Input to forthcoming 'Draghi Report' on the future of European competitiveness

The forthcoming report of former Italian Prime Minister Mario Draghi on the future of European competitiveness is a valuable opportunity to shape the EU policy agenda for the coming EU legislative term and beyond. This agenda should focus on maximising the EU's many strengths and competitive advantages, while also addressing challenges and enabling the twin transition.

The key elements from the perspective of chambers?

- **A fully functioning, streamlined single market that facilitates free movement, boosts investment, and helps respond to enduring skills mismatches.**
- **A balanced and robust EU industrial strategy that is synchronised with climate policies and reflects the needs of large and small businesses.**
- **An ambitious EU trade agenda that shapes trends and sets global standards, driving innovation and growth.**

A coherent EU industrial strategy

Businesses have sustained Europe as a manufacturing powerhouse for many years, and rightly asked policymakers to keep competitiveness on the political agenda. Efforts to strengthen Europe's long-term competitiveness are closely tied to industrial policies that deliver social and economic benefits. The EU's industrial political trilemma revolves around the need for European businesses to regain confidence, the realisation of the added value of investing in Europe, and the key role of European policymakers to deliver on their commitments.

As argued in a recent study by the Austrian Federal Chamber of Commerce, the industrial policies of other economic powers are diminishing the competitiveness of European companies, further exacerbated by considerable price pressures in connection with the energy crisis in Europe.[1]

Mr Draghi's report must focus on delivering an industrial strategy for the future of Europe's competitiveness, provide fresh ideas to address existing supply chain risks in strategic sectors both domestically and externally, ensure stable and affordable energy prices, and cutting red tape. A more dynamic business environment would not only provide a breathing space for companies already operating in Europe but also have a knock-on effect on foreign investors' willingness to explore the untapped potential of the single market.

[1] Wirtschaftsstandort Europa (wko.at)

The single market must fulfil its potential

Businesses in Europe are dealing with the same barriers that existed 20 years ago. The problems are well known, and the chamber network has evidence on the consequences these have for the business community. Eurochambres 2024 Single Market Survey[2] shows that the main challenges are 1) diverging contractual practices, 2) varying national service rules, 3) limited accessibility to information necessary to trade cross-borders, and 4) costs of regulation. The EU must mitigate these obstacles and focus on better harmonisation of rules, while preserving the principles of proportionality and subsidiarity, in order to unleash the full potential of the single market. A renewed focus on legal certainty, the rule of law, and free competition is crucial to create an attractive and well-functioning single market.

Furthermore, the correct implementation and enforcement of existing single market rules will allow the EU to level the playing field for economic operators to compete in a fair ecosystem and expand Europe's attractiveness when compared to other regions. Gold-plating must be avoided at all costs. In this sense, Eurochambres fully supports the idea of designing a new horizontal strategy which includes key performance indicators, specific action plans, regular interim reports and long-term priorities and milestones for the single market to be truly empowered.

While at national level strong incentives are already offered to establish business operations, member states should acknowledge the need for a stronger European perspective. Market opportunities in Europe can only be fully exploited if barriers to the free movement of goods, people (including workers), services, capital and data are removed.

An efficient energy market for European businesses

Achieving climate neutrality is an ambitious yet essential goal requiring a comprehensive and integrated approach to maintain Europe's competitive edge. Policymakers must not only focus on setting targets, but also on addressing the underlying infrastructural and regulatory needs critical for this transition. As Enrico Letta highlights in his report, "*To foster a Single Market that supports a clean energy transition, it is imperative that companies have the freedom to access energy whenever and wherever necessary, at affordable and predictable prices*". Hence, the expansion and integration of the energy grid is central. While various approaches to facilitate faster expansion have been adopted for the electricity grid e.g. with the electricity market reform and renewable energy directive, adoption remains pending in most member states, and effects will manifest only in the coming years.

Furthermore, hydrogen emerges as a transformative energy carrier with the potential to significantly reduce CO_2 emissions across industries. However, the development of an integrated hydrogen infrastructure is still in its infancy. With the adoption of the gas and hydrogen package, the Commission shall ensure swift and efficient implementation in the member states. Particularly, the restrictive definition on green hydrogen is limiting the potential of a European green hydrogen economy. By defining low-carbon hydrogen, interdependencies and synergies to green hydrogen should be carefully considered and adapted in both delegated acts.

[2] 2024 Eurochambres Single Market Survey: overcoming obstacles, developing solutions

The necessity for an integrated CO_2 infrastructure to achieve climate neutrality cannot be ignored – completing the legislative framework should be prioritized. All in all, coordinated planning, streamlined permitting procedures, and measures to mitigate financial risks for developers need to be further addressed by the EU. This aspect is crucial for facilitating seamless transmission and cross-border interconnections, enabling a more efficient and reliable energy system.

Additionally, the transition to a defossilised energy economy underscores the growing need for adequate energy storage solutions. As electricity from renewable sources like wind and solar cannot be stored on a large scale using current methods, developing, and investing in new storage technologies is essential to balance production with consumption patterns. This requires not only significant financial investment but also fast permitting procedures to ensure the scalability of energy storage infrastructure.

Forward-looking regulations that prioritise speed, predictability, and the alignment of regulatory frameworks with energy policies are critical for overcoming these challenges. The regulatory landscape must evolve to support the rapid implementation of infrastructure projects and foster international cooperation, establishing common standards to facilitate a global hydrogen economy and overcome market barriers.

Local communities are Europe's fabric and enablers of economic growth

Europe's growth cannot rely on single industrial giants and sporadic uncoordinated innovative economic centres. A stronger focus should be placed on peripherical territories and the contribution of unsung heroes operating at a local level. Entrepreneurs in small economic and social districts decisively contribute to shaping our communities and fostering vibrant local growth and job creation. A close assessment of their needs should be high on the list of EU cohesion policy priorities.

Moreover, the notion of "innovation" cannot be reduced to the level of technology uptake of a company. Instead, it should include all types of innovation, reflecting the fact that small companies are not necessarily innovative start-ups. More "traditional" SMEs still need to be supported in embracing change, mainly in terms of management. The Commission should therefore support SMEs and enable them to redefine their value chain positioning, absorb advanced technologies, and master innovation management. In this regard, the Enterprise Europe Network (EEN) holds the potential to complement the actions promoted by the chamber network at all levels of governance.

As business community representatives and support providers, the chamber network has unparalleled expertise and knowledge of the real economy and can therefore effectively contribute to the process by providing fact-finding data on strategic dependencies at local and regional levels, as well as abroad. Closer connectivity with business and regional policymakers, supported by more accurate regional data, will identify industries in which the EU has, or could have genuine comparative advantage, and develop more coherent policies to support them. Chambers have the capacity to transform EU policies into a concrete reality for the beneficiaries in all the fields of activity devoted to the cohesion policy – such as innovation, digitalisation, internationalisation, sustainability, and education and training.

Mid-caps are key drivers of Europe's competitiveness

Europe's middle-market economy represents a strong and resilient segment of our economy. Mid-caps account for more than 17% of overall employment and 21% of turnover in the EU27 business sector[3]. However, wedged between SMEs and the largest companies, mid-caps' potential is often overlooked, resulting in sub-optimal policy choices at the national and European levels.

Middle-market firms are crucial as the EU aims to bolster its resilience and strategic autonomy. They have less capacity than bigger multinationals to monitor and diversify supply chains but are – as often highly specialised and internationalised companies are, notably in manufacturing – essential vectors for Europe to address critical resource, technology, and trade dependencies.[4]

Given the unique features of European mid-caps and their role on the verge of market leadership in specific sectors, mid-caps are best positioned to bridge the technological and productivity gap between innovative and dynamic SMEs and the smaller group of large companies. By being locally present and internationally active, mid-caps hold the potential to boost European open strategic autonomy and strengthen value chains globally by limiting the risk of offshoring.

An EU-wide definition of small mid-cap must factor in the challenges and opportunities of the Industry 4.0 with digitisation and automatization processes set to bring structural changes into business models of technology-driven companies. For this reason, defining criteria such as the financial indicators – turnover and balance sheet – should continue to be considered as the main defining factors. On the other hand, the criterion "staff headcount" in a company risks becoming obsolete and not representative enough in the future.

Without prejudice to the above, a raise in the thresholds of the 2003 definition for SMEs to capture small-mid-caps (e.g. up to 500 employees) should, under no circumstances, limit or obstruct the access of SMEs to EU subsidies and financing opportunities designed for smaller businesses. In this sense, tailored dedicated exemptions and access to funding programmes for small mid-caps should be made available. In addition, the legislative framework should aim at a more balanced and proportional administrative burden for (small) mid-caps, compared to the current complex rules, drafted for large companies. With some exceptions, EU legislation labels all companies with more than 250 employees as 'large' without exploring the challenges this entails.

Manageable regulatory requirements and reduced administrative burdens

Europe's competitiveness depends on a supportive regulatory regime that also provides the predictability and stability that businesses need to plan and invest. Administrative requirements must be proportionate and reporting requirements streamlined and intuitive. Despite Commission President von der Leyen's March 2023 pledge to reduce reporting requirements by 25%, businesses continue to grapple with unnecessary and redundant administrative burden that undermine the legal certainty of the current framework.

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[3] Hidden champions, missed opportunities - Mid-caps' crucial role in Europe's economic transition (eib.org)
The European Investment Bank defines mid-caps as companies with 250 to 3,000 employees. Member states and the private sector also use other combinations of turnover and employee numbers.
[4] Facing a recession, Europe should focus on its mid-caps (epc.eu)

The Commission's efforts to rationalise and avoid overlapping compliance obligations across different pieces of legislation are of a certain value, but are a small part of the solution. This process is hampered by upcoming EU legislative proposals going in the opposite direction which add further burden. Eurochambres calls for a much more ambitious simplification programme for European businesses, especially SMEs. Hence, the first thing on the agenda of the new legislature should be an inventory of existing reporting obligations to make the 25% goal tangible while enabling a reduction of double reporting requirements.

Legislation must always be drafted from the perspective of smaller businesses, in line with the ‘think small first’ principle and consistently avoiding a one-size fits all approach. A thorough application of the SME test and competitiveness check in the impact assessments of legislation relevant to the EU economy is a precondition to avoid unnecessary costs or unintended consequences on SMEs. Additional checks to be made on specific territorial impacts such as insularity would also safeguard unproportional impact on companies situated in different geographic locations across the EU. To ensure coherence with the EU policy objectives, the transposition of EU legislation relevant to businesses into national law should always be subject to a national competitiveness check.

Diversify funding opportunities for European businesses

Public funding is an apt solution to finance public goods. When it comes to other fields of economic activities, private financing is more favourable. An empowering environment for SMEs is not very dependent on national state aid, which usually distorts the optimal allocation of capital because of the asymmetric fiscal capacities of member states. This is without prejudice to EU competition rules in place and state aid that may be necessary to neutralise systemic handicaps of companies operating from certain territories, such as island states and peripheral regions.

Innovation in strategic sectors is held back by overly complex approval procedures and a risk-averse policy bias. This easily hampers and discourages entrepreneurship and undermines investment. The EU should accelerate planning and permits to invest, innovate, produce, and commercialise in Europe.

Europe is still lagging dramatically behind the USA when it comes to venture capital. Even the biggest European venture capital funds are smaller than the number 10 of the US venture capital funds, in terms of the amount raised over 2019-23. The EU should rely more on equity financing for innovative projects, given their higher level of risk and the need to finance them over a long-term horizon.

The lack of deep, integrated capital markets in the EU is key factor limiting Europe’s competitiveness, compared to the USA. We should scale up our Capital Market Union ambition to unlock financing for the green and digital transitions. Accelerating financial market integration would provide better and faster access to private capital. Harmonisation of national insolvency frameworks and simplified rules in the European securitisation market are important prerequisites to create investment opportunities and allow banks to free up capital.

Strengthen the Important Projects of Common European Interest (IPCEIs) framework

If member states decide to promote strategic value chains, they should aim for an horizontal coordination at the EU level to avoid the parallel implementation of funding projects in several individual member states. In such cases, IPCEIs are important for the development of large-scale and cross-border industrial projects in strategic fields. They enable breakthrough innovation in key sectors and technologies and support infrastructure investments, that must generate significant positive spillover effects for the Union economy and society at large. To support such a process, the IPCEIs need to integrate SMEs in all the new value chains in construction and new EU economic policies must percolate in all territories, by involving all stakeholders, with SMEs at the forefront.

Better coordination between the European Commission and member states, from the planning of an IPCEI onwards, would guarantee faster notifications and avoid unnecessary delays. More coherence between the Commission and the member states on the eligibility of a project under an IPCEI, is strongly encouraged. Unjustified delays weigh on companies whose innovation projects are being slowed down. Faster and more efficient procedures and therefore tighter approval procedures are needed.

To make the IPCEI framework a success, more transparency and predictability are needed. All requirements for participating companies from the beginning to the end of an IPCEI, as well as the associated forms, should be clearly defined and made available from the beginning of the tender process at national level. Companies have been confronted with additional requirements or amended templates in the context of an IPCEI, in which they are repeatedly asked to provide the same information. Ideally, the forms used for all IPCEIs should be the same so that companies can benefit from experience gained in previous IPCEIs. Lastly, a "one-stop-shop", which is the point of contact for companies throughout the entire selection procedure at national and European level, should be introduced.

Europe’s competitiveness is hindered by structural skills shortages

The structural-demographic change resulting in an aging European society, later entry into employment, and less stable career paths will inevitably impact public finances and Europe’s competitiveness vis-à-vis foreign economies.

Eurochambres advocates for a well-functioning single market that promotes innovation and entrepreneurship. The lack of a skilled workforce is a long-lasting challenge, slowly but inexorably eroding Europe’s competitiveness. With the green and digital transitions set to revolutionise part of the European labour market, the European Commission proposed to become the frontrunner of such change. However, entrepreneurs have yet to see improvements in their capacity to recruit an adequate workforce.

The network of chambers of commerce and industry across Europe is dedicated to closing the skills mismatch and facilitating the recruitment of skilled job-seekers. This effort must be substantiated with more radical European and national level actions. The European Commission and member states must therefore commit to providing appropriate funding for education systems at all levels. This, together with reskilling/upskilling and lifelong learning through Vocational Education and Training (VET) initiatives are critical to addressing labour market deficiencies. In addition, more needs to be done to activate underrepresented groups on the labour market, to provide quality childcare to allow women to work full-time, to make Europe more attractive for third-country nationals, to support labour mobility including easier recognition of qualifications, and to reduce administrative hurdles in hiring processes.

Global strategic autonomy

With 90% of global economic growth expected to be generated outside Europe in the coming years, it is essential to preserve and improve our trade and investment environment with stable, transparent, and fair trade rules that work for businesses of all sizes.

This is especially important in the current economic slowdown, where European companies are facing unprecedented geopolitical shocks such as the Russian war in Ukraine, making it more important than ever to seize every opportunity to improve trade opportunities and assist companies in remaining internationally competitive. It is thus essential to fully use the EU's trade policy as a key tool to bolster an open European strategic autonomy that helps European companies to grow, diversify, and become more resilient, especially our internationally active SMEs. Economic security must not become an excuse for the EU to turn inward-looking and become protectionist.

Therefore, swiftly and ambitiously opening international markets for European goods, services, investment, and public procurement, reducing and eliminating unjustified trade barriers in third countries, as well as strengthening and improving global trade rules, is of enormous importance to European entrepreneurs. European companies need the EU to swiftly seal the trade agreement with Mercosur, as well as ambitious agreements with Indonesia, India and further ASEAN-countries. The Transatlantic Trade and Technology Council must be continued to have the EU stay a global rule-maker. Institutionally, the United Kingdom and Switzerland should be linked more closely to the single market, as well as candidate countries that cannot currently join the EU. Businesses must be closely involved into the EU enlargement process to address offensive as well as defensive interests. EU-reforms regarding its institutions, policies and finances are needed before further enlargements.

Fully harnessing the power of EU trade policy is also critical to boost European efforts to successfully manage the digital and green transition by securing better access to critical raw materials and working together with partner countries through making the EU's connectivity strategy Global Gateway more accessible to the EU private sector. In this regard, fully and swiftly implementing the Critical Raw Materials Act, will also enable a more secure, faster and more reliable regulatory framework for the sourcing of critical raw materials in the EU, as well boost needed international efforts to strengthen global raw material partnerships for better access around the world.

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