



“The future of European competitiveness”

The “Draghi Report” – 9 September 2024

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1. Key issues with European growth and competitiveness

The report ([Part A - Competitiveness Strategy](#); [Part B In-depth analysis and recommendations](#)) identifies several key issues hindering European growth and competitiveness:

1. Slowing Productivity Growth:

- The EU has a persistent productivity gap with the US, mainly driven by a slower pace of productivity growth in Europe.
- This gap is amplified by Europe's failure to capitalize on the digital revolution and its weakness in emerging technologies like AI.

2. Static Industrial Structure:

- Europe struggles with a lack of industrial dynamism, with few new companies emerging to disrupt existing industries or create new growth engines.
- This is further compounded by a lack of investment in advanced technologies and a concentration of investment in mature sectors.

3. High Energy Costs:

- EU companies face significantly higher energy prices compared to the US and China, driven by a lack of natural resources and inefficiencies in the common energy market.
- This puts EU energy-intensive industries at a disadvantage and hampers overall economic growth.

4. Decarbonization Challenges:

- The EU faces a trade-off between its ambitious climate targets and maintaining competitiveness.
- The energy transition could lead to higher investment costs for EU companies, while Chinese competition is increasing in clean technologies and electric vehicles.

5. External Vulnerabilities:

- Europe relies heavily on imports of critical raw materials and advanced technologies, making it vulnerable to geopolitical shocks and coercion.
- This is particularly acute in sectors like semiconductors and clean tech manufacturing.

6. Fragmentation and Lack of Coordination:

- The EU suffers from a lack of coordination between Member States, financing instruments, and policy areas.
- This hinders the effectiveness of policies and prevents the EU from leveraging its collective strength.

7. Skills Gaps:

- The EU faces persistent skills shortages across the economy, both for low- and high-skilled workers.
- This is exacerbated by a declining labor force, underperformance in education and training systems, and difficulties in attracting and retaining skilled talent.

8. Low Investment Financing:

- Despite ample private savings, productive investment in the EU remains weak.
- This is due to fragmented capital markets, an underdeveloped pension system, and reliance on bank financing, which is less well-suited to funding innovative projects.

9. Weak Governance:

- The EU's decision-making processes are slow and cumbersome, making it difficult to respond effectively to global challenges.
- The EU lacks a coherent framework for coordinating policies and actions across different sectors.
- The regulatory burden on European companies is high, adding to compliance costs and administrative hurdles.

The report emphasizes that addressing these challenges is crucial for the EU to remain competitive and secure its future. The report presents a series of detailed recommendations across various sectors and policy areas, aimed at overcoming

these obstacles and achieving a more dynamic, resilient, and sustainable European economy.

2. Key sectors identified as driving growth

The report identifies several key sectors driving growth, both within sectoral policies and horizontal policies:

Sectoral Policies:

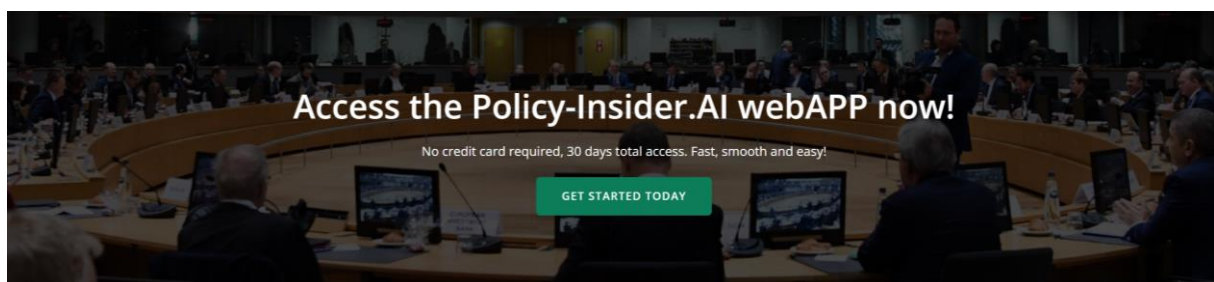
- **Energy:** Decarbonization of the energy system through renewable energy, nuclear, and hydrogen is crucial for reducing import dependency, lowering energy prices, and enhancing competitiveness.
- **Critical Raw Materials:** Securing a sustainable and reliable supply chain for critical raw materials is essential for the green and digital transitions, as well as for defense and space applications.
- **Digitalization and Advanced Technologies:** Strong investments in high-speed broadband networks, cloud computing, AI, and semiconductors are critical for driving innovation, boosting productivity, and increasing the EU's open strategic autonomy.
- **Energy-Intensive Industries:** Decarbonizing energy-intensive industries while maintaining competitiveness is key for the EU's economic security and for supporting the green transition.
- **Clean Technologies:** Leading the innovation and scaling up of clean technologies (solar PV, wind, batteries, heat pumps, CCUS, electrolysers) will be essential for achieving climate neutrality.
- **Automotive:** The transition towards electric vehicles, autonomous driving, and software-defined vehicles presents significant opportunities for the EU to maintain its leadership in the sector.
- **Defense:** Strengthening the EU's defense industrial capacity through increased investment, coordination, and innovation is vital for ensuring strategic autonomy and promoting technological spillovers across the economy.

- **Space:** Maintaining and enhancing the EU's leadership in space technologies (Earth Observation, satellite navigation, connectivity) will be crucial for economic growth, security, and resilience.
- **Pharma:** Fostering innovation in pharmaceuticals, particularly in biologicals, orphan products, and advanced therapy medicinal products (ATMPs) is important for both health and economic growth.
- **Transport:** Achieving an integrated, intermodal, and sustainable transport system with robust infrastructure, digitalization, and innovative technologies will be crucial for the EU's competitiveness.

Horizontal Policies:

- **Innovation:** Boosting research and innovation is critical for driving productivity growth, addressing societal challenges, and developing new technologies that will be crucial for the EU's future.
- **Skills:** Closing the skills gap, particularly in STEM, digital skills, and green skills, is essential for equipping the workforce to adapt to the changing economy and for achieving the green and digital transitions.
- **Investment:** Unlocking massive investments in key sectors will be crucial for Europe to achieve its ambitious goals in areas like clean technology, defense, and digitalization.
- **Competition:** Revamping competition policy to better address the challenges of digital markets and global competition will be vital for promoting innovation, efficiency, and fairness.
- **Governance:** Strengthening EU governance through a more focused approach, accelerated decision-making, and simplified rules is essential for delivering effective and efficient policies.

The report highlights that a concerted effort across multiple sectors and policy areas will be necessary to ensure the EU's future competitiveness.



3. Five key recommendations to government to stimulate competitiveness

1. Close the Innovation Gap:

- **Invest heavily in R&I:** Significantly increase public spending on R&I, especially in disruptive technologies, and reform the EU's Framework Programme to focus on breakthrough innovation.
- **Remove barriers to scaling up:** Address regulatory hurdles faced by innovative companies, streamline the Single Market, and improve access to finance for start-ups and scale-ups.
- **Invest in digital infrastructure:** Increase computational power for AI training and accelerate deployment of fiber and 5G networks to support digitalization.

2. Implement a Joint Decarbonization and Competitiveness Plan:

- **Lower energy costs:** Transfer the benefits of decarbonization to end-users, reduce energy taxation, and ensure a more efficient and less volatile energy market.
- **Accelerate decarbonization:** Leverage all available clean energy solutions, including renewables, nuclear, hydrogen, and carbon capture, and streamline permitting processes for renewable energy projects.
- **Invest in clean tech manufacturing:** Refocus support on key clean tech areas where Europe has an advantage, promote industrial partnerships with third countries, and introduce minimum quotas for local production.
- **Level the playing field:** Use trade measures to address unfair competition from abroad and ensure a global level playing field for energy-intensive industries.

3. Increase Security and Reduce Dependencies:

- **Secure critical raw materials:** Implement the CRMA fully, create a Critical Raw Material Platform for joint purchasing and strategic stockpiling, and invest in domestic mining, processing, and recycling.
- **Strengthen domestic production capacity for strategic technologies:** Develop a coordinated strategy for semiconductors, including funding for innovation, testing labs, and incentives for companies in key segments.
- **Boost defense and space industrial capacity:** Increase demand aggregation, streamline procurement, and reinforce European preference principles in defense. Invest in defense R&D, particularly in technically complex areas.
- **Build a Single Market for space:** Remove the ESA's geographical return principle, harmonize licensing requirements, and establish a Space Industrial Fund to support joint procurement and critical technologies.

4. Mobilize Finance at Scale:

- **Complete the Capital Markets Union:** Strengthen ESMA, harmonize insolvency frameworks, and create a single CCP and CSD for securities trades.
- **Revitalize securitization:** Adjust prudential requirements for securitized assets, review transparency rules, and consider setting up a dedicated securitization platform.
- **Reform the EU budget:** Establish a "Competitiveness Pillar," streamline funding programs, and increase risk appetite by implementing partners.
- **Issue common safe assets:** Continue to issue common debt instruments, building on the NGEU model, to finance joint investment projects in key areas like R&I and defense.

5. Strengthen Governance and Coordination:

- **Establish a Competitiveness Coordination Framework:** Replace overlapping coordination mechanisms with a single framework, with well-defined Action Plans for each priority.
- **Extend qualified majority voting (QMV):** Leverage the "passerelle" clause to expand QMV in the Council, and utilize enhanced cooperation for initiatives blocked by unanimity.
- **Simplify rules:** Appoint a Commission Vice President for Simplification, streamline the acquis, develop a methodology for quantifying the cost of regulation, and implement a competitiveness test for new legislation.
- **Reduce the regulatory burden:** Fully implement the announced cuts in reporting obligations and commit to further reductions for SMEs and small mid-caps.

These recommendations aim to transform the EU's approach to competitiveness and create a more unified, dynamic, and resilient economy.

4. Balance between proposed actions at EU and national level

The report proposes a balanced approach, with actions at both the EU and national levels, recognizing the need for strong coordination and collaboration between the two:

EU-Level Actions:

- **Strengthened Institutions:** The report calls for significant reforms to EU institutions to make them more efficient and responsive. This includes:
 - Establishing a new "Competitiveness Coordination Framework" to streamline policy coordination.
 - Expanding the use of qualified majority voting (QMV) in the Council to accelerate decision-making.
 - Appointing a Commission Vice President for Simplification to streamline the EU's regulatory framework.

- Enhancing the role of the European Parliament and national parliaments in scrutinizing EU legislation.
- Increasing the EU budget's focus on strategic priorities and enhancing its capacity to mobilize private investment.
- Moving towards regular issuance of common safe assets to finance joint investment projects.

National-Level Actions:

- **Implementation of EU Policies:** Member States are expected to play a crucial role in implementing EU-level policies, such as the CRMA, the Net Zero Industry Act, and the European Defence Industrial Strategy.
- **Supporting Specific Sectors:** The report suggests that national governments should:
 - Provide targeted financial support to "hard-to-abate" industries and clean tech manufacturing.
 - Introduce minimum quotas for local production of selected clean tech products.
 - Invest in research and technological infrastructures.
 - Address skills shortages through education and training programs.
 - Streamline permitting processes for renewable energy projects.

Key Points of Balance:

- **Coordination is Essential:** The report stresses that achieving success requires strong coordination between EU and national levels, with shared responsibility for implementing policies.
- **EU-Level Leadership:** The EU is seen as having a crucial role in setting priorities, providing guidelines, and coordinating actions across Member States.
- **National Implementation:** Member States must have the capacity and willingness to implement EU policies effectively and adapt them to their specific contexts.

- **Subsidiarity Principle:** While the report advocates for stronger EU action, it also emphasizes the importance of applying the subsidiarity principle, ensuring that decisions are taken at the lowest possible level.

In essence, the report envisions a partnership between the EU and its Member States, where the EU takes a more strategic and coordinating role while Member States retain responsibility for implementation and adaptation. This approach aims to harness the EU's collective strength while respecting the autonomy of its constituent countries.

5. Closing the innovation gap with the US and China

The report identifies several key areas for closing the innovation gap with the US and China, focusing on:

1. Re-focusing Public Investment and Programs:

- **Boosting R&I Funding:** The report recommends significantly increasing the EU's public spending on Research and Innovation (R&I), particularly in breakthrough technologies, doubling the budget of the next Framework Programme to €200 billion per 7 years.
- **Reforming the European Innovation Council (EIC):** The report calls for reforming the EIC to become a genuine "ARPA-type agency," modeled after the US Defense Advanced Research Projects Agency (DARPA), with a focus on high-risk, high-reward projects with the potential to deliver significant technological advances.
- **Improving Coordination:** The report emphasizes the need for better coordination of public R&I across Member States, proposing the establishment of a Research and Innovation Union to develop a common European R&I strategy and policy.

2. Enabling Faster Commercialization and Scaling:

- **Supporting Academic Institutions:** The report proposes doubling the support for fundamental research through the European Research Council (ERC), creating an "ERC for Institutions" program to strengthen European academic institutions, and establishing an "EU Chair" program to attract top researchers.

- **Streamlining the Innovation Lifecycle:** The report recommends measures to reduce bureaucratic barriers to managing intellectual property rights in universities, adopting the Unitary Patent in all EU Member States, and conducting impact assessments of regulation on small companies to reduce their burden.
- **Facilitating Scaling-Up:** The report suggests creating a new EU-wide legal statute for innovative start-ups called the "Innovative European Company" to provide them with a single digital identity, access to harmonized legislation, and easier cross-border operations.

3. Addressing Financing Deficits:

- **Developing the Venture Capital Ecosystem:** The report recommends expanding incentives for angel investors and seed capital investors, exploring changes to capital requirements for insurance companies, increasing the budget of the European Investment Fund (EIF), and expanding the mandate of the EIB Group to support high-risk ventures.
- **Leveraging High-Performance Computing:** The report proposes increasing the computing capacity dedicated to AI model training in EU high-performance computing (HPC) centers and creating an EU-wide framework for public-private cooperation in AI training and cloud services.
- **Promoting Cross-Industry Collaboration:** The report recommends encouraging EU companies to participate in an "AI Vertical Priorities Plan" to accelerate AI development in strategic sectors, facilitate data sharing and model training through open-source frameworks, and establish harmonized "AI Sandbox regimes" for experimentation and regulatory feedback.

4. Tackling the Cloud Computing Challenge:

- **Striving for Technological Sovereignty:** The report recognizes the need for a competitive domestic cloud industry to meet the demand for "sovereign cloud" solutions and suggests adopting EU-wide data security policies for collaboration between EU and non-EU cloud providers.
- **Levelling the Playing Field:** The report recommends legislating mandatory standards for public sector procurement to level the playing field for EU companies.

- **Promoting a Transatlantic Marketplace:** The report proposes negotiating a low-barrier "digital transatlantic marketplace" to ensure supply chain security and trade opportunities for EU and US tech companies.

These recommendations aim to create a more dynamic and innovative environment for EU companies to compete effectively with the US and China in the emerging technological landscape.



6. Disclaimer:

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