ANALYSIS

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An analysis of the Draghi report

Summary

Single market policies

The risk of fragmentation of the Single Market is the main barrier to a well-functioning Single Market with one set of rules, the acquis. Draghi shares this view and recognises that a fragmented Single Market affects EU productivity negatively. At an overall level, we therefore agree with Draghi regarding the challenge of maintaining a well-functioning Single Market and the need to reform regulation that is too burdensome to comply with. To complete the Single Market and realise its full potential reform is needed.

However, we find it surprising that reform of EU governance is seen as separate to the Single Market building block. We would rather argue that these are interdependent and mutually reinforcing. The Single Market is built on common EU legislation that is adopted to ensure the four freedoms. Therefore, any efforts to improve the Single Market acquis must be interlinked with efforts to ensure the full implementation of the Single Market.

External trade policy

We welcome the report's focus on Europe's productivity challenge. We support the premise that reforms to improve productivity is central to EU competitiveness.

However, it is unfortunate that external trade is described as a support function to industrial policy. There are several problems with this. First, modern research has revealed strong links between trade and productivity. This occurs through a selection of the most productive firms, improved access to intermediate goods and technology diffusion. Since the report identifies slow technology diffusion and a static industry structure with a weak ability to redirect resources towards highly productive firms as a problem, it would be natural for the EU to use trade policy to address it. Secondly, the EU needs a broader trade diversification strategy to spread risks and increase economic security. While the report mentions the need for diversification in relation to critical resources, it contains no *overall* trade diversification strategy. Finally, EU trade policy is treaty-based and it is clear from the TFEU that trade policy is not a subdomain of industrial policy.

We therefore agree with the message of of policy coherence, but to achieve that, it is important to outline not only an industrial strategy and an internal market strategy, but also a trade policy strategy, including policies for trade diversification.

P.O.Box 6803, 113 86 Stockholm
Visiting address: Drottninggatan 89
Phone: 08-690 48 00
E-mail: kommerskollegium@kommerskollegium.se
www.kommerskollegium.se

Content

At the request of Sweden's Ministry for Foreign Affairs, we have made an analysis of the Draghi Report. Rather than following the structure of the report, we focus on EU internal market policies and external trade policies, which are our core areas of expertise.

1 Single Market policies

The risk of fragmentation of the Single Market is the main barrier to a well-functioning Single Market – well-functioning from the perspective of approximation of legislation and that one set of rules, the acquis, applies throughout the Single Market. Draghi shares this view and recognises that a fragmented Single Market has a negative effect on EU productivity. At an overall level, we therefore agree with the picture in the report, both with respect to the challenge of maintaining a well-functioning Single Market and regarding legislation that is too complex and burdensome to apply and comply with.

The report does not contain specific chapters on the Single Market. Instead, it references the Letta report for more detailed proposals. The report nonetheless contains many proposals for how the Single Market might be completed. The report focuses on 10 sectoral policies (energy, critical raw materials, digitalisation and advanced technologies, computing and AI, energy-intensive industries, clean technologies, automotive, defence, space, pharma and transport). From a specific Single Market perspective, however, the most important proposals can be found in the section on horizontal policies.

1.1 Accelerating innovation

Among the proposals listed to address the **innovation gap**, there are couple that are related to the single market. They concern both horizontal aspects of the single market and sectoral proposals. We focus here on the horizontal proposals.

- A through impact assessment of the effect of digital and other regulation on small companies is proposed. The aim is to exclude SMEs from regulations that only large companies can comply with.
- All Member States should adopt the Unitary Patent and support its uptake
- Create a new EU-wide legal statute call the "Innovative European Company" (IEC). The idea is that IEC's should be able to operate in all member State through subsidiaries without needing to incorporate separately in each one. The IEC should also portable certifications and authorisations, starting with selected industries. We elaborate on this proposal under section 1.9 below and are cautiously positive to the idea.

1.2 Closing the skills gap

We share Draghi's view that low labour mobility is one of the root causes of the **EU's problem with a skills gap.** Here, a few challenges related to the Single Market are pointed out. These are, for example, a large number of regulated professions in the EU, that are often specific to individual member states. This problem is recognized by a range of other observers and there are already several proposals to address it. Another challenge identified by the report is differences in social welfare systems, including healthcare, pensions and unemployment benefits, that create uncertainty for workers moving across the EU. We note that there are no proposed solutions in the report related to the problem of differences in social welfare system and how the already existing right of portability of social security rights can be better implemented.

Overall, there are very few proposals related to the single market among the different tools that are suggested as solutions to address the skills gap. The only thing that is mentioned is a proposal to set up a system of skills certification (for skills acquired through for example vocational training and work-based learning) common to all EU Member States.

1.3 Increased economic security

When it comes to the challenge of **increasing security and reducing dependencies,** some issues related to the single market are addressed in relation to actions to improve access to critical raw materials within the Union. The challenges of a fragmented defence industry are also mentioned in this context.

We note that the role of the single market in reducing external vulnerabilities is only addressed in relation to specific sectors. The importance of a well-functioning single market for improved resilience more broadly is not discussed.

Circular economy

In addition to increased EU-internal extraction, Draghi proposes actions to promote increased recycling as a means to improve resilience. This includes establishing "a true single market for waste and circularity", which, among other things would entail effectively enforcing existing legislation on waste collection and shipment to allow the build-up of scale (see an analysis of this topic by Kommerskollegium). Draghi furthermore recommends that the EU Commission should closely monitor the success and results of new EU policy initiatives such as, the Ecodesign for Sustainable Products Regulation and the proposed End-of-Life Vehicle Regulation. The report recognizes the need for an extended end-of -waste criteria to other waste streams and harmonization of waste-shipment rules.

We have previously emphasized the need for harmonization in this area and we therefore support Draghi's proposals to promote more harmonization and achieve a single market fit for circularity and trade in circular goods.

1.4 Competition policy and state aid

With regards to **competition policy**, it is encouraging that the report points to the role of the Single Market in fostering competition, in particular within the services market. However, this acknowledgement is not accompanied by any proposals to strengthen the single market for services.

In general, by looking at the factors constraining competition and productivity on a sector-by-sector basis, the report fails to take into account the facilitating role of "horizontal" services such as business services and professional services.

It is also positive that the report acknowledges the risks of loosened state aid controls and advocates for the return to normal enforcement of state aid controls.

At the same time, some of the adjustments to competition policy proposed to make it more supportive of innovation and, in particular, to allow for security and resilience aspects to be taken into account, might need to be analysed more closely to ensure that they do not open up for distortions in the single market.

1.5 Sustaining investment

With regards to the European **investment gap** in relation to the US, fragmented capital markets are pointed out as a root cause for the low levels of investment financing in Europe. To address this, actions to complete and improve the Capital Market Union are proposed. These include:

- Strengthening the mandate of the European Securities and Markets Authority (ESMA). Here, the report repeats a proposal from the Letta report regarding the composition and appointment of ESMAs management board.
- Harmonising insolvency rules
- Removing taxation obstacles to cross-border investing

At the same time, the report suggests that the explanation for low number of "scale-ups" in the EU is likely more complex than just lower levels of venture capital and a fragmented capital market. It suggests that since the single market is fragmented and incomplete in areas that matter to innovate companies, these companies often chose to scale up in the US market instead. Overcoming fragmentation in the Single market for goods and services is therefore listed as a key objective in the chapter on addressing financing needs (*3. Sustaining investment*). We share this assessment by Draghi.

1.6 The telecom sector

Draghi's **proposals to improve the competitiveness of the telecom sector** are largely the same as in the Letta report. They cover both aspects of competition policy, and aspects related to the application of current EU-regulation (for example the Electronic Communications Code), where the state of implementation and the relation to upcoming proposals (*Digital Networks Act*) need to be analysed further. With regards to competition policy, the proposal to define the market at the EU-level and to allow cross-border consolidation is a question to be analysed by competition authorities and experts on market structure in the sector.

1.7 A new industrial strategy

The report proposes a **new industrial strategy** for Europe, to respond to transformations that Europe must face (need to accelerate innovation and find new growth engines, the need to bring down high energy prices, decarbonise and shift to a circular economy and the need to react to a world of less stable geopolitics).

In this context, the report recognises the connection between a well-functioning Single Market and the EU's competitiveness and that the new industrial strategy should rest on the "full implementation of the Single Market". It is further stated that "the Single Market is critical for all aspects of the strategy" (page 13, Part A). This is the first of the series of building blocks on which the new industrial strategy is proposed to rest.

1.8 Strengthening governance

We find it surprising that another building block, "reform of the EU's governance", is seen as separate to the Single Market building block. We would rather argue that these are interdependent and mutually reinforcing. The Single Market is first and foremost built on the common EU legislation that is adopted to ensure the four freedoms. Therefore, any efforts to improve the Single Market acquis must be interlinked with efforts and initiatives to improve and ensure the full implementation of the Single Market.

We interpret "full implementation" as all work related to implementation, application, enforcement and compliance of Single Market legislation. To be efficient and support the aims of the Single Market as a key part of EU competitiveness, legislation must adhere to the demands and principles established at EU level through **the Better Regulation Agenda**. The introduction of Better Regulation principles after all has its origins in a drive towards better European governance.

The agenda includes principles and policy tools that should inspire all steps in the legislative decision-making process from ex-ante assessment of potential impacts of a Commission proposal for new legislation – including impact assessments and stakeholder consultation – to transposition, implementation, and application of EU law in the Member States, and ex-post evaluation of the actual outcome of an EU-level legislative intervention. While we broadly support this reform agenda, we believe that a wide array of actions, processes and tools already available at EU level are not exhausted. They would likely go a long way in dealing with the challenges posed by a fragmented and complex regulatory framework. This, however, requires strong commitment from the Commission, the co-legislators, and the Member States.

We find the proposal for a new **Competitiveness Coordination Framework** potentially interesting for ensuring enhanced governance. However, it is important that efforts to improve the Single Market and its "full implementation" are included in this framework as 'strategic priorities'. We would thus suggest that a sixth EU Competitiveness Priority should be **EU Enforcement of Single Market legislation** and included in a separate **EU Enforcement Action Plan** to ensure the full implementation of the Single Market. This would also mirror the governance proposals included in the table on page 309, part B, one of which is to "minimise the cost of Member State transposition and enhance enforcement of Single Market Legislation".

In this context, the report also importantly notes the **tools available to the Commission to ensure Member State compliance with EU law**. It proposes that these tools could be strengthened to ensure efficient implementation and enforcement of Single Market legislation (infringement procedure and assistance to Member States through soft cooperation page 320 part B).

Draghi also argues that the SMET cooperation should be strengthened which we would agree with. However, and rather surprisingly, the report does not mention other key tools and structures for enhancing implementation, application and enforcement of Single Market legislation including the IMI system and the network of Solvit centres. These must also remain central to this area of work.

Finally, is unclear to what exactly is meant by the proposal that **implementation and enforcement authorities in the Member States should be streamlined and merged**? Without further explanation it is difficult to assess what precisely is meant by this.

In this context, we would like to reiterate our proposal for a single market ombudsman in each member state that would monitor the correct application of EU law. As a national, independent body, its role would be to protect the Single Market rights of businesses and citizens at the national level. Being part of the administration of the Member States, it would be able to communicate with national and local authorities in charge of applying EU rules in the country. This body would also be able to bring cases before national courts. Such a single market ombudsman would be able to conduct the type of controls in the Member States which the Commission exerts at the EU level. This decentralized enforcement proposal is not new as similar enforcement mechanisms already exist in specific areas of EU law, as for example in EU competition rules and telecom sector – as transfer of supervisory power from the Commission public bodies, as well as in areas of public procurement and data protection – with regards to the control of public authorities by other public bodies. To guarantee the independence of national authorities in charge of monitoring the application of EU law is a key challenge, but here again mechanisms already exist.

The Commission's proposal to introduce a Single Market Office in each Member State would be significantly improved if such an institution would have the decentralized enforcement mechanism we propose.

1.9 Regulatory burden

There is a **strong focus in the report on problems and challenges caused by regulation and the burden it poses on business**, especially SMEs. The report concludes, for example, that fragmentation in the Single Market leads to small companies "staying small" because of the fragmented Single Market as they are deterred by the high costs of managing the heterogeneous national regulation" (page 26, part A).

We share the focus in the report on **improving the acquis**. It needs to be as efficient and effective as possible. This focus is mirrored also in the Letta report and in the political guidelines for the Commission 20204-2029.

Draghi also focuses on **lowering the stock of regulation**. Again, we want to emphasize the need to use tools already established to ensure that all legislation is efficient and effective. However, we support the proposals for “stress-testing” existing regulation. This should also be coupled with continuous efforts to remove legislation that has become obsolete. We also note with interest the proposals for **using digital tools**, especially AI and machine learning, to stress test existing EU laws. This would allow for analysing large volumes of legal document and identify areas for consolidation, simplification and the removal of overlaps and inconsistencies.

In this context, we also note the proposals for a **single methodology** for assessing new legislation, as well as amendments put forward by the European Parliament and the Council. Member States should also be required to use the same methodology as the EU institutions when assessing new legislation. It is not clear if this is to be a solely ex-ante methodology or if it should also be used ex-post to assess the outcome of already adopted legislation. We would like to suggest proceeding with caution with such a methodology, especially considering the difficulties and apparent lack of actual results, especially in terms of positive effects on business, of the Standard Cost Model that was used both at EU level and in most Member States in efforts to reduce the administrative burden on business from complying with regulation.

Some of the arguments in the report are **potentially contradictory**. For example, it will be interesting to know more about the proposals for more rigorous application of the subsidiarity principle and that the EU should exercise more restraint, and how they relate to proposals for further integration at the EU level in the 10 sectoral policy areas.

The report moreover suggests that EU work should be refocused to doing fewer things better at the EU level. This was, of course, the mantra for the Juncker Commission and its bid to be “big on big things and small on the small things”. Which the ‘big’ things are will ultimately be decided at a political level and it leaves questions about the **commitment to the integrity of the Single Market**, which has been a fundamental principle at EU level and among Member States thus far. The report suggests that there should be “more Europe where it really matters, while leaving more leeway and accountability to Member States and private sector in compliance with the subsidiarity principle”. What would this mean in practice? Does Draghi imply the gradual abandonment of the joint ambition for the continuous approximation of legislation for the Single Market? This would mean a fundamental shift in focus is required if the EU is now to head in another direction where other priorities become more important.

There are also other proposals in the Governance chapter that potentially suggests a weaker commitment to the integrity of the Single Market. Among them is the proposal for the more use of **enhanced cooperation** (article 20 TEU and 326-334 TFEU) and integration based on ‘concentric circles’. This was also presented in the Letta report as a flexible way of exploring areas for co-operation where there is not agreement between all Member States. So far, this possibility has been used restrictively and in few areas. Letta underlines that the use of article 20 **must not endanger the integrity of the Single Market**. We subscribe to this view as the EU already faces considerable fragmentation in the Single market. However, enhanced cooperation between Member

States in policy areas that fall under national competence may be a way of exploring ways to further free movement and areas that could potentially be moved to European competence.

Draghi and Letta both argue for the introduction of a ‘28th regime’. In the Draghi report, this is framed as an EU-wide legal statute call the “Innovative European Company” (IEC). The idea is that IECs should be able to operate in all member State through subsidiaries without needing to incorporate separately in each one. The IEC should also entail portable certifications and authorisations, starting with selected industries. This proposal is also included in the political guidelines for the Commission.

Draghi argues that “a voluntary 28th company rulebook harmonising key aspects of corporate law, insolvency, labour law and taxation could be explored under enhanced co-operation by willing Member States” Draghi here refers to the failed attempt in 2008 to introduce a new ‘European Private Company’. The decision required unanimity and was, therefore, blocked by opposing Member States.

Letta’s proposal for a European Business Code, or a 28^{th} regime appears more wide-ranging and is described as “establishment of a Simplified European Company to provide a more adaptable legal structure for businesses. Its scope may be expanded to include the following areas of law, where applicable: general commercial law, market law, e-commerce law, company law, securities law, enforcement law, insolvency law, banking law, financial market law, intellectual property law, employment law, and tax law.”

This is seen as one way to address the fragmentation of the Single Market and overcome the challenges posed by differences in national regulations that arguably prevents cross-border trade in the Single Market. We are cautiously positive to the proposal, but it will require more detailed analysis, especially from the perspective of what it would mean for the integrity of the Single Market. The proposal raises questions with regards to how to define “innovative companies”.

2 External trade policies

2.1 Europe’s productivity challenge

We welcome the report’s focus of Europe’s productivity challenge. We support the premise that reforms to improve Europe’s productivity is the central driver of EU competitiveness:

> “The core focus of a competitiveness agenda should be to raise productivity growth, which is the most important driver of long-term growth and leads to rising standards of living over time. Promoting competitiveness should not be seen in a narrow sense of a zero-sum game…” (part 1, page 9).

As discussed in the report, a focus on improving productivity is also important for policy objectives beyond competitiveness, most importantly economic security and decarbonisation. We therefore agree with the underlying view that these three policy objectives: competitiveness/productivity, decarbonisation and economic security form a natural triangle.

2.2 Policy coherence requires a trade policy strategy

Trade policy has an impact on productivity, decarbonisation and economic security that is independent from industrial policies, yet it is never covered in its own right. Instead, it is described (part A, page 15) as a kind of support function to the proposed new industrial policy.

There are several problems with this. First, modern research has uncovered strong links between trade and productivity. Summaries of this research can be found in Akcigit and Melitz (2024), Shu and Steinwender (2019) and Kommerskollegium (2023). There is an export channel through wider market access, and an import channel through selection of the most productive firms, improved access to intermediate goods and technology diffusion. Since **slow technology diffusion** and **a static industrial structure with weak ability to redirect resources towards highly productive firms** are both problems identified in the Draghi report, it would be natural for the EU to explore how our trade policy could be used to address them.

To leverage the export channel for productivity, the EU needs **a market access strategy** and **a plan to complete trade negotiations with reliable partners**. **Australia, MERCOSUR, Indonesia, Mexico and India all belong in this category**, but the EU should also continue to **seek new partners**. Bilateral and regional trade agreements (RTAs) are also needed to leverage the import channel for productivity. In addition, we could consider removing tariffs on intermediate goods that are not a potential source of vulnerability in the same fashion that Switzerland and Canada have done.[1] To further leverage existing RTAs, the EU could also link its network of RTAs more closely to each other. Together, these measures form an overall EU RTA strategy to improve productivity and diversify trade relations. Again, the main problem we identify is the fact that **there is no mentioning of this core EU trade policy task in the report**.

Secondly, the EU needs **a broader trade diversification strategy with reliable partners to spread risks and increase economic security**. While the report mentions the need to secure “preferential trade agreements with key partners and guaranteeing critical supplies” in relation to critical resources, it contains no overall trade diversification strategy. As we shift away from dependence on Russia and China, **self-sufficiency is not an alternative**. It would just shift the centre of gravity in world trade away from Europe and benefit rivals such as China. The EU therefore needs a

[1] The Draghi report reconises this issue but steps short of embracing our proposal: “Tariffs should avoid creating perverse incentives that undermine European industry, and therefore need to be assessed consistently across all stages of production” (box 1, p 16, part A)

broader trade diversification strategy, not just "preferential agreements" to secure the supply of certain raw materials.

Finally, the EU's trade policy is treaty-based under article 206 and 207 of the TFEU. **These articles state the objectives of EU trade policy**. It is clear from them that it is not a subdomain of industrial policy.

In summary, we agree with the importance of policy coherence across policy areas, but to achieve that, it is important to outline not only an industrial strategy, a competition strategy and an internal market strategy, but also a strategy for trade policy, including policies for trade diversification.

2.3 Avoid policy tools that undermine overall objectives

In part 1 (p. 37) the report lists four tools to be applied in different situations. None are based on the type of partnerships discussed above. In two cases the indicated instruments appear to directly contradict the report's overall objectives, at least as we read available evidence.

The first concerns a case where "the EU has a strategic interest in ensuring that European companies retain relevant know-how and manufacturing capacity, allowing production to be ramped up in the event of geopolitical tensions." Here the report proposes that the EU consider applying local-content requirements to ensure technological sovereignty. More specifically, foreign firms that want to produce in Europe should be required to enter into joint ventures with local companies. As far as we know, **there is little evidence that local-content requirements are effective for this purpose**. Typically, they tend to discourage investment in technology in the jurisdiction that applies them (ECIPE, 2018)

Secondly, the report makes the case for infant industry policies "where the EU has an innovative edge and sees high future growth potential". Here the suggestion is that the EU use the "well-established playbook of applying a full range of trade-distorting measures until the industry reaches sufficient scale and protections can be withdrawn". This is obviously a highly controversial proposal, and the report presents no evidence to support its effectiveness. Historically, there are a lot of episodes of failed infant industry protection (see Cherif and Hasanof, 2024 for a recent overview). **Without strong evidence in support of infant industry policies, the EU should not use them**.

2.4 Assessing "Key principles for trade policy"

Above, we discussed the lack of a broader trade policy strategy that includes the RTA agenda as well as the absence of references to the treaty-based EU trade policy objectives. With those fundamental critical comments in mind, we still support some of the key principles listed in box 1 on page 16. We agree, for instance, that EU trade policies should be "aligned with the overarching goal of raising the EU's productivity growth". A set of clear principles limiting the use of trade restrictions, is also valuable (but is later contradicted, see 2.9 below). At the same time, more clear, common and evidence-based strategies for assessing compliance with such principles are needed.

2.5 Technology neutrality as industrial policy best practice

As mentioned in the report, earlier episodes of industrial policy in Europe and elsewhere have had mixed success. Therefore, the report recommends a set of best practices for industrial policy. We support most of these recommendations, but find that one key recommendation is missing: technology neutrality. The report argues that research supports the notion that policies should focus on sectors rather than companies. We fear that, depending on how broadly the sectors are defined, a sectoral focus might lead us to abandon technology neutrality as a best practice principle for public support measures in the context of industrial policy. We therefore recommend that **"technology neutrality" replace "focus on sectors" as a key principle for best practice for industrial policy.**

2.6 The multilateral trading system

The multilateral trading system is only mentioned once ("the era of open global trade governed by multilateral institutions looks to be passing"). The report briefly underscores the importance of continued EU efforts to reform the WTO, although without mentioning what role EU could play. Consequently, it downplays the crucial role of enforceable international trade rules for European competitiveness in the future. While the EU needs to adapt its trade policy to a new geopolitical reality, we should continue to seek ways to revive the rules-based international system and erect supporting guardrails.

2.7 RTAs vs more limited forms of trade cooperation

As mentioned, RTAs should remain the main avenue for negotiated EU trade policy. When done right, they demonstrably contribute to productivity, economic security and decarbonisation. It's important that they are not crowded out by other types of cooperation with unclear value. At the same time, we think that some other forms of trade co-operation – including a Critical Raw Material Clubs – merit consideration.

2.8 Digital trade

The Draghi report rightly concludes that "The EU's competitiveness will increasingly depend on the digitalisation of all sectors". It also comments on most ongoing policy discussions relevant for digital trade. First, Draghi highlights the fact that Europe has largely missed out on the digital revolution led by the internet and the productivity gains it brought. He also explains that the EU's regulatory barriers hinder commercialisation of EU innovation and ideas. In this context, he mentions the urgency of removing barriers to AI development. Draghi moreover correctly identifies the EU's ex-ante approach to regulation and fragmented implementation across the single market as two challenges. He also mentions problems with the AI Act and GDPR.

This is in line with our reports, one of which highlights the risks for trade and competitiveness emanating from the EU's high cumulative regulatory burden for tech policy. It is also well in line with our proposal for a 'trade policy for AI'.

Draghi addresses the fact that EU import barriers need to come down for certain goods and services. In that regard, he highlights the EU's digital integration with the US as an important example. He furthermore describes how maintaining low trade barriers in digital goods, services and infrastructures with the will be key to guarantee access to the latest AI models and processors. The report also calls for "low barrier digital transatlantic marketplace" which would guarantee "supply chain security and trade opportunities for EU and US tech companies on fair and equal conditions".

The report also argues that there are "multiple reasons why Europe should not give up on developing its domestic tech sector" and claims that it is important that EU companies maintain a foothold in areas where "technological sovereignty is required, such as security and encryption ('sovereign cloud' solutions)." This is worrying if sovereignty implies import discrimination. We recently concluded that cloud services (often imported from U.S. companies) boost Swedish companies' export growth, and access to such cloud services by EU companies should therefore not be hindered. It is important to note that continuing to raise barriers for digital infrastructure such as cloud and the cross-border flow of data will reduce EU productivity, and therefore competitiveness, in the age of AI. Given this, Draghi concludes that "it is too late for the EU to try and develop systematic challengers to the major US cloud providers: the investment needs involved are too large and would divert resources away from sectors and companies where the EU's innovative prospects are better." However, it is important to remember this lesson for new technologies too: costly industrial policies will not bring success in digital technologies.

For digital markets, the Draghi report has a significant focus on digital infrastructure technologies for which relatively few hyperscaler firms tend to have a strong position in the market (e.g. cloud, connectivity). The report occasionally fails to recognise the strong role that relatively 'smaller' EU firms play in digital services delivery, where Swedish companies such as Spotify and Klarna are competing globally. It will remain important to highlight these companies' interests. As mentioned above, import substitution policies, in this case for digital infrastructure, may cause the EU self-harm by hampering its digital services companies.

Some of the report's proposals regarding improved access to key digital technologies are also in line with our view, and we will soon present new proposals for how to address problems related to EU-US digital integration.

The report also outlines how EU trade measures should distinguish between "genuine innovation and productivity improvements abroad, which are beneficial for Europe, from state-sponsored competition and demand suppression, which lead to lower employment for Europeans".

Moreover, for telecoms, Draghi recommends strengthening security considerations in technology sourcing by favouring the use of EU trusted vendors for spectrum assignment in all future tenders, and by promoting EU-based telecoms equipment providers as strategic in trade negotiations. Here, it will be important to develop strategies that complement Draghi's proposals by ensuring that technological risks can be addressed, that digital FTAs contain ambitious market access provisions for EU telecoms companies, but where digital import substitution does not become an objective in itself. This is also important to remember in the context of single market regulation, for which discussions around ‘digital sovereignty’ on compute, connectivity and subsea cables will likely continue during the 2024-2029 term with the development of an ‘EU Telecoms Act’ (also supported by Draghi).

2.9 Careful and evidence-based application of trade-defence instruments

The report recommends a rapid and strategic application of trade defence instruments and anti-subsidy measures when justified, including the use of ex-officio investigations (part B, p. 113). This suggests a broad and rapid (further) escalation of the use of trade defence instruments by the EU that we don’t see a need for given the EU’s current strong position in world trade. While some countries, notably China, applies subsidies and other instruments that distort trade and competition, few observers outside the EU and the US that would agree with the proposition that the playing field is systematically tilted against the EU when it comes to global trade. Consequently, we should continue to use trade defence instruments on a case by case basis and based on a careful examination of the evidence. It is in our own interest to continue to be a responsible actor and that we do not get carried away by developments that are partly driven by domestic US politics.

2.10 Standardisation

The Draghi report systematically underline the need for the development of standards. Standards are referred to as a key solution to achieve more integration in areas such as IOT, Defence, Transportation, Digitalization, Measurement of carbon emissions, Sustainability and more.

However, the future of the EU system with harmonised standards supporting EU legislation is currently uncertain due to the ongoing discussions following the “Malamud-case” (Case C-588/21 P). Draghi fails to address or even note this issue, despite that European competitiveness and legislation heavily depend on the use of Harmonised European Standards and the functioning of the current system. Neither does Draghi specify the kind of standards he recommends to be used or the preferred status of the standards developing organisations – that is, if they should be international, European, developed by formal standard setting organisations or developed in other forums. Formal standard-setting organisations such as ISO or the European standard setting organizations are not referred at all. From a policy perspective, an elaboration of this is quite important.

However, Draghi is slightly more specific regarding the development of standards in the automotive sector where he underlines the importance of alignment between the standards and regulations developed by United Nations Economic Commission for Europe (UNECE) and EU legislation. Draghi proposes to promote technical harmonisation and standardisation based on UNECE regulations in this area. We support this proposal and see it as important in order to continue promoting harmonisation in a sector of great importance.

2.11 Good regulatory practice

We welcome the proposals to tackle heavy regulatory burden of the amassed EU acquis on firms – both on a horizontal level, with the proposed EVP for simplification, and specific proposals such as simplifying CBAM reporting.

The Draghi report brings a welcome focus to the need of simplifying the rules of the EU and state that "Excessive regulatory and administrative burden can hinder the competitiveness of EU companies". Draghi presents six action points in order to address unnecessary regulatory burden for companies. Whilst the main focus of Draghis proposals is to simplify for EU-based companies, Member States and EU institutions, the proposed actions can have positive benefits also for the EU:s external trading partners. Developing a model to calculate regulatory costs and making them publicly available can increase the transparency on the consequences of proposed legislation also for trading partners outside of the EU. Other proposed actions such as evaluation of regulations, increased assessments of proportionality, and enhanced implementation and enforcement, can contribute to the continued adherence of good regulatory practices. In turn this can limit the occurrence of unnecessary regulatory burdens and technical barriers to trade both on the EU single market and for trading partners outside of the EU which is welcomed by us.

2.12 List of proposed action related to external trade policy

2.12.1 General recommendations and principles

The report outlines several key principles which it recommends should govern trade policy from a European competitiveness perspective:

- **Adapt trade policy to a new reality and changing global trade order:** While efforts to reform the WTO should continue, the EU's trade policy must adapt to the decline of multilateralism and new geopolitical as well as geoeconomic conditions – exemplified by the Economic Security Strategy and the bilateral trade agenda.
- **Flexibility and full alignment with Europe's industrial strategy**: Trade policy must be based on careful, case-by-case analysis instead of generic stances. This implies varying degrees of trade openness and tailored measures depending on sector, trading partner and policy objective. While innovation requires low trade barriers against countries and sectors that provide key technologies, defensive trade measures may be needed to level the playing field and offset state-sponsored foreign competition (again, in line with the Economic Security Strategy).
- **Principled pragmatism to avoid unnecessary protectionism:** Trade policy should be anchored in clear principles, with measures applied *pragmatically* – not indiscriminately or systematically – in line with productivity goals. Measures should distinguish between beneficial and harmful foreign competition, be applied *consistently* (e.g. tariffs consistent throughout all stages of production) and *balanced against consumer interests* to ensure they do not impose excessive costs on the EU economy.

- **Enhanced coordination of FDI decisions and strengthened investment screening:** Policy fragmentation arising from national competences in the latter prevents the EU from leveraging its collective power in FDI negotiations, hinders joint ventures in strategic sectors and hence retaining relevant know-how. Especially Chinese investments highlight the trade-off between technological progress and security risks.

Under the first area of action, closing the innovation gap, the report proposes:

- **establish and consolidate European academic institutions** at the forefront of global research
- **make it easier for "inventors to become investors" and facilitate scaling up of successful ventures**
- **lower the cost of AI deployment** by increasing computational capacity and making available its network of high-performance computers.

For the second area of action, a joint decarbonisation and competitiveness plan, the report:

- Recognizes the **crucial role of trade policy in combining decarbonisation with competitiveness**, securing supply chains, growing new markets and offsetting state-sponsored competition.
- Recommends to **strategically partner with other regions in targeted steps of clean technology supply chains**, such as "like-minded" neighbours with access to low-cost renewable energy sources and raw materials.
- Urges the EU to leverage its clean tech leadership by **investing in other countries**, including in near-zero emissions processes for materials production.
- Recommends for the EU to **establish industrial partnerships with third countries through offtake agreements across the supply chain or co-investment** in manufacturing projects, leveraging e.g. the Global Gateway for financing these initiatives.
- Recommends **levelling the playing field in sectors** more exposed to unfair foreign competition, e.g. facing more exacting decarbonisation targets than their international competitors, including applying tariffs and other trade measures where warranted.
- Outlines a **mixed strategy involving trade instruments to various degrees depending on industry and policy objective**, exemplified through four broad cases:
    - Industries where the EU's competitive (cost) disadvantage is too large – import necessary technology while diversifying suppliers.
    - Industries where location of production matters but not the source of underlying technology – encourage inward FDI while offsetting foreign subsidies through trade measures.
    - Industries of European strategic interest in maintaining knowhow and manufacturing capacity – increase "bankability" of investments through e.g. local-content requirements and ensuring technological sovereignty (e.g. through joint venture requirements).

- o Industries with an innovative edge and high growth potential – use well-established play-book of trade-distorting measures.

Trade policy in the third area of action, increasing security and reducing dependencies, is – beyond security and FDI considerations, especially vis à vis China – centered on a call for a **genuine foreign economic policy**, focusing on securing diversified access to critical resources through preferential trade agreements and increased focus on "resource diplomacy" for critical raw materials in appropriate fora. This may also include industrial partnerships, offtake agreements, as well as direct investment in resource-rich partners and production facilities abroad.

2.12.2 Sectoral Proposals

Presented below is a non-exhaustive list of specific sectoral or thematic proposals outlined in the Draghi report (part B).

Energy and clean technologies:

- Establish partnerships with reliable and diversified trade partners for **natural gas** and **renewable energy**, including long-term contracts and reinforced joint procurement initiatives (at least for LNG).
- Relating to **Energy Intensive Industries** (e.g. the steel industry), ensure the effective design of global trade arrangements and the ability to react quickly, where justified to reduce emissions and preserve EU strategic autonomy. Tackle overcapacity and unfair practices at the international level, with supporting trade measures in line with key principles for trade policy (see above). This includes the **strategic, but rapid, application of trade defence instruments and anti-subsidy measures when justified, including the use of ex-officio investigations.**
- Introduce, in the context of clean technologies, **(realistic) import diversification targets per technology**, similar to the approach adopted under the CRMA.
- On the basis of Commission criteria for innovative and sustainable technologies, Member States should introduce in public procurement and in Contract for Difference (CfD) auctions an **explicit minimum quota for selected locally produced products and components.**
- **Optimise FDI and protect EU know-how, especially in clean technologies**, by leveraging knowledge transfer clauses and protecting intellectual property rights.

Critical raw materials and supply chain security:

- Develop further **critical raw materials resource diplomacy** for securing supply and diversification, including upgrading **Global Gateway** to ensure greater involvement of the private sector.
- Explore alternative trade policy approaches to increase critical raw material diversification (building on CRMA and furthering the "club" approach) – the **creation of a G7+ Critical Raw Materials Club** is a promising next step, which should include **free trade in CRMs** with these countries.

- Beyond the CRMA, **coordinate export controls on waste** at the EU level (including for critical raw materials and rare earths).

Automotive:

- The EU should contribute to enhancing the global competitiveness, market access and levelling the global playing field in the **automotive sector** with supporting trade measures, in line with the key principles for trade policy (see above). This includes diverse origin sourcing of raw materials for the industry's twin transition, through the conclusion of bilateral strategic partnerships.
- Promote **technical harmonisation and standardisation in the automotive sector** at the highest global level, e.g., at the UNECE World Forum for Harmonisation of Vehicle Regulations and the WTO Technical Barriers to Trade Committee. Both the EU's own legislation and automotive regulations within third countries should align with UNECE regulations

Carbon Border Adjustment Mechanism (CBAM):

- Closely **monitor and improve the design of CBAM during the transition phase** (including its impact on EU exports given the risk of third countries introducing retaliatory tariffs), evaluate whether to postpone the reduction of free ETS allowances if CBAM's implementation is ineffective, and **simplify reporting** to alleviate the administrative burden for firms.
- **Consider extending the industry coverage of CBAM to the automotive sector**, given the risk of cost advantages for imports with a higher carbon footprint.

Digital trade:

- Strengthen security considerations in technology sourcing by **promoting EU-based telecoms equipment providers as strategic in trade negotiations.**
- Negotiate a low barrier **"digital transatlantic marketplace",** guaranteeing supply chain security and trade opportunities for EU and US tech companies on fair and equal conditions.

Labour mobility:

- **Bilateral partnerships with third countries to exchange talent** in important fields like AI, robotics, and clean energy, including a **new EU-wide Tech Skills Acquisition Programme** to attract tech talent from third countries (including visas, scholarships, internships and graduate contracts). Mutual recognition of qualifications and work permits are mentioned in this context.