

Summary: Mario Draghi's Report on the Future of European Competitiveness. - Part A.

The report is split into two parts: Part A—A competitiveness strategy for Europe—and Part B—In-depth analysis and recommendations. Both sections can be accessed [here](#). Below, you will find a summary of Part A of the report. Part B includes the analysis and recommendations divided into two types of policies: sectoral and horizontal policies, which fit into each of the six sections of Part A.

Part A of the report is divided into six chapters:

1. The starting point: a new landscape for Europe
2. Closing the innovation gap
3. A joint decarbonisation and competitiveness plan
4. Increasing security and reducing dependencies
5. Financing investments
6. Strengthening governance

1. The starting point: a new landscape for Europe.

- Growth in the EU has slowed down.
- *“Competitiveness today is less about relative labour costs and more about knowledge and skills embodied in the labour force.”*
- *“... a focus on sectoral or industrial competitiveness can be particularly useful in situations where otherwise productive companies are disadvantaged by an unlevel global playing field.”*

Three transformations ahead for Europe

- **Accelerating innovation and finding new growth engines is key.**
- For the EU to succeed, it will need to engineer a coherent strategy for all aspects of decarbonisation, from energy to industry.
- Europe needs a plan to manage dependencies and strengthen defence investment.
- *“The fragmentation of industrial policies undermines collective effectiveness and often lead to considerable duplication, incompatible standards and failure to consider externalities.”*
- There is a lack of coordination among financing instruments and across policies.
- **The report proposes a new industrial strategy for Europe.**

- Europe needs to look at its productivity in order to close the innovation gap.
- The EU needs to lower energy prices, capture the industrial opportunities of decarbonisation, and develop *“...a joint plan for decarbonisation and competitiveness.”*
- The full implementation of the Single Market is essential.
- It is crucial to reduce the regulatory burden on companies, as it is creating obstacles to investment.

2. Closing the innovation gap.

Europe needs faster productivity growth.

- It is estimated that by *“...2040, the EU’s workforce is projected to shrink by close to 2 million workers each year, while the ratio of working to retired people is expected to fall from around 3:1 to 2:1.”*

Key barriers to innovation in Europe

The lack of focus in the public sector support for R&I (Research and Innovation) has resulted in fragmented financing.

- Once companies grow to a certain size, they encounter regulatory and judicial hurdles. This results in them moving away from Europe when they want to scale-up.
- *“Many innovative companies end up seeking out financing from US venture capitalists (VCs) and see expanding in the large US market as a more rewarding option than tackling fragmented EU markets.”*

A programme to tackle the innovation deficit

Coordination of public Research and Innovation across Member States is necessary.

- *“...The EU should support rapid growth within the European market by giving innovative start-ups the opportunity to adopt a new EU-wide legal statute (the “Innovative European Company”). This status would provide companies with a single digital identity valid throughout the EU and recognised by all Member States. These companies would have access to harmonised legislation concerning corporate law and insolvency, as well as a few key aspects of labour law and taxation, to be made progressively more ambitious, and they would be entitled to establish subsidiaries across the EU without incorporating separately in each Member State. The EU should promote cross-industry coordination and data sharing to accelerate the integration of AI into European industry.”*

Closing skill gaps

Europe has skill gaps across the economy, along with a declining labour force.

- *“Skills shortages are a barrier to innovation and technology adoption and could potentially hinder decarbonisation.”*
- *“Almost 60% of EU companies report that lack of skills is a major barrier to investment.”*
- *“Decarbonisation will also require new skills sets and job profiles.”*
- The effectiveness of vocational training varies across the EU.

- EU investments in education and training have not brought with it the results required. Both education and training are national competencies.

The report recommends:

- the EU and Member States need to make use of data to understand the existing skill gaps and to solve these issues.
- *“education and training systems need to become more responsive to the changing skill needs and skill gaps...”*.

3. A joint decarbonisation and competitiveness plan.

Energy prices continue to affect corporate investment.

- **Permitting times in Member States vary.** The report gives the example of the permitting process for onshore wind farms which can take up to 9 years in some Member States, compared with under 3 years in others.
- *“Digitalising the permitting processes in the EU could help address the long wait times and lack of permitting authorities’ resources*
- **Lowering energy costs for end users is vital.**
- *“The EU should also put in place a **common trading rulebook applying to both spot and derivative markets** and ensure their integrated supervision.”*
- *“The EU should closely monitor and improve the CBAM design.”*

The report recommends, *“...to establish a “28th regime” – i.e. a special legal framework outside of the 27 different national legal frameworks – for interconnectors deemed to be Important Projects of Common European Interest (IPCEIs).”*

4. Increasing security and reducing dependencies.

- Europe has extensive external dependencies, ranging from critical raw materials (CRMs) to advanced technologies. Putting them at risk of vulnerabilities.
- The **defence industry requires increased investment.** The European defence industry has lower defence spending and a lack of focus on technological development. It is highly fragmented.
- Europe is lagging behind when it comes to securing Critical Raw material supply chains.
- **Strategic dependencies extend to critical technologies for the digitalisation of Europe’s economy.**
- **The report recommends completing the Critical Raw Materials Act (CRMA) as soon as possible.**
- Strengthening industrial capacity for defence and space is also key.
- *“...updated governance and investment rules, and greater coordination of public spending in a true Single Market for space.”*

5. Financing investments.

Europe has a combination of weak productive investment and a significant need for financing.

According to estimates, to meet the objectives laid out in this report, *“...a minimum annual additional investment of EUR 750 to 800 billion is needed, based on the latest Commission estimates, corresponding to 4.4-4.7% of EU GDP in 2023.”*

- *“Fiscal incentives to unlock private investment, to finance the investment plan, in addition to direct government investment.”*
- *“Dedicated funding schemes should be put in place to address the investment gap for scale-up technology companies in the EU as well as manufacturing capacities in certain cases, such as clean tech.”*
- EU budget needs to be more flexible.

6. Strengthening governance.

“Successful industrial policies need investment, taxation, education, access to finance, regulation, trade and foreign policy strategies.”

- The decision-making process in Europe is too lengthy resulting in a legislative process of on average 19 months. This does not include the “gold-plating” which takes place when EU legislation is transposed to the national level, causing different requirements and standards from country to country.

REFOCUSING THE WORK OF THE EU

A new Competitiveness Coordination Framework needs to be developed. It will help to, *“... foster EU-wide coordination in priority areas, replacing other overlapping coordination instruments, this should be divided into Competitiveness Action Plans for each strategic priority, with well-defined objectives, governance, and financing.”*

- *“The Commission should have a mandate for horizontal actions and exclusive competencies of the EU, such as revamping competition policy and reducing administrative and regulatory burdens. For shared competencies like closing the skills gap and accelerating innovation, the Commission should provide guidelines and share the institutional setup for implementation with relevant national bodies and industry experts...”*

ACCELERATING THE WORK OF THE EU

Council votes subject to qualified majority voting (QMV) should be extended to more areas, and if action at the EU level is blocked, a differentiated approach to integration should be pursued.

SIMPLIFYING RULES

The regulatory burden on European companies is high and continues to grow.

- *“EU regulation imposes a proportionally higher burden on SMEs and small mid-caps than on larger companies, yet the EU lacks a framework to assess these costs.”*
- *“The EU also lacks a commonly agreed definition of small mid-caps and readily available statistical data.”*
- *The report recommends appointing a new Commission Vice President for Simplification to streamline the acquis, while adopting a single, clear methodology to quantify the cost of the new regulatory “flow”.*
- *The announced cut by 25% of reporting obligations needs to take place. “A further reduction for SMEs up to 50%, upholding proportionality for SMEs in EU law and extending it to small mid-caps.”*
- *A competitiveness test should be carried out to measure the impact of both compliance costs and administrative burden for all new proposals.*