would require Treaty change, a lot can be done via other avenues. The purpose of these changes would be to refocus the work of the EU, accelerate EU action and integration, and simplify rules.

Recommendations

- Develop a new Competitiveness Coordination Framework.
- Reform Council votes to be subject to qualified majority voting as opposed to unanimity.
- Streamline the EU acquis under a Vice-President for Simplification, including coordinating a new 'evaluation bank' to stress-test existing EU regulations.