Turning the Key: Unlocking European Competitiveness

Europe Unlocked's Call to Action

Europe Unlocked 2024

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We, the undersigned leaders from 19 European business organisations, representing businesses both large and small from the industrial and services sectors across the continent, call on EU leaders to place openness and market-driven economic development at the heart of unlocking Europe's competitiveness. This collective endorsement reflects our shared belief that a new approach to the economic and security challenges we face is urgently needed. Below is our blueprint for European economic success.

Priority areas	Essential steps	Potential benefits
Create a properly functioning single market	1 Improve the EU's political leadership to drive development and enforcement of single market rules 2 Develop an action plan which prioritises deepening the single market in areas such as services and intellectual property where there are significant economic benefits to greater integration 3 Make it easier to create and grow new businesses and access private funding 4 Promote more investment in RD&I to boost the EU's long term growth prospects	The economic benefits of deepening the single market further could reach €2.8 trillion per year.
Unlock the potential of Europe's digital economy	5 Simplify the existing digital rulebook and ensure it is consistently implemented and enforced 6 Deliver a true single market in telecommunications	A digital single market could contribute 2% to GDP growth. Full rollout of next generation networks would contribute at least €106 billion to the European economy per year.
Deliver better regulation in practice – not just on paper	7 Improve the rigour of the EU's law-making process 8 Systematically reduce the cumulative burden of regulation 9 Keep European standards market-driven	More than 60% of businesses see business regulation as an obstacle to investment – so regulatory simplification could drastically increase investment and innovation.
Foster the EU's strengths in global trade	10 Improve market access to revitalise EU trade and improve the EU's economic resilience	More open trade would give European firms' better access to the 85% of global growth which is happening outside the EU.
Ensure an efficient green transition	11 Focus on market-driven innovation and technology adoption and ensure a profitable business case for net zero investments 12 Rationalise sector- and technology-specific environmental targets and policies, and translate them into actionable policies to provide long-term investor certainty 13 Deliver the energy transition at pace to ensure the EU enjoys lower energy prices	These steps would help the EU unlock the €40 trillion – or nearly €1.5 trillion annually – needed to achieve net zero by 2050 efficiently and ensure the EU's global leadership in delivering the green transition.
Build an agile workforce for a sustainable, knowledge-based economy	14 Ensure the EU has the skills and labour mobility necessary for a more innovative and high-growth economy	Addressing the skills crisis could massively boost business investment across the EU, with 81% of businesses citing a lack of skilled staff as a barrier to investment.

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Executive Summary

Europe has a competitiveness problem. Our continent's share of the world economy is in decline – and we are only falling further and further behind the US and China as time goes on. From 1993 to 2022, GDP per capita increased by almost 60% in the US – but less than 30% in Europe. And in high-growth, high-technology markets, Europe is losing ground.

Without stronger economic growth, Europe faces a litany of problems. Europeans will become less prosperous compared to the global average. Countries will be less able to deliver European social welfare programmes like pensions and healthcare. Our global influence will be diminished. We will be less able to respond to global challenges like the green transition, and to protect the resilience of our economy, in ways that are politically sustainable.

In recent years, the EU's political leaders have understandably focused on short-term crises – such as the need to respond to Russia's invasion of Ukraine and the energy price spike. But Europe's slow economic growth has much longer-term causes. Europe's aging population is already imposing a growing obstacle to our ability to match the economic growth of the US. And our productivity growth – the only way to deliver sustained economic growth with an aging population – has flatlined for decades.

Addressing the competitiveness crisis, and ensuring the EU can efficiently deliver the digital and green transitions, requires the EU's leaders to look beyond short-term shocks. EU leaders are beginning to understand the severity of the problem – and that it has deep-rooted causes which date back far beyond the crises of recent years. This is highlighted in reports by former Italian Prime Ministers Enrico Letta and Mario Draghi, in recent statements by Commission President Ursula von der Leyen, and will be a key focus for the EU over the next political cycle.

The EU's leaders must pursue profound structural changes to make the EU's economy more dynamic and productive, rather than relying on short-term fixes or trying to emulate the approaches of other countries. The EU cannot win a subsidy race with the US and China. Increased use of subsidies may help some favoured firms and industries in the short run, but it risks limiting the economy's dynamism, and exacerbating the long-term problems that hold back European prosperity. Nor should the EU undermine market-based principles, choke firms with red tape, or close off trade and investment opportunities – steps which will make our businesses more rigid, our supply chains less flexible, and investment in Europe less attractive.

The EU's leaders urgently need a new approach refocused on Europe's economic strengths: our single market and open trade policies, and our ability to design proportionate, high-quality and evidence-based regulation. The goal should be to make our markets more flexible and dynamic to unlock our economy's potential, to maintain our open trade links so we can benefit from the 85% of global growth which is happening outside the EU, and to ensure our workforce has the skills and mobility to support economic growth. That would boost competition and lower prices for European consumers who are facing a cost-of-living crisis. It would give European companies more freedom to innovate and the ability to build scale in the EU so they can compete globally. And it would ensure Europe delivers the green transition in a way which is efficient - and could even ensure the green transition becomes a driver of the EU's growth and global competitiveness.

Our vision is a more dynamic, high-growth European economy: one which can better adapt to geopolitical, economic, environmental and technological challenges while remaining economically prosperous.

To deliver this vision, we call on the EU's institutions to implement an action plan based on the essential steps outlined in this call to action.

Europe is facing a competitiveness crisis – fixing our productivity is the answer

Europe's economic importance in the world is in decline. The EU's share of the world economy is decreasing rapidly. Our overall economic growth lags the world average. As Box 1 and Chart 1 show, there is a persistent gap between economic growth in the EU and the US. The EU is not increasing its productivity fast enough to compensate for structural headwinds like our shrinking workforce. In high-growth, high-technology sectors, Europe performs particularly poorly. As shown in Chart 2, our poor growth compared to the global average means that the EU's share of the global economy is in decline. The EU cannot be a competitive global economy – or a resilient economy able to deliver the green transition in a politically sustainable way – while its rate of growth remains languid.

Box 1

The EU is failing to keep pace with the US on economic growth:

- From 1993 to 2022, GDP per capita increased by almost 60% in the US – but less than 30% in Europe.
- While the EU and US economies were roughly the same size in 2010, by 2020 the EU economy was significantly below this level.
- In 2023, the gap between EU and US growth rates was even wider: the EU economy grew only 0.5% while the US saw growth of 3.1%.

The continent faces enormous challenges. Some of these are relatively recent. After decades of increasing globalisation, some of the EU's largest trading partners have started to shift away from free trade and free markets and towards mercantilism and protectionism. These countries are increasingly closing off access to their own markets while using large domestic subsidies to tilt the global playing field. Traditional EU industries like car manufacturing are facing technological and commercial challenges. The need to respond to Russia's invasion of Ukraine, and the energy price spike, have also imposed sudden shocks on the European economy.

However, economic growth in Europe has been sluggish for decades – so our poor competitiveness has long-term causes. For example, the EU faces much larger economic headwinds than the US because of its aging population, its higher energy costs, and its relatively weak position in technology-intensive high-growth sectors. To tackle this problem, we must boost our productivity growth – our ability to add more value with the same inputs. Italian Prime Minister Mario Draghi has recently pointed to a lack of productivity growth as the biggest contributor to Europe's low growth. Unfortunately, however, the trend is going in the wrong direction: as Chart 3 shows, productivity growth in Europe has slowed over the last 12 years and – apart from a slump in 2022 – the US has consistently outpaced Europe in boosting its productivity per hour worked since 2018. Europe's record is particularly poor in 'total factor productivity': the aspect of productivity growth which economists attribute to the use of technology and the adoption of new innovations by firms.

Europe's poor productivity growth has a number of causes. One problem is the mismatch between workforce skills and business needs. Another is low business investment – meaning that firms are not investing to grow and boost their competitiveness over the long-run. Businesses see Europe as less and less attractive for new investment compared to the US, as Box 2 below illustrates.

Box 2

- Europe has had a persistent gap in productive investment (which includes both investment in physical machinery and intellectual property) of 1.5 to 2 percentage points of GDP relative to the US.
- This gap is getting worse: productive investment in 2022 amounted to 15% of GDP in the US versus 11% in the EU.
- European CEOs have far greater confidence in their firms' prospects outside than within Europe.

Chart 1 Source: IMF World Outlook 2023

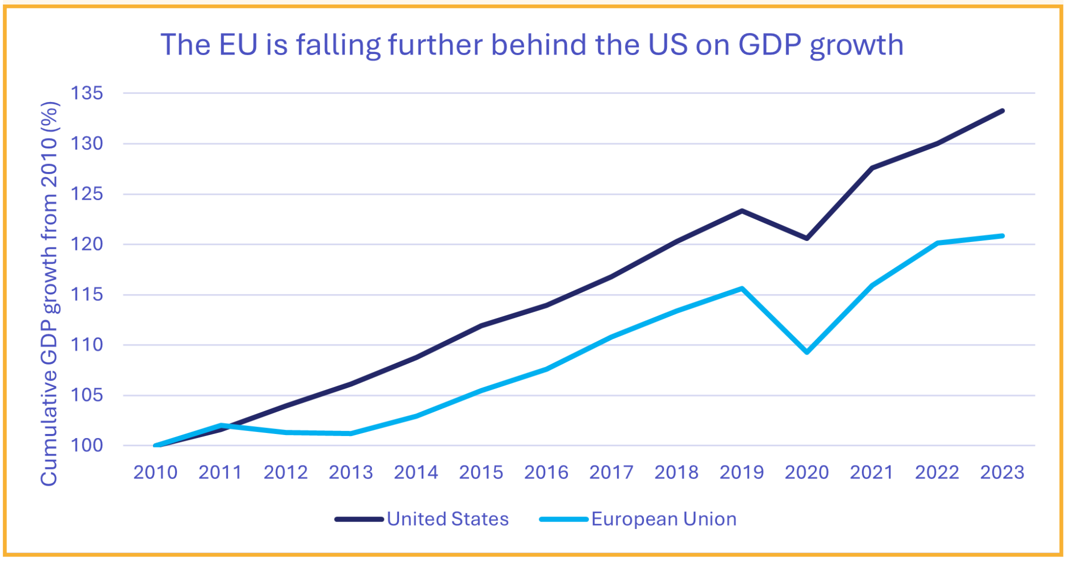


Chart 2 Source: IMF World Outlook 2023

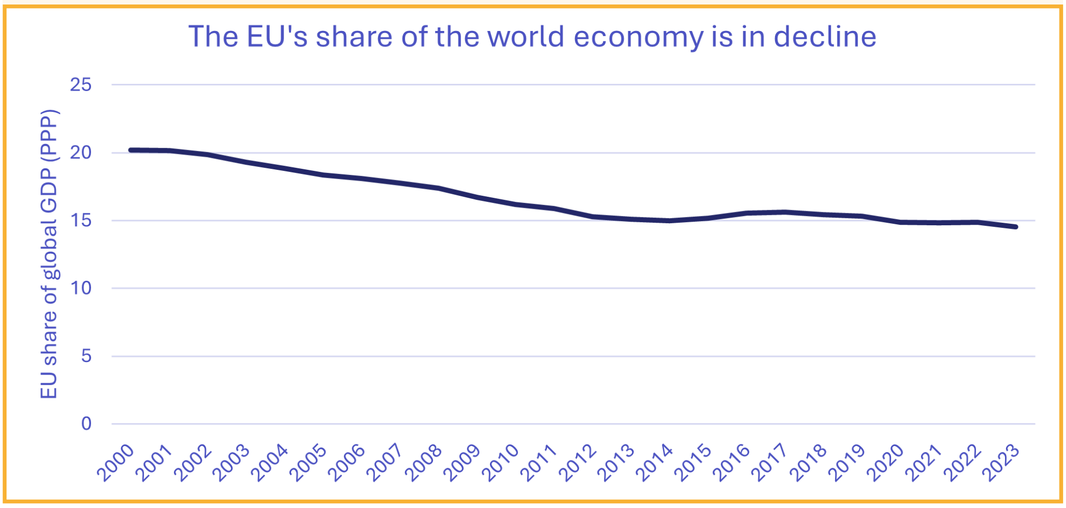
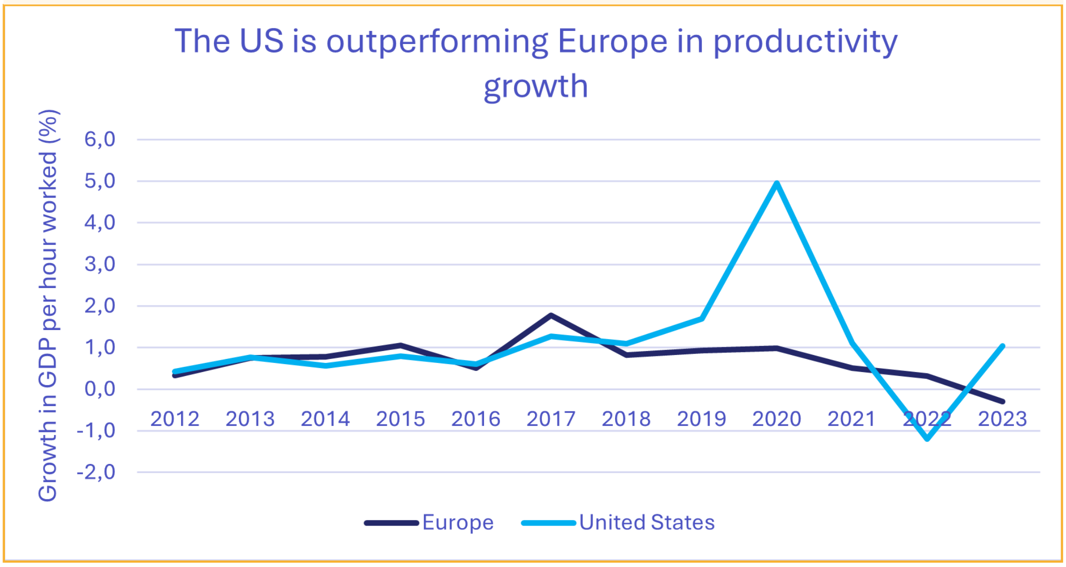


Chart 3 Source: The Conference Board



Another significant factor is the regulatory burden of doing business in the EU. Europe is also not spending as much as the US on research, development and innovation, and is slower to adopt technologies than American ones. As Box 3 and Chart 4 show, Europe is not currently closing the gap.

Europe's lack of investment in creating and disseminating innovation is partly because European markets tend to have smaller players: many small firms are highly innovative and productive but they face hurdles to expanding across Europe, which means the most innovative firms do not impose enough pressure on other companies to keep up. Ensuring global technologies are available and easy to take up across the EU, bolstering the single market to enhance competition, and providing incentives to increase business investment, could significantly bolster productivity growth.

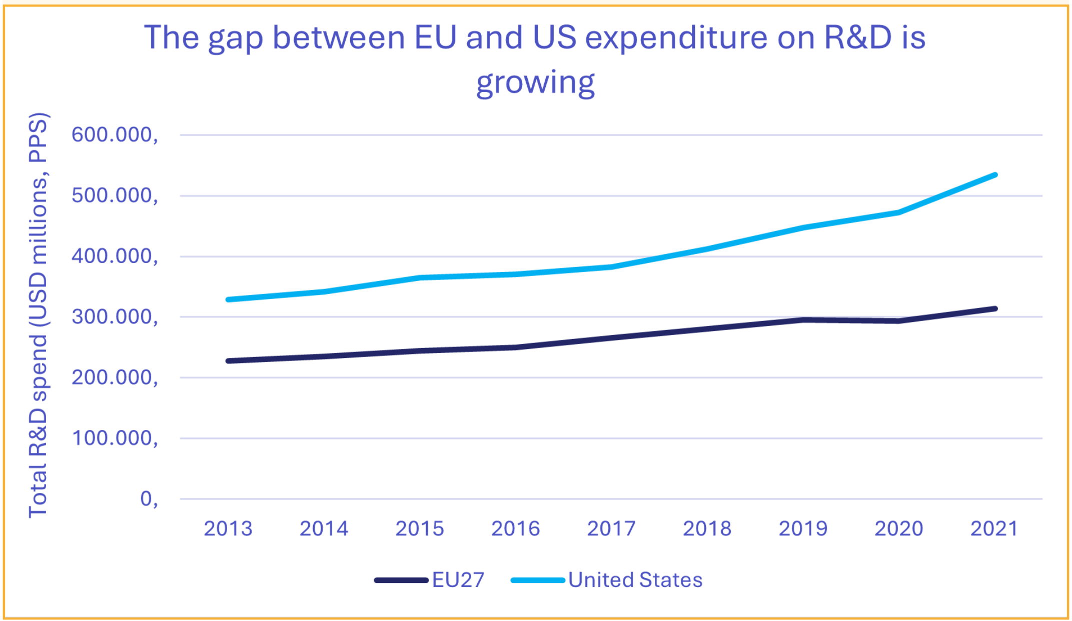
All this means that the Union's poor economic prospects are likely to worsen if the EU does not urgently change tack. Profound structural changes – rather than short-term fixes – are essential to solve this problem.

The question for the EU is how to respond. Should it join a subsidy race, pick winners, and abandon its support for free and open markets, like some of its trading partners? This approach is unsuited to address the underlying reasons for the EU's low productivity growth. The EU lacks the fiscal firepower to outspend its global competitors. Subsidising chosen industries and imposing disproportionate regulation both risk driving up prices, limiting the economy's dynamism, and making it harder for innovative and disruptive European companies to thrive. Imposing complex rules which close off trade and investment opportunities similarly risk making supply chains more rigid – and our economy less resilient.

Box 3

- In the EU's own Innovation Scoreboard, the EU is underperforming the US and China in its innovation performance – over 2016-23, those countries have improved their lead over the Union.
- The EU spends far less on R&D compared to the US and China, as shown in Chart 2.
- The EU's share of the global ICT market has fallen from 21.8% in 2013 to 11.3% in 2022.
- We only have four global European tech players among the top 50 worldwide.

CHART 4 SOURCE: EUROSTAT



Europe Unlocked suggests an alternative to replicating some of the tactics of the EU's trading partners. We agree with former Italian Prime Minister Enrico Letta that "the European Union's success rests upon the pillars of free trade and openness … with the goal of preserving peace and upholding the rule-based international order, while also guaranteeing the Union's economic security". To boost investment, we need simpler and more flexible regulation. To boost competition and thus innovation, EU leaders and policy-makers must help make our markets more dynamic and competitive. And policies which help firms take up new technologies will help unlock our economy's innovative potential, ensure we can meet challenges like the green transition and boost our economic security by ensuring other parts of the world rely on European ingenuity.

To achieve this, the EU's leaders urgently need a new approach. We support many of the priorities proposed by the European Council as part of a new 'competitiveness deal', but rather than focus on industrial policy and 'picking winners', we believe the EU should prioritise:

→ **Strengthening the single market.** This would deliver better prices, higher quality services and more innovation for European consumers, while promoting more inward foreign investment and creating more European jobs and supporting the fundamental freedoms of companies, workers and citizens. In a more agile economy, poorly performing firms can exit and resources will be redirected towards more innovative and efficient firms. Firms which succeed on their own merits can then flourish and build scale across the bloc, using the EU's single market as a launchpad for global success.

→ **Unlocking our digital economy's potential.** The US economy has been propelled by high-tech sectors enjoying extraordinary growth, but Europe is lagging behind in these sectors, even while seeing its traditional industries facing ever-greater global competition. While Europe is launching more start-ups, it still falls far behind the US in commercialising innovation and exploiting new technologies. As Mario Draghi has recently explained, the US's success in the digital economy explains almost all of the difference in growth between the EU and the US.

→ **Adopting proportionate and evidence-based regulation.** Simpler and more targeted regulation is key to ensure Europe remains an attractive place to do business. Well-designed regulation should give European businesses freedom to innovate and adapt to – and drive – market and technological changes, in turn making our economy stronger, and our economic model more resilient. The EU needs to deliver on the announcement to reduce reporting burdens by 25%.

→ **Building on our strength as a global trading powerhouse.** Improving European economic growth will require Europe to better integrate with fast-growing international markets. Yet in recent years the EU has made little progress in expanding market access into the single market as well as for European businesses doing business globally. The EU's recently adopted Strategic Agenda rightly commits to promoting the WTO, pursuing new free trade agreements and protecting the EU's open markets – but urgent changes are required to address the lack of progress in opening up new market access for EU firms.

→ **Ensuring an efficient green transition.** To meet the EU's environmental and climate objectives efficiently and drive EU competitiveness, the EU will have to rely on market-driven mechanisms and innovation. During the upcoming political cycle, EU leaders must create a robust, compelling long-term business case to attract the private sector investment in order to deliver the European Green Deal.

→ **Building an agile workforce suitable for a sustainable and knowledge-based economy.** Europe lacks the skills necessary to build an economy focused on high-growth sectors and able to deliver the green transition. EU and member-state policies need to support a more agile workforce and enable people to acquire the skills for a sustainable, knowledge-based economy, and to enable the whole economy to be more responsive to shifting needs and demands.

Delivering this vision will require fundamental changes to the EU's political priorities – and tough choices. Since the start of the pandemic, the US has seen a massive increase in entrepreneurialism – business creation is up by nearly 60% – whereas the EU has fretted about the future of existing industries. The focus on existing industries has held back entrepreneurialism and business dynamism, and has sucked political and financial resources away from creating an enabling environment for smaller businesses to thrive and established businesses to become more agile. As we explain below, the EU has failed to tackle many of the factors that discourage business creation, scaling-up and innovation in Europe – such as the lack of harmonised copyright law in the EU and the continent's often small, underperforming capital markets.

Continuing with the status quo is no longer an option. A failure to address the decline in European competitiveness would mean:

- → **Declining international influence** – undermining the EU's overall role in the world, and reducing our ability to secure trade and investment deals with our partners and to exert more influence over global standards and norms.
- → **Weakening economic security** – both directly and by impacting the willingness of citizens to accept the costs of ensuring more resilient supply chains.
- → **Less ability to deliver the green transition** – as we have seen with the 'greenlash', the EU will be unable to sustainably meet today's global challenges if they mean everyday Europeans becoming increasingly poorer compared to those in other developed countries.
- → **Damaging the European project** – as our citizens will see that the EU has no serious plan to arrest its global decline.

EU leaders are beginning to understand the severity of the problem – and that it has deep-rooted causes which date back far beyond the crises of recent years. EU leaders have commissioned two reports from former Italian Prime Ministers, Enrico Letta and Mario Draghi, on strengthening the EU's single market and boosting Europe's competitiveness. Dr Letta's report identifies that the EU must enhance the role of research, innovation and education in the single market to help convert Europe's innovative capabilities into a competitive advantage, and must further develop the single market. Mario Draghi has pointed to the need to set research and innovation as a "collective priority". Ursula von der Leyen has committed in her political guidelines to delivering a European Prosperity Plan in her second term, which would reflect many of our priorities. And the European Council has recently made competitiveness a focus, with some positive ideas to boost the EU's economic prospects.

Yet much of the work to improve the EU's competitiveness has been on the agenda for years without being properly implemented. And EU leaders have failed to clearly explain, and draw policy conclusions from, the linkages and tensions between competitiveness, on the one hand, and other priorities like delivering the green transition and improving economic security, on the other. Undermining core tenets of EU competition policy and enabling more money to be spent subsidising industries risk making it harder, not easier, for innovative new businesses to thrive in Europe and become global leaders. Competition drives firms to make investments and deploy innovations to become more productive and therefore more globally competitive.

An action plan to address Europe's economic weaknesses

Europe Unlocked has commissioned a series of independent think-tank reports. Each identifies concrete recommendations to increase Europe's competitiveness over the term of the next Commission. We have built on this research to develop an action plan to deliver high-impact improvements to the way the EU's policies act to boost the international competitiveness of EU businesses, large and small.

Our recommendations are predominantly cross-cutting proposals which affect the whole economy. This is a deliberate choice: one of the factors holding back greater business dynamism in Europe is governments' desire to prioritise and protect existing industries rather than ensure that European entrepreneurs can be agile and start new businesses in new and emerging sectors, and that existing businesses are able to adapt to technological, commercial and geopolitical changes. Our cross-cutting recommendations aim not to help governments 'pick winners', but to support all worthy businesses to grow and succeed and to ensure Europe leverages its economic strengths. By achieving this, we hope to see a more dynamic, high-growth European economy – which can better adapt to geopolitical, economic, environmental and technological challenges while remaining economically prosperous.

Priority 1: Create a properly functioning single market

The single market supports the dynamism and productivity of the European economy – ensuring business creation and that the most innovative firms in Europe can quickly scale up and compete with each other, delivering better products and services in Europe, giving European firms the scale to compete globally, and making Europe an attractive destination for foreign investors. It remains the EU's most powerful economic strength: since its launch in 1985, it has boosted the bloc's GDP by at least 6 to 8% and potentially by much more than this. This is evident from the growth in intra-EU trade, which rose from 11% of EU GDP in 1993 to 23% in 2021. The members of the single market include the 27 EU member-states and the three EEA/EFTA states: Norway, Lichtenstein and Iceland. The EU benefits greatly from non-EU countries participating in the single market, which means the EU must take the integrity and proper functioning of the single market into account when developing new policies.

Today, however, there are two problems. First, some important markets are not functioning well even at a national level: member-states need to adopt domestic reforms, for example, to help deepen capital markets, as part of the Capital Markets Union, so they can better support innovation. Second, in important sectors where integration would deliver significant impact on growth and the ability of European companies to enter and scale, Europe's single market remains unfinished. Many parts of the EU economy remain fragmented along national lines, with too many barriers to cross-border business. Consequently, many innovative and successful companies remain present in one or just a few member-states. Compared to their global competitors, European companies face many hurdles to growing bigger. In turn, this hinders their ability to make investments and to innovate.

While there has been progress in some areas, for decades deepening the single market has been largely neglected by EU leaders. Europe's leaders now largely agree on the importance of deepening the single market in sectors where EU integration is a necessary ingredient for greater economic growth – a priority emphasised by both the Letta and Draghi reports. The European Council's recent focus on steps to develop the single market, in particular the call for a Single Market Strategy, is welcome. However, EU leaders need to develop a common view on which specific reforms are necessary – and how to combine efforts to improve the functioning of markets at a national level with integration at an EU level.

Recommendation 1: Improve the EU's political leadership to drive development and enforcement of single market rules

There has been a growing lack of political will to develop and enforce the single market's rules, even in areas where lack of integration is holding back economic growth. Addressing this lack of political leadership is essential so any specific plans for reforms are sustainable and implemented.

The following institutional and governance reforms would help highlight the importance of the single market and keep it at the top of the political agenda:

1. The Commission president and heads of state and government must make the single market a political priority to ensure delivery and enforcement of single market rules.
2. The Council should make the single market a recurring priority on the 'troika' agenda, by which each Council presidency works closely with the previous and the subsequent presidencies to ensure policy delivery.
3. The European Parliament should strengthen the role of the Committee on the Internal Market and Consumer Protection: for example, it could run annual sessions to gather evidence and report on enforcement of single market rules.

Recommendation 2: Develop an action plan which prioritises deepening the single market in areas such as services and intellectual property where there are significant economic benefits to greater integration

The point of improving the EU's political leadership is to ensure ownership and delivery of a new strategy to deepen the single market. EU leaders must therefore develop an action plan for specific reforms, such as the Single Market Strategy which the European Council recently called for. The Strategy should carefully prioritise, with focus initially on those market barriers which have the most negative impact on economic growth and productivity. The strategy should include initiatives for 3–4 years, with regular interim reports and milestones. The strategy should be fully implemented by late 2028.

The EU should focus on the following in preparing its Single Market Strategy:

4. Develop medium-term priorities to increase integration of markets where lack of integration has the most negative impact on economic growth. This short-term plan should, in particular, target services, such as implementation of the Services Directive and regulated services sectors. While the single market is relatively well developed in goods, services have long lagged behind – despite the fact that they comprise 75% of the EU economy. This should include facilitating the provision of services through cross-border work, i.e. where workers are posted in another member-state to provide a service. The cumulative administrative burden to post workers to another member-state is too high.
5. Also prioritise in the medium-term integration in sectors governed by dedicated EU regimes, such as financial services, where greater EU integration would have significant impacts for economic growth. In many of these sectors, the lack of a true single market is a major contributor to poor economic growth across the whole economy. In parallel to discussions on increased integration, member-states must undertake reforms where their domestic markets are not working well. Start work on tackling the long-term 'taboos' on harmonising certain aspects of EU member-state regulation – such as air traffic control and copyright law. An EU-wide air traffic control system would allow European airspace to be more efficiently used, would help reduce carbon emissions, and would cut flight times, improve safety and increase air capacity. And harmonising copyright protection would significantly boost incentives to innovate.
6. Consider reforms to allow the Commission to take a tougher enforcement approach where member-states do not implement single market rules, including by making enforcement proceedings quicker and more effective.

Recommendation 3: Improve the conditions for startups and the creation and growth of new businesses by increasing the ease of doing business and access to private funding

The benefits of a true single market for competition and innovation can only be achieved if promising new firms are able to enter the market and build scale.

The Commission must therefore lead a programme to improve the conditions for entrepreneurial and innovative startups and the growth of new businesses.

1. The Commission should do so by measuring the ease of doing business within EU member-states – thus encouraging countries to simplify and improve their regulatory environment.
2. The Commission should also focus on increasing access to private finance by focusing on encouraging member-states to develop – and in parallel to enable gradual integration of – the EU's capital markets, an important part of the Capital Markets Union project. This recommendation, developed further below, would enable much better access to private risk finance via venture capital and capital markets.

Recommendation 4: Promote more investment in RD&I to boost the EU's long term growth prospects

Research, development and innovation (RD&I) is central to the EU's long term growth prospects. Many of Europe's most high-potential firms are SMEs which invest heavily in intellectual property – and these tend to be more productive and faster growing companies. In 2010, the EU launched the 'Innovation Union', setting a goal of increasing total R&D spending (public and private) to 3% of GDP. Yet 14 years later, total R&D spending remains less than 2%, and lower than the US and China. The EU is not only lagging behind in terms of total spending on research and development – as Draghi recognises in his report on EU competitiveness, the EU struggles to commercialise investments in research. Public support for RD&I is essential to stimulate private investment, but to ensure this money is effective and 'crowds in' private investment, the EU must ensure it responds to business needs and can be commercialised. The failure to do so explains why, compared to the US, a much smaller proportion of European R&D spend is by the private sector.

To address this:

1. The EU must increase the share of its budget dedicated to RD&I activities in shaping FP10, the next seven-year research programme which will succeed Horizon in 2028. If Europe is to deliver technological leadership, the needs of business must be a core focus when designing FP10.
2. Member-states must ensure the right incentives are in place – for example, tax incentives – for businesses to promote R&D spending and make investments to support their long-term growth.
3. The EU must ensure that firms have a fair opportunity to commercialise and exploit the results of R&D – even if it is publicly supported – so as to preserve investment incentives.
4. EU leaders should consider several of Dr Letta's recent proposals to enhance the role of research, innovation and education in the single market. Promising aspects of these proposals include promoting the mobility of researchers, innovators, and data, along with broader reforms to the single market to ensure that innovation leaders can build market share across Europe – providing greater rewards and thus incentives for even greater innovation.

→ The prize for delivering these recommendations would be enormous: the economic benefits of deepening the single market further could reach €2.8 trillion per year. A programme which delivered the most urgent and medium-term reforms would strengthen the EU's competitiveness and could add another 9% to the EU's GDP.

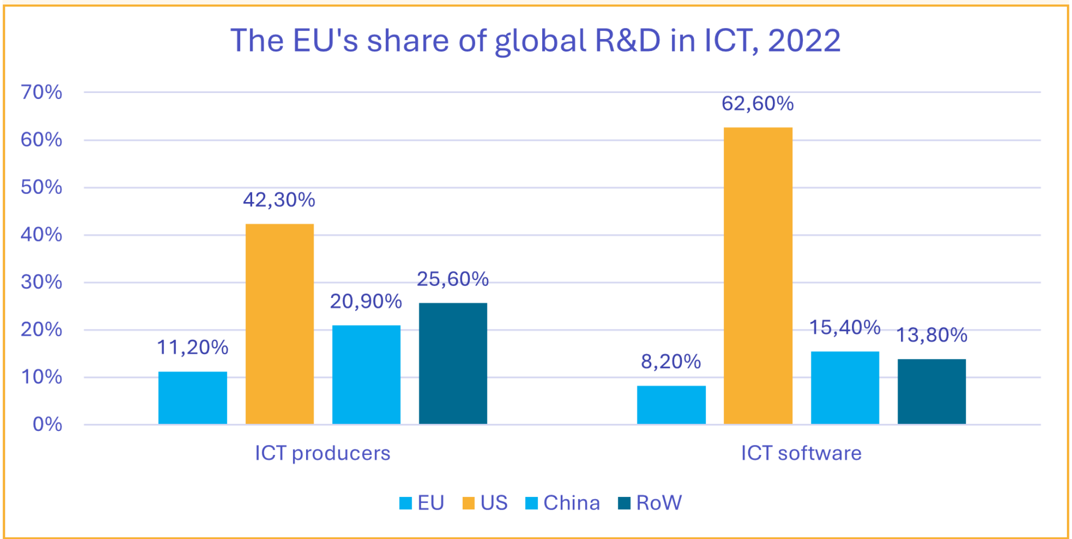
Priority 2: Unlock the potential of Europe's digital economy

To become more productive and boost growth, EU leaders must help businesses make better use of technology: the US has seen a surge in productivity associated with the ICT revolution, but Europe has so far missed out. This creates a vicious cycle in Europe that leads to fewer innovative start-ups, since European customers are less willing to adopt their innovations, and puts European businesses at a disadvantage compared to more innovative global competitors.

Europe has achieved only mixed success in becoming a truly innovative and competitive digital economy. European firms have performed well at taking up some technologies like cloud computing. The number of European tech start-ups has also grown dramatically in recent years. But firms have been slow to take up newer technologies like artificial intelligence, and many European start-ups struggle to scale up while remaining in Europe. As Chart 5 shows, the EU's global share of R&D in the ICT sector still lags well behind that of the US and China:

How can Europe address its broader problem with productivity by encouraging all firms in the economy to make better use of technology? And how can Europe help nurture its own tech firms and innovation leadership? Many steps to boost Europe's digital potential – like building digital skills in Europe – will take time to achieve results. But there are several steps EU leaders can take to boost digital-led growth in the short-term.

Chart 5 Source: European Commission



Recommendation 5: Simplify the existing digital rulebook and ensure it is consistently implemented and enforced

There are growing concerns – identified by both Letta and Draghi – that EU regulation is holding back the digital economy. In the last political cycle, 116 laws relevant to digitalisation were proposed or enacted – addressing everything from artificial intelligence to competition to chips manufacturing. But as some governments realised when passing the Artificial Intelligence Act, excessive and onerous regulation can disproportionately harm the growth prospects of Europe's tech leaders – and make technology harder for European businesses to access. The sheer volume of new regulation also risks overwhelming firms' and regulators' resources and detracting from business efforts to adapt to and incorporate new technologies.

To deliver this recommendation:

1. The Commission should recast existing digital laws to deliver simpler, future-proofed and principles-based regulation. The Commission should identify and fix overlaps and inconsistencies in the EU's many recent digital laws, and ensure digital laws are proportionate and risk-based.
2. The Commission must promote more centralised implementation and enforcement of the EU's digital laws to avoid diverging implementation across different member-states. This problem has plagued landmark laws like the General Data Protection Regulation.
3. Digital regulations should focus on maintaining free trade and open markets, while safeguarding EU citizens' fundamental rights, so that firms can benefit from technologies and services from around the world – and give European tech companies access to a global marketplace.
4. The Commission should review GDPR to enhance its consistent application, and ensure it still provides a proportionate, risk-based approach to data protection – as originally intended.

Recommendation 6: Deliver a true single market in telecommunications

The EU's digital infrastructure lags behind the US and China. The US has significantly greater population coverage of 5G, with 96% compared to 81% in the EU – and much of the EU coverage is not of genuine 5G standalone networks which offer the most economic benefits. Many European telecoms firms argue the lack of infrastructure investment is due to a lack of scale: there are at least 34 major mobile network companies in Europe compared to three in the US and four in China. In country-consolidation is not the only way to help build scale and boost investment. The Commission can also cut red tape to help make it easier for European telecoms firms to adopt new technologies, do business across member-states and attract new investors.

The European Commission's recent white paper on the future of telecoms ignores differences in levels of digital infrastructure, connectivity and competition between different EU countries – and focuses too much on regulating every EU country in the same way. A more differentiated approach would rely more on deregulation and market forces to deliver optimal outcomes. There must not be a conflict between investing in frontrunners and harmonising a single digital market in the EU.

To deliver this:

1. The Commission should prioritise cutting red tape and providing a simpler and uniform set of rules for networks to operate across member-states.
2. Competition authorities should take network quality and investment into account when assessing mergers in the telecoms industry while being conscious that in-country consolidation is not the only way for telecoms firms to scale and that the fundamental tenets of competition policy have served Europe well.
3. Member-states must remove national and sub-national regulatory barriers to the deployment of digital infrastructure across Europe and the digital transformation of European businesses. Complex rules to deploying infrastructure and using services like cloud computing cause unnecessary administrative delays and costs for firms trying to expand their networks or adopt new technologies. Furthermore, those offering such services must be able to address a single internal market rather than 30 EU and EEA/EFTA national markets individually.

→ **Delivering these recommendations would generate significant benefits. A true digital single market could contribute more than 2% to future GDP growth. A full rollout of high-speed fixed and wireless networks across Europe would directly contribute €106 billion to the European economy per year – and possibly substantially more.**

Priority 3: Deliver better regulation in practice – not just on paper

The EU's law-making processes suffer from a paradox. On the one hand, international league tables show the EU performing well with processes which ensure EU laws are evidence-based, proportionate, and targeted. And in recent decades, EU leaders have repeatedly committed to the 'better regulation' agenda – most recently, in the European Council's conclusions calling for more efficient regulation, the removal of unnecessary burdens and dynamic impact assessments which can be updated as proposals are amended through the legislative process. The Commission president's mission letter to Valdis Dombrovskis, Commissioner-designate for Implementation and Simplification, emphasises the need to cut administrative burdens and simplify EU laws. But in reality, businesses have never felt the pressure of regulation more intensely.

Despite the Commission's determination to reduce regulatory burdens, more than half of BusinessEurope's members consider that administrative burdens have increased in the last year. And over 60% of businesses see regulation as a key impediment to investment. As Dr Letta has recently noted, the regulatory environment is an increasingly important factor for businesses when deciding where to locate. This is especially true for high-potential businesses such as tech start-ups – and means it is essential that the EU lives up to its promises to 'think small first' and designs regulations in ways that support innovation and small business. Excessive and unnecessary regulatory burdens and regulatory complexity have serious costs for the EU's international competitiveness.

Recommendation 7: Improve the rigour of the EU's law-making processes

The EU institutions need a reset to ensure that better regulation is not just perceived as a set of 'check-box' procedures, but that the spirit of better regulation – inclusive, transparent, and evidence-backed decision-making – is respected at a political level.

To deliver this recommendation:

1. The Commission must prepare impact assessments for all proposals, including for delegated and implementing acts, in line with the recent Competitiveness Council conclusions of 24 May 2024. The Council should insist that exceptions only be allowed in narrowly defined exceptional cases. Good law-making demands that different options are rigourously assessed.
2. The Commission must improve the quality of its impact assessments, and must deliver the Commission president's demand for a 'SME and competitiveness check'. Such a check should be focused on whether an initiative will help or hinder employment, innovation, dissemination of technology, and productivity growth. Impact assessments must also consider the cumulative impact of regulation – not just assess individual initiatives in isolation.
3. The Regulatory Scrutiny Board (RSB) should be given more resources and greater independence, so it can take on a broader role and deliver more rigourous quality control of impact assessments.
4. The Council and the Parliament must respect better regulation principles, including by preparing or requesting their own impact assessments when proposing significant changes to Commission proposals and consulting more at a domestic level. We strongly support Dr Letta's proposal, now adopted by the Competitiveness Council, for a 'dynamic impact assessment' which could be updated during the trilogue process, and the Commission president's call for a new inter-institutional agreement to ensure the Council and Parliament assess the costs and impacts of their proposals.
5. The Commission should better use digital tools to help the business community more easily and clearly understand the progress of regulatory initiatives, their regulatory obligations, and how different regulatory instruments interact.
6. EU law-makers must avoid delegating excessive powers to the Commission – the overuse of delegated acts has created an environment in which the scope of laws and the cost of compliance is unpredictable and uncertain.

Recommendation 8: Systematically reduce the cumulative burden of regulation

EU leaders have allowed a significant increase in regulatory burdens over recent years. European entrepreneurs, instead of investing in company development, innovation and adaptation to climate change, spend funds on consultants and experts to deal with the increasing administrative burden and reporting. As Draghi has stated, "we claim to favour innovation, but we continue to add regulatory burdens onto European companies, which are especially costly for SMEs and self-defeating for those in the digital sectors". Many business groups are asking EU law-makers to focus on properly implementing the current rule-book before imposing new regulatory obligations and the Competitiveness Council conclusions of 24 May 2024 have also called for more systematic attention to the cumulative burdens of regulation. A review is essential to ensure EU regulation is continuing to deliver results efficiently and effectively, and that burdens are not 'normalised' and therefore forgotten.

To deliver this recommendation:

1. The Commission should adopt less burdensome alternatives to regulation – such as self-regulation and co-regulation.
2. The next Commission must deliver the 25% burden reduction target by tabling a specific proposal to deliver these reductions within the first three months of its term. The Commission should then deliver a plan not just on reducing administrative costs but also cutting the overall cost of EU regulation on economic growth in areas like innovation.
3. EU leaders should avoid the increasing use of unilateral regulation which impacts trading partners and EU firms which trade internationally, and instead prioritise developing internationally agreed rules through diplomacy and trade policy.
4. The EU should strengthen its process of ex post reviews of EU regulatory initiatives and must be more committed to promptly addressing overlaps between laws and unintended consequences when these are identified.
5. The Commission must develop and strengthen implementation of the 'one in, one out' principle. The principle needs to consider both adjustment costs and a broader assessment of how regulation impacts the European economy – including by dissuading entrepreneurs from starting businesses in Europe.

Recommendation 9: Keep European standards market-driven

Europe's market-driven approach to developing standards has proven hugely successful – and EU standard-setting bodies often produce work which is highly influential at a global level. For example, 81% of standards set by the European body CENELEC are identical to global standards. Influencing international standards creates significant benefits for European firms, meaning they are already 'export ready'. When negotiating new preferential agreements and other trade arrangements with third countries, it is important to take into account existing European value chains to ensure the integrity of the internal market, including in the EEA/EFTA states.

The system is not broken – but it is under threat. The Commission is trying to reform the standard-setting system to give the Commission more control, creating perceptions that standards will be used to give European firms artificial advantages. Efforts to 'fix' the current system risk being counterproductive, creating significant uncertainty, and undermining the global influence of EU standards.

To deliver this:

1. The Commission should abandon its proposed reforms to European standard-setting.
2. EU leaders should affirm the value of the current system of standard-setting in ensuring flexible, outcomes-focused regulation.

→ More than 60% of businesses see business regulation as an obstacle to investment – so regulatory simplification could drastically increase investment and innovation. It would ensure that regulation gives entrepreneurs the confidence to launch start-ups in Europe, allow firms more freedom to innovate, and help them easily expand across the EU and use Europe as a launchpad for global success. It will help the EU ensure it delivers its strategic goals – such as on climate change and economic resilience – in a way which preserves European competitiveness.

Priority 4: Protect and nurture the EU's strengths in global trade

The EU's economic strength is its trade intensity. Between 2024 and 2028, the EU's GDP growth is expected to be 1.4–1.7% whereas emerging markets are expected to achieve growth of 3.9–4.8%. Improving European economic growth will therefore require Europe – including all countries that participate in the EU single market – to better integrate with international markets.

But progress in the EU reaching new agreements with its trading partners has been limited in recent years. Furthermore, in response to other countries' practices, EU trade policy has become increasingly defensive and focused on imposing conditions on access to the European market. Opening up new market access will be key to the EU's efforts to boost growth and economic resilience and diversify its sources of supply and secure easier access to foreign goods, services, and technologies. Free trade helps improve European firms' access to expertise and inputs which will be essential for keeping European businesses competitive, and ensuring they can use existing technologies to improve their own productivity and global leadership. Open trade also helps boost demand for European goods and services, helping European firms to scale and become globally competitive. Europe is too focused on reducing risks – it needs to take a pragmatic approach focused also on international co-operation and maximising opportunities.

Recommendation 10: Improve market access to revitalise EU trade and improve the EU's economic resilience

While some of the EU's trading partners' have taken an unfortunate turn towards protectionism, the EU needs to stick to its strengths. Economic security and free trade are complementary, and not opposing, goals – and the EU must reflect this with mutually reinforcing policies. To assert global influence, Europe must remain a prosperous and economically strong economy. And to remain resilient, Europe needs diverse international trading partners – an exclusive focus on onshoring would instead be slow, expensive and will not mitigate risks effectively. Initiatives which make Europe a hard place to do business with undermine the EU's resilience and global influence.

To deliver this recommendation:

1. The EU should conclude new agreements, and modernise existing agreements, with priority trading partners such as Mercosur, Australia and the ASEAN countries and partners in Africa – pursuing reforms within the EU if necessary to make it easier to conclude new agreements. If Europe is not prioritising those relationships then others will.
2. The EU should negotiate more 'mini deals' to avoid the difficulties many countries have in reaching comprehensive free trade agreements. These targeted agreements, if focused on major trading partners and high-volume sectors, could in some cases deliver even more benefits than traditional free trade agreements.
3. Deepen the Trade and Technology Councils (TTCs) with the US and India: the EU-US TTC should serve as a springboard for new common standards and policies in trade, technology and economic security. The EU should also devote more political attention to the EU-India TTC, recognising India's growing importance as a tech hub and talent pool.

→ **Delivering these recommendations would greatly boost EU trade and EU firms' competitiveness, by improving European firms' access to the 85% of global growth which is happening outside the EU.**

Priority 5: Ensure an efficient green transition

The green transition could serve as a driver for economic growth, competitiveness and prosperity in the EU. But recent economic and political shifts suggest that there is a growing backlash against the EU's green ambitions. To deliver net zero will require substantial public and private investment. For example, Europe's electricity system flexibility will need to double by 2030 – but not transitioning will have even greater costs. It is in Europe's interest to demonstrate that a green transition is possible while stimulating growth and prosperity – not least to pave the way for others to follow.

To achieve the 2030 climate objectives, and to set a pathway to net zero by 2050, EU leaders will have to find a balance between its environmental goals such as decarbonisation and preservation and restoration of ecosystems, competitiveness and economic security. The best way to achieve this balance is to focus on efficiency, greater use of the circular economy, and on driving market-driven innovation and technology adoption by the private sector. To enable private sector investment, EU leaders need to ensure a robust and compelling business case for the European Green Deal during the upcoming political cycle – which will provide long-term certainty for the long challenge ahead. Efficient outcomes and innovation require well-functioning markets and thriving competition, backed by clear and technology-neutral regulation.

Recommendation 11: Deliver net zero efficiently by focusing on market-driven innovation and technology adoption and ensuring a profitable business case for net zero investments.

The EU has spent about €700 billion in public funds to deliver the green transition – and even more public spending will be required in future. However, in an effort to compete with the US Inflation Reduction Act and China's subsidies for domestic firms, EU policy-makers have taken an increasingly permissive approach to the use of subsidies, and they have sometimes focused support on certain types of technologies. This approach risks creating huge inefficiencies because governments may end up supporting technologies that do not deliver in the long run.

An EU industrial strategy would deliver the green transition more cheaply and efficiently if it focuses instead on ensuring the right framework for private sector investments – with long-term policy certainty to support the business case for private investment, and regulation which is principles- and outcomes-based rather than targeting particular firms, business models or technologies. Public support could then be limited to essential public goods that would not be delivered by the market and providing broad horizontal support for R&D without trying to pick winners.

To achieve this:

1. EU law-makers should focus public interventions on 'building the guardrails' – that is, leveraging competitive markets to identify the most cost- and carbon-efficient options for example for energy systems and other infrastructure – rather than 'building railroads' by giving artificial advantages to specific technological solutions. As Draghi recommends, the EU must accelerate decarbonisation in a "cost-efficient way, leveraging all available solutions through a technology-neutral approach".
2. EU policy-makers must ensure an enabling framework for firms to build a profitable and sustainable business case for private investment to deliver net zero. This could include easing the burden of regulation (discussed above) and ensuring green policies are clear and coherent (discussed below).
3. EU leaders should focus on deepening the single market and developing EU-wide solutions in cases where this is necessary to improve the investment environment. For example, the EU should focus on eliminating regulatory barriers and creating favourable market conditions to scale up circular solutions and material flows in the EU single market.

Recommendation 12: Rationalise sector- and technology-specific environmental targets and policies, and translate them into actionable policies to provide long-term investor certainty

A core ingredient for businesses seeking to invest in the green transition is that there is long-term policy predictability. In turn, that requires the EU to ensure its green policies, and their implementation, are clear, predictable, and coherent. However, the EU has struggled to ensure consistency across legislative files – creating conflicting messages and burdens on businesses. The regulatory environment is also becoming increasingly complex due to the proliferation of sector-specific and technology-specific green targets in recent years.

The EU must take the following steps:

1. The Commission should conduct a review of existing targets and initiatives – including mapping obligations and monitoring how laws are implemented – to ensure coherence, prevent overlaps and inconsistencies, and avoid redundancy and unnecessary burdens. For example, while some Green Deal initiatives aim to improve permitting processes for green infrastructure, other EU laws continue to impose strict requirements. There is an urgent need to streamline and reduce the cumulative burden of regulation, particularly in the area of disclosure and reporting as well as in the circular economy policy field. EU law-makers should translate the many sectoral- and technology-specific environmental targets into a set of clear, coherent and actionable policies.
2. To give certainty for business, the Commission must develop a clear pathway setting out the technological and regulatory options to address residual emissions and manage the transition to net zero beyond 2030. This should include, for example, open discussions about all viable low-carbon solutions, including the use of 'dispatchable' solutions in the energy mix.
3. The EU must review its emission trading schemes to provide certainty about how it will operate and how carbon markets will remain liquid in the 2030s when allowances will become scarce. Legislators need to start this conversation to provide as much long-term certainty to businesses as possible.

Recommendation 13: Deliver the energy transition at pace to ensure the EU enjoys lower energy prices

The EU currently faces much higher energy prices than the US and China, especially after reducing its reliance on Russian pipeline gas – putting the EU at a competitive disadvantage to its industrial competitors. A prerequisite to help the transition boost EU competitiveness is to ensure the right regulatory environment and long-term certainty for cost-competitive fossil-free and low-carbon energy sources. These should replace current fossil-based production processes in the industry and transport sectors.

To deliver this, along with providing long-term investment certainty and a viable business case:

1. Each member-state needs to ensure a certain degree of self-sufficiency in order to develop a robust, balanced and efficient interconnected energy system.
2. EU leaders must provide an assessment of future energy flexibility needs in and across member-states along with the exploration of solutions to fulfil these needs, leveraging the EU's internal energy market. If and where the market fails, particularly in addressing seasonal storage, EU-wide solutions should be found.
3. The EU and member-states must ensure the rapid construction of both transmission and distribution grids. The EU must increase EU funds for covering the cross-border externalities of interconnectors while keeping in mind that each member-state has a responsibility for the resilience and reliability of their respective power systems.

→ **Delivering these recommendations would help the EU unlock the €40 trillion – or nearly €1.5 trillion annually – needed to achieve net zero by 2050 in the most efficient way possible, ensuring the EU's global leadership in delivering the green transition.**

Priority 6: Ensure the workforce has the skills for a sustainable, knowledge-based economy

Europe currently lacks the skills necessary to build an economy focused on high-growth sectors and able to deliver the green transition. Skills shortages now plague virtually all member-states and across many sectors of the economy. Both Letta and Draghi emphasise that the EU must urgently address skills gaps, which are a huge barrier to the bloc's ambitions in innovation and decarbonisation. Skills gaps pose particular problems for small and medium sized businesses – and therefore make it harder for some of the most innovative businesses to thrive and grow in the EU. Although greater use of technology (described above) will play an important role, it will still be essential that EU leaders address the current mismatch between workers' skills and employers' needs.

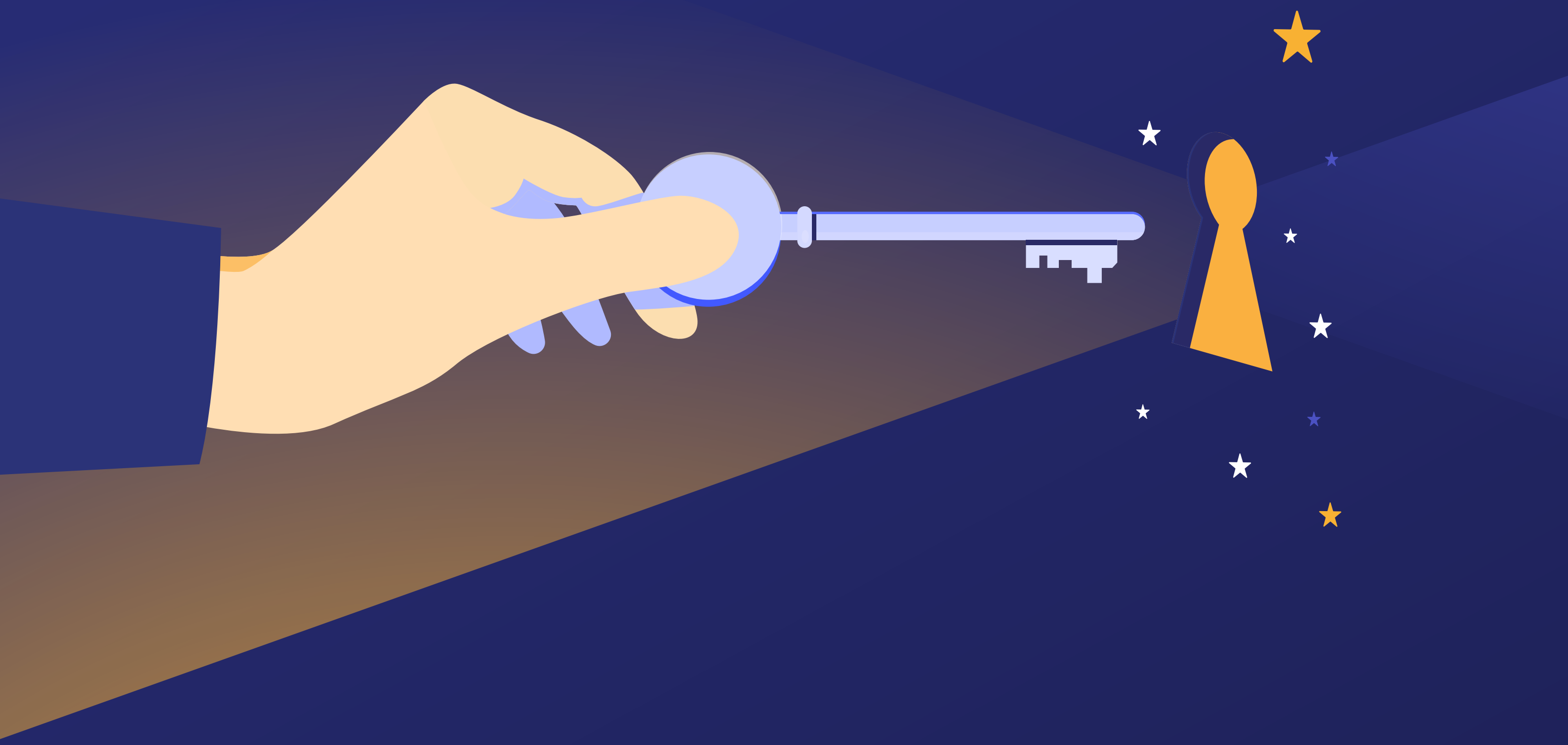
Recommendation 14: Member-states and the Commission must ensure the EU has the skills and labour mobility necessary for a more innovative and high-growth economy

European leaders must do more to support the transformation from a partially mismatched to a fully agile work-force and enable people to acquire the skills for a sustainable, knowledge-based economy. Helping to better match skills to the EU's future needs will require a dedicated effort from both member-states and EU leaders.

To deliver this recommendation the EU should:

1. Ensure close coordination between member-states and the Commission. That coordination is important, because the degree of investment in areas such as education and skills are decided at member-state – and sometimes regional – levels. Coordination could include the Commission conducting EU-wide research to identify gaps in labour supply and helping member-states share best practices, and ensuring member-state policies are consistent and complementary.
2. Use the European Semester to focus on measures to improve overall labour supply. The Commission's European Skills Agenda rightly focuses on raising the supply of skills, and the Commission has used the EU budget and the Recovery and Resilience Facility to improve re-skilling and up-skilling. But the Commission could do more by using the European Semester to support member-states to develop well-designed and effective labour market policies. This should focus on strengthening labour supply and meeting business needs, such as through encouraging reskilling, upskilling, and delivering the effective support and incentives for economically inactive people to re-enter the workforce or increase their activity, along with policies to help attract skilled immigration to fill market gaps.
3. The Commission should exercise its powers to help people become more mobile, in order to assist in filling gaps in the labour market. The free movement of people has helped the EU resolve skills matches and raise labour productivity. But many professional licenses in the EU are, due to national laws, overly restrictive and prevent labour from crossing borders or sectors. The EU could also seek to raise the number of people using free movement by reducing the costs of moving, through modernising and digitalising social security coordination regulations and lowering unnecessary barriers to entering occupations, e.g. the recognition of foreign qualifications.
4. The Commission and member-states should take action to reduce economic inactivity rates, pursue policies that encourage more lifetime working hours, and support life-long learning. This could go a long way towards mitigating the EU's demographic challenges.

→ **Addressing the skills crisis could massively boost business investment across the EU, with 81% of businesses citing a lack of skilled staff as a barrier to investment.**



EUROPE UNLOCKED
FROM A CHALLENGING PRESENT TO A PROSPEROUS FUTURE

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