ENRICO LETTA

# MUCH MORE THAN A MARKET

## SPEED, SECURITY, SOLIDARITY

Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens

# Summary

# Much more than a Market

# Much more than a market

## The Single Market was born in a smaller world

The Single Market is a product of an era when both the EU and the world were "smaller", simpler, and less integrated, and many of today's key players had not yet entered the scene. When Jacques Delors conceived and presented the European Single Market to the world in 1985, the EU was known as the European Communities. The number of Member States was less than half of what it is today. Germany was divided into two, and the Soviet Union still existed. China and India together constituted less than 5% of the global economy, and the acronym BRICS was unheard of. At that time, Europe, on par with the US, was at the centre of the world economy, leading in terms of economic weight and innovation capacity, representing a fertile ground for development and growth.

The Single Market was established to strengthen European integration by eliminating trade barriers, ensuring fair **competition**, and promoting **cooperation** and **solidarity** among Member States. It facilitated the free movement of goods, services, people, and capital through harmonisation and mutual recognition, thereby enhancing competition and fostering innovation. Furthermore, to guarantee that all regions could equally benefit from market opportunities, cohesion funds were introduced. This comprehensive approach has been pivotal in driving economic integration and development across the EU.

Tailored for the world of that time, the Single Market proved from the beginning to be a formidable boost for the European economy, as well as a powerful factor of attractiveness. Today, more than thirty years after its inception, **the Single Market continues to be a cornerstone of European integration and values**, serving as a powerful catalyst for growth, prosperity and solidarity. However, the international scenario has profoundly changed, highlighting the **need to develop a new Single Market**.

The Single Market has always been intrinsically linked to the EU's strategic objectives. Often perceived as a project of a technical nature, on the contrary it is inherently political. Its future is tied to the EU's strategic objectives and thus to the context in which the EU acts. Therefore, it should never be considered a completed endeavour, but rather an **ongoing project**. Still, an immediate boost is needed to bring the Single Market at a par with the current context and to prepare it for continuous evolution in line with the dynamics of our time.

It is precisely because of its constantly evolving nature that the Single Market has always been called to adapt to the evolving European and global context. Since the elaboration of the Single European Act, a constant and gradual work of conceptual reflection, involving the elaboration of Reports and Action Plans, was carried on, specifically by the European Commission and its Commissioners. Along these lines, in 2010 the Monti Report provided critical reassessments and set forth recommendations for its reinvigoration. My report is positioned within this continuum, with the objective of conducting a thorough examination of the Single Market's future following a succession of crises and external challenges that have fundamentally tested its resilience.

## The new Single Market for a larger world

**Europe has changed fundamentally since the Single Market was launched, to a large extent thanks to its own success**. Integration has reached high levels in many, though not all, sectors of the economy and society, and 80% of national legislation results from decisions adopted in Brussels. However, with 27 Member States the diversity and complexity of the legal system in force in Europe significantly increased, as also the potential benefits from economies of scale. These developments no longer allow us to rely on mere convergence of national legislation and mutual recognition, which have become too slow and complex or just insufficient to benefit from economies of scale.

**Several factors call for updating the cardinal points of the Single Market**, aligning them with the European Union's new vision for its role in a world that has grown "larger" and undergone significant structural transformations.

**The global demographic and economic landscape has dramatically shifted**. Over the past three decades, the EU's share of the global economy has diminished, with its representation among the world's largest economies sharply decreasing in favour of rising Asian economies. This trend is partially driven by demographic changes, with the **EU facing a shrinking and ageing population**. In contrast to the growth observed in other regions, the birth rate within the European Union is alarmingly declining, with 3.8 million babies born in 2022, a decrease from the 4.7 million births recorded in 2008. Furthermore, even without considering Asian economies, **the EU Single Market is lagging behind the US market**. In 1993, the two economic areas had a comparable size. However, while GDP per capita in the US increased by almost 60% from 1993 to 2022, in Europe the increase was less than 30%.

**The rules-based international order faces serious challenges, entering a phase marked by the resurgence of power politics**. The European Union has traditionally committed to multilateralism, free trade, and international cooperation, principles that have formed the bedrock of its global governance and economic strategies. These values have steered the EU's interactions on the international stage, fostering a rule-based order that has been central to its foundational ethos and operational framework. However, **wars and trade conflicts are increasingly undermining the principles of a rules-based international system**, posing significant threats to the very foundation upon which the EU has constructed its external relations and policies. Vladimir Putin's war on Ukraine represents a rupture after which nothing can remain the same. The new European posture materialised with the Versailles Declaration of March 2022, later followed by the Granada Declaration of October 2023 and the recently updated European Commission Economic Security Strategy.

**The European Union's success rests upon the pillars of free trade and openness**. Compromising these ideals threatens the very foundation upon which the EU is built. Therefore, we must address the complex international framework with the goal of preserving peace and upholding the rule-based international order, while also guaranteeing the Union's economic security. In this complex endeavour, it is essential to continue investing in the enhancement and promotion of European standards, reinforcing the Single Market's role as a robust platform that supports innovation, safeguards consumer interests, and promotes sustainable development.

Another crucial dimension to address concerns **the perimeter of the Single Market**. At the inception three sectors were deliberately kept outside the integration process, considered too strategic for their operation and regulation to extend beyond national borders: **finance, electronic communications and energy**. The exclusion at the time was motivated by the belief that prioritising domestic control over these areas would better serve strategic interests. However, national markets, initially designed to protect domestic industries, now represent a major brake to growth and innovation in sectors where global competition and strategic considerations call for swiftly moving to a European scale. Even within the original perimeter, the Single Market is in need of an overhaul: particularly, the intra-EU **provision of services** continues to encounter significant barriers that need to be addressed and removed to unlock the full potential of the Single Market.

For this larger world, we need a strong political commitment to empower a new Single Market. **This new framework must be able to protect the fundamental freedoms, based on a level playing field, while supporting the objective of establishing a dynamic and effective European industrial policy**. To achieve these ambitious objectives, we need speed, we need scale, and above all we need sufficient financial resources.

## A collective effort for a new Single Market: 400 meetings, 65 European cities

During the journey across Europe that accompanied the elaboration of the Report from September 2023 to April 2024, I visited 65 European cities and I took part in more than 400 meetings where I had the opportunity to interact, following a method of active listening and open discussion, with thousands of people across the entire continent. The dialogue involved **all national governments and the main European institutions**, in addition to **all political groups within the European Parliament**. Similarly, outside the EU, discussions took place with **countries that share the Single Market without being EU members** and with **all candidate countries for accession**. Social partners – **trade unions** and **business associations** - as well as **third sector**, employers of **services of general interest** and **civil society groups** were consulted, often several times, both in Brussels and in various national capitals. Furthermore, there were numerous meetings with citizens and debates held in **universities** or within **think tanks**, not only in major European cities but also in **inland and rural areas**.

This journey has contributed to the development of a **dynamic collective reflection on the future of the Single Market**. As the author of the Report, I naturally take full responsibility for the analyses and proposals contained within it. However, in order to formulate them, itinerant listening and interaction throughout Europe proved to be crucial.

During this journey, I also experienced firsthand **the most glaring paradox of EU infrastructure: the impossibility of travelling by high-speed train between European capitals**. In a continent as small and densely populated as ours, which has also embarked on the path of environmental sustainability, it would have been natural to travel by train, the quintessential green mode of transportation. However, this is currently impossible and seems unlikely to change in the near future, as concrete operational plans remain merely theoretical. This is a profound contradiction, emblematic of the problems of the Single Market. Indeed, our continent quickly and effectively developed the high-speed rail system, but except for the Paris-Brussels-Amsterdam axis, it remained within national borders. We have not even managed to connect the three main European capitals of Brussels, Strasbourg, and Luxembourg. Despite high-speed rail transforming the internal economic and social landscapes of many European countries, enhancing mobility and development opportunities, these benefits have not extended across the Single Market. This is due to tax incentives, which are mostly national and disadvantage international operators. The industry is prepared and has launched several successful initiatives, however a European approach to regulation and tax incentives, rather than a national one, is necessary. The coming years must prioritise the **planning, funding, and implementation of a major plan to connect the European capitals with high-speed rail**. This project must become one of the pillars of the fair, green, and digital transition. It can mobilise energies and resources and, above all, can deliver gradual results benefiting not only future generations but also the current ones.

The inspirations from my journey across Europe have been numerous and motivating. However, among the many topics addressed in European and national debates, one has emerged as predominant everywhere. This **is the issue of supporting and financing the**

**goals that all together, we have identified as central for the coming years and which the EU seems to have now irreversibly embraced**. These are bold and positive choices that will accompany European life for at least a decade and will be vital for us and for future European citizens. These choices, while also offering considerable opportunities, will also inevitably come with significant costs.

Firstly, **the commitment to a fair green, and digital transition**. This choice reflects a long-term commitment to transforming European society and economy in a sustainable and equitable manner. The upcoming legislative term is identified as crucial for ensuring the implementation and success of this comprehensive transition.

Secondly, **the decision to pursue enlargement**. The focus here lies not merely on the goal itself but on the careful execution of its implementation. Setting a clear direction for the integration of new members into the EU represents one of the main challenges for the next years.

Thirdly, **the need to enhance the EU's security**. In the new world disorder, characterised by profound and systemic instability, the future of the EU cannot ignore the need to ensure the security of European citizens. This will imply more demanding positions and decisions in the field of defence.

It now appears certain that these three main strategic directions will guide the EU in the coming years. **It is no longer a question of whether Europe will pursue them but how it will do so**. This will certainly be a heated debate. I have had a clear perception of this in the many meetings during the journey, where discussions were everywhere constructive but quite lively. Similarly, I also came away with another distinct impression: for European citizens, it is clear that pursuing this path will entail high collective costs. Therefore, as long as there is no clarity and transparency on how those funds will be identified and who will pay for them, the concern among citizens themselves and among the vital forces of our societies will be increasing. In order to avoid political backlash, the issue of financial support and cost allocation for the transition, enlargement, and new security frontiers must find clear, straightforward and transparent answers.

Building the Single Market of the future will be one of the key conditions for meeting these financing needs. **My analysis intentionally does not exceed the scope of the mandate received from the EU Council and the Commission - developed under the present Belgian, Spanish, and Hungarian trio Presidency of the Council of the EU** - and aims to provide the most concrete and operational contribution possible to the work programmes of those institutions and to Mario Draghi's Report on the future of European competitiveness.

## The Single Market is all of us: everyone must play its own role

The Single Market is not merely an abstract concept, it is the cornerstone of the process of EU integration. To develop an efficient one, that is capable of creating the conditions to make Europe prosper, **we need everyone - EU institutions, Member States, business, citizens, workers and civil society - to play its own role**. Failure of any one to play their part is equivalent to failure of the whole chain.

The **forthcoming Multiannual Financial Framework** represents a critical juncture for the ambitious proposals detailed in this report, challenging all actors to reaffirm their dedication to developing a new Single Market. The next legislative period, from 2024 to 2029, provides a strategic opportunity to advance this vision. By considering new economic trends and global competition, this period could catalyse **a significant transformation of the Single Market into a truly 'European Market'**, setting the stage for a comprehensive leap forward in our integrated economic framework.

## A fifth freedom for a new Single Market

**The Single Market framework, rooted in the definition of the four freedoms, - the free movement of people, goods, services and capital - is fundamentally based on 20th-century theoretical principles**. This becomes evident when considering how this categorization now seems outdated, failing to reflect the evolving dynamics of a market increasingly shaped by digitalization, innovation and uncertainties related to climate change and its impact on society. The distinction between goods and services has become increasingly blurred, with services often integrated into goods, and fails to capture the intangible aspects of the digital economy and the opportunities and threats related to the trends towards circular economy. **Circular economy is the only possibility of saving the planet and changing the paradigm of present manufacturing**, and will require a robust set of competencies, safeguarded intellectual property and the ability to convert these assets into innovation and a thriving industry. The four freedoms also fall short in addressing the shift from an economy based on ownership to a new one, based on access and sharing.

Towards the end of his term, Jacques Delors hinted at the necessity of exploring a new dimension for the Single Market. One potential avenue for this exploration lies in **the addition of a fifth freedom to the existing four, to enhance research, innovation and education in the Single Market**. The fifth freedom entails embedding research and innovation drivers at the core of the Single Market, thereby fostering an ecosystem where knowledge diffusion propels both economic vitality, societal advancement and cultural enlightenment. Significant progress was achieved in the past legislature in this realm with the approval of the Digital Market Act, the Digital Services Act, the AI Act, the Data Act and the Data Governance Act, crucial steps towards the development of a modern and effective digital strategy and technological autonomy. The fifth freedom could come to complement this framework to catalyse advancements in areas such as R&D, data utilisation, competences, AI, Quantum Computing, Biotech, Biorobotics, and Space, among others. Such fields could greatly benefit from the inclusion of the fifth freedom within the Single Market framework, **the freedom of investigating, exploring and creating for the benefit of humankind without disciplinary or artificial borders and limitations**. This is related to the freedom of contributing to address societal challenges, such as climate change and biodiversity losses and their impact on the planet, humans and cultural heritage.

Among various sectors poised to benefit from the implementation of a fifth freedom, **the healthcare sector stands out prominently**. Its critical importance, underscored by the recent pandemic, positions it to greatly leverage this new framework which promises to enhance cooperation and drive innovation. This initiative is particularly vital as European healthcare urgently requires significant revitalization. The EU's increasing reliance on external suppliers for chemically synthesised active ingredients, components, and finished products has led to a steep decline in European production - from 53% in the early 2000s to less than 25% today. Moreover, the migration of European talent in search of opportunities outside the EU is severely undermining the Union's capacity for innovation. In light of these issues, along with demographic shifts and potential future crises, it is imperative that the EU takes decisive action to foster integration within its healthcare sector and ensure sustainable access to healthcare for all its citizens.

# A Single Market to Play Big

Demographic shifts and the restructuring of the global economy risk compromising the overall role of the European Union in the world. However, it is by no means certain that this decline in influence is irreversible. With strategic adaptations, we have the potential to confront it. The EU can still benefit from highly impactful assets, but relying solely on existing capabilities will not suffice. Europe's future influence will depend on the performance and scalability of its businesses. Today, European companies suffer from a stunning **size deficit** compared to their global competitors, primarily from the United States and China. This disparity penalises us in numerous areas: innovation, productivity, job creation, and ultimately, the security of the EU itself. Therefore, it is crucial to support large EU companies in becoming bigger and competing on the global stage. This can enable diversification of supply chains, attract foreign investment, support innovation ecosystems, and project a strong EU image. Ultimately, a thriving economy supported by robust companies puts the entire Union in a position to negotiate more favourable trade agreements, shape international standards, and successfully tackle unprecedented crises and global challenges.

**Allowing EU companies to scale up within the Single Market is not just an economic imperative but also a strategic one**. However, not all EU companies and markets are in need of a bigger size. We must not mimic models that are consistently different from our own and that do not fit with the European reality. **Our model, which thrives on the essential link between large and small enterprises, actively safeguarding a level playing field, must be preserved**. This model is a fundamental strength and the bedrock of our social market economy. No company can be allowed to grow undermining fair competition, which underpins consumer protection and economic progress. At the same time, the implementation of the principle of fair competition should not result in European markets being dominated by large foreign companies benefitting from favourable rules in their domestic markets.

The lack of integration in the financial, energy, and electronic communications sectors is a primary reason for Europe's declining competitiveness. As previously noted, we are now facing the consequences of decisions made when the world was "smaller" to retain a predominantly national focus in these sectors. **There is an urgent need to catch up and strengthen the Single Market dimension for financial services, energy, and electronic communications**. This entails establishing an integrated framework between the European and the national level. This model comprises a two layers approach with a EU centralised authority responsible to guarantee the coherence of rules having a Single Market dimension, while issues, which for size or relevance remain national, should be dealt by independent national authorities within a common framework. In this framework, each entity must have a defined role, as robust collaboration between the European and national levels ensures the system's effectiveness. **The markets in question must evolve towards a European dimension**, surpassing the national confines that currently hinder any substantial competition with American, Chinese, or Indian conglomerates. **By identifying the European one as the relevant market, we can finally enable market forces to drive consolidation and growth in scale**, in full respect of the European principles, objectives and rules.

Several key decisions recently outlined in official documents - among which the Statement by the ECB Governing Council on advancing the Capital Markets Union, the Statement of the Eurogroup in inclusive format on the future of Capital Markets Union and the Commission White Paper 'How to master Europe's digital infrastructure needs?' - are moving in a favourable direction, signalling a growing consensus. This trend is also evident in the critical choices made by European Institutions concerning energy independence and the restructuring of the electricity and gas market design.

Leveraging the full benefits of the Single Market in the energy sector requires in the coming years a further leap in **interconnectivity** and a massive investment in Europe's infrastructure networks, from upgrading the electricity transport and distribution grids to building a backbone hydrogen infrastructure. This will allow to maximise Europe's renewable potential, ensure secure and more affordable energy and expand energy supply choices for industry.

In this context, while the EU will become significantly more able to produce domestically the energy to power its growth as it advances towards a net zero future, the European economy will need to continue to import some of its energy from the rest of the world, and thus must develop strategically an **infrastructure network** connecting it to reliable partners, in the Neighbourhood East and South and beyond.

In the Report, **concrete Road Maps to speed up integration in finance, energy and electronic communications are identified**, with a focus on the need to achieve progress within the next European legislature (2024-2029). Without these essential results, the goal of European economic security and the aim of establishing an effective European industrial policy are out of reach. The lessons drawn from recent crises underscore the pressing need to move from deliberation to decisive action.

There are many examples of how decisions and policies set at EU level have determined policies in other parts of the world. **Technical standards which were able to satisfy different needs across 27 Member States have proven valuable also for the needs of other countries across the globe**. A stronger Single Market will determine standards which will become global reference, making it easier for European companies to provide goods and services to the rest of the world. A big, European market will therefore help make the global market more European.

## A Single Market that supports job creation and makes doing business easier

The Single Market, as originally conceived, was deeply anchored in a conventional understanding of the production process, reflecting the period during which the integration effort was formulated. This model of development possessed a critical, distinguished characteristic that has diminished over recent decades**: the Single Market was once the only available option for European enterprises, both as a production base or headquarters and as a primary marketplace**. Considering the global context of that era, while exporting was a viable strategy, the idea of moving operations to a location outside the Single Market was nearly inconceivable. In the current day, not only does this alternative exist, but it has also become increasingly common and embraced. A multitude of countries worldwide now offer themselves as appealing options for European companies seeking to relocate their operations, whether in part or entirely.

Streamlined regulations across various sectors critical to a company's lifecycle play a pivotal role in where companies choose to do business. Notably, many locations outside the European Union have devised dedicated pathways to expedite responses to bureaucratic and administrative needs, enhancing their appeal to businesses. Many entrepreneurs I spoke with during my journey raised concerns about this issue, pointing out that alternatives are becoming increasingly attractive in comparison to the **significant bureaucratic burdens faced by companies across various European countries**. Much of this bureaucratic burden has arisen due to the overlapping regulations and administrative complexities generated by the EU's complex multilevel governance system. Too often, **fragmentation of the Single Market, gold plating, and ring-fencing at the national and regional implementation level**, not to mention the asymmetry between territories and legal and tax systems, end up increasing difficulties and multiplying obstacles to productive activity.

There is growing dissatisfaction within the business community regarding the lack of a culture of support and facilitation for economic activities. Too often, this dissatisfaction leads to the temptation to relocate activities to countries outside the EU Single Market, which now present a credible alternative. This emerging challenge requires robust responses. The Commission has made significant progress in the area of corporate taxation, simplification and the reduction of red tape. The proposals presented by President Von der Leyen signify a major commitment that must be pursued as an absolute priority in the coming years. The compass of the new Single Market must emphasise the crucial importance of **proportionality and subsidiarity**, especially in the context of its regulatory framework.

This Report identifies the challenge of simplifying the regulatory framework as a principal hurdle for the future Single Market. A pivotal proposition emerges: to reaffirm and embrace the Delors method of maximum harmonisation coupled with mutual recognition, fully enshrined by the European Court of Justice's rulings. This method underscores the paramount importance of Regulations as the cornerstone for achieving such harmonisation across the Single Market. It posits that **EU Institutions should unequivocally prioritise the use of Regulations in the formulation of Single Market binding rules**. When the use of directives remains unavoidable or preferable, it is imperative to make two key choices to ensure their effective implementation. Firstly, Member States must demonstrate greater discipline by avoiding the inclusion of measures that exceed what is strictly necessary under the directive. Secondly, there should be a systematic preference for utilizing the legal basis of the Single Market framework, specifically relying on Article 114 of the Treaty. This provision supports exhaustive harmonisation, crucial for maintaining consistency across the Member States, whereas other Treaty provisions permit minimum harmonisation, allowing Member States to adopt stricter measures that may lead to fragmentation and adversely affect the Single Market.

Moreover, a **European Code of Business Law** - detailed in the second part of this Report - would be a transformative step towards a more unified Single Market, providing businesses with a 28th regime to operate within the Single Market. It would directly address and overcome the current patchwork of national regulations, acting as a key tool to unlock the full potential of free movement within the EU.

At the same time, the importance of **consistent enforcement of Single Market rules** cannot be overstated. Effective enforcement ensures that regulations benefit all Member States equitably, preventing the fragmentation of the market and maintaining a level playing field, crucial for the competitiveness of our businesses and the economic dynamism of the EU.

Certainly, if these issues are not addressed, the risk of deindustrialization on the continent - which, as noted, is not irreversible - becomes a real threat. The Report, underscored by a distinctly proactive framework, thus seeks to issue a broader call to action on this matter. In today's global context, **Europe cannot, and should not, cede its role as a manufacturing leader to others**. At the turn of the century and for much of the subsequent decade, the shift was widely regarded as a feasible and even beneficial option. However, it is now evident that this is no longer the case.

## The fair, green and digital transition as a catalyst for a new Single Market: towards a "Savings and Investments Union"

The last legislative term has laid the groundwork for the fair, green, and digital transition by introducing key legislative proposals. Now that almost all the rules are in place, the emphasis must shift to **implementation**. It is essential to move from policy design to practical application, ensuring that these measures are seamlessly integrated and operationalized to deliver tangible environmental benefits.

Therefore, one of the main objectives of the new Single Market must be to make European industrial capacity compatible with the goals of the fair, green, and digital transition. To this end, in the next legislative term, it will be necessary to **direct all energy towards the financial support of the transition, channelling all necessary public and private resources towards this goal** to make the transformation of the European production system possible. In this endeavour, the Single Market can and must play a pivotal role.

**The initial priority should be to mobilise private capital**, a crucial step that lays the groundwork for a more inclusive and efficient financing framework, as it is the area where the EU is most lagging behind. The European Union is home to a staggering 33 trillion euros in private savings, predominantly held in currency and deposits. This wealth, however, is not being fully leveraged to meet the EU's strategic needs. A concerning trend is the annual diversion of around €300 billion of European families' savings from EU markets abroad, primarily to the American economy, due to the fragmentation of our financial markets. This phenomenon underscores a significant inefficiency in the use of the EU's economic assets, which, if redirected effectively within its own economies, could substantially aid in achieving its strategic objectives. In this context, **this Report calls for a significant transformation: the creation of a Savings and Investments Union**, developed from the incomplete Capital Markets Union. By fully integrating financial services within the Single Market, the Savings and Investments Union aims to not only keep European private savings within the EU but also attract additional resources from abroad.

**The next step involves tackling the debate on State aid**. We should develop bold and innovative solutions that strike a balance between, on the one hand, the need to quickly mobilise national targeted public support for industry, in so far as it addresses in a proportionate way market failures, and, on the other hand, the need to prevent the fragmentation the Single Market. Whilst the progressive relaxation of State aid in response to the recent crises has contributed to limiting the negative effects on the real economy and successive temporary frameworks have introduced innovative concepts to capture the changing international context, it has also produced distortions of competition. There is a risk that over time such an approach amplifies distortions of the level playing field within the Single Market due to the difference in fiscal space available to Member States. **A way to overcome this dilemma could be to balance a stricter enforcement of State aid at national level and the progressive expansion of EU level funding suppor**t. Specifically, we could envision a State aid contribution mechanism, requiring Member States to allocate a portion of their national funding to financing pan-European initiatives and investments.

Unlocking private investments and refining our approach to State aid will facilitate the creation of the necessary political conditions to unleash another critical dimension: European public investments. To alleviate the tension between new industrial approaches and the Single Market framework, **the EU's industrial strategy must adopt a more European approach**, building on and further developing the IPCEI model, while ensuring that the level playing field is not jeopardised by harmful subsidies. Faced with strong global competition, the EU must step up its efforts to develop a competitive industrial strategy capable of counteracting instruments recently adopted by other global powers, such as the US Inflation Reduction Act.

**Establishing a robust connection between the fair, green, and digital transition and financial integration within the Single Markets is crucial**. This link is essential for making the transition feasible in the first place. **Without adequate resources, there is a risk of progress stalling**. The costs of the transition are systemic and must be shared collectively. Placing the burden solely on specific sectors will ultimately impede rather than facilitate the process. Failure to achieve this collective effort could lead to resistance from various groups - today it might be farmers, tomorrow automotive workers - who feel they are disproportionately bearing the costs of transformation without sufficient support. The second part of the Report contains an illustration of the key proposal to fulfil these objectives. This connection also operates in reverse, as financing the fair, green, and digital transition can drive further integration within the Single Market. The attempt to create the Capital Markets Union over the past decade has not been successful, among other causes, because it has been perceived as an end in itself. **True integration of financial markets in Europe will not be realised until European citizens and policymakers recognize that such integration is not merely beneficial for finance itself, but is crucial for achieving overarching goals that are otherwise unattainable**, such as the fair, green, and digital transition.

Supporting the transition structurally is a fundamental objective within the European Union's strategic framework. However, discussions must not only focus on the costs associated with this transition. **It is crucial to recognize the extensive benefits that this transition offers to citizens, businesses, and workers alike**. Investing in and financing this transition is not just a financial decision; it is arguably the most strategic choice the EU can make to secure a significant competitive advantage on the global stage, while preserving and developing the social standards that Europe proudly enjoys. This advantage becomes particularly relevant given the increasing importance of sustainability in the emerging global order. By structurally supporting the transition, the EU enhances its commitment to both long-term economic prosperity and achieving its sustainability goals. The European Investment Bank is pivotal in this respect, as it provides crucial funding and expertise for projects that align with these sustainable and transformative goals across Member States. Furthermore, fostering greater integration within the **public procurement market** is crucial for realising the strategic goals of the European Union; innovation procurement, especially in green and digital technologies, could be one of the most important levers to support startups, scale-ups and SMEs in developing new products and services.

**In summary, there is a need for mobilizers of European financial integration who are external to the finance sector, focusing on objectives that concern the future of citizens rather than finance itself**. Structurally supporting the transition is, in this sense, a systemic duty. This is crucial, especially as without the private resources that will emerge from the establishment of a strong and authentic Savings and Investments Union, it will be extremely challenging to resolve the internal divisions within Member States concerning the allocation of national and European public resources needed to cover the costs of the transition. Ultimately, this would enable all to benefit from the relative advantages.

## Enlargement: advantages and responsibilities

A similar strategic vision must also be applied to the other two major processes that will shape the EU in the coming decade, specifically, enlargement and the challenge of security.

For the first, it is essential to immediately identify the conceptual pillars of the issue. The enlargements of the past have been successful choices for the EU. In particular, they have allowed Europe to offset the loss of relative weight caused by the transformation of the geopolitical and geo-economic framework after the Cold War, with the accession of new actors. Thanks to the enlargements, the Single Market and its benefits have been extended, and this has been true for both old and new Member States. **A larger EU, today as yesterday, is the best instrument to protect European interests and prosperity, uphold the principles of the rule of law, and defend EU citizens from external threats**.

The upcoming enlargement should be approached with the same spirit and vision. **The focus of the debate should not only be on the goal of enlargement itself, but more specifically on the methods and timing of such expansions**. The interplay between the Single Market and enlargement raises complex questions requiring meticulous consideration. A nuanced approach must be found, facilitating the gradual but significant extension of Single Market benefits to candidate countries while simultaneously safeguarding the stability of both their economies and the Single Market.

One condition remains crucial: given that the Single Market is the core and driving force of European integration, the instrument must remain at least partially under the control of Brussels negotiators during the pre-enlargement process to prevent current Member States from losing their most powerful bargaining tool. In particular, it is essential to unequivocally reaffirm that any country seeking to benefit from any substantial pre-accession participation in the Single Market must **fully adhere to all the aspects of the first Copenhagen criterion**, demonstrating clear and unwavering respect for the non-negotiable principles of "**democracy, the rule of law, human rights and respect for and protection of minorities**" from the outset. In an era where these same principles are contested and the European democratic model is increasingly weakened by external threats and internal challenges, no ambiguity on this point can be admitted: it is within the Union and within each Member State that these fundamental values must be fully practised and actively defended. Any candidate country willing to commit to its gradual integration into the Single Market - or into any other dimension of the EU - must fully align with them.

Most importantly, this enlargement should not be perceived, neither by Governments nor by citizens, as a termination of growth and convergence support - particularly for the more recently joined countries - provided by cohesion policy and the Common Agricultural Policy. **Accompanying policies for the current Member States and a reform of cohesion policy appear to be decisive**. An effective cohesion policy - implemented in a balanced way across the EU - has always been, and will continue to be, a key condition for the success of the Single Market. In this regard, the creation of an Enlargement Solidarity Facility, equipped with the financial resources to manage externalities and facilitate a smooth enlargement process, could be a vital tool to support the process.

## Promoting Peace and Upholding the Rule of Law: A Common Market for the Security and Defence industry

The third major strategic direction for the next decade, alongside the transition and enlargement, relates to the **challenge of security**. Vladimir Putin's war of aggression against Ukraine altered the course of history and reshaped the destiny of Europe, shaking its very foundations. The EU immediately reached a collective decision that the security and defence component, which had historically carried less weight compared to other EU policies and has largely been rooted at the national level, should now gain prominence. The unified and decisive response must now be sustained through consistency and continuity, leveraging the

EU's untapped potential in this domain. The logic is straightforward: **security must be addressed in a comprehensive dimension** and must influence energy policies as well as financial policies, cyber threats, choices regarding infrastructure, connectivity, space, health and technology. This was also reflected in the Versailles and Granada Declarations and in the European Economic Security Strategy presented by the European Commission. This extended and unprecedented definition of security will inevitably have repercussions on all aspects of the economy and citizens' lives. Therefore, it is essential to strike a balance with individual fundamental rights, positioning Europe once again as a leader in regulating new technological advancements.

**Our industrial capacity in the fields of security and defence must undergo a radical transformation** to avoid repeating the dynamics observed during 2022-2024. In that period, while supporting the Ukrainian resistance, Europeans spent substantial amounts, yet around 80% of these funds were spent on non-European materials. Conversely, the US sourced around 80% of the military equipment used to support the war in Ukraine directly from American suppliers, a stark difference that highlights the weakness of our approach. **Supporting jobs and industries in Europe**, rather than financing our partners or rivals' industrial development, must be a primary objective when spending public money. In addition, never before has there been such an urgency to develop our own industrial capabilities in order to be autonomous in the strategic domain. As applying the Single Market framework is not feasible today due to the inherent nature of this sector, advancing towards the development of a '**Common Market for the Security and Defence Industry**' is crucial to entrust the EU with the necessary means to tackle current and future security challenges.

At the same time, security must be the subject of coherent choices regarding financing. Continuity with past policies and expenditures is not even imaginable. New and far more serious threats must be countered with unprecedented and proportionate responses. The European Union is considering several innovative financing options to support a unified defence market. To modernise EU defence capabilities, we must develop innovative measures and instruments that effectively integrate private and public financial resources. These efforts, of course, must be aligned with the membership and corresponding commitments of nearly all EU Member States to the Atlantic Alliance.

## Freedom to move and freedom to stay: a new Single Market for all European Citizens

The success of the Single Market not only hinges on its competitiveness and security, but also on its ability to benefit all European citizens and garner their support. Since its foundation, the European Single Market has been a cornerstone of unprecedented economic growth, convergence, social progress, and enhancement of living standards across the continent. Yet, amidst these successes, there is an emerging discussion on the distribution of these benefits. In particular, a perception is gaining ground that the advantages of the Single Market go to individuals who are already equipped with the means and skills to take advantage of intra-EU opportunities, or to large enterprises that can easily expand their operations across Member States.

If left unaddressed, this perception could erode the public support that is vital to the continued success of the Single Market. From the outset, the European Single Market was designed with an awareness of its potential differential effects on workers, companies and regions and with a clear goal to address them. **This is why the cohesion policy was put in place as a fundamental element of the Single Market, not outside of this framework**.

However, today the EU operates in a radically transformed global environment, generating new distributional challenges that demand innovative solutions. Collectively, about **135 million people**, nearly one third of the EU population, live in places which, in the last two decades, have slowly fallen behind**. Residents of regions in decline often feel having no opportunities, but to relocate** due to the lack of jobs, access to quality education, and adequate services necessary for cultivating a self-sustaining and dignified lifestyle within their own communities. Similarly, SMEs based in these areas feel the weight of EU regulations but experience limited benefits from the Single Market, often due to business models or capabilities ill-suited to intra-EU expansion.

To succeed, the Single Market must fulfil its promises of shared prosperity. We must strive to continue securing the free movement of people but also ensure a "freedom to stay". **Freedom to move and freedom to stay are two sides of the same coin, two mutually reinforcing pillars of European integration, and must be developed together**. The Single Market should empower citizens rather than create circumstances where they feel compelled to relocate in order to thrive. High quality jobs must be available for individuals who wish to contribute to the development of their local communities. Free movement is a valuable asset, but it should be a choice, not a necessity. As expressed by Jacques Delors 'each citizen should be able to control their destiny'. The objectives of the Single Market should align with the freedom of movement as well as the freedom to stay in the community of one's choice. Accessible, affordable, and adaptable Services of General Interest (SGI) across all EU regions are crucial for ensuring the freedom to stay, necessitating an **Action Plan for high-quality SGIs in Europe**. In addition, social economy businesses are pivotal in fostering proximity and the sustainable development of territories.

Accordingly, we must ensure that any development of the Single Market includes **a genuine social dimension that guarantees social justice and cohesion**. A strong social dimension in the EU Single Market promotes inclusive prosperity, ensuring fair opportunities, **workers' rights** and social protection for all, while contributing to growth and competitiveness. It reinforces the European Union's commitment to solidarity, **reducing inequalities and promoting the well-being of all citizens**, in line with the values of the European Pillar of Social Rights for a cohesive, people-centred Union.

Moreover, we need to facilitate **greater participation of small and medium-sized enterprises in the Single Market**. Otherwise, it is inevitable that those businesses and entrepreneurs representing the backbone of the EU economy will see the Single Market as an obstacle rather than an opportunity. The aforementioned 28th regime would be a real game-changer for SMEs, allowing them to finally tap into the full potential of the Single Market.

Emphasising the crucial role of citizen involvement, the establishment of a **permanent Citizens' Conference - in line with the aspirations of the Conference on the Future of Europe** - could significantly enhance the effectiveness and inclusiveness of the Single Market's governance. Such a platform would not only serve as a vital tool for regular and structured dialogue but also ensure that citizen feedback and insights directly influence policy-making. In turn, this could lead to policies that are more finely attuned to the diverse realities of European citizens, enhancing their ownership of the Single Market and strengthening its foundation on the principles of participatory democracy.

Europe's unique growth model has been a powerful engine for economic convergence over the last decades. The Single Market is arguably the most far-reaching accomplishment of the European integration process, our most valuable asset. However, it holds the potential to deliver even wider benefits that have a profound impact on the lives of all Europeans. A **timely, smart and bold strategy for the future of the Single Market for the coming legislative term (2024-2029)** - paving the way for transforming the Single Market in a truly 'European Market' - could further solidify its pivotal role as a driver of sustainable development and widespread prosperity on the continent. It could give a united Europe the leverage it needs to compete effectively and thrive in a world of constant and radical change.

# The structure of the Report - a comprehensive vision for the future of the Single Market

This report aims to contribute to the reflection on the future of the Single Market with concrete proposals. With this goal, it is divided into two main sections: the first - presented above - outlines the political vision derived from my travels across Europe and the subsequent collective reflection; the second section - in the following pages - presents practical policy recommendations and explores technical aspects across Six Chapters.

The first, "**A 5th Freedom to Enhance Research, Innovation, and Education in the Single Market",** proposes the introduction of a "fifth freedom" - focusing on research, innovation, knowledge and education - to enhance the Single Market's innovation capabilities within the new global landscape.

In the second, "**A Single Market to Finance Strategic Goals**", the emphasis is on innovative mechanisms within the Single Market to mobilise private and public resources and direct them towards bridging the current investment gaps and financing our common key objectives.

The Single Market also needs to support the scale-up and growth of European companies. The third chapter, "**A Single Market to Play Big: Scale Matters**", addresses these issues extensively with specific focus on the sectors that require transformative action to raise the ambition of the Single Market.

Looking ahead, we must improve the distribution of the benefits of economic integration. The fourth chapter, "**A Single Market for All"**, presents clear proposals to improve conditions for all citizens, SMEs, and regions.

In the fifth, "**A Single Market to go fast and go far**", the report presents a pragmatic approach to improve the regulatory framework and strengthen enforcement tools with the aim of enhancing speed and efficiency in the Single Market.

The report also examines the external dimension of the Single Market, specifically concentrating on Economic Security, trade, enlargement and the relationship with key strategic partners. The sixth chapter, "**A Single Market Beyond its Borders**", explores the interaction between internal and external dynamics and the potential for the Single Market to extend the EU's influence on the global stage.

# A 5th freedom to enhance research, innovation and education in the Single Market

# A 5th freedom to enhance research, innovation and education in the Single Market

In an era where technology increasingly dominates, Europe grapples with the challenge of keeping pace with swift global advancements. The continent has not developed a robust industry or cohesive ecosystems capable of capturing the benefits of the new wave of enhanced innovation. This has led to a reliance on external technologies now vital to European companies.

The European Union's difficulty in converting its research potential into European industries competing in global markets stems from various factors. A coordinated and comprehensive European technology policy would undertake the broad, long-term investments necessary for ambitious and costly technological development. **In recent years, the European Union has effectively implemented substantial digital regulations, thus preventing the potential fragmentation** that could have resulted from individual Member States introducing their own rules and protecting us from the sway of external regulatory forces. However, relying solely on this strategy is inadequate for nurturing the level of innovation necessary to realise our goals. Currently, the European Union holds a vast but underutilised pool of data, expertise and startups. Without full utilisation, there's a risk that this wealth of resources could end up benefiting other global entities better positioned to capitalise on it and hamper our strategic autonomy and economic security.

Hence, it is crucial that **we fully tap the potential of our research and development strengths and maximise the opportunities offered by the Single Market**. Europe faces an urgent imperative to prioritise the establishment of technological foundations that foster knowledge and innovation, by equipping individuals, businesses, and Member States with the necessary **skills, infrastructures, and investments**, to enable widespread prosperity and industrial leadership.

The Single Market was built upon **four fundamental freedoms: the free movement of goods, services, people, and capital**. These cornerstones have played a pivotal role in enhancing competition, fostering prosperity, erasing borders, and shaping a unified European identity by facilitating an environment where economic and personal activities could flourish without the constraints of national boundaries. However, in the face of the 21st century's challenges and opportunities, these four freedoms, while still crucial, are not sufficient to harness the full potential of the European Union in the realm of global innovation and a knowledge-based economy. Thus, **adding a fifth freedom – enshrined in Title XIX of the TFEU** – to the previous ones is here proposed as an indispensable extension of the established framework.

This fifth freedom should encompass several fields, among which **research, innovation, data, competences, knowledge and education**. The integration of the fifth freedom into the Single Market framework reinforces its role as a cornerstone of European integration. It would transform existing dispersed knowledge, fragmentations and disparities into unified opportunities for **growth, innovation, and inclusivity**. A competitive environment for frontier research and new business models that favour investment in new technologies is essential for maximising public interest sharing and limiting the concentration of private value from data collection and profiling. Hence, the fifth freedom transcends merely facilitating the movement of research and innovation outputs; it critically entails **embedding research and innovation drivers at the core of the Single Market**, thereby fostering an ecosystem where knowledge diffusion propels both economic vitality, societal advancement and cultural enlightenment. Under this framework, the EU will be better suited to position itself not only as a global leader in setting ethical standards for innovation and knowledge diffusion, but **a creator and a maker of new technologies** - and their evolutionary patterns - developed and deployed in a manner that respects freedom, privacy, security, and benefits the most.

Operationalizing the fifth freedom requires a multifaceted approach encompassing policy initiatives, infrastructure enhancements, collaborative frameworks, and an unwavering commitment to foster innovation, open science and digital literacy. This report sets out both inspiration and concrete proposals to be explored. Among its first flagship initiatives, the next European Commission should develop, in consultation with all EU institutions and Member State, **a comprehensive and ambitious action plan to flesh out and implement the fifth freedom**.

## The way forward for the fifth freedom

The collective intelligence of the twenty-first century, which combines the knowledge and skills of people, new forms of data, harnessing the power of technology, has the untapped potential to transform the way we understand and act regarding the future. To achieve this goal, it's vital to stimulate innovation and foster the development of **leading industrial ecosystems** capable of producing entities of global importance within Europe. Establishing a **strong European technological infrastructure** poses a strategic challenge, necessitating a shift in governance. This involves granting enhanced authority to a collective industrial policy at the European scale, moving beyond national confines. It's imperative to implement European strategies characterized by a definitive vision and centralised coordination, which are able to draw in substantial private investments. Without the presence of **significant European technology corporations**, Europe will continue to be susceptible to cybersecurity threats, misinformation campaigns, and potential military confrontations.

A central pillar of this strategy is the creation of **a European Knowledge Commons** – a centralised, digital platform providing access to publicly funded research, data sets, and educational resources. This empowers citizens, researchers, and businesses alike, allowing them to tap into a wealth of knowledge for innovation and societal progress. To remove barriers to knowledge sharing, the EU must **harmonise cross-border data flow mechanisms**, particularly interoperability and data protection regulations, and invest in robust digital infrastructure. This facilitates the secure and efficient transfer of non-personal data vital to research and innovation within the EU, supporting the **development of European data spaces in key sectors** - the chapter on health will focus on the European Health Data Space (EHDS) - to promote data sharing and use for the benefit of the economy and society, and strengthen cybersecurity through regulations, standards, and practices that protect critical infrastructures and citizens' data.

To accelerate innovation, tackle societal challenges, and bolster European competitiveness, the EU must actively encourage **public-private partnerships** in strategic areas focused on knowledge exchange and innovation uptake, with targeted support **for SMEs and startups**. A comprehensive Open Science framework is needed, incentivizing researchers to make their work openly accessible while fostering data sharing and collaboration. The ethical dimensions of AI and big data use must be central to this framework to ensure responsible technological advancement.

The expansion of established programs like Marie Skłodowska-Curie Actions is needed to increase the **mobility of researchers and innovators**. This enriches Europe's research landscape, promotes knowledge exchange, and is key to achieving a truly integrated European Research Area. **Retaining talents** is critical for Europe's economic resilience, innovation capacity, strategic independence, and societal welfare and should be one of the most urgent priorities.

Pan-European programs dedicated to **enhancing digital skills and literacy** are imperative for empowering citizens to fully participate in the knowledge economy. Additionally, the EU has a role as a global leader, championing international standards for knowledge sharing, propelling worldwide collaboration, and promoting open science principles. To continuously refine and improve the implementation of the fifth freedom, robust indicators and monitoring mechanisms must be established. These should track factors such as innovation output, research impact, economic benefits, and societal well-being.

Moreover, we must harmonise and uniformly implement laws across Member States**, simplify bureaucracy**, expand the use of **regulatory sandboxes**, and ensure non-discriminatory Internet access. These steps will create an environment where knowledge flows more freely.

Finally, ethical considerations must be at the heart of all policies and initiatives surrounding the fifth freedom. This involves pursuing an approach based on research security and further developing strong guidelines for **Responsible Research and Innovation** to ensure that technological advancements align with societal values and contribute to the public good. These actions form a comprehensive and integrated strategy to make the free fifth freedom a reality within the Single Market. By embracing openness, collaboration, and social innovation, the EU will empower its citizens, strengthen its research capabilities, and secure its position as a global leader in the digital age.

## A Single Market to boost the EU's potential in research and innovation

The fifth freedom framework aligns with a vision of scientific advancement driven by curiosity-based, bottom-up idea generation, industry-based and policy-driven research, regulated by independent peer review mechanisms free from external manipulation and influence. The result will be **a more innovative, inclusive, competitive and dynamic European Research Area**, driving advancements that will benefit the entire continent.

The fifth freedom hinges upon the **seamless mobility of researchers within the European Union and beyond**. By dismantling administrative and legal barriers, we foster a vibrant exchange of expertise and open the door to unique research opportunities. This mobility is essential for the development of a globally connected, highly-skilled scientific community.

A key pillar of the fifth freedom is the **empowerment of our research infrastructures**. By facilitating access to laboratories, digital platforms, and cutting-edge equipment across Europe, we equip our research community to take on complex, multidisciplinary challenges vital to our collective future. This interconnected ecosystem transcends individual institutions or nations. The EU should prioritise the completion of a **shared network of computational resources and supercomputers** to enable researchers and enterprises - meeting prerequisites aligned with public interests - to access critical high-performance computing capabilities. Such a network would facilitate breakthroughs across diverse sectors, ensuring Europe's competitiveness in the global landscape.

To fully realise the potential of the fifth freedom, addressing the **investment gap** in research and innovation is paramount. Both public and private sectors must align their funding strategies with the principles of open knowledge to maximise impact, sharing a set of common goals that aims to overcome global issues such as ageing population and climate change. This commitment will drive economic competitiveness and ensure research-driven advancements benefit society as a whole. In the pursuit of scientific advancements, particularly in resource-intensive fields like Artificial Intelligence and the advent of quantum computing, the EU must prioritise impactful, large-scale, cross-border projects, that can transform various sectors, including healthcare, materials science, and cybersecurity, by enabling the discovery of new drugs, the development of advanced materials with tailored properties, and the bolstering of encryption methods against sophisticated cyber threats. By pooling expertise and computational power through a collaborative approach and investing in quantum computing research and infrastructure, the EU can tackle societal challenges with the potential to achieve game-changing results on a global scale, unlocking new opportunities for economic growth, solving global issues and enhancing its scientific leadership.

The fifth freedom champions **open science**, ensuring the accessibility of research and seamless collaboration across disciplines, sectors, and borders. This open exchange of knowledge breaks down traditional silos, accelerating discovery and empowering researchers to build upon each other's work with unprecedented efficiency. Furthermore, it advocates for safeguarding the **autonomy of researchers**, protecting their right to pursue curiosity-driven inquiries free from undue political or commercial pressures. In this environment of independent inquiry, researchers can explore fundamental questions and pursue innovative hypotheses driven by scientific excellence.

The fifth freedom inherently supports strong democratic principles, ensuring all citizens have the opportunity to engage with and benefit from scientific advancements. Universal access to knowledge facilitates informed public discourse and **evidence-based policy decisions**. This empowerment extends to the realm of innovation, allowing everyone from entrepreneurs to established businesses to leverage the latest research in developing transformative solutions.

## Data, AI and beyond

A knowledge-based economy leverages information and education as the main drivers of economic growth, innovation, and competitiveness. Indeed, when individuals have access to a vast wealth of information and perspectives, they are more likely to devise innovative and creative solutions to existing challenges. The innovative capacity of a system is primarily linked to the amount of information and skills that it can infuse into its processes, creating value.

In this knowledge economy, data thus assumes a central role and are indispensable for several key aspects due to their value in guiding the decision-making process. Whether it is about shaping public policies, responding to disasters, or enhancing research, data plays a fundamental role in our understanding of complex social, environmental, and economic issues. **Those who can freely access new research, increasingly accurate data, and more efficient technologies can innovate more quickly, improve their processes, and maintain competitiveness in the global market**. Knowledge sharing across intersecting sectors can also stimulate cross-innovation, leading to new advances and applications. Therefore, the essence of the fifth freedom lies in its ability to unlock the potential of data by ensuring accessibility and shareability across borders and sectors within the EU. Eliminating barriers to data access is a powerful catalyst for innovation, improved public services, and economic growth. It advances groundbreaking scientific research and arms businesses with tools to compete globally.

**Trust and security are essential in a thriving data economy**. The fifth freedom calls for robust data governance that safeguards personal data while facilitating the free flow of non-personal data. The EU Regulations - GDPR, Data Act, Data Governance Act - established a foundation of trust where citizens and businesses confidently share data, driving progress without compromising rights or privacy. The free movement of data across the Single Market requires **adequate governance rules and standards** and can at once boost primary uses of data across borders, and secondary uses, such as the use of pan-European data to develop value-added services for both citizens and businesses. In a nutshell, this could lead to a future digital infrastructure in which privacy-protected data can be used for AI applications and both private and public services across the EU. This could be a driver of market integration across sectors - finance, energy, retail, telecoms, health, agrifood - eventually contributing to achieve the **completion of the Single Market for services**.

**Data access and computing power are critical** for developing AI solutions that are robust, scalable, and capable of addressing complex societal challenges, from healthcare to climate change. Promoting cross-border collaboration within the EU and enabling researchers, entrepreneurs, and institutions to work together more effectively will allow the EU to break down silos between disciplines and sectors. This collaborative spirit is essential for tackling the multifaceted challenges AI poses - as outlined in the recent European AI Act - and for harnessing its full potential for societal benefit. Therefore, the fifth freedom would strengthen the **EU's position as a leading hub for AI innovation by creating an attractive environment for researchers, startups, and established companies**. Even if the most powerful AI models have been developed outside our continent, the EU can still win the race to take the most of AI applications.

Finally, the fifth freedom underscores the importance of **transparency in the development and deployment of AI technologies**. It encourages the sharing of best practices, ethical guidelines, and regulatory compliance standards. This transparency is key to building trust in AI systems among the public and policymakers alike, ensuring that AI development aligns with European values of human rights, privacy, and democracy. It fosters an environment where ethical AI is not just an aspiration but a fundamental aspect of the innovation ecosystem.

## Learning without borders

The **European Education Area** - fostering collaboration among European Union Member States to build more resilient and inclusive national education and training systems - will be a crucial dimension of the fifth freedom.

Despite considerable efforts made and the success of the Erasmus+ programme in fostering cultural exchanges and strengthening the European community, still too few Europeans have the opportunity to study in other EU countries or combine the offers of different universities in a joint programme. To further boost transnational learning mobility, the European Commission has proposed a blueprint for a **European degree**. This project must be seen as a cornerstone in realising the fifth freedom.

As a new type of degree, it would certify joint educational programmes offered by a group of higher education institutions in different European countries. It would be based on common criteria and offer more opportunities to study across multiple universities in Europe. Once Member States have enshrined it into national law, it would remove administrative and legal barriers that higher education institutions are currently facing when trying to put together joint degree programmes. Moreover, the European degree could in coming years be further extended to **develop European programmes for specific disciplines** (for example engineering, teacher education, European health professions, ICT/AI). New opportunities for both learning and labour mobility would open up in the European Single Market, which are necessary to fill skills and labour market gaps and leverage all its opportunities.

The 60 **European Universities alliances** existing today, supported by the Erasmus+ programme, will be central for realising this ambition. It is essential that they are supported with funding that matches their essential role in the transformation of the European higher education space and the introduction of a European degree. A leap to € 10 million annually for each alliance, culminating in 600 million euros per year across the current spectrum of 60 alliances, could significantly amplify the development of joint programs across a wider array of disciplines. Such an investment, with Erasmus+ shouldering two-thirds of this augmented funding, complemented by an array of EU programs, embodies a strategic integration of European, national, and regional resources.

In addition, we must extend mobility opportunities to every student, democratising educational exchanges across the EU. The experience of mobility should be an integral and mandatory component of secondary education for all Europeans under the age of 18, as part of an **'Erasmus for All / Erasmus High School' initiative**. This initiative is designed to level the playing field, ensuring that mobility is not a privilege for a select few but a fundamental right for everyone, thereby fostering a sense of European identity and solidarity. By 2030, our goal is to normalise high school student mobility, underpinned by harmonised educational systems, enhanced teacher training programs, and increased EU funding. This strategy not only cultivates a more inclusive society but also lays the groundwork for continuous innovation and unity within the EU.

# A Single Market to finance strategic goals

# A Single Market to finance strategic goals

In an era marked by unprecedented global challenges, the European Union and its Member States have outlined highly ambitious goals across three critical domains: the realisation of the **fair, green, and digital transition**; the pursuit of EU **enlargement** to foster a larger, more resilient Europe; and the **enhancement of defence capabilities** to ensure peace and stability both within European borders and internationally.

While the EU has boldly set forth an array of ambitious goals, a critical challenge remains unresolved: the funding of these aspirations.

The journey toward a green, digital, and fair transition is being held back far more by concerns about its costs - and who will bear them - than by ideological issues. Discussions about EU enlargement are also entangled with financial barriers, as the full extent of the economic implications of enlargement have yet to be fully addressed. The European Union's pledge to support Ukraine during ongoing conflicts has led to Member States ramping up their financial contributions and investments; nonetheless, there exists a gap between the commitments announced by EU bodies and the actual funds disbursed.

**Addressing this funding dilemma is essential** for the EU to advance its aspirations and maintain its leadership role on the global stage, ensuring that its ambitious agenda can be transformed into tangible actions and outcomes.

The resolution of this challenge lies in **a strategic approach that leverages the Single Market's potential in mobilising both private and public resources** more effectively.

In recent years, the EU and its Member States fell short of achieving the desired objectives, while risking undermining the foundations of the Single Market. There is a pressing need to adopt a European approach to financing, which consists in a combination of private and public investments.

**The initial focus must be on mobilising private capital**, a crucial step that lays the groundwork for a more inclusive and efficient financing framework, as it is the area where the EU is most lagging behind. It is against this backdrop that this Report advocates for a pivotal shift: the formation of a **Savings and Investments Union**, built upon the incomplete Capital Markets Union. By achieving full integration of financial services within the Single Market, the Savings and Investments Union is envisioned to not only retain European private savings but also to attract additional resources from abroad.

**The next step involves tackling the debate on State aid**. We should develop bold and innovative solutions that strike a balance between, on the one hand, the need to quickly mobilise national targeted public support for industry, in so far as it addresses in a proportionate way market failures, and, on the other hand, the need to prevent the fragmentation the Single Market. Whilst the progressive relaxation of State aid in response to the recent crises has contributed to limiting the negative effects on the real economy and successive temporary frameworks have introduced innovative concepts to capture the changing international context, it has also produced distortions of competition. There is a risk that over time such an approach amplifies distortions of the level playing field within the Single Market due to the difference in fiscal space available to Member States. A way to overcome this dilemma could be to balance a stricter enforcement of State aid at national level and the progressive expansion of EU level funding support. Specifically, we could envision a State aid contribution mechanism, requiring Member States to allocate a portion of their national funding to financing pan-European initiatives and investments.

Unlocking private investments and refining our approach to State aid will facilitate the creation of the necessary political conditions to unleash another critical dimension: **European public investments**. Faced with strong global competition, the EU must step up its efforts to develop a competitive industrial strategy capable of counteracting instruments recently adopted by other global powers, such as the US Inflation Reduction Act.

The EU still falls short of the adequate political instruments to develop industrial strategy tools like IRA - which is based on swift and agile tax credit schemes. In the short term, given the lack of necessary conditions to establish similar tools, the primary focus should be on refining and enhancing the existing framework. However, in the long term, to effectively formulate new impactful industrial strategies, it is crucial to address the political divisions surrounding the EU's central fiscal capacity.

## A Savings and Investments Union to unlock the potential of the Single Market

Enhancing financial integration within the Single Market is more than an objective in itself, it has become a prerequisite to achieve the broader goals of the EU. Consequently, we must strive to develop a **Savings and Investments Union** in the framework of the Single Market.

Despite its status as one of the world's foremost economic powers, the EU's share in global capital market activities - including equity issuance, total market capitalisation, and corporate bond issuance - does not align proportionately with its GDP. This discrepancy highlights the critical need for **a more integrated and robust European financial market able to channel savings towards investment needs**, which is essential for harnessing the full potential of the EU's economic capabilities and supporting its position as a leading global economic power.

The European Union is home to a staggering 33 trillion euros in private savings, predominantly held in current accounts (34.1%). This wealth, however, is not being fully leveraged to meet the EU's strategic needs; **a concerning trend is the annual diversion of European resources towards the American economy and US asset managers**. This phenomenon underscores a significant inefficiency in the utilisation of the EU savings, which, if redirected effectively within its own economies, could substantially aid in achieving its strategic objectives.

To rectify this situation, there is an urgent need for the development of an attractive and efficient financial market within the EU. A well-functioning Savings and Investments Union would not only retain these vast pools of private savings within Europe but also make investing in the continent more appealing for both EU residents and foreign investors. The drive for greater integration of European financial markets is a clear imperative, aimed at mobilising these resources to support and fuel the EU's ambitions. This strategic approach is vital for enhancing the EU's financial landscape, ensuring that it can harness its substantial economic resources to their fullest potential, thereby supporting its role as a key player on the global stage.

In the last years, attempts to address this topic have revolved around the much discussed project of the Capital Market Union. Launched in 2015 and revamped with the 2020 Action Plan, the project represents a significant step forward in achieving capital markets integration, but it fell short of translating into concrete and tangible results on the ground, mainly due to the absence of a strong political mobiliser going beyond the intrinsic financial markets dimension. We therefore need to find new impetus and political energy to step up our common efforts and achieve meaningful progress, towards a broader Savings and Investment Union. **Financial integration within the Single Market will remain elusive unless it is clear that such integration serves not merely the finance sector itself**, but is crucial for financing common objectives that would otherwise be unachievable.

### A new political mobiliser to leverage private resources: the green transition

**The fair green and digital transition stands out as the most suited catalyst for transformative change**. The European Commission itself estimates that "*additional investments of over €620 billion annually will be needed to meet the objectives of the Green Deal and RepowerEU. By far the greatest part of these will have to come from private funding*". A tangible illustration of this financial challenge is evident in the ambitions of the Net Zero Industry Act (NZIA). The NZIA aims for the EU to produce at least 40% of its annual requirements for strategic clean technologies by 2030, a goal that necessitates substantial investment.

However, there is a funding gap not just with respect to amounts, but also with respect to the type of funding that is available. Public funding is not always best suited to meet the financial needs of the sector, especially when it comes to the development of new technologies rather than investment in improving infrastructure. Few public funding instruments target the three main funding constraints green-tech hardware scale-ups face: equity funding for growth (R&D, expanding operations, hiring talent), project finance for first of a kind deployments, and debt financing for commercial rollouts without diluting ownership.

**The imperative to meet the European Union's ambitious green targets cannot be overstated, as the future of the EU hinges on this commitment**. The consequences of failing to act are multifaceted, encompassing environmental, economic, and geopolitical dimensions. Therefore, it is crucial to stress that without a unified financial framework that encourages the flow of investments into sustainable and innovative sectors of the real economy, the ambitions for a green, digital, and fair transition is unattainable.

Firstly, there exists a substantial **opportunity for industrial leadership** in the transition to a green economy, that the EU can't miss. The International Energy Agency estimates that the global market for key mass-manufactured clean energy technologies will be worth around $650 billion a year by 2030, more than three times today's level. The related energy manufacturing jobs could more than double in the same period. The UE's net-zero ecosystem was worth over €100 billion in 2021, doubling in value since 2020

Secondly, the **impact of climate change** within the EU has been deeper and faster than expected. Climate-related extreme events have risen between 1980 and 2022, causing 220,000 deaths and €650 billion in economic losses over the period in the EU, of which about €170 billion over the past 5 years only. The cost of inaction is high: by 2031-2050, the cumulative additional GDP cost of a pathway leading to worse global warming could amount to €2.4 trillion in the EU, compared to the costs under a pathway compatible with the 1.5°C objective of the Paris Agreement.

Lastly, the EU's credibility and **international role** are at stake. The Union has endeavoured to guide its partners towards ambitious environmental targets. However, failing to meet its own green targets would severely undermine the EU's position as a global environmental leader, jeopardising its ability to influence international climate policy and action.

Therefore, **creating a direct connection between the funding of the fair, green, and digital transitions and the development of the Savings and Investments Union is crucial**. On one hand, enhancing financial integration within the Single Market emerges as a pivotal strategy to fulfil our investment needs, which, if unmet, could lead to social and political backlash. On the other hand, placing a strategic emphasis on achieving the fair, green, and digital transitions can catalyse the necessary political momentum to establish an ambitious Savings and Investments Union. This dual approach not only aligns with our strategic objectives but also reinforces the Single Market as a dynamic force capable of mobilising significant investment. By doing so, we leverage the Single Market's power to address our critical funding challenges while simultaneously advancing towards a sustainable, inclusive, and digitally empowered future.

## Creating an ecosystem for European investments

There are three structural areas in need of urgent action to create a thriving Savings and Investments Union within the Single Market: the **supply of capital**, the **demand for capital**, and the **institutional framework and market structure governing the movement of that**

**capital**. It is imperative that any reform package considers all three areas together. They form integral parts of the broader ecosystem, and therefore cannot be addressed in isolation. They require joint action from the EU institutions, Member States and market participants.

Pursuing both technical fixes - that are theoretically implementable in the relative near-term - and longer-term structural efforts in parallel is critical. Although they would, in most cases, be tasked to different bodies and authorities, their combined implementation is critical to achieving the final target in the long-term. Here below are tools and instruments, which could be part of the Savings and Investment Union.

**Funding by institutional investors**: European institutional investors and particularly pension funds are much smaller and play a lesser role than in other advanced economies. This depends on the national fragmentation and on different national welfare systems and pension schemes. **It is proposed to create an auto-enrolment EU Long-Term Savings Product**. Compulsory public pension fund systems are social and political decisions by Member States and only a few have chosen systems that allow for long-term accumulation of capital. However, collective and individual long-term saving plans can be developed at the EU level. The success of any long-term savings plan will depend on tax incentives given by Member States individually, regrouped through reinforced cooperation or by unanimity. Based on an objective assessment of its underwhelming performance, **simplifying and upgrading the Pan-European Personal Pension Product** could be a viable option for the future. This may involve introducing an auto-enrolment clause. The creation of a workplace savings product could also be a possible venue. Such financial products could take the form of an auto-enrolment EU Long-Term Savings Product, that is valid across companies and borders within the Single Market.

However, it is important to note that pension funds are not the only long-term institutional investors that can make a difference to capital market development. Notably, insurance companies are important players – total financial assets by insurance companies in the euro area are substantially larger than those of pension funds. While their investment models differ, policies to help allocate savings towards their most productive use must therefore take a broader approach, also considering insurance corporations and the adequacy of the frameworks that govern their investment mandates. For example, increasing the coherence between Member States' frameworks (and the existence of such frameworks) for **approving internal models to calculate capital requirements for large insurance groups could help unlock more insurance company capital** by tailoring the risk profile to each undertaking within the group. This could be achieved by enhancing supervisory convergence and fostering collaboration among national authorities, for example through the establishment of joint supervisory teams with the relevant European national supervisors and EIOPA. Banks may also play a role as investors in companies' equity and their specific capital requirements framework could be reassessed to make it easier.

These efforts could be completed by some accompanying measures, such as **strengthening financial literacy** and creating a **harmonised European framework for recognising qualified investors**. One possible solution could involve integrating financial literacy into school curricula. A three-level framework of institutional, qualified individual and retail investors, defined in a coherent way across the EU, would help focus efforts for capital market integration and promote cross-border investment in the Single Market.

**Channelling retail savings into the real economy**: European household savings have reached enormous amount. Most of these savings are parked on banks' deposit or invested in mutual funds often managed by large international funds, particularly US fund. The EU lacks indeed an effective instrument to channel retail savings into the European real economy. Particularly European SMEs struggle more or pay higher prices to find equity and debt investment particularly vis-à-vis their US counterparts. In 2015, the EU introduced the

European Long-Term Investment Fund (ELTIF) and recently revised it. The reform came into effect earlier this year. ELTIF is a regulatory framework which aims to grant private savers and non-professional investors direct access to alternative funds, including private equity, private debt funds, infra and other long-term investment schemes. The reform, which brings simplifications for asset managers and distributors, is expected to provide momentum to this instrument. Hitherto, ELTIF has gained little traction, with fewer than 100 funds distributed over 8 years, primarily in France and Italy. **The introduction of a EU-wide scheme allowing private savers to invest in alternative funds offers several benefits**: i) It provides SMEs and other non-listed assets with much-needed resources, particularly in markets traditionally underfunded in Europe; ii) It democratizes investment, opening up possibilities for retailers to access investments previously exclusive to professional investors and high-net-worth individuals; iii) It contributes to the creation of a European market for alternative assets by feeding resources into European alternative asset managers and therefore contributing to the CMU. However, it is improbable that this instrument will achieve mass-market status and offer significant funding for European companies without adequate tax incentives. Illiquidity indeed needs somehow to be compensated. **We suggest launching a new European scheme which could integrate a national tax incentive with the ELTIF**. The exact amount of the tax benefit could be left to be determined by each Member State, but it should be sufficiently attractive. The EU legislation could establish a minimum threshold for the incentive to ensure its effectiveness.

**Public sector guarantees**: We therefore propose a specific facility through which the EU can support the banking sector in funding the climate transition. The EU has already supported private investment in the past, with the European Fund for Strategic Investments (EFSI, also known as the Juncker Plan). In 2022 the EFSI was replaced by InvestEU, which has a similar size and scope (33.7 billion euros in guarantees to support around 370 billion in private investments by 2027). At the same time, national governments have introduced similar guarantee schemes to boost private investment. **In order to support sustainable private investment, the EU should launch a specific European Green Guarantee (EGG)**. The European Commission and the EIB can develop the framework and raise the financial resources for a EU-wide scheme of guarantees to support bank landing to green investment projects and companies. As for the EFSI, the EIB would then evaluate the specific proposals from commercial banks and/or national financial institutions and award the guarantee. With that guarantee, European lenders would be able to provide the necessary funding. It should be explored how the guarantee could be extended to European private debt funds. With a resource multiplier around 12 (like the original EFSI), between 25 and 30 billion in guarantees can support 300-350 billion in investments. European banks would play the key role of allocating resources to the green companies and thanks to the EGG they would be able to neutralize the so-called “green transition risk”, which prices the inherent risk of lending to green companies.

**Public Private Partnerships**: In the face of constrained public budgets, private capital can also be key to developing new green (transport, energy etc etc), and digital infrastructures. This requires unlocking the substantial liquidity available among institutional investors, such as pension funds and life insurers. Infrastructure assets, associated with proper regulatory frameworks, offer to patient capital stability and predictability of revenues. **The European PPP market remains relatively small. Therefore, some reform is necessary**: First of all, it requires a shift from in-house models (including state-owned enterprises) to contractual and/or institutional public-private partnerships, mainly through the adoption of concessions and licenses. Moreover, it requires strengthening regulatory frameworks to ensure a balance between affordability for taxpayers and profitability for investors and it implies to overcome a certain bias against PPPs from a fiscal standpoint. Forms of blended finance should be more largely used, with tranching in accordance with different risk appetite. Furthermore, mitigation mechanisms could be used to ease demand risks, particularly in green transport infrastructure.

The Commission should propose a comprehensive policy framework and advocate it with public authorities and investors. Only in this way, European pension funds and insurance companies could be extensively involved in the financing of new infrastructure. In this sense, **the regulatory framework for insurance companies and pension funds should be reviewed** to assess whether there are changes to be introduced to facilitate their involvement in PPPs.

**Securitization**: Securitization acts as a unique link between credit and capital markets. In this sense, the securitization market offers significant potential. Increasing its utilization brings two key benefits: i) broadening and diversifying the pool of assets available for investment, and ii) unlocking banks' balance sheet capacity to facilitate additional financing. Moreover, the adoption of green securitization, whether through securitizing green assets or directing securitization proceeds towards green financing, holds promise as a significant contributor to the transition towards sustainability. Therefore, we advocate for reforms in the European securitization framework to enhance its accessibility and effectiveness.

**<u>Connecting the real economy with European citizens' savings</u>**

In order for capital to be efficiently deployed in the Single Market, there must be a corresponding demand for it. This entails raising awareness among companies and entrepreneurs about the availability of capital market financing, as well as implementing rules and regulations conducive to its use. In recent years, the number of companies accessing public equity has decreased, as the pool of companies listed on the EU's main regulated equity markets has been shrinking.

A pivotal structural measure involves establishing a **single entry point to public capital markets for small and mid-cap companies**. It is imperative to establish a specialised section of the capital markets tailored to small and mid-cap companies, with simplified listing requirements proportionate to their age, size, and ownership structure, serving as a preparatory phase prior to transitioning to the main segment. Encouraging collaboration among key EU stock exchanges to pool their small and mid-sized segments, thereby creating a unified IPO gateway to EU public markets for these companies before they transition to their chosen EU stock exchange's regulated market, is also paramount. Granting direct supervision of this joint venture to ESMA will streamline the regulatory and supervisory framework of such a unified IPO access point.

This structure can be complemented by several accompanying measures. Specifically, initiating a campaign aimed at **raising awareness about the advantages (along with the risks) of capital markets** is crucial. This serves as a vital bridge between supply and demand, involving a diverse range of stakeholders such as businesses, banks, professional investors, and retail investors. Furthermore, alongside investor awareness, prioritising the education of financial advisors and entrepreneurs is imperative. Special attention should be directed towards **fostering a culture of capital market utilisation among SMEs**. Additionally, a clear strategy to bolster private equity and venture capital is essential. Sound public capital markets necessitate a robust surrounding ecosystem, including strong private capital markets - particularly venture and growth capital - to provide funding for companies across their lifecycle.

**<u>Fostering the creation of an EU Stock Exchange for Deep Tech</u>**

Deep Tech companies use cutting-edge science and technology like Artificial Intelligence, Quantum technology or Biotechnology, to bring new products and services which unleash mega-waves of innovations.

**Deep Tech start-ups have a very specific profile**: they are high risk, with long term Return on Investment and, if successful, high gain companies. As they come with a revolutionary product or service, **there is no or little market for it to start with and no guarantee of a breakthrough**. Deep Tech is therefore characterised by an above-average proportion of bankruptcies. In some cases, these companies have to provide their services for free (e.g. Open AI …) or at a lost for quite a while to acquire a larger number of users and sufficient customer loyalty. Successful Deep Tech start-ups eventually become companies whose shares offer the highest gain. The new ecosystems built around them contribute to current US economic performance and explain for a large part the growing gap between the US and EU.

They are also capital intensive. Typically, to develop their idea for a product or service, they turn to (national or EU) public funding and Venture Capital for pre-seed and seed money. Once their product or service viable, they need to raise a lot more money very fast to stay ahead in the race, e.g. by completing quickly large scale clinical trials in the case of biotech, hiring staff for the production phase, covering marketing and public relations costs, etc. This is often done through Initial Public Offering (IPO), i.e. when the company sells shares to the public. It is the moment when founders and capital venture cash in on their investment.

At IPO stage, many EU start-ups are confronted with the following problems. Firstly, they realise that no national Stock Exchange in the EU is large enough to raise the capital they need at speed and in a cost-effective way compared with the USA (where pools of long-term capital are much larger and where NYSE is competing with NASDAQ by offering attractive listing fees). Secondly, they see that market valuation – amount investors are paying above the 'floor price' set to buy new shares – in EU countries is much lower than in the USA (often up to 40% lower).

In the EU, due to Basel II Regulations, high risk/high gain asset classes with high liquidity risk are indeed down-prioritized as they entail a 'penalty' in the form of more capital required on the balance sheet to hedge for liquidity risk. Moreover, national stock exchanges in the EU operate under the oversight of national authorities, which makes further integration difficult, leads to regulatory gold-plating and lack of specialisation. **National rule books and oversight are not adapted to Deep Tech stocks which are handled similar to classical industries on the basis of revenues and profits**. The ongoing consolidation among stock exchanges in Europe can enlarge the pool of capital but cannot remedy the specific problems affecting Deep Tech start-ups.

In order to strengthen EU strategic autonomy and economic security agenda, the EU should **facilitate the creation of an EU Deep Tech Stock Exchange thanks to specific rules and supervision**. Because of their specific profile, investing in deep-tech startups is not for small investors or retail banking, but for pension funds and large asset management firms. Indeed, the latter can take high risk and wait for long term return. It means that a different (less risk adverse) EU prudential regime with supervision at EU level could be envisaged for these investments above a certain threshold.

**Institutional framework and market structure**

Guided by the principles of the Single Market, the European Union has established a legal and regulatory foundation that facilitates the free movement of capital and financial services, entrusting market dynamics to leverage these newly forged opportunities. However, it did not prescribe specific structural goals to shape the competitive landscape of the ecosystem, aimed at enhancing market-based financial integration. This approach has led to varied outcomes across several sectors. On one hand, integration efforts have sometimes failed, giving rise to market fragmentation shielded by national prudential or investor protection regulations. This fragmentation hampers potential productivity improvements and the emergence of significant market entities capable of offering more competitive services and prices. On the other hand, certain sectors have seen the formation of oligopolies or duopolies, such as in the realms of rating agencies, data providers, payments, and auditing services. Often, these concentrated markets are dominated by entities whose primary market is outside the Single Market, placing them in a position of strength. Consequently, the European Union has increasingly found itself enacting legislation aimed at effectively regulating these non-EU financial market entities. This regulatory approach, while necessary, has inadvertently raised barriers and increased the challenges for new EU market entrants, making their emergence more costly and arduous.

Within the current EU financial supervisory architecture, national regulators and supervisors form the core of the entire ecosystem. This central position often leads to the protection of national interests, including financial centres through local supervisory measures and investor protection rules. Significant progress has been made toward developing a sophisticated Single Rule Book. However, existing barriers or breaches in achieving a level playing field are evident through variations in national supervisory intensity.

A crucial structural initiative involves **advancing towards more comprehensive and integrated supervision of financial markets.** While stronger regulators and supervisors alone cannot create the Savings and Investments Union, the absence of a robust and standardised framework can impede further integration. Establishing a single, centralised supervisor in the EU at this stage may be premature, potentially overlooking the benefits of proximity to the diverse local financial markets and economies within the EU. Conversely, relying solely on national-level supervision is also inadequate. The system must evolve similarly to the banking sector's single supervisory mechanism, where the ECB's Single Supervisory Mechanism (SSM) directly oversees significant banks, while national supervisors manage less significant ones. Concurrently, a **strengthened European Securities and Markets Authority (ESMA), in collaboration with National Competent Authorities**, could assume more supervisory responsibilities for major entities based on criteria such as size, cross-border activities, and their systemic importance, encompassing trading venues, issuers, asset managers, and other financial market participants.

Considering previous endeavours, the progression towards more integrated supervision within the securities domain entails **gradually enhancing the direct supervisory powers of ESMA, adopting a bottom-up strategy**. This approach opens up various pragmatic pathways. One option involves shifting the supervision of the most integrated markets or significant market players to ESMA, particularly when supervision proves more effective at a supranational level, such as with equity markets. Another route requires the European Commission to assess market integration for each Directive or Regulation moving forward. This assessment aims to pinpoint where supervisory efficiency is most advantageous and suggests a data-driven handover to ESMA whenever a Directive or Regulation undergoes review. In instances where market integration is less apparent, the mutual recognition and convergence of supervisory practices should suffice to ensure the efficiency of the supervisory function.

Such transfer of powers raises the question of the adequacy of the **governance and decision-making processes of ESMA**. Increasing ESMA's direct supervision should be coupled with a change in the governance system. Currently, the Board of Supervisors and the Management Board are composed of national competent authorities, plus the Chairman and some non-voting members. This composition does not necessarily guarantee the efficiency of ESMA's decisions or ensure the necessary degree of independence, as it embeds the interests of national authorities. This governance structure may be a factor that makes it more difficult to take action in sensitive areas, particularly with respect to Article 17 enforcement action. The mandatory review of the European Supervisory Authorities (ESAs) includes in fact: "*the impartiality, objectivity and autonomy of the authority*". When the ECB was created, the choice was to add six 'other' members to the Governors of Central Banks in the Governing Board and in the General Council: the six independent members constitute the executive board of the ECB. A similar choice should be made for the ESAs. The Management Board should be composed of six independent and highly-qualified individuals, including the Chair, appointed by a qualified majority of the Council and an opinion of the European Parliament. The Board of Supervisors should be composed of the heads of the national competent authorities plus the 6 members of the Management Board.

The framework could be completed by some additional measures, such as **ensuring legislative and regulatory efficiency**. The Single Market suffers from a misuse of the hierarchy of norms permitted by the Treaty. Mistrust between Member States often leads to an excess of details in ordinary legislation, which could be more appropriately addressed through more flexible delegated or implementing acts. Other regions can therefore adapt their legal and regulatory framework to financial innovation more quickly than the Single Market. However, the EU's legislative tools offer the potential to create a more competitive ecosystem, aligned with Treaty objectives. One potential approach would involve incorporating into the Inter-institutional Agreement on Better Law-Making an obligation for the Commission and the two co-legislators to consider, prior to any legislative proposal and discussion related to the Savings and Investments Union, the objectives of fostering a self-sufficient, diverse, and competitive ecosystem, along with a competitiveness test ensuring an appropriate balance between ordinary legislation and delegated or implementing acts, thereby providing the flexibility needed to enable rapid competitive responses to innovation within the Single Market.

Priority in the policy agenda should also be given to **promote greater harmonisation in interpretation of rules and standards.** The interpretation of European rules - especially Directives that are not straight away applicable, but even Regulations - differ, not only between different national legislators, whose task it is to transpose them, but also by the courts in litigation. This leads to a fragmentation, in spite of a framework of rules that is or should be unified at the European level.

**Harmonising insolvency regimes** is often rightly cited as a means to promote cross-border investment and market access in the EU, as it substantially reduces administrative and legal costs associated with insolvency proceedings. However, there is an urgent need to take action to overcome national short-sightedness.

While it is difficult to integrate all aspects of the securities markets, there is scope to focus on certain areas, such as clearing and settlement. There are 18 clearing and 21 settlement markets in the EU, mainly owned by national stock exchanges, against one company for each of the two markets in the US, mutually-owned by the utility-like Depository Trust and Clearing Corporation (DTCC). Judging by the US experience, where stock exchange competition is strong, it seems that there is no apparent need for competition in the clearing and settlement markets, as long as there is fair and open access for all actors, proper governance and sufficient incentives for innovation. Consolidation appears easier now that the Target 2 Securities (T2S) platform managed by the Eurosystem is fully operative and allows swift settlements. This would bring benefits in terms of economies of scale, simplicity and lower costs. Consolidation also requires **addressing the significant barriers that persist in the post-trading landscape**, underscoring the importance of enhancing the coordination of post-trading infrastructure regimes, or working towards a common regime. Despite the establishment of T2S, many barriers identified in the two Giovannini reports in 2001 and 2003 continue to pose significant obstacles to cross-border investing and capital raising. Specifically, it is crucial to better harmonise differences in rules and practices pertaining to withholding and transaction taxes, the cross-border exercise of shareholder rights such as participation in general meetings, effective shareholder identification by issuers, and market insolvency procedures.

## Single benchmarks for European financial markets

**Combining existing EU emissions for a stronger Savings and Investments Union**

One fundamental aspect of EU integration in general, and financial market integration in particular, is the lack of a common European safe asset with predictable and certain availability. Currently, EU financial markets rely on national sovereign bonds as benchmark assets, which means that relative changes in national bonds values can result in disruptive capital flows and the deterioration of companies' balance sheets.

Putting bonds issued at the EU level firmly at the centre of the EU's financial architecture would be crucial for the stability and integration of financial markets and for strengthening innovation and growth across the whole EU internal market. In March 2024, there were for the first time in the market more than EUR 1tn of European (supranational) bonds, issued by the European Commission, the European Investment Bank and the European Stability Mechanism/European Financial Stability Facility. These are all triple-A assets, fully backed one way or another by European sovereigns. They enjoy significant demand from global investors, including central banks, governments and sovereign wealth funds. However, while these supranational bonds are close substitutes, they are traded separately, which hurts their pricing given the relative lack of liquidity coming from the still limited and fragmented issuance. Issuances at EU level will increase significantly in the very near future as the adopted NGEU and EIB programmes are implemented.

**Making such issuances fully homogeneous would provide a liquid risk-free collateral and allow diversification of exposures**. Such a common benchmark would level the financial conditions among operators in the Single Market, whose costs currently depend on which sovereign bond is used as reference for their funding, and will facilitate the pricing of risky financial products which are necessary to support innovation and the financing of the twin transitions and of Europe's security. Widespread availability of single EU supranational bonds will also help the transmission of the single monetary policy and reduce constraints in the use of ECB's tools. Finally, being a credible store of value, they would incentivise holdings in euro by foreign central banks, fostering the euro's international role, with positive geostrategic implications.

**Existing and future issuances of the different EU institutions could be made fully homogeneous by marketing them under a single name, while still backed by their own credit and capital structures**. The issuance could be done either by one of the existing institutions on behalf of the others, or by a newly created EU agency reuniting existing issuing departments of the EU institutions. The merging of the SURE and NGEU issuances, despite their different credit structures, provides a concrete and positive example that can be built upon. The benefits of moving towards a 'single issuance for all EU institutions' approach could become even more visible were the funding of European public goods such as digital, energy or defence infrastructures and equipment, or the reconstruction of Ukraine, to be made through borrowing by EU institutions. This would render the supply of EU bonds not only more significant but also steadier, making them the main instrument of reference for the ECB.

**Bridging borders and boosting efficiency: a Digital Euro**

By providing a secure and privacy-compliant pan-European payment infrastructure offering central bank digital money, the digital euro complements the Union for savings and investments goals. As payments are becoming increasingly digital, **banknotes and coins - which are declining in use, and are the only current forms of central bank money with legal tender available to the general public - alone cannot support the EU's economy in the digital age.**

After 30 years from the establishment of the Single Market and 25 years of a single currency in the euro, there is currently no European digital means of payment covering all Euro area Member States that enables both citizens and businesses to make digital transactions seamlessly within and across national borders. International payment schemes operated by non-European actors facilitate 69% of all digital transactions in the euro area, with 13 out of 20 euro area countries relying entirely on them due to the absence of a domestic payment scheme.

The current situation creates significant challenges for the convenience of citizens and businesses, undermines the resilience of our payment systems, and directly threatens cross border transactions in the Single Market. **Without a central bank digital currency supporting the European Single Market, the rise of new global systemic actors in the payment market risks marginalising European banks, disrupting their vital customer relationships, and weakening their overall competitiveness**. Reliance on foreign entities compromises the system's resilience, potentially exposing it to manipulation and disruption beyond the reach of European regulation.

**The digital euro would overcome many of these shortcomings as it represents a paradigm shift for retail payments within the Euro area**. It would offer to European citizens and companies the freedom to pay (and be paid) with a single, public, secure and widely accepted public solution throughout the entire euro area. Unlike existing payment methods, it would cover everything from online transactions to in-store purchases and peer-to-peer transfers, both online and offline. It would build a new European infrastructure able to support innovation, as private providers can access it to innovate and develop new value-added services for their customers. Furthermore, it would empower Europe to independently develop and manage digital payment solutions, thus reinforcing its strategic autonomy. In particular, thanks to the use of European technology and infrastructure, such as the synergies that could be created with the future European digital identity wallets, the digital euro would guarantee that financial transactions data stay within the EU's jurisdiction, complying with the highest standards of innovation and privacy.

**The groundwork for the digital euro's success is in place. It's imperative for the ECB and European legislators to rapidly advance the project**. The ECB should work with all stakeholders in order to make sure that the technical realisation of this project is a win-win for existing actors, consumers, financial institutions and other relevant actors. With the Commission's proposal in June 2023 and the ECB's preparation phase, acceleration is critical. A digital euro must be a reality before 2027. Delays will only deepen the Single Market's vulnerabilities and prevent Europeans from reaping the digital euro's benefits – lower costs, increased competition, and a more resilient financial system.

## Road map

By 2025

- Launch an EU-wide auto-enrolment Long-Term Savings Product in order to stimulate retail investments, leveraging tax incentives from Member States and enhancing the Pan-European Personal Pension Product for broader market applicability.
- Harmonise Member States' regulatory frameworks to allow large insurance groups to tailor capital requirements to the specific risk profile of each entity, thus unlocking additional capital.
- To support private investment in sustainability, create a specific European Green Guarantee (EGG). The European Commission and the EIB could develop the framework and raise the financial resources for a EU-wide scheme of guarantees to support bank landing to green investment projects and companies.
- Revise the securitization framework to simplify the utilization of this instrument, crucial for diversifying asset investment and releasing banks' balance sheet capacity. This, in turn, will enable bank to offer additional financing.
- Implement a single access point for public capital markets, specifically designed for small and mid-cap firms, to consolidate their market segments via key EU stock exchanges, simplifying their transition to main market segments under ESMA's direct and streamlined supervision.

By 2026

- In order to channel ordinary citizen savings into the financing of the real economy, launch a new European scheme which combine the European Long Term Fund (ELTIF) scheme with attractive national tax incentives.
- Progress toward a cohesive and comprehensive supervision of financial markets by adapting a model similar to the banking sector's supervisory mechanism, where a strengthened ESMA, in collaboration with National Competent Authorities, could assume more supervisory responsibilities for major entities.
- Establish a unified European safe asset by centralising EU-level bond issuances under a single name, ensuring stability and homogeneity in the financial market.

Throughout the next legislature

- To finance green infrastructure process and attract capital from pension funds and insurance companies, promote the public private partnership (PPP) instrument by strengthening regulatory frameworks and ensuring a balance between affordability for taxpayers and profitability for investors.
- Advance the implementation of the digital euro to strengthen EU's financial autonomy and improve the retail payment infrastructure.

## Leveraging the Single Market to enhance green and digital public investments

The establishment of a Savings and Investments Union within the Single Market represents a significant step forward in strengthening the European Union's ability to achieve its strategic objectives. However, it has become increasingly clear that relying solely on private investments will not be sufficient to meet the EU's extensive financing needs. In this scenario, fostering a **complementary relationship between private and public investments** becomes crucial to address our funding needs.

To achieve the fair, green and digital transition and protect European industries in the developing subsidy race, the EU has developed a considerably more active industrial approach in the last years. Exploiting exemptions within the Treaty's State Aid Framework, the Union has developed instruments such as Important Projects of Common European Interest (IPCEIs), made changes to the General Block Exemption Regulation (GBER) rules, created a more elaborate state aid framework for the green transition, and flexibilised State aid rules through several temporary frameworks. As most of the remaining exemptions still in force are set to expire by the end of 2025, the EU must now reflect on which elements should be integrated more permanently into a unified governance system.

The substantial increase in public subsidies, funded primarily by Member State budgets and, to some extent, by the EU, has sparked a debate over the compatibility of this novel European industrial strategy with the Single Market competition framework. A fundamental Single Market's principle is to foster competitive markets by ensuring a 'level playing field' among economic actors across the EU. Although the EU's common objectives warrant a more assertive industrial policy in the face of mounting geopolitical challenges, a strategy heavily reliant on fragmented national subsidies could potentially weaken the Single Market's competitive equilibrium. To alleviate the tension between new industrial approaches and the Single Market framework, **the EU's industrial strategy must adopt a more European approach**. The aforementioned State Aid contribution mechanism is a first step towards this direction and in the long term it could lay the groundwork to initiate a wave of genuinely European public investments.

The creation of a Savings and Investments Union, coupled with the refinement of the State Aid framework based on a contribution mechanism, can play a crucial role in overcoming existing political obstacles and concerns. If jointly implemented, these key reforms could establish the essential political and economic groundwork for the future.

### Common conditionalities for common public policy objectives

In addition, to ensure a more European approach to investment and industrial strategy, a State Aid framework with **common conditionalities** for disbursement is crucial. The effectiveness and acceptability of State Aid instruments depends crucially on the strategic use of public funds to achieve **common public policy objectives**. Wasteful or harmful spending must not be allowed.

Several options for state aid conditionalities exist, from 'ex-ante eligibility criteria' to conditionalities regarding 'ex-post changes' in enterprise behaviour. The type of targeted enterprise behaviour can include access to resulting products and services, the directionality of enterprise activities towards public policy objectives, profit-sharing, and reinvestment requirements. In terms of conditionality objectives, they can cover concerns such as economic security, the environment, human well-being, workers' rights, as well as good governance and accountability. The US Inflation Reduction Act, for example, contains local-content and social conditionalities for private enterprises in exchange for public subsidies. Importantly, not only the initially agreed conditionalities matter but also to which extent these are later renegotiated or not followed through, making the **definition of clear conditionality criteria, their monitoring, and enforcement** a key for successful industrial policy making.

To achieve the European Union's strategic goals, conditionalities must be tailored to these specific ambitions. They must be operational, measurable, verifiable, and enforce consequences in instances of non-compliance. National state aid schemes should adhere to a uniform set of conditionalities applicable across all Member States to prevent 'state-aid shopping', thereby **ensuring the integrity of the Single Market**. Certain conditionalities, such as wages, workers' rights and support for less developed regions, could be applied across different types of State aid logics and help to ensure that industrial policy projects support convergence and fair competition within the EU.

## Common governance to boost efficiency and impact

The adoption of a unified set of conditionalities should be accompanied by a governance structure capable of effectively identifying, developing, implementing, and evaluating State Aid projects. This framework should aim at **diminishing existing disparities among Member States** in terms of administrative and technical capabilities, thereby facilitating the evolution of a genuinely European approach to investments. By fostering the collaborative engagement of diverse **private and public stakeholders**, this framework can also mitigate potential coordination or agglomeration challenges, which represent significant barriers to innovation and the cultivation of a competitive European industrial landscape.

The new State Aid governance framework should be flexible, accommodating different needs based on **public policy objectives** and the maturity levels of technologies or products. For sectors where the focus is on the financing of existing technologies, such as economic security, governance mechanisms must prioritise the efficient utilisation of public resources and the assessment of measures against set objectives. Conversely, in areas demanding innovation and the development of disruptive technologies, such as climate and energy policy, the EU might benefit from adopting **governance models that allow for more iterative and collaborative processes**. These models, inspired by the likes of the US DARPA and ARPA-E, enable projects to adapt more flexibly to challenges and integrate new information, thus enhancing their potential for success. The governance should incorporate both top-down guidance and bottom-up project identification through open calls, ensuring support for initiatives aligned with industrial policy.

For many of the EU's industrial policy ambitions, the **IPCEI model could serve as a blueprint**, as it already incorporates a comparatively European approach to policy-making. First, IPCEIs must contribute to the EU's objectives. Second, such projects must demonstrate their ability to overcome important market or systemic failures or to address key societal challenges. Thirdly, IPCEIs must involve companies located in several Member States and give all Member States the opportunity to participate. Finally, such projects need to generate positive spill-over effects beyond the participating countries, taking a value chain approach. The IPCEI approach could be further developed and generalised in a EU industrial policy. To this end, the existing IPCEI Communication - based on Art. 107 (3)(b) TFEU - needs to be revised to take into account a broader set of logics for the use of state aid than currently covered by the Communication. Depending on the concrete industrial policy objective, State aid granted under this framework could be allowed beyond 'world-class' innovation and cover maturity levels beyond first industrial development. The revised IPCEI Communication could establish coherent governance models adapted to specific policy objectives and ensure adequate monitoring and evaluation of the State aid measures taken.

The EU and its Member States must collaborate to streamline State aid processes and foster capacity building, simplifying the current diverse and complex state aid landscape. Reducing administrative burdens for businesses, harmonising State aid rules and speeding up the assessment of State aid measures will make it **easier for all, but in particular for SMES, to access support**. Enhancing permitting procedures, as proposed by the Net Zero Industrial Act (NZIA), will further facilitate the development of EU industrial policy projects. Moreover, **addressing disparities in technical and administrative capacities among Member States and their enterprises** is essential for ensuring a level playing field within the Single Market. This requires investment in training and the establishment of forums for sharing best practices and identifying promising projects across the Union.

# Improving investment: circular economy, public procurement and administrative capacity

While increasing public and private investment is critical to advancing our strategic objectives, it is not sufficient on its own. Achieving a more efficient and impactful deployment of these funds is equally crucial. There are three pivotal elements that must be woven into our approach to elevate the way money is spent and to magnify its impact.

Firstly, we need to embed **circular economy** principles within the Single Market. This involves not just acknowledging but actively incorporating sustainable practices and innovations into our economic framework. A Circular Single Market is needed, as it will support environmental sustainability while simultaneously driving economic growth by fostering innovative business models and consumer behaviours.

Secondly, a better leveraging of **public procurement** practices is imperative. By adopting procurement strategies that are not only transparent and competitive but also sustainable, we can ensure that public spending aligns with and actively supports our broader goals. This strategic move can harness market power to encourage wider economic shifts towards innovation and sustainability.

Lastly, the strengthening of **administrative capacities** cannot be overstated. The successful implementation of EU ambitious strategies hinges on the capabilities of our public sector organisations. Measures to strengthen the capacity of national administrations are essential to ensure the effectiveness and accountability of our public resource deployment.

## A Circular Single Market: sustainability as a key pillar

The circular economy revolves around maintaining high product and material value while extending their lifespan within the economy and eliminating unnecessary material usage. Therefore, it emphasises efficiency and innovation in material utilisation, opening avenues for the development of novel business models in both manufacturing and services sectors. By replacing the prevailing linear economic model of "extract-make-use-throw away," the circular economy addresses the underlying drivers of climate change and mitigates risks associated with dependence on authoritarian regimes, fragile supply chains, and volatile commodity markets.

Given its considerable dependence on primary resources, **the European Union, as a continent, must prioritise shifting towards a circular economy model**. Despite EU companies playing a substantial role within the circular economy - evidenced by 32% of circular economy technology firms being European, as highlighted in the recent roadmap by DG RTD - **most of the European potential is still untapped**. According to Eurostat's circular economy monitoring framework indicators, growth in terms of investments, job creation, and gross value added in circular economy sectors has been relatively modest over the last 15 years. However, the World Bank recently evaluated that the European remanufacturing market, currently valued at €31 billion, could grow to €100 billion by 2030, creating 0.5 million new jobs and saving 21 megatonnes of $CO_2$ emissions.

If a circular economy approach is not thoroughly embedded within the Single Market framework, the European Union stands at risk of losing a significant portion of the value derived from new private and public investments. **The absence of circular economy principles in the investment strategies and operational practices across the Single Market would perpetuate a linear economic model that is inherently unsustainable and inefficient**. Such a scenario would not only undermine efforts towards achieving environmental sustainability and economic resilience but also diminish the potential return on investment by failing to leverage the full lifecycle value of resources and products. Integrating circular economy approaches is thus crucial to ensuring that investments made today do not become missed opportunities of tomorrow, but rather pave the way for a sustainable, innovative, and economically robust Europe.

The European Union must embrace a vision to **gradually establish a Circular Single Market** where economic growth and well-being are no longer dependent on unsustainable use of natural resources and dangerous dependencies. In this pursuit, the European Union is tasked with the vital role of spearheading initiatives that foster not only environmental sustainability but also drive economic growth within its Single Market.

The foundation for achieving this goal lies in ensuring a **level playing field for circular materials, products, and services**, complemented by the provision of reliable information through digital product passports. A key priority must be the diligent implementation of the Ecodesign for Sustainable Products Regulation, particularly its product-specific circularity criteria. This is crucial for mainstreaming sustainable products across the European market, with product design playing a pivotal role in extending product life cycles, enhancing energy and resource efficiency, and facilitating the safe recycling of raw materials.

Furthermore, the EU must **amplify access to circular materials** by stimulating demand for high-quality recycled materials. This involves setting requirements for recycled content in critical areas, as demonstrated by the new battery regulation and the upcoming revision of packaging legislation for plastics. Such initiatives not only present significant economic opportunities, as evidenced by the planned €8 billion investment by European plastics manufacturers into chemical recycling by 2030, but also underscore the potential for high-quality recycled materials to drive innovation and investment in the circular economy.

Establishing **EU-level end-of-waste criteria for various material streams** is essential to provide legal certainty for secondary raw materials, and to foster investment and innovation. In cases where EU-wide criteria may be challenging to implement promptly, mutual recognition of national end-of-waste statuses could serve as an interim solution, provided it upholds a high level of environmental protection. Additionally, harmonising waste classifications among Member States is critical for achieving material recovery economies of scale, necessitating a focus on standardising definitions of waste, by-products, and waste shipment classifications.

**Financial support from EU programs**, such as the EU’s Innovation Fund and the European Investment Bank’s financing programs, is imperative for enabling industrial-scale circular economy investments. These investments often require substantial funding, which can be challenging to secure in the current market. Moreover, leveraging public procurement to drive demand for circular materials, products, and services can serve as a powerful tool - as highlighted in the next section of the Report.

The strategic use of **biomass** for high-value applications, such as materials and chemicals that can substitute for fossil-based or critical raw materials, is another crucial element. This approach should be supported by R&D funding for breakthrough technologies and integration of biobased materials into recycled content targets.

Addressing the challenges and opportunities in the water sector is imperative for the European Union. The **water sector** not only underpins the EU's social model by ensuring the well-being of its citizens through **Services of General Interest (SGIs)** but also contributes significantly to the economy, generating €107 billion of value added and supporting 1.7 million jobs across approximately 80,000 enterprises. However, the sector faces substantial hurdles, such as climate change, resource scarcity, and a pronounced fragmentation that hinders the equitable development and maintenance of water infrastructure. This fragmentation often leaves smaller utilities struggling to sustain financially viable projects, exacerbating disparities in service quality and environmental conservation across Member States. Consequently, water stress affects roughly 20% of European territory and 30% of its population annually, a situation aggravated by ageing infrastructure, climate-induced variability in water availability, and pollution challenges, including PFAS chemical contamination. In response to these challenges, the development of a **New European Water Framework** would be useful. Additionally, encouraging the aggregation of water operators could promote the formation of larger entities capable of substantial infrastructural investments, addressing the disparities in access and quality due to the sector's fragmented nature.

Finally, the EU must continue to **champion the development of standards for circular product** design through active collaboration with European standardisation organisations. Such standards are indispensable for extending product lifetimes, improving the quality of recycled materials, and ensuring sustainability across various applications. By establishing robust standards, the EU will not only strengthen confidence in the Circular Single Market but also encourage the integration of recycled materials into manufacturing processes, thus reinforcing European leadership in circularity. Robust standards must apply to goods entirely produced in Europe, but also to goods manufactured from raw materials or other semi-manufactured products entering the Single Market from outside Europe.

## A more European and more strategic public procurement market

Public procurement represents a key tool for disbursing public funds within the European Union and serves as a major catalyst for economic activity. Accounting for 14% of the EU's GDP and being a fundamental component of the Single Market, public procurement is crucial for realising the strategic goals of the European Union. Specifically, it is instrumental in enhancing the productivity, resilience, and sustainability of the EU economy, as well as ensuring the security of supply. Achieving the full potential of public procurement necessitates a completely integrated market within the EU.

Despite the European Commission's concerted efforts and actions, the European Court of Auditors (ECA) recently concluded that **competition for public contracts has diminished in the EU Single Market over the last decade (2011-2021)**. The ECA analyses also revealed that although the reforms of 2014 laid a solid foundation, further measures are necessary to fully leverage the potential of the EU's public procurement market. This includes simplifying processes, enhancing SMEs participation, and aligning procurement more closely with strategic objectives.

The duration for awarding contracts has notably increased over the past decade: the time frame from the start of the decision-making process to the contract award, excluding the period for appeals against award decisions, has extended from an average of 62.5 days in 2011 to 96.4 days in 2021. Overall, the data does not indicate a significant increase in SMEs participation in public procurement, although the level of participation varies widely among the Member States. The practice of awarding contracts primarily based on the lowest bid continues to predominate across all Member States: in 2021, there were eight Member States where awards made in favour of the lowest bid surpassed 80% of all contract awards. This is not conducive to quality and, more worryingly, prevents the development of strategic local supply chains that can compete with cheap goods and services from low-wage countries with much lower social standards.

To tackle the challenges within the public procurement market and foster greater integration, it is imperative that all EU institutions find common ground in **implementing the recommendations made by the ECA**, which have already received the backing of the

European Commission. This consensus is vital for kicking off significant reforms that aim to make public procurement more effective and aligned with overarching goals.

One of the first steps towards this objective is to **streamline and clarify the focus of public procurement goals**. By establishing a smaller, more precise set of objectives that are both clear and measurable, the EU can facilitate the efficient realisation of desired outcomes.

Another critical area of improvement is the **handling of public procurement data**. Enhancing the quality and accessibility of this data involves the development and fortification of the Public Procurement Data Space. This initiative aims to amalgamate European and national procurement datasets, thereby improving transparency across the board. It opens up procurement opportunities for SMEs and ensures that public spending achieves better value.

Furthermore, updating the European Commission's tools for monitoring competition in public procurement is essential. By refining the methodologies and technologies for market analysis, and incorporating advanced data analytics and artificial intelligence, the EU can promote a more competitive, transparent, and equitable procurement environment.

Fostering a dynamic and innovative market, requires addressing the root causes of the lack of competition. This entails streamlining administrative processes to ease burdens, refining selection criteria for effective procurement, and boosting administrative capacities. Sharing best practices across the EU and simplifying cross-border procurement procedures through centralization and the use of AI to overcome language barriers will significantly enhance market accessibility. Additionally, making contracts more attractive to SMEs is essential for fostering wider participation and driving innovation in the sector.

Moreover, the public procurement market should be leveraged as a key instrument for **promoting social value, enhancing social capital, and aligning with the EU's ambitions for green and digital transformations**. Prioritising these aspects ensures that public expenditures contribute positively towards these objectives. It's essential to ensure procurement regulations support rather than hinder the delivery of high-quality and affordable social services, striking a balance between compliance and facilitating social and environmental progress.

Furthermore, public procurement must be harnessed to advocate for a **"high road" to development.** This involves focusing on policies and practices that aim for more than just the minimum requirements in terms of wages and working conditions. Such an approach aligns public spending with a broader agenda of social advancement and economic inclusivity.

**Reliance on the lowest price award criterion as the default approach in public procurement warrants critical examination**. While seemingly cost-effective, this practice often undermines the true potential of public spending - for example when it comes to delivering secure and safe products for the public benefit – and more generally the potential to create European added value. Over relying on the cheapest bid can lead to sacrifices in quality, sustainability, innovation, and social value. Ultimately, this can result in suboptimal services, long-term inefficiencies, and a failure to address broader societal and environmental goals, such as the maintenance of local ecosystems and critical supply chains in Europe. A shift in mindset is necessary, moving away from the lowest price as the sole determinant to a more holistic value-for-money approach, where factors such as quality, life-cycle costs, and broader social and environmental benefits are given equal consideration. For comparison, the European Commission, as a rule, uses a weighted average of 70% for quality (which may include all aspects mentioned above) and 30% for the cost. Moreover, in the public tender for European supercomputers, the General Court of the EU has confirmed that EU added value and security of supply are legitimate additional criteria.

Public procurement regulations must ensure that contracts foster the creation of **high-quality jobs, characterised by fair wages and conditions underpinned by collective agreements**. To uphold social and environmental standards, stricter verification of economic operators is necessary. This includes actions like rejecting unusually low bids, disqualifying non-compliant companies from bidding, conducting on-site inspections. In this respect, it is imperative to **regulate subcontracting practices to prevent exploitation and abuse**. Unchecked subcontracting chains can lead to the erosion of labour standards, social dumping, and the undermining of fair competition. In addition, they can lead to violation of the applicable health and safety obligations. The issue is particularly relevant in the construction sector, where subcontracting amounts to almost 40% of all activities.

An alternative action that could be taken is the initiation of a standing online matchmaking platform for possible joint procurements of the 27 EU Member States. Public procurement, accounting for a significant part of the EU's GDP, is a formidable instrument to spur innovation among European start-ups and scale-ups, but in spite of many repeated attempts its potential remains largely unutilised.

As already mentioned, we should make sure that we develop a **public-private partnership** culture. It requires, for example, the adoption of instruments such as concessions and licenses and the strengthening of regulatory frameworks to ensure a balance between affordability for taxpayers and profitability for investors and it implies to overcome a certain bias against PPPs from a fiscal standpoint.

**Innovation procurement**, especially in green and digital technologies, could be one of the most important levers to support startups, scale-ups and SMEs in developing new products and services. The European Commission has championed innovation procurement for significant time, but overreliance on price as the most important award criterion is probably the most prominent reason for its limited success so far. Secondly, public buyers are often locked into legacy systems, which offer poor interoperability with new innovative solutions. Thirdly, for SMEs and startups it is extremely complicated to participate in public tenders, especially when those are organised in markets where they do not directly operate and have suboptimal knowledge of local regulations and administrative requirements.

To untap the potential of innovation procurement, on top of enlarging the importance of other award criteria beyond price, public buyers should be directed towards requiring products that are based on common standards and are interoperable. Moreover, it is to be avoided in the Single Market that individual Member States goldplate European procurement rules. Due consideration should be awarded to the **option of transforming the EU procurement framework into a Regulation, thus limiting the discretion for national fragmentation.** Digital tendering should be applied by default, on the basis of standard and digitally verifiable credentials, a possibility now opened by the EU Wallet. This will facilitate access to public tenders to players of different sizes across the European Union. **The Commission shall also consider setting a minimum quota of innovation procurement that Member States should implement**. Lastly, in order to facilitate regulatory compliance with procurement rules, Member States should consider establishing dedicated innovation procurement sandboxes, through which tenderers can be supported to better comply with procurement criteria.

Finally, public procurement is a key policy for the promotion of the **social economy and social enterprises**, as underlined in the Council Recommendation of 27 November 2023. Accordingly, further initiatives need to be taken, building on those set out in the 2021 Social Economy Action Plan. The aim is to significantly increase the impact and market presence of the social economy and social enterprises, recognising their valuable contribution to social and economic well-being.

## Strengthening administrative capacity for greater impact

Public administrations are the vector for channelling most of EU funds to citizens and businesses. Strengthening their ability to deliver on EU policies, implement EU legislation and efficiently manage EU funds is another essential factor to strengthen the Single Market itself.

One of the main obstacles Member States encounter in implementation is a gap in the technical and administrative capacity of the public administrations (PAs). **In recent years, public administrations have faced the task of addressing increasingly complex and challenging issues**, most notably the pandemic and the Ukraine war, while simultaneously undergoing significant transformations, among others to adapt to the digital and green transition. Budgetary constraints since the 2007-2008 financial crisis have significantly hindered public administrations' modernization efforts and their ability to recruit and retain skilled personnel, adversely affecting their capacity to perform increasing and complex tasks. As a result, many EU pieces of legislation have been implemented partially or poorly and unevenly across the EU.

Inadequate public administrations can thus represent bottlenecks for the effective delivery of initiatives aimed at boosting cross-border activities, scaling up SMRs and, ultimately, at putting the EU businesses in the conditions to exploit the Single Market and therefore compete at global level.

However, Member States alone struggle to reform and strengthen their public administrations. Positive EU actions, such as the Technical Support Instrument (TSI), are needed to improve Member States' administrative capacity. Through this instrument, the Commission provides Member States with tailored-made expertise to support the reform and modernization of public administrations at national, regional and local levels. This support helps strengthen their expertise and capacity, enabling them to take ownership of implementing EU legislation and EU priorities, ultimately benefiting the Single Market.

**The EU should also establish a new facility for a Pact enhancing European Administrations Cooperation and Expertise (PEACE)**. This facility should aim to boost both investments and reforms of public administrations. It could provide support to individuals or to a group of public administrations with similar issues or similar ambitions. The facility should have a budget that allows the Commission to provide expertise to Member States, on their demand, specifically to improve the functioning of their public administrations.

Designing and implementing reforms and schemes to digitalise public administrations, modernise their management, upgrade civil servants' skills and attract new ones with the skills needed will be an essential feature of this facility considering the fast evolving digital and green transitions. The facility could also become the instrument to implement some of the actions outlined in the Communication on Enhancing the European Administrative Space.

Importantly, the PEACE facility should encourage cooperation and exchange of best practices among public administrations, in the design and implementation of reforms and schemes. This cooperation should aim at facilitating seamless cross-border interactions among public administration, ensuring a smooth experience for citizens and businesses in accessing services and developing businesses across Europe.

The facility should also include tools to **follow up with the beneficiary administrations on each reform supported to ensure that results are achieved and maintained over time**. In this regard, in agreement with the Member States concerned, the facility could provide funding - directly managed by the Commission - for early-stage investments in public administrations' development, especially in relations to successful reforms and schemes with cross-border dimensions.

This new facility will also help Member States' public administration to **deal with future shocks**. As appeared over the last years, most of the shocks are going to be on the supply side - COVID, war, lack of essential components - against which Public Administrations action is essential. Public administrations will be able to use the facility to find solutions to mend broken value chains in their country or region by cooperating with other PAs in different parts of Europe.

The ultimate objective of this policy should be to improve not only the efficiency of public administrations but also the quality of services provided to citizens and businesses. The task to run the TSI and PEACE should receive a strong political endorsement by having a dedicated Commissioner dedicated only to the support of national and regional Public Administrations in Europe and its regions. The final goal must be to establish a European agency dedicated to this effort.

# A Single Market to play big: scale matters

# A Single Market to play big: scale matters

Demographic shifts and evolving economic patterns are gradually diminishing the European Union's influence on the global stage. With strategic policy adjustments the EU has the potential to counteract these trends and confirm its position as a pivotal global player. The European Union possesses both the capability and the imperative to engage with other global powers on equal terms and **assert a leadership role internationally**. Failure to do so could jeopardise the very principles and objectives that the EU seeks to promote and protect worldwide.

The EU can still rely on elements of strength that allow it to move from a position of global leadership. In the 2024 Annual Single Market and Competitiveness Report, the Commission for the first time addressed these two dimensions jointly, acknowledging that: "*the EU has very strong assets to build on: highly qualified engineers, excellence in research, quality infrastructure, a solid manufacturing base, a strong services sector, a competitive edge in the development of clean technologies, high-performance computers, quantum, and transformative digital technologies*".

In today's complex global landscape, merely relying on our existing strengths will not suffice. The European Union's future influence hinges on the performance and scalability of our companies. As outlined in the first part of this report, EU companies currently lag behind their global counterparts, particularly those in the US and China. **This gap has critical implications for innovation, productivity, job creation, and ultimately, the EU's security**.

Scaling up EU companies within the Single Market is essential if we are to maintain and enhance our international role. This strategy will bolster the EU's strategic autonomy, economic power, and global policy influence. By **scaling up**, our companies diversify supply chains, champion European standards worldwide, and enhance their global competitiveness. Their success will attract foreign investment, foster innovation ecosystems, and project a strong image of the EU. Ultimately, a thriving economy fueled by powerful companies empowers the EU to negotiate favourable trade deals, shape international standards, and effectively address global challenges.

Allowing EU companies to scale up within the Single Market is not just an economic imperative but also a strategic one. However, **not all EU companies and markets are in need of a bigger size**. We must not mimic models that are consistently different from our own and that do not fit with the European reality. Our model, which thrives on the **vital link between large and small enterprises**, must be preserved. This model is a fundamental strength and the bedrock of our social market economy. Similarly, we must actively protect a level playing field within the Single Market. No company can be allowed to grow undermining fair competition, which is the bedrock of consumer protection and economic progress.

The EU should not use competition policy to engineer a specific market outcome. Our goal must be to ensure our rules remain effective in a market that is rapidly evolving. The recently Revised Market Definition Notice underscores the interconnected, globalised environment in which businesses operate - markets are often global, and structural shifts in the global economy must be factored into market definitions.

Nonetheless, EU companies in global strategic sectors need the scale and reach of a fully integrated EU market. National markets, once designed to protect domestic industries, now act as a ceiling, hindering their growth potential.

This concerns first and foremost **finance** – addressed in the previous section of this Report -, **energy** and **electronic communications**, as key enablers of any **industrial policy** and as strategic sectors which need to play a bigger role in promoting EU interests. Three decades ago, when the Single Market was established, these sectors were intentionally excluded from its scope, deemed too strategic to be integrated beyond the national level. However, the perspective that once prioritised domestic control is now proving to be a barrier to the growth and competitiveness of these sectors at the European level and globallyl.

Similar considerations can be made with regards to our common approach to **defence**. The inefficiencies of our fragmented military industrial complex are becoming more and more evident, especially in the face of direct security threats like the one we are observing today at the borders of our Union. Particular attention must be also devoted to the **space** industry, a crucial sector for the development of the Single Market.

The integration of a European dimension in the **health sector** has become crucial to guarantee both access and sustainability for EU citizens, especially considering demographic changes and the possibility of future crises. Without a unified approach to health, Europe stands to lose the valuable insights gained from the pandemic experience.

Finally, the **transport** sector stands as a prime example of where deeper European integration is crucial to unlock the Single Market's full potential.

The choice we are confronted with is clear: embrace strategic scaling and deeper integration to remain a global leader, or risk marginalisation in a world defined by competition and shifting power dynamics. To champion our values, safeguard our interests, and secure our citizens' future, the EU must foster a Single Market where companies can thrive, strategic sectors are empowered, and European integration serves our global ambitions.

## An effective Single Market for Electronic Communications Networks and Services

Electronic Communications represent one of the sectors in which liberalisation policies backed by pro-competitive regulation at the European level have worked best: new entrants challenged former incumbents; retail prices have fallen; switch towards fibre optic network has progressed and the evolution from 3G towards 5G networks is, although slowly, proceeding. Still, there is a long way to match consistently across the EU 2030 Compass targets to adequately address connectivity needs due to significant differences between Member States and considerable investment gap. Important disparities remain between the various member countries in terms of investments, organization, industry and market development, as well as in terms of territorial coverage of ultra-wideband.

**The residual fragmentation in rules and industries at the National level hinders a crucial final step towards a Single Market for Electronic Communications**.

Despite the implementation of the "Telecom Single Market Regulation," which has introduced the "Open Internet paradigm" into the acquis Communautaire, the EU still includes, currently, 27 distinct national electronic communications markets. This enduring fragmentation hinders the scale and growth of pan-European operators, limiting their ability to invest, innovate, and compete with their global counterparts. The scale of disparity is stark: an average European operator serves only 5 million subscribers compared to 107 million in the United States and a staggering 467 million in China. In addition, a comparison with global counterparts in terms of telecommunications investment shows GDP-adjusted per capita levels of €104 in Europe in 2021 compared to EUR €260 in Japan, €150 in the United States and €110 in China.

Persistent declines in revenues characterise long-term trends, with only slight improvements seen in fixed network services within limited national markets. The economic sustainability of the entire EU electronic communications sector is at risk unless immediate action is taken, with costs being borne by workers and citizens.

There are a number of critical issues. While on the one side, it is recognised that European pro-competitive regulation has brought, over the years, greater benefits to end users in terms of (price of) access to services (compared for example to the U.S.), on the other side, many industry players complain excessive entry of operators into the market, fostered by a liberalisation and regulation approach that that may have generated strong incentives for ‘excessive entry’ by small-scale, territorially focused operators and, consequently, unsustainable market balances harbouring low incentives for innovative investment. **Today, in a European market with more than 100 operators, keeping the focus only on pro-entrant regulation, would be detrimental for a technology switch towards advanced networks that require massive investments**.

In the mobile markets, where access is not regulated, an antitrust approach focused on market entry when evaluating mergers led to the same result. Moreover, spectrum policies, concerning frequencies used for mobile TLC and fixed-mobile services, are still fragmented. While band uses are harmonised at the European level, spectrum assignments still follow national rules, in timing, capacity and spectrum distribution among operators and allocation criteria (including coverage requirements). Rules about electromagnetic emission levels and tower infrastructure policies are fragmented as well. This prevents the creation of a single spectrum market and pan-European operators of high scale, reducing investment and benefits for end users. Two possible actions to address these issues in the short to medium term are to ensure convergence of exposure limits on the basis of the 1999 EC Recommendation on maximum levels of electromagnetic field exposure (which must be regularly reviewed to take into account the scientific evidence and the evolving international guidelines), and the adoption of a unified European Union position on the forthcoming decisions on the higher 6 GHz band.

**Finally, another critical issue concerns the evolution of wider global digital markets and of internet architecture, and the resulting unbalanced relationship between TLC and large online platforms**. While the regulation continued to assume the prevalence of TLC operators in the digital world, other players - such as large online platforms - were assuming the role of gatekeepers in access to online services and thus as drivers of demand. In other words, existing sectoral regulation has introduced significant regulatory asymmetries between TLC operators and large gatekeepers in many emerging relevant markets. The new regulations on Digital Services and Market (DSA and DMA) have started to effectively address this unbalance.

**In the global landscape, digital technologies drive industrial productivity and citizen well-being. A healthy and secure electronic communication sector is crucial for the green transition, innovation, and resilience of the Union, especially in terms of cybersecurity**. Unsteady economic sustainability of operators may worsen future consumer welfare by way of lower quality services, as well as security, and uneven distribution of network access, as well as it hinders digitalization of industries and services, leading to lower growth and competitiveness for the whole Europe and for each domestic market.

The European Commission recently issued a White Paper on “How to master Europe's digital infrastructure needs?”. This paper is important: it explains economic and technological trends and paves the way for a deep rethinking of the main drivers of the electronic communications markets (targets, architectures, R&D and the regulatory framework). The scenario described in the White Paper is detailed and provides the background on which Europe must proceed to strengthen its electronic communications sector.

**Establishing an effective Electronic Communications Networks and Services can help to fix many of the current failures in a way that remains coherent with European values, and citizens’ rights and market economy principles**. The process to get there is complex and a progressive approach is preferable: it has to be unrolled along some key issues.

## European consumers welfare at the core

Consumer welfare in terms of price, choice and quality has always been at the core of the telecommunications regulatory framework in Europe; the liberalisation process that took place with the “full competition” directive in 1996 set the targets of promoting competition and protecting consumers as milestones for the national regulatory authorities.

The regulatory framework and the rising competition in the markets have delivered a wide increase in consumer welfare: prices have declined, services have grown both in quantity and quality, due to technological innovations allowing a better usage of existing physical infrastructures for fixed networks and to various generations of transmission technologies for mobile networks.

This continuous improvement of quality of services is slowing down, as a whole new investment circle is needed to deliver Very High Capacity Network (VHCN) and 5G Networks. **European consumers risk losing the benefits they have gained in terms of a wide variety of up-to-date and high-quality services if the industry does not deliver the necessary amount of investments**. A dynamic approach to consumer welfare implies first of all the possibility to choose and to benefit from technological innovations and advanced services.

Furthermore, the delayed and varied implementation of the European Electronic Communications Code principles by national regulatory authorities has created subtle barriers within the electronic communications Single Market. While not directly affecting consumers in the short term, these disparities impede effective competition across the European market. They also open the door wide for competitors from other markets, specifically digital service platform providers, who may not be subject to the telecom regulations stemming from public service obligations or similar consumer protection standards.

**The pursuit of a truly integrated Single Market for electronic communications from a consumer protection standpoint necessitates the maximum harmonisation of consumer protection rules at a European level, avoiding a fragmented approach at the national level**. Ensuring these protections are uniformly applied across the entire Single Market is not only fundamental for safeguarding equal consumer rights but also critical for the seamless operation and growth of the telecommunications sector while keeping the jurisdiction at local/national level to respect localised consumer preferences and circumstances. This uniform application supports the broader objectives of the Single Market, promoting connectivity and take-up of very high capacity networks, innovation, competitiveness, and consumer welfare across all Member States. However, in the digital environment, European consumer protection is delivered not only by the rules, but also by an effective Single Market, underpinned by strong operators and vigorous competition. It is through such a comprehensive and unified approach that the European Union can fully realise the benefits of a digital and connected society, reinforcing the principles of fairness, access, and equal opportunity for all its citizens.

## Infrastructures and services to boost the sector

Change in technology and innovation in services are driving a trend toward the decoupling of the provision of services and infrastructures.

There are already wholesale operators dealing only in passive infrastructures, in a path leading to the neutral host paradigm, and there generally is a stronger competition in services provision than in infrastructure development.

**The establishment of a Single Market for electronic communications needs to take into account this evolution and must be adaptable for the different situations and needs**: infrastructure provision naturally has geographical boundaries within the Union and the Member States, whereas service provision is potentially limitless and European customers and business users are already experiencing extensive usage of services provided by operators outside the Union.

Competition levels are different already between infrastructure and services provision, with competition livelier in the telecommunication services markets.

Infrastructure provision has a strict link with the territories and national administrative rules: there is an ongoing effort to a minimum harmonisation of these rules - the Gigabit Infrastructure Act is the last piece of European legislation in this direction - but it is unlikely that differences are completely overcome.

Indeed, although operators may currently expand their footprint within the EU without facing border obstacles to the free movement of goods, services, people, or capital, the business models and production structures required by telecommunications today make indiscriminate international expansion unattractive, as operators require for their business viability a minimum take-up in the areas where they have deployed their networks.

Building and maintaining infrastructure, such as towers or fibre optic networks, requires investment adapted to geography, population density and local technology needs. This diversity requires customised deployments for each geographical area and there are no significant savings accrue from international expansion. Pricing, offers, contracts and customer services respond to different purchasing power customer preferences driven also by cultural factors.

From this perspective, the expected returns on investment in different geographic markets vary depending on the existing market structures, competitive conditions, and dynamics. These factors have a larger impact on geographic expansion decisions than possible economies of scale.

**Services provision, instead, needs the widest possible market to gain a competitive dimension and, therefore, having a common regulatory framework is necessary**.

European digital services are virtually non-existent today. Europe needs to foster a favourable environment for digital innovation, to reduce dependence on digital services from third countries and to ensure that they are better adapted to the preferences of European citizens.

Technologies such as 5G (6G in the future), Internet of Things, web3.0, edge-cloud computing or artificial intelligence will create entirely new economic opportunities. Of course, the deployment of these technologies relies on networks, which will provide new capabilities such as increased computing power or different latency levels. There are currently some key areas where operators believe investment is needed to consolidate the networks of the future, such as: edge-cloud computing for efficient processing close to users; low latency technologies such as 5G and fibre; and programmable networks through global, standardised APIs.

In this way, future electronic communications networks will be more efficient and flexible to meet the changing needs of citizens and industry in the EU and will facilitate the development of pan-European services thanks to the virtualisation that these technologies enable, always supported by suitable access infrastructures.

**Further development to provide Europe with the innovation platform for the future digital services requires operators with a pan-European footprint and the existence of a true Single Market for electronic communications, recovering and delving into the principles that made it successful in the first place**.

## Towards a true Single Market for electronic communications: consolidation

Evidence indicates that telecom markets predominantly operate at the national level, with multiple operators offering commoditized communication services characterised by low levels of diversification. Consequently, insufficient value creation occurs within these national markets depressing the investment in advanced networks which are essential for a competitive economic landscape. Given this scenario, **the mere establishment of a Single Market would not yield a discernibly different outcome unless it facilitates the growth of operators**. Such growth is imperative to achieve economies of scale and scope, enabling cost reduction and fostering innovation.

The primary objective is to facilitate growth and investment attractiveness for European operators. As markets still remain primarily national, cross-border consolidation could involve domestic markets making sure that **competition law is respected.** This must be viewed as a step in the development of European dimension cross-border operators. **Establishing a Single Market for electronic communications with European operators capable of a global role is an objective which is not in contrast with the objective of keeping markets open and competitive.** The scale of investments necessary in new technologies (for example edge/cloud, 6G, AI) implies that due consideration should be given to the necessity of some level of consolidation within national markets or strategic alliances between market players including pro-competitive sharing of investments in key network elements.

Due consideration should also be given to the telecom industry's significant workforce, an industrial policy for the telecom sectors must manage this process to mitigate unforeseen and undesirable consequences of overcapacity and diminishing returns as well as of technological changes and mergers and acquisitions. This includes active labour policies and upskilling/reskilling measures.

## Governance: Single Market, Single Regulatory Authority

A progressive approach is vital for dismantling administrative and regulatory obstacles between national markets. This is essential for establishing a Single Market where businesses thrive and pan-European operators can rise.

**While regulatory initiatives have steadily grown in number, Member States implementation and oversight by national regulatory bodies retain specific national characteristics**. This divergence hinders the long-term objective of a genuine Single Market. Variances persist in domestic markets concerning standard procedures, compliance obligations, administrative processes, and costs – all contributing to subtle barriers and fragmentation.

From the consumer point of view, it has led to conservative offers, with a competitive model based on price reductions and without yardstick competition arising from comparison with other domestic markets.

From an industrial perspective, the fragmentation of how common rules are implemented in each domestic market hinders the ability of operators to penetrate other EU markets and to gain the mass market dimension needed to develop innovative services and a pan-European range of activities.

**The path toward a true European Single Market lies in evolution of the current regulatory model based on a relatively loose cooperation among national regulators towards a two layer approach** with a **EU level** regulatory authority responsible to guarantee the coherence of rules in the Single Market including the rules on net neutrality and roaming and directly responsible for cross-border services such as core network services, business networks, and ground and submarine cables connecting more than one Country. **Local issues** such as domestic services, local networks and consumer protection should remain under the remit of independent national regulators.

This consolidation and harmonisation of regulatory practices would set the stage for several key objectives: the guarantee of the highest quality and most accessible communication services throughout the EU, significant investment in all levels of communication infrastructure, and sustained support for innovation through investment in telecommunication research and development. At the same time it maintains a strong local dimension guaranteeing that access to networks and services by citizens is protected at national level.

The resulting regulatory architecture should guarantee the same normative framework in all the digital markets and can be built on other examples already in place, such as the Eurosystem for central banks or, *mutatis mutandis*, the recent provision in the AI Act for an European AI Office, complemented by authorities from the Member States. Another relevant example can be drawn from the system envisaged by the Digital Services Act, with some relevant powers to the European Commission for very large online platforms and a network of Digital Services Coordinators in the Member States.

## A more unified radio spectrum for an effective Single Market

There are key elements of the regulatory framework that have hindered the spontaneous development of a Single Market for electronic communications and the emergence of healthy pan-European operators or at least multi-country operators.

**Radio spectrum policy needs to be much more unified in order to have an effective Single Market**. Although this is a critical issue for Member States and it is linked also to areas of domestic interest as, for example, national defence, it is of paramount importance for the European industrial sector to maintain the technological leadership and state of the art excellence that it still preserves, notwithstanding the difficult economic sustainability incurred by telecom operators in Europe.

Mobile telecommunications play a pivotal role, with their provision hinging critically on the availability of radio spectrum. **However, the absence of harmonisation in rules governing spectrum allocation at the national level undermines mobile operators' capacity to offer pan-European services**. Consequently, European citizens and businesses are deprived of the opportunity to access innovative and high-quality connectivity and services.

Europe relinquished its leadership in telecoms during the early 2000s, a time when it boasted some of the largest and most robust telecommunications companies. At that juncture, Europeans enjoyed pioneering technology and top-notch connectivity with the advent of 3G, rendering the sector prosperous. Looking ahead over the next 5 to 10 years, several overarching cross-sector trends are poised to gain momentum, including electrification, the green transition, resilient supply chain development, and efficiency enhancements through automation. **Crucial to fully realising these transformations will be the deployment of 5G/6G mobile connectivity augmented by artificial intelligence (AI) and cloud solutions**.

5G heralds the dawn of a new era in communications technology, promising to revolutionise the economic and social landscape dramatically. The benefits of full 5G deployment in Europe are estimated at over €250 billion aggregated across a range of verticals and public services.

Subsequent generations of mobile networks, such as 6G, will represent a seamless evolution from the fifth generation, with no significant disruptions anticipated for the future of mobile communications.

However, the current delay in the deployment of 5G in the European Union raises significant concerns, with consequences that go far beyond the telecommunications sector itself because a delayed rollout will have a widespread negative impact on all sectors of the economy.

**Europe must leverage the strengths of a unified telecommunications market and prioritize incentivizing the necessary investments to bridge its growing connectivity investment gap**. Coherent policy decisions must be made at the European level, particularly regarding the broader regulatory framework essential to underpin 5G development.

The European Union stands at a pivotal moment regarding the regulation and advancement of technologies that are fundamental to the digital and telecommunications landscape.

**In the realm of spectrum allocation for International Mobile Telecommunications (IMT) services, Europe's strategic interest lies in safeguarding its leadership in 5G development and standardisation**. This is especially relevant as discussions unfold at the World Radio Conference regarding the allocation of the higher 6 GHz band (6425-7125 MHz) to IMT services. Allocating this band for IMT use is crucial for facilitating the high-performance and quality development of 5G services, which, in turn, will lay the groundwork for 6G technologies. This approach not only preserves Europe's technological edge but also ensures its continued contribution to global standards in telecommunications. Whoever sets the standards dominates the market. In light of this, it is essential that European stakeholders significantly shape the development and standardisation of emerging technologies, especially with regards to 6G. To achieve this, a unified effort to pool European resources and expertise is vital for securing a leadership role in the standardisation process, guaranteeing that the EU continues to lead at the forefront of this critical technological frontier.

**Lastly, the design and implementation of auctions for spectrum allocation warrant careful consideration**. Auctions must be structured with low reserve prices (or annual fees) and based on proven auction formats and rules. A critical aspect of this approach involves ensuring non-discrimination towards new market entrants and establishing long-term licensing terms. **While Member States should retain their authority over national resources, there is a clear need for harmonised criteria in managing radio spectrum allocation**. The goal should be to enhance the provision of state-of-the-art services to European consumers, businesses, and industries, rather than prioritising revenue generation through auctions. Historical evidence suggests that high auction costs can impede timely investment in network development, highlighting the importance of a balanced and strategic approach to spectrum management.

Optimisation of current national usage rights, for example within the 3.4-3.6 GHz bands, is a complex process which requires careful consideration. The European Union may instead adopt much more forward-looking and Single Market friendly strategy for streamlining spectrum management regulations concerning the imminent policy decisions on the upper 6 GHz frequency band. This approach would focus on the band's designation for International Mobile Telecommunications (IMT) services as well as the criteria for assigning usage rights. The viability of this approach is enhanced by the upper 6 GHz band’s current state of availability, relatively free from prior allocations, thereby offering a clean slate for policy development.

## The Telecom Single Market Regulations: net neutrality and specialized services

On 25 November 2015, the EU adopted Regulation 2015/2120, known as the Telecommunications Single Market (TSM) Regulation. The TSM Regulation sought to provide harmonising rules for net neutrality within the EU and enshrined the principle of net neutrality in EU law for the first time.

The TSM Regulation aims to provide an ‘open Internet’ by requiring telecoms operators to treat all Internet traffic equally. The regulation is to be considered a real milestone in protecting consumers and digital services providers from discrimination by telecom operators, but after a number of years from its adoption it might require a careful evaluation in light of the technological changes that have occurred in networking technology whereas multiple actors influence the internet experience of end users and network slicing allows optimised connectivity. Network slicing is an important feature in robotics and AI driven applications such as autonomous drive.

There is a concern that innovative use cases may ultimately be deemed non-compliant. If this happens in one member state, it could trigger a domino effect; or it may lead to a service being compliant in one member state but not in another.

**In the short run, a solution would be for the European Commission to provide operators with additional guidance** in the form of a recommendation on how to develop and deploy differentiation-based use cases, in particular those based on 5G network slicing, to give operators more flexibility clarity when deploying services in very diverse areas such as industrial automation, rendering of 3D objects in virtual worlds or road safety. **In the long term a more comprehensive meaningful review of the Open Internet rules is recommended with aim to maintaining the internet open and the user full freedom of choice but at the same time allowing to fully reap the benefits of the upcoming new network technologie**s which will make extensive use of AI to offer the best user experience in different scenarios.

## At the heart of common public interest: cybersecurity and digital sovereignty

At the core of the common public interest lie two pivotal elements: **cybersecurity and digital sovereignty**. The European landscape currently lacks a harmonised approach to lawful intercept, which necessitates a thorough review to explore paths towards greater harmonisation, all while safeguarding national security. A harmonised framework could significantly streamline networks and operations across Europe, without compromising on security. Notably, the disparity in handling the cost of law enforcement support across different countries poses a challenge; in several instances, the financial burden falls squarely on the operators. Instituting common rules for cost recovery could significantly ease the financial burden on operators and diminish barriers within national markets, thereby enhancing cooperation and efficiency in law enforcement assistance across the EU, especially in situations where challenges emerge due to differences in provider types and locations.

The evolution of electronic communications has been deeply intertwined with national security concerns. The White book of the European Commission highlights the importance of managing the supply chain by relying on trusted vendors. The NIS2 directive provides a common framework for the management of cybersecurity risks and incident reporting. However, the imposition very diverse additional national security requirements, such as in the case of incident reporting, erodes the benefits of the Single Market by increasing costs and creating uncertainty for businesses. To address this issue, it is imperative to ensure these requirements align with the overarching European legislative framework, adopting additional measures only when absolutely necessary. **The current fragmentation in security standards hampers the development of robust security capabilities, as it prevents network operators from leveraging centralised network architectures that could benefit from economies of scale**. Enhancing the resilience of network infrastructure within the Digital Single Market mandates a concerted effort towards harmonising security requirements and fostering collaboration with industry stakeholders. This approach would enable the crafting of tailored national rules that meet both public authority goals and operational efficiency for private operators.

A significant concern for European security is the infrastructure supporting intra-UE and international electronic communication flows, particularly submarine cable infrastructures. The European Commission's White Paper on mastering Europe's digital infrastructure needs marks a step towards unified support for strategic Cable Projects of European Interest. The proposal for their continued inclusion in the Connecting Europe Facility, with a reassessment of the governance and funding mechanisms for such initiatives, should be supported.

## Road map

By 2024

- Facilitate growth and investment attractiveness for European operators toward a pan-European approach focusing on the European single market as the relevant market Harmonise Member States' regulatory frameworks to allow large insurance groups to tailor capital requirements to the specific risk profile of each entity, thus unlocking additional capital.
- Consolidate the Gigabit Infrastructure Act in order to remove administrative burdens hampering networks deployment.
- Provide additional guidance on net neutrality rules to accommodate innovative use cases like 5G network slicing.

By 2025

- Dismantle administrative and regulatory obstacles, ensuring a unified regulatory framework across the EU moving towards a single Regulatory Authority and a two layers approach with existing NRAs
- Develop a principles-based approach to foster innovation and specialized services while protecting open internet principles.

By 2026

- Remove regulatory barriers to cross-border operations through a common general framework for European digital sovereignty and for European cybersecurity.

By 2027

- Unify radio spectrum policy to support the effective development of a Single Market for electronic communications, focusing on 5G deployment and future technologies.

By 2029

- Upper 6 GHz frequency band to IMT, with a common framework for allocation and auctioning.

## A Single Market to foster efficient energy-climate policies

Energy was not one of the front-running sectors when the Single Market project was launched in 1992. As the Monti Report noted in 2011, "*the energy sector is one of the late arrivals in the Single Market. 2012 will not be the 20th anniversary of the Single Market for energy. Rather it will just mark the beginning of the consolidation of a common energy market*." Nevertheless, over the years, energy market integration has advanced significantly, becoming one of the cornerstones of the EU Single Market. **And today, the Single Energy Market can well be Europe's best asset to ensure its success in a novel global order**.

Emerging from an energy crisis of unprecedented severity, Europe must address challenges of significant scale and urgency, within a radically new geopolitical energy landscape. As global competition for clean technology supremacy intensifies, the EU cannot afford to lose time. It must transfer the sense of urgency and decisive action demonstrated during the recent crises to its everyday operations, delivering change across its energy system and completing concrete projects swiftly.

The Russian military invasion of Ukraine has been a defining moment for Europe's energy landscape. It has altered long standing commercial relations and redesigned the geopolitical dynamics of energy supply and trade. Within the Single Market, the direction of gas trade flows underwent a substantial transformation: supply has diversified away from Russia and the EU now relies more significantly on the liquefied natural gas (LNG) markets, which are largely influenced by the US in terms of supply and by China in terms of demand and are more volatile. Beyond the borders of Europe, both major and emerging global economies are hastening their energy transition and intensifying investments in clean technologies, thereby increasing pressure on European industrial ecosystems.

**The unprecedented severity of the crisis brought EU energy market integration close to the breaking point**. Some Member States considered to introduce, or actually did introduce, temporary export restrictions to gas, to preserve security of supply for home customers. Governments raced to fly to gas export countries to secure critical gas supplies from reliable sources, outcompeting each other with higher bids. They introduced domestic taxation and subsidy schemes to contain price increases and alleviate burden on households and companies. The electricity market design was for long at the centre of a heated debate, as a possible driver of the energy price crisis,

Yet, **the Single Market withstood the pressure. Rather, it has been a powerful lever to ensure Europe's ability to successfully navigate the crisis**. It has effectively demonstrated its strength. The electricity market has managed to avoid any blackouts or shortages of supply. The gas market, despite encountering an unprecedented disruption in supply, has also functioned quite efficiently. Gas allocations between markets were managed effectively, without any need for intricate negotiations between Member States on allocation of volumes or political decisions on rationing for domestic consumers. Price signals played a critical role, prompting demand reduction and shifts in consumer behaviour. They have catalysed further investments into LNG terminal infrastructure and the modernization of gas transportation systems.

Overall, Europe's response to the 2022 energy crisis has been more effective and united than in any other previous energy crisis, first through greater central coordination of national energy policies, through for example the Storage Regulation in May 2022 and the Regulation on coordinated demand reduction in July 2022, and later through a common EU-level response, using emergency regulations, with interventions in both the electricity and gas markets, and common rules on acceleration of permitting for renewables. A reform of the electricity market design was also agreed in less than one year of negotiations.

**Despite such a united response, today there is a real risk of losing momentum for market integration, with a possible backslide on the horizon**. The effects of the crisis still linger, reflecting in various national measures that risk jeopardising the cohesion of the Single Market. Moreover, the industrial sector is increasingly concerned that the legacy of the crisis and regulatory complexity and fragmentation may lead to deindustrialisation.

True, energy costs in Europe remain higher than those of its major competitors. During the energy crisis, the EU, as other regions relying on imported fossil gas (UK, Japan, South Korea) has witnessed a trend of increased price differentials with other parts of the world. Gas prices were 3 to 6 times higher than those in the U.S, compared to 2-3 times historically and are still significantly higher today. EU electricity industrial retail prices are close to 2 times the US prices and are becoming progressively higher than in China. Such a situation will persist until the marginal price is predominantly determined by renewable and low-carbon electricity sources rather than gas. The continent's limited self-sufficiency in energy also heightens its vulnerability to sudden price shocks. In 2021, the EU's dependency on energy imports was high: 91.7% for oil, 83.4% for gas, and 37.5% for solid fossil fuels, contributing to an overall energy dependency rate of approximately 55.5%. In 2022 alone, Europe's bill for importing fossil fuels amounted to €640 billion, approximately 4.1% of its GDP. In 2023, even with lower prices, it remained close to 2.4% of the EU's GDP.

**Furthermore, the crisis has also exacerbated the divergence between Member States in electricity prices. This creates problems for energy intensive companies as well as for downstream industries, clean technology industries and SMEs in a number of European regions**.

The manufacturing sector is also faced with the challenge to integrate, in this difficult environment, clean technologies and processes, which are often expensive or not yet available in sufficient quantities. Even in sectors where Europe has a traditional lead, such as offshore wind, European producers are now facing severe competitive pressures in a global race for technological supremacy. Emerging dependencies on nuclear fuels and critical materials pose further threats to the feasibility of the clean transition, leaving the European economy vulnerable to external leverage.

Once again, **it is the Single Market which can provide the levers and the economic weight to address effectively Europe's challenges**. No single Member State can compete with the US on gas or oil prices, as they are the world's largest fossil producer. Nor Europe can replicate some advantages that China's state-controlled economy can deploy. But the EU has a continental scale energy market united by a modern, sophisticated regulatory framework unmatched around the world. **Without putting into question each Member States right to choose its energy mix, a decisive step towards market integration and common action can deliver a more secure, affordable and sustainable energy system at the service of a modern industrial base**. In the energy field, like in the other sectors, a dynamic Single Market means more freedom for companies to stay in Europe and for workers to thrive through **high quality jobs**.

The more the EU advances towards a decarbonized energy system, the greater is the need for market integration. The benefits of integration, in absolute terms, grow with the increase of renewables in the system, strengthening the value of its flexibility and overall resilience. Firstly, **continental-scale integrated markets ensure the deployment of new clean energy generation in the fastest and most cost-efficient manner possible**. Renewable energy sources vary in their generation patterns and potential across Europe. Additionally, demand patterns differ throughout Europe. Seamless cross-border electricity trading allows to install substantially fewer turbines and solar modules as they can be placed in the windiest and sunniest locations, respectively. Secondly, as Europe targets a power system made of 70% variable renewables by 2030**, well-interconnected markets** are crucial for minimizing the costs associated with grid development, storage, flexibility solutions, or backup gas-fired power plants. This interconnectivity reduces investor risks and encourages private capital inflow. Additionally, integrated markets make it possible to mitigate the impact of external shocks that selectively affect one or more countries. If one Member State's system is strained, it can import surplus electricity at a lower cost from another, thus ensuring energy security and economic stability. Finally, a continental Single Market expands consumer choices and provides an ideal environment for the clean tech industry to flourish, fostering innovation in clean technologies and digital solutions for the energy sector.

By leveraging its Single Market, Europe can make its diverse energy systems a competitive asset. To do this, it is necessary to muster the political will for some decisive steps in key areas.

## The potential of a EU cross border electricity market

**Reducing electricity costs for both households and industry is the first priority**.

To do that, Europe must accelerate the deployment of low-cost renewables and other forms of low-carbon generation. The integrated EU wide electricity market is key for Europe's transition to a carbon free energy system. It is a unique framework that neither the US, with its patchwork of regulated and unregulated markets and with an ageing electricity grid, nor China, relying on distinct regional markets, have. Europe must tap all the potential of competitive integrated electricity markets to serve a growing electricity consumption and integrate a fast-growing share of renewables generation.

While the recently reformed market design framework is now fit for purpose, leveraging the full potential of the integrated market for the cost-effective production and trade of clean energy hinges on a crucial precondition: **bolstering mutual trust among Member States**.

Each country must trust in its ability to receive energy supplies from its neighbours at any time. This requires developing new tools or procedures to anchor trust in institutional arrangements and ensure that within the Single Market, shared benefits are balanced with shared costs.

Traditionally, generation investment has been underpinned by national instruments like a Contract for Difference, while transmission investment has relied on project-specific allocation of costs as a function of calculated benefits. A greater regional alignment of such approaches would be necessary and sharing costs for transmission build-out in a different way than before, possibly involving also investors in generation.

In fact, as Europe moves forward, the significance of hybrid offshore wind projects, spanning across national borders, such as in the **North Seas, the Baltic Sea and the Mediterranean**, also for solar power, must increase. This shift necessitates a collective approach to determining the optimal size for new large-scale projects, considering their substantial initial costs domestically against their broader benefits. Addressing cross-border distributional issues, establishing clear methodologies for transmission system operators to evaluate the costs and benefits of offshore projects, including external benefits, and enhancing the role of public authorities in the planning and/or oversight of the planning efforts of others are essential steps. This approach will help mitigate conflicts between Member States and maximize opportunities for collaboration.

**The foundation of a Single Electricity Market is interconnectivity**. EU legislation mandates that grid operators ensure at least 70% of their interconnector capacity is available for electricity trading with neighbours by the end of 2025 - a target many Member States are currently not on track to meet. A stronger effort to eliminate barriers to interconnection is vital for enhancing supply security, increasing flexibility, and mitigating price volatility.

Moreover, cross-border cooperation is crucial for reducing costs associated with procuring flexibility and demand response across the Single Market. **This cooperation would facilitate the integration of renewable energies**, ultimately lowering system costs and consumer bills. Currently, most schemes for procuring flexibility or CfDs for new renewables or low-carbon electricity are confined to domestic operators. Introducing schemes for cross-border flexibility procurement or organising auctions jointly among a group of Member States for allocating new renewables power capacity, could significantly reduce costs and improve the efficiency of cross-border electricity flows. Looking at ways to increasingly regionally optimize system operation procedures could be considered. Cross border access to Contracts for Difference for generation installed in the territory of another Member State could help offer competitive prices for a share of the existing energy demand of the energy intensive industry, thereby reducing the space for competing national approaches.

Finally, **a swift agreement on the Energy Taxation Directive is necessary to provide the right incentive to renewables energy across the Single Market**.

## The crucial role of energy infrastructures in the Single Market

To foster a Single Market that supports a clean energy transition, it is imperative that companies have the freedom to access energy whenever and wherever necessary, at affordable and predictable prices.

**Achieving this level of accessibility and flexibility depends on a robust infrastructure network that covers the entire continent**. In the coming years, Europe must redesign its physical infrastructure to ensure seamless connectivity among different segments of the Single Market, for electricity, hydrogen, carbon capture, and storage sectors. The investment required for reinforcing both transportation and distribution electricity grids alone is substantial, with projections by the European Commission estimating the need for up to €584 billion by 2030.

For the construction of modern networks at a continental scale, Europe needs a more synchronized planning and delivery process across various energy sectors and national borders. Regional cooperation within the Single Market is key to this endeavour, as shown by the success of the North Seas Energy Cooperation. Currently, four High-Level Regional Groups, established under the TEN-E Regulation, play a key role in identifying, monitoring, and accelerating key electricity and gas infrastructure projects with a regional scope and in promoting market integration initiatives. With an expansion of their remit to include hydrogen and renewables, these groups have the potential to spearhead significant action if they engage more actively at political level. Instituting a rotating presidency and convening at least once a year at a ministerial level would enhance their effectiveness in overseeing project execution, helping joint procurement of equipment and materials and facilitating the permitting process for cross-border projects.

The rapid deployment of offshore wind projects and their grid connections, reinforcing electricity grids and establishing a European backbone hydrogen network connecting consumer and producers across Europe are probably the most important steps Europe has to take to succeed in its decarbonization path. **They require a new alliance among the Member States involved in the projects and a strong EU-level support**.

Yet, the current EU funding for cross border infrastructure, mainly relying on the TEN-E framework and the Connecting Europe Facility (CEF) for Energy, is not sufficient. The

Recovery and Resilience Facility (RRF) has predominantly facilitated national investments. A dedicated cross border infrastructure fund would help activate public investments even in Member States that do not have adequate autonomous fiscal space and in cases where market funds cannot alone fund the projects for its scale or risk. For the upcoming Multiannual Financial Framework (MFF), the budget for the CEF must be significantly increased, and its procedures streamlined. To guarantee the infrastructure is optimally and cost-effectively scaled, there needs to be enhanced integrated planning among hydrogen, electricity, and carbon dioxide sectors. This approach is essential to prevent inefficient investments and the squandering of resources.

Lastly, attracting the substantial amount of private capital necessary for these projects calls for the **development of new financial instruments that can leverage capital markets**. In fact, charging all the necessary investment into the tariffs paid by consumers will be socially and politically difficult. The use of instruments such as Green Bonds can be a desirable solution. Europe is by far the leading market for the use of green financing sources. According to data from the Climate Bonds Initiative, Europe has issued more than one trillion green bonds, about half of the global total. The vast majority of EU Member States have issued green bonds. Today, around one in ten of the bonds issued in the EU are green. As of 1 August 2023, the Commission has issued EUR 44.2 billion of Next Generation EU Green Bonds: a significant share of NextGenerationEU will be funded by issuing NextGenerationEU Green Bonds, making the **Commission the largest green bonds issuer in the world**.

The share of EU green energy bonds to finance the EU energy and climate related funds could be increased.

## Enhancing the resilience of the energy Single Market

In the coming years, two major threats to Europe's energy Single Market will be the excessive volatility of energy prices, driven by global oil and gas market fluctuations, and an over-reliance on single suppliers for clean technologies or critical materials.

Drawing lessons from the last energy crisis, there is a need for a more systematic review of the gas security of supply framework, to take into account the new realities of the LNG market and promote greater solidarity in case of crisis. This review must also include the role of future clean gases, like hydrogen.

Furthermore, investing in security of supply, like building strategic reserves or reinforcing infrastructure, can be very costly in certain circumstances. This can lead to endless and difficult discussions and even disputes among Member States. To prevent new tensions, developing a **coordinated approach among neighbouring countries** - balancing the costs and benefits of security of supply investments that benefit multiple countries - will ensure optimal investment sizing and prevent market fragmentation due to unilateral actions.

In parallel, as Europe focuses on securing its gas and oil supply, it must pivot towards clean technologies and the critical minerals essential for the green transition, acknowledging the significant risks of new dependencies that come with it.

To build a cleaner, more digitalized, and decentralized energy system - characterized by a myriad of renewable energy installations, such as offshore and onshore wind farms and solar panels and advanced grids and meters for critical data transmission - the risk of sabotage or unauthorized data transfer must be addressed seriously. This requires not only a strict enforcement of the existing framework for securing critical energy infrastructure but also that **cybersecurity measures** are always and very rigorously incorporated in procurement for new infrastructure or generation assets. **The EU should also ensure an effective implementation of the rules on the control of foreign direct investment in strategic**

**sectors**, to ensure that third countries' investment in key energy infrastructure or assets may not pose risk to public security or public order in the future.

The European Commission and the International Energy Agency have highlighted the significant concentration in the value chains of several critical materials, including lithium, cobalt, silicon, gallium, and germanium, which poses a potential bottleneck for Europe's transition to a cleaner energy system. **The Critical Raw Materials Act represents a pivotal move to acknowledge and mitigate the risks from this scenario**. It introduces crucial measures aimed at facilitating diversification, stimulating the mining of critical raw materials within Europe, enhancing recycling efforts, and fostering global partnerships. Prompt implementation is essential. However, the assertive strategies adopted by China and other global players threaten to undermine these diversification attempts, further complicating Europe's situation. It is critical to intensify efforts in this domain and explore additional strategies.

This is the type of market, where Europe could indeed leverage its collective purchasing power through a mechanism for the joint procurement of critical materials. In this way, Europe would be a more credible and strong partner for suppliers and could also use the outcome of joint purchasing to establish strategic reserves of key critical materials to the benefit of everyone in the Single Market.

Moreover, expanding engagement with reliable suppliers globally by developing compelling offers and incentives is necessary. Strengthening partnerships with the US and other importing countries will enhance leverage and appeal, reinforcing Europe's position in the global market for critical materials.

## Adding speed and simplicity to the energy Single Market

Europe faces the urgent need to accelerate its green transformation to meet its 2030 targets and the overarching goal of climate neutrality. This implies a broader and faster application of clean technologies across its industrial landscape, including hard-to-abate sectors and an expansion of clean technology manufacturing. Yet, the energy crisis has led to setbacks in energy-intensive industries such as aluminium, cement, steel, refineries, and chemicals. These sectors are pressed to transition to clean energy solutions and adopt new business models, but are confronted with uncertainties around the costs of decarbonization technologies, access to capital, and the timely, scalable availability of these technologies. SMEs are also facing specific challenges in charting their decarbonization pathways.

The industry's plea to the EU is for the creation of a supportive ecosystem that makes it easier to embrace innovation and reduces the 'green premium' - the additional cost associated with green technologies compared to conventional ones - thereby establishing a strong 'business case' for the clean energy transition.

**For this task, speed is of the essence**. This means on the one hand significantly reducing the time required for companies in Europe to access funds and incentives to deploy clean technologies and on the other hand, the time needed by clean technology innovators to bring to market cutting edge, yet-to-be-mature technologies.

While the EU's regulatory framework differs from the U.S. IRA, which primarily uses tax incentives, the EU can aspire to replicate its simplicity and rapid execution. Procedures to access EU funds or state aid, such as Important Projects of Common European Interest (IPCEIs) can take several months. Furthermore, there are several EU energy and climate related funds available, in addition to national financing channels, which need to be coordinated and harmonised to effectively achieve policy objectives. The complexity of navigating these options often leaves private companies bewildered, struggling to identify the most advantageous path for their projects.

**Establishing a single executive entity to manage EU clean energy funding programs and incentive schemes would significantly benefit companies and stakeholders.** This executive entity could also be chosen as provider of technical support by the Commission when executing climate related projects of the Technical Support Instrument (TSI). Drawing on the experience of the existing European Climate, Infrastructure and Environment Executive Agency (CINEA), the EU could create a **Clean Energy Delivery Agency**. This Agency could have four primary responsibilities: serve as the implementing agency for the European Hydrogen Bank and oversee market development pilot projects in emerging clean technology sectors, starting with hydrogen, and raw materials; assist in the rollout of integrated cross-border infrastructure through grant funding and contribute to planning and programming at the EU level; oversee incentive schemes for the large-scale deployment of clean technologies, particularly in the industrial sector; and function as a one-stop shop for companies and stakeholders, offering access to certification schemes, tailored advice on funding sources, and support with permitting procedures. The Clean Energy Delivery Agency would be the first partners for industry, project promoters, national and local governments looking for solutions to support their projects.

The Agency could provide harmonised data across the EU, assist with comprehensive energy planning (including National Energy and Climate Plans), and offer technical support and a forum for knowledge exchange.

Furthermore, a stronger attention must be given to incentivizing demand for clean technologies from industry. Financial instruments that support operational expenditures have demonstrated their effectiveness in accelerating market development and the adoption of clean energy solutions. Designing a Clean Energy Deployment Fund to facilitate investment in cutting-edge technologies necessary for achieving net zero would be a strategic move. This Fund would complement the Innovation Fund, which allocates resources to projects in highly innovative technologies.

The stability of the regulatory framework introduced with the Fit for 55 agenda and a systematic attention to simplicity with regard to its implementing measures and to the streamlining of reporting obligations would reduce uncertainty and administrative red tape for companies, in particular for SMEs.

A new and stronger effort is also necessary to reduce fragmentation of standards and product quality requirements. The Commission has already identified priority sectors for standardisation, starting from cables and grid components, but others should follow in a stronger effort for standardisation.

A sustainable Single Market for carbon-free products is contingent upon the resilience and competitiveness of clean technology supply chains. Europe's clean technology industries are faced with an uneven level playing field at global level. **The European Union must adopt proactive de-risking policies and bolster the scale-up of its clean tech manufacturing**. The Net Zero Industry Act (NZIA) represents a crucial step forward, but its implementation needs to be comprehensive. The application of pre-qualification and resilience criteria should extend beyond its current scope. Every European competitive procedure, from infrastructure construction to renewable energy production, must incorporate stringent resilience and sustainability criteria.

**Furthermore, the European Investment Bank (EIB) could broaden the application of credit enhancement models, already pioneered in the wind sector, to other industrial realms**. Initiatives led by the EU to foster collaboration and coordination among industrial players within a value chain, like industrial alliances, are essential for reducing the time-to-market of innovative technologies. Such measures are pivotal for Europe to navigate the challenges of dependency and position itself as a leader in the global clean tech industry.

## Energy diplomacy – untapping Europe's potential

The Single Market is also an asset for a EU credible external energy policy. To foster energy diversification, bolster supply chain resilience, and promote sustainability, the EU's must rethink and reorient its energy diplomacy towards old and new strategic actors, from Ukraine and the Eastern Neighbourhood to the Mediterranean basin, Africa and the Gulf.

**The EU should engage in mutually beneficial cooperation with reliable energy partners based on security of energy supplies and clean technologies**. A return to collaboration in large scale cross-border energy infrastructure can be the card to play to establish positive and future proof relations with these partners. For instance, projects strengthening pipeline interconnection from North Africa towards Italy, Austria and Germany and upgrading it to be hydrogen ready or building new green electricity interconnections from countries in the Eastern Mediterranean shore to EU countries or across the Black Sea towards Romania, Hungary and beyond can both contribute to green transition and political stabilisation goals.

In preparation for the EU's expansion to more than 30 Member States, offering candidate countries - particularly Ukraine, Moldova, and Georgia - early and gradual access to the energy Single Market would be beneficial. This approach necessitates bolstered support for adopting the acquis, building administrative capabilities, and enhancing physical interconnections, while also tapping into their potential for low-carbon energy production.

Africa has the potential to become a global energy powerhouse. African countries are increasingly courted by other global players interested in investing in their natural resources and exporting renewables or nuclear technologies. The EU needs to present a convincing alternative option. Using its experience in market integration, its just transition approach and its industrial strength in clean technologies**, the EU can offer African countries a partnership for transition and decarbonization based on greater attention to creating value for local communities and focusing on energy access, diversification away from fossil fuels and development of green manufacturing to complement extraction of mineral resources**.

As the transition progresses, the nature and volume of energy trade are set to shift from commodities to technologies. The capacity to export and market these technologies will be a critical success factor, not only for the revenue generated from sales but more importantly, for establishing ongoing service relationships for maintenance or upgrades of these technologies. Prioritizing the export of European-manufactured clean technologies, and ensuring a level playing field in global trade must be central to the EU's energy diplomacy strategy.

Europe is poised to remain an import-friendly continent in the coming decades. However, EU energy sector regulations, which establish standards and requirements for the efficient operation of the EU market and cross-border trade— such as the criteria for renewable hydrogen produced from renewable electricity— are often viewed by European partners as overly complex and protectionist, even when this is not the reality. The potential negative impact of such perceptions should not be overlooked. It is crucial to intensify efforts to clarify the purpose behind Single Market legislation to our partners and to facilitate access to voluntary certification schemes that can simplify adherence to EU regulations.

With the **Carbon Border Adjustment Mechanism (CBAM)** set to take effect in 2026, a broad initiative to explain its objectives and functioning to extra-EU partners is essential to pre-empt frictions and disputes. CBAM will be a key tool for safeguarding industry and other sectors of the European Union from carbon leakage and environmental dumping. The possibility to internalize the GHG emissions in the price paid along the value chain makes it possible to re-establish a fair competition with other geographical areas with less ambitious green policies, ensuring a level playing field for businesses within the Single Market. This pilot phase is instrumental to draw the next stage of CBAM regulation and therefore it must be carefully assessed. In this assessment thorough consideration should be given to the risks of unintended loss of competitiveness for the European industry. The issue of 'complex sectors' must be addressed and solved, otherwise there is a clear risk of counteracting the EU's environmental efforts.

**Road map**

By 2025

- Implement a cross-border cost-benefit allocation methodology for offshore wind projects and develop joint schemes for procuring flexibility and renewable energy auctions across borders.
- Reinforce regional collaboration and give high level regional groups a more political steer.
- Introduce strict cybersecurity standards as a binding criterion when procuring new energy infrastructure.
- Conduct a systematic review of the gas security of supply framework.
- Prepare the entry into operation of the CBAM in 2026 and review its scope.

By 2027

- Reinforce the CEF-Energy budget, simplify its procedures and foster greater integrated planning.
- Establish a Clean Energy Delivery Agency to centralise the provision of technical support, manage funding programs, and serve as a one-stop shop for stakeholders.
- Incentivize demand for clean technologies through financial instruments and a Clean Energy Deployment Fund to facilitate investment in technologies for net zero.

By 2029

- Develop new financial instruments like Green Bonds to attract private capital for infrastructure projects.

Throughout the next legislature

- Consolidate energy dialogues with reliable partners in the Neighbourhood and Africa, also through infrastructure projects of mutual interests.

# Promoting peace and enhancing security: towards a Common Market for the defence industry

**The European Union stands as a beacon of peace**, steadfastly committed to fostering active peacebuilding and cooperation. These principles have long been the bedrock of our strategy, essential in shaping the EU's role on the global stage. Even as we navigate the complexities of an increasingly challenging security environment, our commitment to these ideals remains unwavering. Recognizing the realities of today's world, it is also crucial that we do not underestimate the need for a robust security approach. Strengthening our security does not contradict our peace-oriented goals; rather, it ensures that the EU can continue to promote and maintain peace effectively in the face of global uncertainties. The defence industry is therefore crucial to achieve these objectives.

Despite some progress in the last years, the pursuit of a common defence policy remains largely in early stages. **It wasn't until the war in Ukraine that the consequences of Europe's relinquishment of its defence responsibilities became starkly evident,** highlighting two major challenges that extend beyond the current crisis scenario.

In the short term, we are finding it difficult to fulfil our commitments to deliver munitions to Ukraine, crucial for its defence efforts. The gap between EU institutions' commitments and allocations remains very large, €144 billion committed versus €77 billion allocated. In the medium term, we face difficulties in reaching consensus on strategies and the necessary resources to ensure Europe's defence and the safety of its citizens, despite the fact that our military spending could be substantial if collectively pooled. In 2022, Europeans allocated approximately €240 billion to defence, nearly matching China's expenditure of €275 billion and surpassing Russia's by threefold, accounting for 12% of the worldwide total.

## Integration Deficit: A Central Obstacle in European Defence

Several factors contribute to the challenges faced by European defence. Foremost is the significant underinvestment by European countries over the last three decades, particularly in military equipment and defence technology. This has resulted in limited weapons production capabilities, leading to a heavy reliance on imports and off-the-shelf purchase. **Of all the military equipment dispatched by European countries to Ukraine since the onset of the conflict, 78% was acquired from non-EU producers.**

The fragmentation of demand, driven by national public orders to a largely domestic industry, exacerbates this issue. This fragmentation is also evident in the division of the defence industrial and technological base (DITB) across Europe, leading to unnecessary duplication of equipment. **Coupled with underinvestment**, this **fragmentation prevents the realisation of potential economies of scale that could arise from pooling defence equipment production efforts across European companies.** When compared to the American DITB and those of emerging defence industries like South Korea, Turkey, Iran or China the lack of integration in the European defence industry significantly diminishes its competitiveness. This represents a major, costly handicap that jeopardises European security.

Additionally, variations in tendering process timelines and minimal foreign company participation with the prominence of a 'captive market approach' in public contracts highlight further integration challenges. The lack of budget synchronisation, national defence industrial policy considerations, or a shortfall in national expertise within procurement and acquisition agencies may restrict the Europeanization of supply chains. The national basis for organising

DITBs limits the visibility companies have of subcontractors and suppliers within Europe, further hindering integration and collaboration across the continent's defence sector.

Finally, to address these issues effectively and bolster the EU's role in promoting global peace, there is a pressing need to **align EU and NATO capacity building efforts to avoid duplications and maximise the collective potential** for defence.

## A European Defence Industrial Strategy to promote cooperation

In July 2022, the proposed regulation by the European Parliament and the Council on establishing the instrument to enhance the European defence industry through joint acquisitions, the Act in Support of Ammunition Production (ASAP), made a clear diagnosis: "*in the absence of coordination and cooperation, increasing investments may exacerbate the fragmentation of the European defence sector, limit the potential for cooperation during the equipment lifecycle, increase external dependencies, and compromise interoperability*". As the war in Ukraine prompts European states to consider re-nationalizing their defence capabilities due to significant increases in military spending across Europe, **it is essential to acknowledge that the push for Europeanization in this area is driven by the recognition that no single European nation can defend itself or promote peace independently.**

In the European Defence Industrial Strategy (EDIS) presented in early March 2024, the European Commission and the High Representative made a similar observation. They explain that "*even Member States with the largest defence budgets are increasingly facing difficulties to invest individually at the required levels, exposing the EU to increasingly extensive capacity and industrial gaps and growing strategic dependencies*." **The EDIS proposes a toolkit aimed at better coordinating and strengthening cooperation among European industries.** It suggests measures to support the collective demand of Member States, ensure industry readiness in case of crisis or conflict, guarantee the availability of equipment and the security of supplies, develop financial means to support the industry, and promote a more responsive industrial culture.

The strategy states that "to increase the readiness of the European defence industry, Member States must invest more, better together, and European." One of the stated objectives is "to procure at least 40% of defence equipment collaboratively by 2030", ensure that by the same deadline, "the value of intra-EU defence trade represents at least 35% of the value of the Union's defence market", and that at least 50% of Member States' equipment budgets are dedicated to European acquisitions (60% by 2035). Achieving such ambition will not be possible without better integration of the European defence market, **yet significant obstacles remain.**

## A Common Market for defence as a crucial factor to promote peace

Achieving a unified defence market necessitates the integration of both supply and demand, meaning the industrial capabilities and defence policies must be aligned. **We need comprehensive harmonisation of defence activity regulations, strategic planning, and increased incentives for corporate cooperation.** The integration of Europe's defence companies is challenging without political convergence, but it is highly needed. In order to succeed in these industries large economies of scale are crucial. The **Airbus and MBDA models**, while different in nature, offer interesting insights and best practices for the European military industrial approach. However, numerous hurdles persist.

**A primary challenge is the trust deficit among Member States**, such as the concern that in times of need, equipment may not be available or a European country might refuse to supply it. This situation is exacerbated by Europe's limited production capacities and stocks, fostering divergent national strategies: investing in autonomous national capacities leading to redundancies, or opting to "buy American" for assured U.S. support. This creates a vicious cycle where European integration lacks trust, in turn, deterring further European collaboration.

**Another issue arises from the differing defence policies among Member States**, with varying objectives, interests, and strategic planning practices. Countries lacking a domestic defence industry but wishing to participate in cooperative programs naturally seek equitable returns, either through technological and industrial benefits or investment recoupment. While these demands appear legitimate, they often result in compromises that hinder cooperation, extend program durations, delay equipment delivery, and reduce the competitiveness of the final products.

This situation underscores **the importance of incentives**, making program-by-program cooperation difficult without ensuring the equipment meets specific needs. The perception among Europeans is that a common defence market benefits countries with an established defence industrial base more than those reliant on imports. Yet, ideally, **the Single Market should bolster European defence capabilities,** envisioned as a common market guaranteeing all members access to the military capacity needed for the defence of their citizens and the promotion of global peace.

Additionally, **a more unified or open market could offer European defence manufacturers clearer insights into future needs and assurance of long-term European orders to justify investments.** Industrial capacity availability is vital, but off-the-shelf purchases offer quicker, less binding solutions compared to the multi-year commitments and specialised engineering expertise required for domestic military equipment production. We need to intensify our efforts to promote integration within the sector, thereby enhancing our collective capabilities.

## A gradual approach to tackle integration challenges

**To achieve a cohesive European defence market, a gradual approach to dismantling integration barriers is essential.** The European defence market, largely characterised by national markets and fragmentation despite existing bilateral or multilateral collaborations, has yet to fully embrace a common market. Despite widespread acknowledgment among Europeans of the limitations of the current state, market integration remains limited. **A critical objective of the common market is to develop a Defense Industrial and Technological Base** that is as agile as possible, ensuring regular and guaranteed orders, maintaining existing capabilities, and offering a broad spectrum of production capacities for both peacetime and crisis situations. Military equipment production also necessitates the existence or development of a defence and industrial ecosystem capable of establishing supply chains around system integrators and a network of SMEs and mid-sized enterprises. Without this infrastructure, the risk of supply chain disruptions looms large, making off-the-shelf purchases more appealing for securing military capabilities.

**Enhancing European equipment procurement through a focus on domestic suppliers is crucial.** This approach ensures manufacturers a predictable order volume, fostering medium-term stability. Concerns exist that increased competition within a more cooperative and integrated European defence sector could lead to market share loss. Prioritising European suppliers mitigates this risk, considering the significant reliance on non-EU sources since the Ukraine conflict began. This focus strengthens European demand for domestically produced equipment, fostering the creation of European players that can compete with global defence giants. Furthermore, it facilitates better market access for SMEs, the backbone of innovation in the sector.

Harnessing the full potential of innovative small and medium-sized enterprises will require a better understanding and a more coherent structuring of the fragmented and fast-changing SMEs and startups landscape, as well as agile processes allowing these actors to fully integrate within the EU's defence value chain. This outcome could be achieved, for instance, by **strengthening links between smaller actors and large primes**, in a framework which could benefit both. In this respect, while EU instruments should enable better access to venture capital and incubators to innovative startups and SMEs, large primes could also be incentivised to progressively integrate and mentor the latter, in order to help them scale-up. An effective integration of smaller innovative actors into the European DTIB is also an essential element within the broader goal of ensuring effective cross-fertilisation and synergies between the defence and civilian sector, especially when it comes to the development of dual-use systems and technologies, where Member States have already strong industrial capabilities, useful to create spin-in and spin-out dynamics in fields such as AI, quantum, cloud and automation.

For Member States, this approach would ensure access to a strong, resilient, and diversified defence industry, fostering competition that drives choice, competitiveness, and cost-effective innovation. Leveraging the complementarities between European countries' defence and military equipment production capacities could also help fill capability gaps through cooperation or joint orders, generating synergies and supporting projects of common interest.

**The progressive Europeanisation of the defence supply chain is crucial,** as many small companies have ceased producing military components. A common market has the potential to encourage their cooperation or even lead to European mergers, creating stronger and more innovative medium-sized enterprises. It can also enhance access to national defence markets, increasing openness more effectively than before. The proposed **Defence Industrial Readiness Board** must support these changes, facilitating production and reducing bottlenecks by harmonising regulations and minimising administrative, customs, and tax barriers.

Market and defence industrial and military capacity integration offers not just strategic benefits but also key economic and industrial advantages. Despite challenges, Europe's defence industry remains a crucial industrial player, often leading disruptive innovations across various sectors. Strengthening European defence, therefore, is vital not only for sovereignty but also for the continent's economic security, reindustrialization, and global competitiveness, making the DITB an essential player in the digital and energy transitions.

Acknowledging **the indispensable role of cooperation with strategic partners, notably the UK, the US, and other NATO allies**, remains crucial to bolstering the broader defence ecosystem and promoting peace, but it's time for the EU to realise its potential and enhance its collective capabilities.

## Financing Europe's leap towards defence integration

In a report released by the European Parliament, the cost associated with the fragmentation of defence markets in Europe was estimated to exceed €100 billion annually. This figure highlights the potential financial benefits that could be realised from establishing a common market for defence. However, achieving a comprehensive European Defence Industrial and Technological Base that is agile, innovative, and capable of spanning the full spectrum of capabilities required to **guarantee European security will demand significant financial investment.**

The latest European Defence Industrial Strategy outlines a commitment to support investments by Member States and the European defence industry in the development and market introduction of cutting-edge defence technologies and capabilities. The newly established European Defense Industry Programme aims to allocate €1.5 billion from the EU budget for the years 2025 to 2027. However, the demand for resources far exceeds this allocation. Discussions on the specific nature of this support continue, highlighting the critical need for quick and decisive action to identify and implement effective solutions. In recognition of this urgency, **Member States and EU institutions must take into consideration a variety of innovative funding mechanisms** to support collective defence initiatives.

When it comes to public investments, substantial direct support through the EU budget, aimed at financing and/or co-financing joint research, development, and procurement of a well-defined set of critical projects of common interest remains paramount to the integration of the European industrial market. In this regard, **a single instrument covering the capability's life-cycle, from the design phase to joint acquisition to in-service support, would provide Member States with a considerable incentive**. While fostering a long-term planning approach – thanks to the early establishment of common requirements – this framework would significantly contribute to de-risk early production, reduce non-recurring costs and encourage MS to commit to the final product, possibly the greater guarantee of a steady flow of orders for the European DITB. In this context, joint development and acquisition can significantly boost economies of scale and translate into lower price-per-unit, thus encouraging more and more MS – including those devoid of a significant defence industrial base – to become less reliant on off-the-shelf acquisitions from third countries.

In the March 2024 European Council conclusions, EU leaders signalled a decisive intention to facilitate the defence funding at European level: '*the European Council invites the Council and the Commission to explore all options for mobilising funding and report back by June'*. In this framework, **an intense debate on the topic of defence Eurobonds is also gaining ground**. Despite the political sensitivities surrounding this option, it has the potential to swiftly mobilise significant resources on one hand, and to foster the development of collaborative projects on the other, thereby facilitating a gradual transition towards a unified market. Given these considerations, such an approach should inherently carry certain conditions. To alleviate legitimate concerns towards embracing this shared financial obligation, it is essential to pair this approach with clear repayment plans at the end of the term. This includes establishing viable strategies for augmenting the EU's own financial resources.

An additional strategy worth considering involves utilising the **European Stability Mechanism (ESM).** In response to the COVID-19 pandemic, the ESM introduced the Pandemic Crisis Support, a dedicated credit facility aimed at helping ESM member countries cover healthcare expenses related to the crisis. A parallel initiative could establish **a specialised credit line for national defence spending**. Mirroring the Pandemic Crisis Support framework, this Defence Support Line could provide loans of up to 2% of a member country's GDP at exceptionally favourable interest rates, specifically earmarked for defence and security expenditures. The sole criterion for accessing this credit facility would be a formal pledge by the requesting member state to allocate the funds exclusively towards national defence efforts. This commitment would be articulated within a detailed plan submitted to the ESM for approval. Once approved, Member States could tap into the credit line, drawing funds up to the agreed amount under terms outlined in their individual plan.

The March 2024 European Council also invited the European Investment Bank *'to adapt its policy for lending to the defence industry and its current definition of dual-use goods, while safeguarding its financing capacity'*. Following this political indication, the EIB Group Security and Defence Industry Action Plan has been presented by President Nadia Calviño with the aim of strengthening EU funding tools for the defence industry. The plans aim at **significantly empowering the EIB to support defence-related activities beyond the current scope of dual-use projects.** This will require a thorough revision of the definitions of dual-use projects, the list of excluded activities, and the EIB's lending policies towards the defence industry, along with other measures. Empowering the European Investment Bank represents a crucial first step and a potent tool to bridge our investment gap in defence and enhance the EU's common military capabilities.

Additionally, **market-based strategies that promote private investment play a crucial role as well.** Currently, defence companies encounter significant challenges in accessing capital and financing and the essential financial services provided by banks and investors. This predicament further jeopardises Europe's capability to develop a robust and enduring military-industrial base. Many SMEs, when confronted with these obstacles, opt to cease their defence production. As a result, it's imperative to consider innovative financing as a means to mobilise and encourage private investment. This could involve ensuring a portion of the risks tied to the financed project, offering guarantees for loans or certainty on future public procurements.

Our common defence funding needs are substantial, and in order to meet our critical strategic objectives we need swift and effective solutions. The European Union can only adequately tackle the intricate challenges of modernising its defence capabilities by exploring diverse financing mechanisms and integrating both **public and private resources.** This strategy highlights a comprehensive approach aimed at enhancing EU defence expenditure by **blending institutional support with market-driven incentives**. Establishing a robust and resilient European defence industrial and technological base is crucial to put the EU in the conditions to meet its strategic objectives and promote a global ecosystem of peace.

## The Single Market and space: fostering integration for strategic autonomy

Similar reflections are both necessary and applicable to another critical sector, particularly important for our future: space.

Historically, **space activities in Europe have only partially followed the Single Market approach.** Driven by the intrinsically institutional and political nature of the sector, space activities are based on public support. Moreover, Europe's decision at the outset to promote balanced development of space competencies among all Member States has led to the strategic distribution of institutional funding across the continent. This approach, known as **"geo-return"** - a cornerstone policy of the European Space Agency (ESA) - ensures that the investment by Member States is proportionally reciprocated through contracts to their national industries.

In the competence and capacity building phase, this model has proven to be successful, elevating Europe among the global key players and allowing for the growth of a strong European space industry. Nevertheless, the majority of industrial resources are concentrated in a handful of countries and companies that have the capability to build, launch and operate large space systems**. This model is no longer adequate for today's global, competitive space economy**.

Starting over a decade ago, the space sector has undergone a profound transformation with the integration of space into society and economy, utilising space infrastructure and data to provide services for citizens. Although it still represents a small fraction of the global economy, the growth and profit potential of the space economy have attracted an increasing number of actors, both institutional and private. As a result, Europe has seen an important increase of new industrial players and institutional actors, leading to multiple channels of public support to the sector and multiple regulations and national Space Laws. At the same time, traditionally "risk adverse" and lacking in attracting financial instruments, **European private investments in the space sector continue to be substantially smaller than those of the leading space powers**, namely the US.

The fragmentation of the institutional actors at European level, the lack of common rules and private capital supporting new space companies, are hampering the growth and the competitiveness of the sector in the new space economy.

More recently, the awareness of the effects of globalisation, new geopolitical scenarios and the rebalancing of US foreign policy towards Asia has raised the priority of the strategic autonomy and security of space activities, highlighting **the role of space in defence and security**. The use of civil and commercial space infrastructures for defence purposes is now a fact, as shown by the utilisation of the Starlink system in the Ukrainian war. However, in Europe, investments in defence-related space assets significantly lag behind those allocated for civilian purposes, resulting in a relatively underdeveloped "space defence" dimension.

**A dynamic space sector, capable of thriving in the harsh global competition and providing the appropriate instruments for Europe's strategic autonomy and security, is essential for the future of Europe**. **To achieve this, the current approach, characterised by fragmentation of institutional actors and rules, a weighted distribution of funding across Europe for the full spectrum of activities, and insufficient financial instruments to stimulate the injection of private capital, must be revised**.

## The way forward for the European space industry

The space sector encompasses a wide range of activities, spanning from pure R&D and large institutional programs to commercial endeavours and an increasing focus on defence and security activities, with industrial capabilities unevenly distributed across the EU. **A "one size fits all" approach would not suffice:** while the current diversity of methods has its merits, improvement and harmonisation are necessary.

The opportunity to establish a single European agency for space by bringing ESA within the perimeter of the EU institutions has become even more remote since the establishment of the EU Space Programme Agency (EUSPA), and Brexit - the UK being one of the main contributors of ESA - yet **clarity and complementarity in the roles and responsibilities of ESA and EUSPA are essential.**

It is also necessary to establish a **greater coherence and coordination of the rules applied to space activities by all European institutional space actors**, through the upcoming EU Space Law. The new legal framework should also include dispositions related to the application of Single Market rules, modulated by segments, where and when real competition can take place.

In this context, **ESA should also consider revising the scope of application of the geo-return method,** limiting its use primarily to R&D, science, and other programs that do not yet have a commercial and competitive market.

Finally, **the proposals for deeper financial market integration and enhanced public procurement presented in this report are also crucial to stimulating the space economy**. Creating complementary institutional instruments, such as investment funds, anchor tenancy, and ad hoc, lighter procurement procedures, is essential to stimulate the growth of new and innovative industrial ecosystems.

This new approach, while maintaining the necessary institutional support to space activities, would provide a level playing field to the full spectrum of the European space industry, regardless of the institutional framework of their activities. It would also increase access to national procurements and private funding to all European industries, stimulating the growth of the European market and enhancing the competitiveness of the sector in global market.

## Leveraging the Single Market to strengthen health resilience

The COVID-19 pandemic was a watershed moment for global and European health policies. It exposed the urgent need for multilateral cooperation when facing major health threats. It proved that investing in health is not only morally imperative but crucial for economic stability and political resilience within Member States. The pandemic also demonstrated, with tragic clarity, that rare viral diseases can still wreak catastrophic havoc, laying bare the inadequacy of traditional preventive health models when confronting emergencies.

Preparedness is non-negotiable. It must be built on swift, simple, unbureaucratic protocols managed by an efficient chain of command.

Yet, **Europe risks squandering the hard-won lessons of the pandemic unless it adopts a more unified approach to health**. Infectious diseases know no borders, as choices made (or neglected) in one Member State ripple across the Union. The implementation of the new legislation stemming from COVID-19 is proceeding relatively well, even though much remains to be done to secure the supply chains. The World Health Organization warns that "Disease X" is inevitable. We don't know its form or when it will strike, only that it will, and it could be far more devastating than COVID-19.

To **ensure more equality in healthcare access and sustainability for EU citizens** in the face of demographic trends and potential future crises, we need greater Single Market integration. To date, **there is no real Single Market for pharmaceuticals. Some marketing authorisations for medicines are still granted at national level**. Substantial spending disparities between Member States result in unequal access to diagnosis and treatment, a problem exacerbated by health migration and brain drain. Additionally, despite the EU's efforts, structural differences persist in the capacity for epidemic response, access to treatment, primary care, and life expectancy.

**Further action must continue to urgently address the global context**. The EU's dependence on external suppliers of chemically synthesised active ingredients, components, and finished products is increasing rapidly. European production of active ingredients has plummeted from 53% in the early 2000s to less than 25% today. New global players are further reducing Europe's R&D and production capacities. **The increasing outflow of European talents in search of opportunities in third Countries is significantly undermining the European Union's capacity for innovation. Consequently, the Single Market must prioritise boosting production capacity and self-sufficiency in raw materials, and certain types of medicines, vaccines, and antibiotics**.

To preserve Europe's competitiveness in pharmaceutical industrial, development, and research policies, while safeguarding access to medicines for its citizens, **we must act with urgency**, building on the steps already taken through the Pharmaceutical Strategy for Europe. A flexible, readily implemented instrument is crucial to counter unfavourable shifts in the international market, especially those affecting patenting and production attractiveness. Furthermore, the Single Market must guarantee the training of high value-added human capital in all Member States, ensuring the continued appeal of health professions.

To revitalise Europe's leadership in health, the European Union must set bold new goals that mobilise political will, scientific innovation and strategic investment. Inspired by the success of Europe's Beating Cancer Plan, we urgently need to **further address three critical challenges for our future: mental health, antimicrobial resistance (AMR) and neurodegenerative diseases**.

AMR is the new growing global emergency, and it demands continued joint action in Europe and across the world. In Europe, we must stimulate antibiotics R&D through a combination of push and pull incentives to promote rapid availability. Experts in the medical-scientific community agree that a multifaceted approach is essential. Appropriately sized pull incentives would drive development from Phase 2 or 3 clinical trials onward, while push incentives are crucial for earlier drug discovery phases and first clinical trials.

Alongside policies supporting new antibiotic research and combating resistance, we must prioritise the vaccination of Europeans as a critical tool for preventing viruses and diseases – especially among, frail patients, children and the elderly. Implementing a European vaccine passport is increasingly urgent, at minimum to standardise and track WHO-recommended vaccinations.

The aging population and fiscal tightening present significant challenges to the EU healthcare system, impacting both the supply and demand sides of healthcare services. There is more and more a need for **long-term care facilities, home care services, and specialised healthcare professionals trained to deal with the unique needs of elderly patients**. The aging population is not only limited to patients but also affects the healthcare workforce. As healthcare professionals retire, there shortages in critical healthcare roles are surfacing, exacerbating the strain on the system. COVID-19 crisis sparked a peak of attention on health issues but then post-pandemic reduced government spending on healthcare services is leading to cuts in services, longer wait times for treatments, and reduced access to new and potentially more expensive treatments. Limited budgets can also stifle innovation within the healthcare sector by reducing funding for research and development. This slows the progress in medical treatments and healthcare delivery methods, impacting patient outcomes. There is evidence that fiscal constraints and health insurances are reacting to the soaring costs of health care by limiting investment in advanced screening and preventive measures, which instead are cost-effective in the long run. It is a loose-loose outcome: less investment in these areas can lead to higher healthcare costs down the line as preventable conditions go untreated.

**Addressing these challenges only nationally is a suboptimal answer. EU citizens do expect Europe to deal with the great challenges of the future of health care**. **Comprehensive policy measures require the right mix of EU level and national actions**. Innovative blending of funding mechanisms at EU and national level should be explored to ensure the sustainability of healthcare systems, and strategies to promote healthy aging and prevent chronic diseases. This includes **investments in advanced proximity healthcare infrastructure and screening centres** that could be supported by Cohesion funds in low income and less populated areas and incentives to attract and retain healthcare professionals. **A decisive factor to guarantee the sustainability of the health sector is technology**. Leveraging technology and healthcare innovation accelerating the digitisation of the health systems, use of AI, robotics, telemedicine and biotechnologies investing in advanced genomics can improve dramatically efficiency and effectiveness in healthcare delivery. The EU and national budget should prioritise investment and deployment of advanced health technologies must be a priority. Innovation procurement through public tendering plays and important role together with an innovation friendly regulatory environment that facilitates the roll-out of new health technologies.

## Access to medicines

Currently, most medicines are centrally authorised by the European Commission based on the recommendation from the European Medicines Agency (EMA). The centralised procedure is mandatory for several categories of indications and optional for others. In practice, the vast majority of new, innovative medicines use the centralised procedure. However, an EEA-wide marketing authorisation does not guarantee equal access for patients throughout the EU. It is well known that patients in Member States with smaller populations and lower GDP per capita have less and later access to medicines compared to patients in larger and richer Member States.

The PRIME scheme by the European Medicines Agency (EMA), designed to support medicines addressing unmet medical needs, presents an opportunity for enhancement. By aligning PRIME more closely with the FDA's Breakthrough Designation, including **fast-tracking within the new European Health Technology Assessment (HTA) process**, we can expedite the review and approval of innovative medicines. This initiative would not only speed up access to crucial treatments but also reaffirm the EU's commitment to healthcare innovation and patient care.

**Clinical trial**

The Single Market may be a useful tool to **streamline the clinical trial process**, thereby making the EU a more attractive market for manufacturers. Clinical trials are the most expensive and time-consuming part of the drug development process. An effective regulatory framework for conducting clinical trials is essential for the competitiveness of the most innovation-intensive aspects of the EU's pharmaceuticals sector. Multi-country or EU-wide trials are an important factor in allowing EU drug developers to attain sufficient scale to compete with the US and other competitors. **Regulatory differences between Member States pose a significant challenge in this regard**. The divergent standards applied by ethics committees of various Member States slow down assessments of applications for approval of multi-country trials as well as making the process more costly and burdensome. In addition, there are insufficient networks of clinical trial sites across Member States, which hampers the effect of conduct of the trials.

Recent initiatives developed by the European Commission directly address Single Market concerns to enhance the **attractiveness of the EU for conducting clinical trials**. These welcomed steps should be followed by further initiatives to enhance regulatory harmonisation and efficiency and accelerate processes.

It is crucial to regularly monitor clinical trial legislation across Member States **to identify inconsistencies and promote alignment**. Fostering collaborations between research organisations, the pharmaceutical industry, and academic institutions is vital for simplifying authorization and regulatory approval processes, as this collaboration will accelerate innovation and speed up the path to market for novel treatments. The EU should actively encourage the training of highly qualified pharmaceutical professionals and promote researcher mobility and mutual recognition of professional qualifications across the region. The **fifth freedom** framework proposed in this Report will offer new opportunities to explore.

Furthermore, supporting the creation of **transnational networks between large research** hospitals, such as the model provided by the ECHoS project, is essential. These networks will offer a unified platform for diverse research areas, streamlining coordination across borders. Additionally, establishing a monitoring system that complements existing metrics will provide a comprehensive picture of the economic impact of clinical trials. This system should track direct investment, job creation, health system savings, and overall improvements in population health.

Finally, public awareness campaigns highlighting the importance of clinical trials, their benefits for patients, and the responsible use of health data are crucial. These campaigns should increase public understanding and **promote trust in the research process**.

**European Health Data Space**

In the realm of data utilization and healthcare innovation, the European Health Data Space (EHDS) stands as a pivotal initiative by the European Union to leverage the continent's competitive edge in healthcare R&D. The EU benefits from its National Health Systems (NHS), which accumulate vast arrays of high-quality health and social data. This treasure trove of information is indispensable for advancing R&D and enhancing healthcare planning, as highlighted in the chapter on the fifth freedom.

**The EHDS is a commendable stride towards maximizing the potential of health data**. Nonetheless, for it to achieve its full impact, certain measures are recommended. There is a pressing need to harmonize the processes for health data access applications and requests, ensuring a streamlined and efficient mechanism for researchers. Secondly, critical examination and further clarification of the opt-out clause for secondary data use is needed. In addition, it is crucial to Develop and recommend non-binding model contractual terms for confidential and protected electronic health data, as the EHDS requires companies to share data protected by intellectual property rights and trade secrets, with safeguards to be defined by Health Data Access Bodies. In addition, outline the minimum requirements that data holders must meet concerning dataset provisions and their characteristic could be beneficial.

**The EHDS will also be a fundamental step in reaping the benefits of the Single Market**. Patient summary records and e-prescriptions will become interoperable available within and across borders. Under the new rules, citizens will have immediate and easy access to their digital health data wherever they are in the EU. Health professionals will be able to access the medical records of a patient when required for treatment in a different Member State, allowing for evidence-based decision making, in full compliance with EU data protection rules. Patient summaries and e-prescription services exist in two-thirds of all Member States, but only in a few countries can they be sent or received across borders and 11 countries are still using paper printouts for prescriptions. Now that the legislative process is complete the implementation challenges should not be underestimated. Commission and Member States should now spare no effort that the benefits of the newly adopted legislation are available to citizens and health care professionals without delay.

**Joint Procurement**

The experience of jointly procuring vaccines during the COVID-19 pandemic demonstrates a strategy that could be **replicated for certain other medicines**. This approach would enable large-scale negotiations, ensuring effective and competitive outcomes.

When the rights conditions are present, joint procurement can be a powerful tool in facilitating **access to innovative and orphan drugs for all Member States**. Additionally, it provides smaller countries with a structured framework for multi-country collaborations in the procurement of both orphan and innovative drugs. For this mechanism to reach its full potential, an innovative European Guarantee Fund should be established, specifically designed to help smaller countries overcome limited bargaining power due to smaller procurement volumes.

## Zoonotic diseases

In recent years, the holistic vision of 'One Health' has gained increasing importance. This concept recognizes the essential need for an integrated, interdisciplinary approach to health.

The World Organisation for Animal Health (WOAH) estimates that around 60% of human pathogens originate in animals, and 75% of emerging animal diseases can be transmitted to humans. Additionally, 80% of pathogens with potential use as bioterrorist weapons are also of animal origin. This underscores the importance of understanding and controlling diseases in domestic and wild animals to proactively prevent infection in humans. Consequently, protecting animal health and welfare directly safeguards food safety and prevents foodborne illnesses.

**Given these factors, the European Union fully recognizes the significance of the One Health approach. We must further strengthen this approach through concrete, long-term, and stable programmatic actions**. EU4Health and the medical countermeasure programs planned by the Health Emergency Preparedness and Response (HERA) authority undoubtedly represent a significant contribution to European preparedness policies.

To proactively address potential spillovers, we need an integrated research capacity focused on new viruses in both wild and imported animals. Additionally, we require stricter controls on commercial entry flows, moving away from the fragmented, bureaucratic approaches that often prevail among individual states.

Alongside the European Centre for Disease Prevention and Control (ECDC), **we may boost EFSA's role on research, control, and surveillance of zoonotic disease**. A greater integration within a network of European research centres would be needed as well as full collaboration with the WOHA.

## Substances of Human origin (SoHo)

The Single Market can also address current barriers on voluntary and unpaid donation (VUD) of substances of human origin (SoHO). VUD aligns with the ethical principle enshrined in the European Charter of Fundamental Rights, which prohibits the commercialization of the human body. While reimbursement of expenses and compensation for lost earnings are permissible, the definition of such compensation remains inconsistent across Member States.

A recent political agreement between the Council and the Parliament on a proposed Regulation seeks to replace the existing Directives (2002/98/EC for blood and blood components and 2004/23/EC for tissues and cells). **This agreement will bring greater convergence on the rules on VUD, ensuring consistency throughout the EU**. The new European regulation would be a significant step forward, reinforcing the principle of financially neutral donations and upholding the value of altruism while addressing limitations within the previous directives. However, two major challenges remain: Europe's 40% reliance on American plasma, a vulnerability exposed by the COVID-19 pandemic, and the market-driven shortages of plasma and plasma derivatives faced by small countries due to the industry's focus on larger volumes.

**Inspired by the success of collaborative models for orphan and innovative drugs, we could incentivize similar mechanisms between Member States** where larger nations with greater volume and industrial capacity become blood and plasma processing hubs. This strategy would not only address shortages in smaller countries but also stimulate donations across Europe, partially mitigating the overall plasma deficit.

## The Single Market as a catalyst for seamless and sustainable transportation in the EU

The transport sector stands as one of the fundamental pillars enabling the free movement of people, goods and services across the European Single Market. By diminishing geographical and logistical barriers, it directly contributes to the economic integration and competitiveness of the EU. Improved transport networks contribute to social cohesion by ensuring that remote and rural areas become more accessible, allowing citizens and local businesses to experience the benefits of the Single Market, thus bridging the divide between different regions of the EU and fostering a sense of European unity. In addition, **the strategic development of the transport sector is indispensable for the EU's ambitious agenda to transition towards a green economy**.

However, a genuine Single Market in the area of transport remains a major objective to be achieved. This requires the EU to establish a **truly integrated Trans-European Network of Transport**, encompassing key railways, inland waterways, short sea shipping routes, and roads that connect urban nodes, ports, airports, and terminals, as well as to eliminate the inefficient and unnecessary residual barriers between modes and national systems, including by addressing the existing regulatory and technical barriers.

In order to foster investments and integration, the EU could set significant targets in this area. The **establishment of a comprehensive, pan-European high-speed rail (HSR) network, seamlessly linking all EU capitals and major urban centres**, would represent an unparalleled opportunity to revolutionise European travel and catalyse EU integration. In the same way, the EU should enable seamless travel between all European capitals for electric vehicles by ensuring a comprehensive charging infrastructure along connecting routes.

On top of that, the European institutions must firmly oppose any attempt to limit freedom of movement between Member States. This includes technical restrictions on routes and road transport, as well as any suspension of the **Schengen** Agreement. A date for the lifting of checks at internal land borders between Bulgaria, Romania, and other Schengen countries must be established in 2024.

The pursuit of further integration in the transport sector must not undermine social standards. Strengthening transnational controls is essential to enforce rules on posting workers faithfully. The proposals to bolster the European Labour Authority (ELA) outlined in this report are central to this effort. By enhancing the ELA, we ensure the **protection of labour conditions**, striking a balance between economic development and the safeguarding of social rights within the EU's policy framework.

### TEN-T network development

In order to address the remaining infrastructure gaps and bottlenecks, the TEN-T Regulation establishes deadlines for constructing the core, extended, and comprehensive networks by 2030, 2040, and 2050, respectively. However, there is a growing risk that Member States might not meet the 2030 targets. Differences among transport modes are evident: while the road network under TEN-T is largely completed, the rail network remains highly fragmented, particularly concerning high-speed rail. Moreover, there is a noticeable deficiency in multimodal connections, particularly in linking rail and road networks with ports and airports.

The investment needs associated with realizing the TEN-T core network by 2030 are estimated at around €500 billion, with a significant portion still lacking sufficient financial resources. Connecting Europe Facility (CEF), **the principal EU funding mechanism for**

**TEN-T projects, should go beyond its current structure and objectives, to be redefined as a European fund that can meet the major investment needs as well as the new challenges that Europe will increasingly face over the coming years**: the network of the future should guarantee the resilience of infrastructure which is at high risk because of climate change and build infrastructure capable of meeting military mobility needs. Furthermore, in addition to EU financial support, the completion and modernisation of the TEN-T needs substantial contributions from other sources, such as Member States' national budgets, as well as from financial institutions and investors. Collaboration between these stakeholders is essential to secure the development of transport infrastructure projects and to enhance the overall efficiency and sustainability of the network. Together with the proposals on financial integration presented above in this report, a more predictable, stable and transparent rail sectoral regulation, providing appropriate incentives to efficiency, might offer several opportunities to meet the financing needs in the infrastructure field, also aligning to the regulatory best practices of other capital-intensive infrastructural sectors, such as the energy one. The Regulatory Asset Based (RAB) model has, indeed, already proved fit for the purpose of attracting private investors to infrastructure financing.

At the same time, the major impacts of Russia's war of aggression in Ukraine have underlined that **the EU's Single Market and transport network cannot be looked at in isolation when it comes to Union policy**. In the broader context of the TEN-T development, focus should therefore also be on laying the base for connectivity between the EU, Ukraine and Moldova. The priority should be to further enhance the capacity at main border crossing points, as well as on integrating Ukrainian railway systems into the EU by deploying European standard gauge on priority railway sections. A very positive outcome would be the deployment of the first sections of this interoperable infrastructure by 2030 at the latest.

## Enhancing rail transport for a sustainable and resilient future

Improving the railway sector is essential for the vitality of the Single Market. It serves a pivotal function in uniting the European Union, advancing the decarbonization of transportation, and enhancing business productivity significantly. The railway's unparalleled role in both civilian and defence mobility, as a historically proven backbone for efficient asset movement, emphasises its strategic value. It stands out for its capacity to move large volumes of equipment and people over various distances promptly, offering an eco-friendly solution with its steel-to-steel traction and power recuperation technologies. This efficiency underscores the necessity of synchronising railway systems across Europe to meet civil and defence mobility goals effectively, including potential financing from defence budgets to maintain this crucial infrastructure.

However, **the Single European Railway Area has not yet fully materialised**. Rail market opening, which started 25 years ago, has been hampered by the fragmentation of markets and infrastructure, the persistence of legal and de facto monopolies, as well as formidable technical barriers.

To address these challenges and fully harness the potential of the rail sector, ensuring the deployment of rail's key digital enablers such as the European Rail Traffic Management System (ERTMS), Digital Automatic Coupling (DAC), and Digital Capacity Management (DCM) is paramount. A centralized EU-level governance and coordination on the migration and deployment of these key digital enablers is vital to achieve the modal shift targets envisaged in the Green Deal. The complexity of the interrelationships between these systems, combined with the significant costs and resources required for their integration, underscores the need for a cohesive Systems of Systems management approach.

**ERTMS, as a cornerstone for enhancing interoperability and safety across the EU's rail network, is especially critical**. Despite being a key enabler for improving cross-border and national operations, its deployment has faced considerable challenges, including slow progress and fragmented implementation. With ERTMS deployed on only a fraction of the Core TEN-T Network, accelerating its rollout is essential for realising a truly integrated European rail system. Alongside ERTMS, the deployment of DAC and DCM promises to revolutionise rail freight efficiency and capacity management, with substantial investments needed from the EU, Member States, and private investors to support their implementation.

In several Member States, open access operators still face obstacles, including those related to access to rolling stock, ticketing, rail service facilities, and high track access charges. The deployment of ERTMS has been uneven, leading to access issues for appropriately equipped rolling stock, while national rules continue to impede interoperability. The rapid deployment of ERTMS, along with DAC and DCM, must remain a top priority for the EU; the European Commission and the European Union Agency for Railways should monitor developments closely to ensure that national regulations do not create additional barriers to Europe-wide use of high-speed rolling stock. Furthermore, regulatory bodies should oversee incumbent operators' management of redundant rolling stock to prevent competition stifling.

To facilitate new entrants' access to service facilities and ensure fair competition in the railway sector, especially in relation to ticket vending, there is a pressing need for **an EU-wide, integrated, multimodal information, ticketing, and payment services framework**. In that field, significant advancements in developing interoperable and non-discriminatory sector led initiatives are still ongoing, while a conducive regulatory environment for such services is still lacking.

To achieve net-zero logistics for European industrial sectors, rail freight services need to be enabled to trigger their full potential. To do that, rail infrastructure capacity must be increased and industrial site planning must be designed by including appropriate and sufficient rail connections. It will also be strategic for rail to access green hydrogen and other sustainable fuels in addition to battery technology.

**The establishment of a comprehensive, pan-European high-speed rail (HSR) network, seamlessly linking all EU capitals and major urban centres, would represent an unparalleled opportunity to revolutionise European travel and catalyse EU integration**. By ambitiously connecting the continent's most important cities, this project stands to significantly elevate rail's role in long-distance passenger transportation, aiming to capture more than 50% of the market share. This initiative is not merely an advancement in transportation infrastructure; it represents a critical step toward forging a more connected, accessible, and unified Europe. Its realisation will serve as a cornerstone in the EU's journey towards enhanced connectivity, economic growth, and environmental sustainability, underscoring its profound importance for the future of the European Union.

## A more integrated road transport sector

The Single Market in road transport is not yet fully achieved, as specific areas of road freight transport as well as of road passenger transport are still not open to full competition from operators of different Member States. As a consequence, **the freedom of road operators to provide services is limited, and citizens cannot enjoy the benefits of a more integrated Single Market**.

Concerning passenger transport services, the liberalisation of regular connections by buses and coaches over long distances remains incomplete. Therefore, foreign passenger transport service providers are not allowed to compete with domestic operators on an equal basis. The EU should assess the status of the revision of the Directive on Passenger Bus and Coach

Services to liberalise the sector of regular connections by buses and coaches over long distances.

Significant hurdles also prevent passenger car rental service providers from operating across national borders at scale. **Due to different vehicle taxation in EU countries, providers of such services do not allow a vehicle registered in one country to be rented in another country**. If a rented vehicle crosses an internal border, the concerned service provider returns it to the home country at its expense. The EU must remove existing barriers by, for example, establishing a system allowing a longer period of use of the vehicle in the second country without a need for registration in that country, in order to make cross-border rental more appealing.

Another issue concerns **infrastructures for zero emissions vehicles**. While public charging infrastructure for electric vehicles is developing, in most of the EU, there is currently no such infrastructure for heavy-duty vehicles. Hydrogen refuelling stations are even scarcer. Without adequate investment in public alternative fuel infrastructure for heavy-duty vehicles across all EU Member States, the decarbonization of commercial fleets is at risk. Industry, energy providers, network operators and policy makers need to collaborate to ensure the development of pan European infrastructures.

More broadly, investing in the maintenance of highways and road infrastructure is essential for several reasons. First, it helps to ensure the safety of drivers and passengers. When roads are well-maintained, they are less likely to have potholes, cracks, or other defects that can cause accidents. Second, proper maintenance can extend the life of roads, saving money in the long run. Third, well-maintained roads improve fuel efficiency and reduce emissions, which is beneficial for the environment. Finally, good road infrastructure can promote economic growth by making it easier for businesses to transport goods and services.

## Streamlining EU air transport

Air Traffic Management in the EU is fragmented by national airspaces, managed by monopolistic, most often state-owned, air navigation service providers (ANSPs), who are financed by the airspace users and thus ultimately by airline passengers. The monopoly service providers lack incentives to modernise their technology and to cooperate across borders and industrial action by the air traffic controllers they employ can create a significant negative impact - in terms of delays, cost and emissions - on the performance of the entire European network. Air traffic in Europe continues to suffer from persistent high levels of delays and cancellations, affecting millions of passengers. At the same time, it leads to some 10% more fuel being burnt than needed due to inefficient navigation.

**The European Commission's proposed adoption of the Single European Sky (SES2+) reform is a crucial first step, but a broader range of actions will be necessary to fully address these pressing issues**. Efficient oversight of ANSPs by National Supervisory Authorities (NSAs) and the European Commission is necessary, as are effective incentives to modernise technology and to favour the most environmentally friendly flight paths. Otherwyse, air traffic management in the EU will overall become more costly and less green.

Considering that Member States, including the military, are reluctant - except in very specific cases - to allow service provision by another State in their airspace, cooperation in service provision between Member States needs to be strongly incentivised. This could include a performance scheme or support for the setting up of common systems, such as it was attempted by Finland and Estonia, which could become best practice.

## Enhancing EU Maritime transport

Maritime transport is a key vector for trade. It contributes to roughly 75% of the EU's external trade by volume and is responsible for nearly 30% of freight exchanges between EU Member States. Moreover, short sea shipping operations (maritime transport between EU ports) fulfil a **strategic role in safeguarding the connectivity of islands, peripheral, and remote maritime regions**. **European ports remain critical infrastructure, serving as gateways to the Single Market.**

**However, the EU maritime industry is unable to fully benefit from the Single Market in short sea shipping because maritime traffic between EU countries remains international traffic**. Customs procedures applied to goods circulating between EU countries, and burdensome non-harmonised reporting is required at each port call. While Regulation (EU) 2019/1239, which establishes a European Maritime Single Window environment (EMSWe), will simplify reporting obligations once fully implemented, considerable efforts are needed ahead of the 2025 application date. The EMSWe will also improve maritime transport's integration within the broader logistics chain.

Additionally, a thorough evaluation of new environmental requirements, such as the integration of maritime transport into the EU Emissions Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM), is essential – as also outlined in the energy chapter. **It is critical for the EU to prevent such measures from inadvertently causing a modal shift back to road transport or towards non-EU ports with lower environmental standards, as this would counteract the EU's environmental efforts**.

Furthermore, the revised definition of intermodal transport must incorporate the benefits realised in third countries, including Switzerland, the United Kingdom, Norway, and the Balkan countries. A dependable, straightforward, and certifiable mechanism is necessary to ensure the seamless inclusion of these benefits.

## Advancing in sustainable urban mobility

Urban mobility serves as a crucial junction within the European transport ecosystem, representing both the origin and culmination of journeys across the continent. With over 70% of the European populace residing in urban settings**, cities and towns emerge as vital hubs for economic and social endeavours**. The efficiency and accessibility of urban transport systems significantly influence the public's overall perception of the EU's transport infrastructure. Nonetheless, these urban areas encounter substantial challenges in enhancing their mobility frameworks, particularly concerning safety, congestion, and environmental sustainability.

Sustainable Urban Mobility Plans (SUMPs) have been a useful tool to address these challenges. SUMPs are designed to promote a holistic approach to urban transport planning, integrating economic, social, and environmental objectives. However, the adoption of SUMPs across Member States has been inconsistent, with many urban areas lacking a plan altogether, and among those that have implemented SUMPs, the quality varies considerably. To rectify this, the European Commission has issued a Recommendation on SUMPs to encourage Member States to support their cities and towns in the development and execution of these plans, aiming for a higher standard of urban mobility.

In line with fostering sustainable urban ecosystems, there is a pressing need for broader adoption of sustainable mobility solutions. **These include active transportation modes, such as cycling and walking, collective and public transport systems, and shared mobility options. The promotion of active mobility, in particular, can significantly**

**enhance urban liveability and attractiveness**. Following up on the **European Declaration of Cycling** could provide a substantial impetus to active mobility. The cycling industry in Europe, renowned for its innovation and global leadership, consists of over 1,000 SMEs and supports approximately 1 million jobs, with potential for further growth.

However, challenges persist, notably concerning urban vehicle access regulations (UVARs), predominantly related to low emission zones. Currently, there is a lack of accessible information on these regulations for drivers, especially those from other countries. To ensure compliance and facilitate mobility, there is a dire need for standardised and effective digital solutions that provide clear and comprehensive information on UVAR rules. **The deployment of new digital tools would serve not only to enhance the accessibility and sustainability of urban mobility but also to maintain the integrity and inclusiveness of the Single Market**.

# A Single Market for all

# A Sustainable Single Market for all

For decades, the European Single Market has been a cornerstone of unprecedented economic growth, social progress, and enhancement of living standards across the continent. It has acted as a catalyst for convergence among Member States, fostering an environment where innovation thrives, economies flourish, and citizens enjoy a broader range of opportunities. As acknowledged recently by the International Monetary Fund, the European growth model has been a powerful engine for economic convergence over the last decades.

Yet, amidst these successes, there is an emerging discussion on the distribution of these benefits – as will be pointed out in the next pages of this section. In particular**, a perception is gaining ground that the advantages of the Single Market accrue mainly to individuals who are already equipped with the means and skills to take advantage of cross-border opportunities, or to large enterprises that can easily expand their operations across Member States**. For example, by fostering competition, the Single Market drives innovation, which indirectly benefits the highly skilled: companies are encouraged to invest in research and development, creating a demand for expertise in cutting-edge fields. Also, knowledge of foreign languages is essential to take full advantage of education and employment opportunities in the Single Market. The situation for businesses is similar: large companies are generally better positioned than SMEs to reap the full benefits of the Single Market. They have the resources and infrastructures to take advantage of production cost reductions, streamline distribution across borders, overcome barriers and easily access the massive consumer base. Moreover, established brands and large corporations already have extensive networks of suppliers, partners, and customers; the Single Market can amplify these network effects, further solidifying their market position.

If left unaddressed, this perception could erode the public and political support that is vital to the continued success of the Single Market. From the outset, the European Single Market was designed with an awareness of its potential differential effects on workers, companies and regions and with a clear goal to address them. This is why **the cohesion policy was put in place as a fundamental element of the Single Market, not outside of this framework**.

However, today the EU operates in a radically transformed global environment, generating new distributional challenges that demand innovative solutions. The Covid-19 crisis has had uneven impacts across sectors, territories and socio-economic groups. The impact of the disruption of global value chains varies considerably across the local economies of the EU. The green and digital transitions carry will impact differently EU regions and economic sectors. The costs of inflation fall disproportionately on families and businesses which already face economic hardship. Furthermore, the ongoing restructuring of industrial policy carries the risk of inadvertently widening regional inequalities within the Union.

As highlighted by the recent report of the high-level group on the future of cohesion policy "*in 2023, more than 60 million EU citizens live in regions with GDP per head lower than in the year 2000. An additional 75 million in regions with near-zero growth. Collectively, about 135 million people, nearly one third of the EU population, live in places which, in the last two decades, have slowly fallen behind*". **Residents of regions in decline often feel having no opportunities, but to relocate** due to the lack of jobs, access to quality education, and adequate services necessary for cultivating a self-sustaining and dignified lifestyle within their own communities. Similarly, SMEs based in these areas feel the weight of EU regulations but experience limited benefits from the Single Market, often due to business models or capabilities ill-suited to cross-border expansion.

According to Eurobarometer, a large and stable majority of Europeans (61%) affirm that EU membership is advantageous and that their countries have benefited from being members of the EU (72%). However, **nearly one in two European citizens feel that things in the EU are going in the wrong direction**, while just one in three see things as going in the right direction. In sixteen countries, respondents who believe things are going in the wrong direction are in the majority. In fact, socio-economic hardship still affects Europeans' everyday lives: 73% believe that their standard of living will decrease over the next year, with 47% saying that they have already witnessed a reduction. Over a third of Europeans (37%) have difficulties paying bills sometimes or most of the time. It is no coincidence that EU citizens see the fight against poverty and social exclusion and public health as the crucial issues that the European Parliament should prioritise in the next legislature, followed by the fight against climate change and support for the economy.

To **fulfil its promises of shared prosperity**, the Single Market must address several vital mutually reinforcing needs when facing these challenges.

We must strive to continue securing the free movement of people but also ensure a "**freedom to stay**". The Single Market should empower citizens rather than create circumstances where they feel compelled to relocate in order to thrive. Opportunities must be available for individuals who wish to contribute to the development of their local communities. Free movement is a valuable asset, but it should be a choice, not a necessity. As expressed by Jacques Delors in a 2012 interview, "each citizen should be able to control their destiny". The objectives of the Single Market should align with the freedom of movement as well as the freedom to stay in the community of one's choice.

We must ensure that any development of the Single Market includes a **genuine social dimension that ensures social justice and cohesion**, as the Single Market is a powerful engine for growth and prosperity, but it can also be a source of inequality and poverty if its benefits are not widely shared or, worse, if it leads to a race to the bottom in social standards. A strong social dimension in the EU Single Market promotes inclusive prosperity, ensuring fair opportunities, workers' rights and social protection for all, while contributing to growth.

While, as discussed in the previous chapters, the EU needs to "play big", we need to facilitate **greater participation of small and medium-sized enterprises (SMEs) in the Single Market**. Otherwise, it is inevitable that those businesses and entrepreneurs representing the backbone of the EU economy will see the Single Market as an obstacle rather than an opportunity. SMEs employ almost two thirds of the EU workforce and account for a bit more than half of its value-added. Yet, many SMEs face barriers that include complex bureaucratic procedures, high administrative burdens, and a lack of information and support services. Simplifying procedures, providing tailored guidance, and making information more readily accessible would go a long way in empowering SMEs to thrive within the Single Market.

In addition, despite the recent steps forward**, tax fragmentation remains a major barrier for EU businesses and SMEs in particular**. A better alignment through a harmonised EU tax framework is key to facilitating the free movement of workers, goods and services and in supporting growth and private investment. Moreover, fighting against aggressive tax planning, tax avoidance and tax evasion is essential to ensure a Single Market that works for all and the continued funding of key EU public goods and adequate social instruments.

Finally, **enhancing consumer protection rules** is crucial for building a Single Market that works for all. Strengthening these measures not only ensures fair access to goods and services across member states but also fosters a competitive environment that benefits both consumers and businesses. As the EU continues to adapt to changing consumer preferences and economic challenges, robust protections will secure the resilience and integrity of the Single Market, ensuring it remains a cornerstone of European prosperity and innovation.

## Freedom to move and freedom to stay

The Single Market is a powerful engine for growth and convergence across territories by encouraging cross-border trade and investment. It also gives EU citizens the right to live and work anywhere in the EU, opening up a wide range of employment opportunities. The right to free movement has brought many benefits to those who have exercised it and to the EU as a whole, allowing the free movement of labour from places with high unemployment to places where labour is needed. Free movement promotes intercultural dialogue and strengthens European identity. Moreover, labour mobility is an important channel for dealing with the effects of asymmetric shocks within the monetary union. For all these reasons, increased labour mobility within the EU has always been promoted as a positive development for the EU. However, as intra-EU mobility has increased over the last decade and has become concentrated in certain regions, it is imperative to address the social, economic and political challenges facing the sending Member States and their most disadvantaged regions.

Since the Delors´ time, there is widespread agreement **that efforts to deepen or expand the Single Market shall be accompanied by actions at the EU level to prevent major economic and social imbalances. Alongside the social 'acquis', the main instrument to do so is the EU cohesion policy**. Cohesion policy as we know it today was launched in 1988 to support the 'Objective 92' project to complete the Single Market. The link between the Single Market and cohesion policy was very clear at that time: the EU funds were designed to help the less-developed regions and countries to adjust to the removal of market barriers. This support to ´market adjustment' is still important. It will become particularly relevant in view of future EU enlargements. EU cohesion policy funds will be needed to help those regions more affected by the entrance of new Member States – particularly in the eastern and south-eastern borders – and facilitate a smooth integration of the candidate countries into the Single Market.

However, the Single Market today faces vastly different challenges from those prompting the 1988 reform of the Cohesion Policy. A series of structural transformations – changes in the global economy, climate, digital and demographic transitions – have resulted into the emergence of new territorial divergences. A particularly worrying phenomena is that of **regions locked in 'development traps'** – as identified in a recent report published by the European Commission "The geography of EU discontent and the regional development trap" – experiencing lengthy periods of low or negative growth, weak productivity increases and low employment creation or even job losses. Stuck in development traps, these regions are unable to reap the benefits of the Single Market. Many of them are located in middle-income or even high-income Member States, and thus are not among the main beneficiaries of EU cohesion funds. The lack of economic opportunities in these regions is often aggravated by a lack of access to services of general interest, such as healthcare and education services or basic infrastructures. This creates a vicious circle, limiting the economic opportunities and increasing the risks of poverty and social exclusion.

To compound the issue, **the current narrative of the Single Market does not resonate with citizens living in these areas**. When we think about the freedom of movement, we most often see it mainly as an opportunity but this overlooks the significant real-life barriers to mobility to which many of them are confronted, such as age, lack of skills, intergenerational solidarity obligations, house ownership or emotional attachment and the effects of "brain drain". Rather than the positive effects, people living in these areas often see only the negative effects of the freedom of movement.

**Any effort to overhaul the Single Market is destined to fail if it does not adequately address the needs and challenges faced by residents of these declining regions**. While the EU cannot guarantee absolute equal standards of living and economic opportunities across the Union, more should be done to help all territories and citizens reap the benefits of market integration, wherever they live. **The EU cohesion policy is expected to play a crucial role in this regard, but it should not be the sole instrument**; there are many factors explaining the lack of growth and dynamism in certain EU territories and not all of them are under the control of regional and local authorities. Particular attention should be paid to the territorial implications of national interventions.

In addition to that, the EU should be more proactive in supporting **policy cooperation across borders**. The Single Market is not a compound of national markets but an integrated area in which businesses, consumers, workers or researchers are deeply intertwined. However, cohesion policy programs tend to have a strong "national/regional bias" and do not fully exploit the benefits of connecting with other places beyond the national borders. For example, in the field of technological innovations, there are studies showing that linkages with more advanced regions are very relevant for less-developed regions as they provide access to complementary capabilities that are related to existing capabilities in the region and allow them to diversify into new technologies. However, inter-regional cooperation on innovation is very limited and mainly occurs within national borders.

Particular emphasis should be given to the **reduction of cross-border barriers**. Despite the Single Market and Schengen, there are still important legal and administrative cross-border obstacles that hamper individuals from border regions to seek jobs or provide services in neighbouring regions. Numerous border regions are economically disadvantaged due to their geographic distance from the capital. Efforts to mitigate the 'border effect' would enable citizens residing in these areas to derive greater benefits from the Single Market without necessitating relocation.

It is also important to recognise and address the negative effects that some Single Market policies may have on certain territories. In particular, the freedom of movement allows EU citizens to live and work anywhere in the Union but it also has a downside: a significant number of highly skilled workers or young people leave certain regions and countries to seek job opportunities and education elsewhere, resulting in a phenomenon often referred to as **'brain drain**'. Combined with demographic trends, this results in a sharp working age population decline in some regions, ultimately hampering their economic capacity, creating new problems and giving grounds for further EU resentment**. There is a need to break this vicious circle by supporting these territories in their efforts to retain and attract a working-age population**. The Commission has set up a new dedicated EU mechanism, the Talent Booster Mechanism support, to help regions facing a 'talent development trap'. In addition, it is crucial to set up specific programmes to encourage or facilitate the return of EU migrants to their countries of origin. This could take the form of grants to support small businesses set up by EU nationals returning to their country of origin or specific grants to support the return of researchers to their country of origin. Such schemes might take place within existing cross border cooperation provisions such as the already mentioned Interreg programs or the European universities initiative.

**The effects of 'brain drain' are different in each territory**. In some countries it does not result in negative net migration rates as it is compensated by the inflow of other EU or third-country working-age nationals. However, as nationals with tertiary education are more likely to move than those without tertiary education, it deteriorates the skill profile of the workforce. In other countries there has been a loss of population. In a recent Communication, the Commission identifies 82 regions in 16 Member States (representing almost 30% of the EU population) which are facing a sharp decline of their working age population and therefore are at risk of falling into a 'talent development trap'.

At the other end of the spectrum, urban agglomerations that receive (external and internal) migration flows are prosperous, but they also tend to face a specific set of problems related to congestion. **An important problem is housing affordability which endangers the freedom to stay also in receiving areas, not just in the areas that face depopulation**. Many cities and regions across the EU are facing a severe shortage of affordable housing. The situation is particularly worrisome in urban agglomerations. In 2022, 10.6% of the population in EU cities lived in a household where total housing costs represented more than 40% of disposable income. The most affected cohort is that of young people from the low and middle-class who cannot afford to buy a house and suffer from very high housing rents, having limited or no access to social housing. While housing policy falls within the purview of Member States, the EU possesses a range of instruments and policies that have a direct or indirect impact on the housing markets across the EU. There is a need to revise these different EU rules and tools to make sure that they incentivise socially inclusive and sustainable housing systems rather than exacerbate the current housing crisis.

Consequently, the next European Commission should **appoint a Vice President within the upcoming College who is responsible for the 'freedom to stay'**. Their portfolio should necessarily include, but not be limited to, cohesion policy, Services of General Interest, and support for SMEs. Only a Vice President could indeed ensure policy coherence across the various fields currently scattered among many Commissioners within the College.

## Strengthening support for regions in economic decline or stagnation

**During the last decades, there has been an impressive catch-up process at play within the Union**: the GDP per capita in the Member States which joined the EU since 2004 has increased from about 52 % of the EU's average in 2004 to nearly 80 % in 2023. However, this has been accompanied by **increasing territorial concentration of growth and job opportunities in major urban agglomerations and capital city regions**, resulting in many peripheral and rural areas being left behind. In addition to that, while Central and Eastern European countries have shown considerable dynamism, many parts of Western Europe have experienced long periods of economic stagnation or decline. Today, one third of the EU's population is living in regions where the GDP per capita has grown less than 0.5% per year since the turn of the century.

There is a strong case for greater EU involvement to help these regions to escape the trap. **People living in development trap regions have observed the impressive catch-up process of the least developed regions and the dynamism of capital cities, and they perceive themselves as the losers of the European integration process**. In addition to that, the lack of development of these regions is an economic loss for the whole Single Market. It has been calculated that 78% of EU GDP originates outside large core cities.

To build a successful strategy, there is a need to **rely on regional and local governments which have a deep knowledge of the specific strengths and weaknesses of their territory**. Sub-national authorities are also well-placed to avoid coordination failures between different levels of government and engage with local private actors. All this converts the EU cohesion policy, with its distinctive regional-based, partnership governance, into the appropriate EU instrument to deal with this problem. As stressed by the report of the high-level group on the future of EU cohesion policy, this requires regarding the problems of cohesion in Europe from a different perspective. Traditionally, EU cohesion policy has adopted a static approach, helping poorer regions to catch up. This static approach has to be complemented with a **more dynamic logic, preventing places from spiralling downwards in economic terms**.

EU cohesion policy alone cannot reverse the situation of less developed areas. Many of the economic and social determinants at the regional level are affected by national-level policies.

In many countries, these policies have been largely blind to their territorial impact and, in practice, they have favoured the concentration of economic activity in national capitals and major urban centres. Further neglecting the territorial dimension of domestic policies can gradually consume public support for EU integration. Thus, **internal excessive territorial imbalances should be seen as a similar threat as excessive macroeconomic imbalances**.

Building on the recognition of the challenges faced by stagnating or declining regions, the EU cohesion policy must provide more support to re-dynamize regions that are struggling. This support has to come not only in the form of financial investments but also through substantial technical assistance, aimed at revitalising these areas. By fostering local capacities and leveraging the unique assets of each region, the EU can help stimulate economic activity, create jobs, and reduce socio-economic disparities. This approach acknowledges the intrinsic value of every region and the potential for growth outside traditional urban centres, promoting a more balanced and inclusive form of development across the Union. Therefore**, identifying and mobilising the resources of endogenous development should underpin a new approach for both national and European territorial policies**. The freedom to stay rests upon this foundation.

Moreover, to ensure a comprehensive and sustainable approach to addressing internal territorial imbalances**, it is crucial to engage in regular monitoring of these disparities. This must be integrated into the framework of the European Semester**. By doing so, the EU can ensure that its broader economic governance framework actively contributes to reducing territorial imbalances, fostering a more cohesive and resilient European economy. The strategic integration of territorial considerations into the European Semester not only enhances the effectiveness of EU cohesion policy but also reinforces the commitment to achieving equitable growth across all Member States.

## Reinforcing inter-regional and inter-state cooperation

The elevated levels of interdependence and integration in the Single Market imply that many challenges, from reducing economic imbalances to strengthening the resilience of value chains or decarbonising the economy, can no longer be fully addressed by individual countries or regions. Yet today EU Cohesion policy is structured in country-specific or region-specific programmes: only 3% of all EU cohesion funds are allocated to "Interreg", the programme dedicated to support territorial cooperation projects. Consequently, investment focuses on areas in the national or regional territory, overlooking cooperation opportunities beyond the programme's geographical coverage. The same happens with the Recovery and Resilience Facility (RRF): while most National Recovery and Resilience Plans (NRRPs) include measures contributing to multi-country projects, the bulk of the RRF funds support national and regional investments. **In the future, more EU support must be given to cooperation projects between public and private actors across borders**.

**A key area for territorial cooperation is the interoperability of public digital services**. Despite the existence of several EU initiatives to support the development of interoperable digital services, in practice there is limited interoperability between digital public administrations in the EU. This represents constitutes an important limit to the free movement of goods, services and capital, as burdensome administrative procedures can create significant obstacles, especially for SMEs. According to a Joint Research Centre report, full interoperability could boost EU GDP by 0.4% and would increase the number of citizens using online public services by 15%. It would also help citizens save up to 24 million hours per year – representing monetary savings of €543 million – and businesses up to €30 billion hours per year – translating into cost savings of €568 billion. The EU has recently adopted the Interoperable Europe Act which sets a new EU governance structure and various measures to promote and support interoperability solutions between public administrations. It is crucial to ensure an effective implementation of this new regulation to guarantee the interoperability of digital public services in the Single Market.

**Removing cross-border obstacles**

The EU's internal border regions cover 40% of the EU territory, account for 30% of the population and produce 30% of the EU's GDP. Despite the Single Market and Schengen, there are still important legal and administrative cross-border obstacles that pose significant challenges for the daily life of individuals living in border regions. A 2018 assessment estimated that **removing 20% of the obstacles would boost GDP by 2% and would create over one million jobs in cross-border regions**. Reducing border obstacles would also allow citizens living in these areas to have access to services of general interest such as transports, hospitals and universities from the neighbouring regions. Moreover, **we must prevent dysfunctions in the Schengen system to jeopardise the Single Market**.

Many border regions and countries within the Union have developed institutional structures to facilitate the provision of cross-border services and the integration of labour markets. **An example is the 'Greater Region'** (or Grande Région), a macro-region comprising several bordering regions in France, Germany, Belgium and Luxembourg. The 'Greater Region' covers an area of 65 km2 and hosts 11.6 million inhabitants from four different countries: Belgium (the Federation Wallonia-Brussels and Ostbelgien), Grand Duchy of Luxembourg, France (Lorraine and Grand Est) and Germany (Saarland and Rhineland-Palatinate). The area is characterised by strong and long-standing institutional cooperation that started in 1969. Since 1995, it has had a permanent body, the Summit of the Greater Region, which is composed of the executives of the Greater Region's member territories and lays down the strategic guidelines of the cooperation. There are other bodies that advise or provide support to the Summit (e.g. Summit Secretariat of the Greater Region, Interregional Parliamentary Council, Economic and Social Committee of the Greater Region). Apart from these general institutional structures, there are specific structures that provide support for people seeking employment on the other side of the border and facilitate cooperation between public authorities. For instance, the Framework Agreement on Cross-border Vocational Training in the 'Greater Region' ensures cross-border mobility within initial and continuing vocational training programmes. The Task Force Frontaliers (TFF 3.0) aims to help frontier workers (their families and students) and employers to resolve legal and administrative problems linked to cross-border situations.

Not all cross-border areas display the same level of institutional organisation than the "Greater Region". Generally speaking, the level of institutionalisation is stronger in Western Europe but less developed in Central and Eastern Europe, where there is less historical tradition of collaboration across borders. As a result, the number of cross-border workers is significant in Western border areas with strong institutional ties (23% of total EU cross-border workers are in the 'Greater Region' and 25% in the Upper Rhine and Alpine region) but it is much lower in other border areas with fewer institutional ties, such as the Centrope Region (Austria, Slovakia, Czechia) or the Triborder region (Germany, Poland, Czechia), which represent 5% and 12% of cross-border workers respectively. In this context, **the Nordic model of cooperation serves as a prime example of how deep-rooted collaboration across borders can lead to significant socio-economic benefits**. This model, underscored by the work of the Nordic Council and the Nordic Council of Ministers, aims to make the Nordic region the most sustainable and integrated region in the world by 2030. The EU must incentivise and support the development of permanent institutional structures in these other border areas, taking as example the case of the 'Greater Region'.

In addition to that, it should be noted that many cross-border obstacles are caused by inconsistencies between national legislations and cannot be overcome through the cooperation of local and regional public authorities. Removing these obstacles requires a **proactive approach from national authorities**. In 2018 the Commission proposed the creation of a European Cross-Border Mechanism (ECBM), a voluntary mechanism which would allow the application of the laws of a neighbouring Member State in case the different national legislations constitute an obstacle to the delivery of a joint project. This proposal was rejected by the Council and, after some years of impasse, in December 2023 the Commission put forward an amended proposal which addresses the Council's legal concerns. The new proposal does not allow to apply another country´s laws to resolve cross-border issues but includes various measures to facilitate the cooperation between Member States, such as the mandatory creation of national cross-border coordination points (CBCB) in all Member States with an obligation to assess any request submitted by border stakeholders on potential obstacles or the possibility to create a Cross-Border Facilitation Tool, a single procedure to resolve administrative and legal obstacles in cross-border regions.

**Finally, teleworking may improve the quality of life and create new job opportunities for cross-border workers**. With COVID-19, the share of employed persons in the EU usually working from home jumped from 5% to 12%. While this share has decreased after 2020 the number of people that work sometimes at home is now higher than before COVID, as many employers have adapted to a higher demand for more flexible working conditions. However, there is no specific EU legal status to regulate employees who work remotely from a different EU country. As a result, teleworking for cross-border workers is difficult and subject to major legal hurdles, and the percentage of people teleworking is lower among cross-border workers than that of the total group of EU employed persons. The EU should consider introducing a special EU regime for ‘digital cross-border workers”.

## Strengthening digital infrastructures and skills

**The digital economy is a pivotal tool in unlocking the full potential of the Single Market and ensure the freedom to stay for individuals and businesses alike**, facilitating access to opportunities without necessitating physical relocation or cross-border movement. It promises to redefine economic growth models, decoupling social mobility from geographic mobility, thereby ensuring that Europe’s economic prosperity is inclusive, benefiting all citizens regardless of their mobility choices.

The transformative impact of the digital economy is already visible in the business landscape, particularly for SMEs. It empowers locally based retailers to venture into markets across Europe and beyond, offering new platforms for SMEs to scale and achieve global visibility.

Yet, according to Eurostat, in 2021, **just over one quarter of the EU population aged 16–74 years reported above-basic overall digital skills**. This share is even lower in rural areas where only one in five have above-basic digital skills. Moreover, **8.5% of EU citizens do not have access to internet and, what is more, 2.4% of EU citizens cannot afford an internet connection**, a share that increases to 20% and more in some central and eastern European countries.

Going forward, the digital transformation of Europe’s economy and the empowerment of local communities as engines of economic growth demand **significant investments in infrastructures and digital skills**. The foundation of a modern, innovative economy accessible to all is high-speed, reliable, and secure connectivity, underpinned by sustainable energy sources and strong digital skills. Collaborative efforts among governments, the European Union, and the private sector are essential to construct a resilient digital network, accelerate the digitization of public services and ensure that everyone has above-basic digital skills.

At the EU level, **the European Centre for the Development of Vocational Training (Cedefop) plays a key role** in supporting the EU's efforts to adapt its workforce to the demands of a rapidly changing industrial landscape, including digital skills. For instance, vocational training is seeing advancements in technology pioneering new forms of technical education and changing the delivery of educational content. The development of online courses, augmented by the personalization and accessibility once exclusive to in-person education, democratises learning. This educational evolution is facilitating a closer connection between European institutions and global talent, contributing to a more interconnected and skilled workforce.

In conclusion, the digital economy is not just a key element for a more competitive EU but also for a more inclusive one. **Digitalisation offers unprecedented potential to foster the 'freedom to stay'**, to ensure that every European has the opportunity to thrive, regardless of where they choose to call home.

## Investing in services of general interest

**Services of general interest (SGIs) are an essential pillar of the European social model and of a social market economy.** They contribute to social protection and social inclusion and enhance the capacity of individuals to enjoy their fundamental rights and freedom to participate fully in social, economic and political life. Article 14 TFEU, Protocol No. 26 on SGIs and Article 36 of the Charter of Fundamental Rights of the EU establish a coherent basis allowing competent authorities to ensure that citizens throughout the Union can benefit from high-quality SGIs.

Moreover, the European Pillar of Social Rights dedicates its principles 16 to 20 to Services of General Interest ranging from healthcare to housing and principle 20 in particular to universal access to essential services - including water, sanitation, energy, transport, financial services and digital communications - to meet basic human needs to live and to participate in society. This call for universal access is consistent with the Union's framework on services of general economic interest. However, **gaps in the universal service provision at EU level prevents a number of EU citizens from effectively accessing the Single Market**: significant barriers related to these different dimensions, such as low income, old age, disabilities, territorial inequalities, lack of infrastructure and spatial segregation, still make it difficult for some people in the EU to access essential services. The recent Report on access to essential services in the EU found that while the majority of the population in the EU has access to essential services, people at risk of poverty or social exclusion face the greatest barriers in accessing such services, in particular energy.

**Equal treatment and promoting universal access must be ensured**. This could be done by making it possible for SGIs providers to ensure complete territorial coverage at affordable price to promote social and territorial cohesion in the EU. This is particularly relevant for rural areas, outermost regions, islands, mountains or sparsely populated areas that often face challenges in accessing services due to remoteness from major markets or increased costs of connections. Moreover, clear rules that will allow for transparency in determining the costs of providing services need to be established with a view to enabling customers, in particular vulnerable ones, to benefit from services at reasonable prices.

The EU's response to the various crises Europe has faced recently, from the pandemic to energy dependence, indicates that a paradigm shift is possible in several EU policies, with a newfound focus on solidarity. **Accessible, affordable and quality Services of General Interest able to adapt to technological and societal development and covering all EU Regions, from urban centres to rural areas, are the key precondition for citizens to exert their freedom to stay**.

Only a structured approach and constant investment in Services of General Interest can guarantee that this freedom is fully exerted and that all territories are equipped with sound physical and social infrastructure giving all kinds of citizens and economic and social actors the possibility to exert a genuine freedom of choice on where to live, work and do business in Europe. The lack of a structural approach results in turning to Services of General Interest only in case of market failure or when facing a crisis, suddenly discovering that some territories or entire sectors are not able to perform because of decades of underinvestment and consequent brain and infrastructure drain**. Services of General Interest must be given the appropriate value and means to play a vital role within the Single Market on a permanent level** and not as the "necessary evil" or "last resort" face to a market failure or an unprecedented crisis requiring public intervention.

To fully leverage the organic and enabling role of Services of General Interest (SGIs), it is essential to align primary legislation, such as Article 14 and Protocol 26 of the Treaty on the Functioning of the European Union (TFEU), with secondary legislation. Article 14 TFEU, Protocol No. 26 TFEU, and Article 36 of the EU Charter establish a robust legal framework for the provision of affordable and high-quality SGIs. **Rather than necessitating new primary legislation, the focus should be on enhancing the incorporation of these principles into secondary legislation at the European level and ensuring their effective transposition at national, regional, and local levels**. This approach, in line with the principle of subsidiarity outlined in Article 14 TFEU and Protocol No. 26 TFEU, is essential to prevent unnecessary fragmentation of policies affecting SGIs.

If the EU continues to push forward only fragmented approaches to SGIs through sectoral legislation, the EU will lack a coherent and holistic vision for SGIs. This is currently leading to the emergence of a growing ECJ case law related to SGIs, where the courts are called to fill the gaps left by the legislator on several aspects at the core of the definition and activities of providers of services of general interest. This leads to further fragmentation, uncertainty, and contributes to the creation of a legal loophole. **A first step towards more coherence would be to set up an Action Plan for high-quality SGIs in Europe**.

## Setting up an EU Task Force on housing affordability

Access to affordable housing has become a significant problem in many Member States and this is a clear threat to both the freedom of movement but also to the 'freedom of stay' in the areas that have been attracting more investments and talents. **While housing is not an EU competence, it represents a risk for the good functioning of the Single Market**.

Between 2010 and 2023, housing rents have increased by 22.1% in Europe and house prices by 48.9%. This trend affects not only the most vulnerable groups but many middle-income families and citizens. The data above are EU averages and do not reflect the astounding increases in some urban areas. In 2022, 10.6% of the population in EU cities lived in a household where total housing costs represented more than 40% of disposable income and several big EU cities are suffering a real 'housing crisis'. **The factors behind this housing crisis are multiple and vary from one city to another**. Higher building costs and higher mortgage rates have caused a substantial decrease in housing construction and rendered more difficult the access to house ownership. In some cities, housing rents have significantly increased linked to the high demand for short-term accommodation. There are also signals that over the past years, investors have been increasingly active on urban housing markets, using housing as a vehicle for wealth and investment, rather than considering it a social good.

While housing policy remains within the jurisdiction of Member States, **the EU must recognize the urgent need for a coordinated response to address the acute shortage**

**of suitable and affordable housing, as well as the escalating housing costs across its territories**. To start with, there is a need to revise the design and application of all EU regulations, funds and policies which have a direct or indirect effect on national housing markets. There are many different EU funding streams providing support to building renovation, but these are not always easy to access and not all of them have clear social conditionality attached. In addition, **the definition of "social housing" in the Services of General Economic Interest Decision (2012/21/EU) is too narrow** and that this constrains the capacity of public authorities to expand their public housing policies.

In addition to that, the EU must screen with more attention the situation of national and local housing markets. **An EU Task Force on housing affordability should be set up for this purpose**. The Task Force would gather information on the situation of different EU cities and national housing markets and promote the exchange of experiences on how to address the housing crisis.

## Strengthening the Single Market social dimension

The Single Market is a powerful engine for growth and prosperity, but it can also be a source of inequality and poverty if its benefits are not widely shared or, worse, if it leads to a race to the bottom in social standards. **Further development of the Single Market can only be successful if it includes a genuine social dimension that ensures social justice and cohesion**. As Jacques Delors noted in 2016, "*if European policies jeopardise cohesion and sacrifice social standards, the European project has no chance of winning the support of European citizens*". This legislature has marked significant progress in the EU's social dimension, thanks in particular to the **Porto Social Agenda** and the **SURE plan**, which introduced new principles and instruments to tackle unemployment and inequalities.

A strong social dimension in the EU Single Market promotes inclusive prosperity, ensuring fair opportunities, workers' rights and social protection for all, while contributing to growth and competitiveness. It reinforces the European Union's commitment to solidarity, reducing inequalities and promoting the well-being of all citizens, in line with the values of the European Pillar of Social Rights for a cohesive, people-centred Union.

However, there is an inherent tension between the outcomes of a well-functioning Single Market, which generally increases overall public and private welfare, and the Social Agenda, which aims to leave no one behind. While promoting economic growth, the Single Market may have inadvertently contributed to a widening of the wealth gap, with the richer components experiencing increased prosperity at the expense of the less well-off. It may also have contributed to increased privatisation of social services, with a greater focus on profit rather than quality of service and the wellbeing of workers and beneficiaries. The impact of the Single Market on increasing inequalities and potential dispersion underlines the **need for more robust social protection systems and targeted policies to address social inequalities and ensure inclusive economic development**.

For the Single Market to be truly successful and socially sustainable, three key objectives must be achieved: 1) extending the benefits of labour to a larger number of people; 2) avoiding a race to the bottom; 3) preserving and consolidating the European market economy.

To achieve these objectives, **it is essential to ensure that the deepening of the Single Market is not just a technocratic exercise, but a shared vision across the continent**. This requires the close involvement of its stakeholders, starting with the employers' organisations and trade unions that represent millions of businesses and workers across Europe.

**At the heart of the European social model, launched by Jacques Delors with the Val Duchesse dialogue in 1985, was a commitment to robust social dialogue**. In recent years, the essence of these dialogues has diminished, with some seeing social dialogue, trade unions and employers' organisations as relics of the past. On the contrary, the need for coordination and negotiation mechanisms between employers and workers must increase if we are to be effective in supporting business and providing quality jobs. **Social dialogue and collective bargaining remain unique tools for governments and social partners to find tailored and fair solutions**. Furthermore, it is essential to recognise the role of social partners in tackling today's challenges, such as climate change and digitalisation, in the context of revitalising the EU's internal market. In addition, the promotion of fair and equitable working conditions in the context of changing working patterns is essential to ensure that transitions are widely shared and accepted. The renewed commitment to strengthening social dialogue at the EU level, as embodied in the relaunch of the Val Duchesse Summit spearheaded by Ursula von der Leyen in her SOTEU 2023 address, is a welcome change. As the analytical work of the **European Foundation for the Improvement of Living and Working Conditions**

has repeatedly shown over the years, to make the most of this instrument, the rules governing the Single Market must leave room for collective bargaining and local representative structures and encourage (or at least not discourage) workers' and employers' self-organisation.

The EU Directive on Adequate Minimum Wages in the European Union, the Council Recommendation on Strengthening Social Dialogue in the EU and the future Pact for European Social Dialogue embody the European Union's renewed commitment to social dialogue and collective bargaining. Ensuring an ambitious transposition of these texts into national legislation and, more importantly, into national and European practice is also key to ensuring that the Single Market benefits the many and not the few. But more could be envisaged, for instance to **provide a framework for extending worker representation on boards building on the various examples that are already present in several countries**.

## Opening up the benefits of labour mobility to a larger number of people

The free movement of people is one of the four freedoms at the core of the Single Market. This principle opens up opportunities for citizens to live, work and study in other Member States, fostering deeper integration, economic dynamism and individual growth. Public opinion is strongly in favour of free movement, with a clear majority of citizens recognising its benefits: over 55% of citizens believe that the right to free movement is good for European integration, for labour markets and for individuals in general, while 84% of citizens believe that it is good for their country's economy. **Intra-EU mobility enables individuals to "experience Europe," opening doors to expanded prospects in education, employment, and lifestyle, while also providing opportunities for skill development**.

However, the free movement of people has been and remains the least developed of the four freedoms. **Mobility is not an end in itself, but an opportunity that remains largely limited to a minority of EU citizens**.

To ensure that the benefits of mobility are available to a larger number of people, action is needed in several areas.

Firstly, **reducing barriers to occupational mobility is essential**. Across the EU, 5,400 professions are subject to regulation, covering around 22% of the EU workforce. In many cases, such regulation is important to ensure the provision of high quality and trustworthy services. In other cases, the need for regulation is less clear and may act as a barrier to entry to protect insiders. There is no consistent pattern of regulation across the EU, with some professions being regulated in some Member States but not in others (e.g. lawyers, doctors and nurses are reported to be licensed in all countries, while tourist guides are licensed in only 9 Member States) and the requirements imposed on individuals wishing to practise the profession. Professional licensing guarantees higher wages for insiders, but leads to lower employment and is a major obstacle to mobility in terms of the Single Market. Extending the system of automatic recognition of professional qualifications and reviewing the need for and extent of professional regulation would facilitate mobility and help to respond to persistent labour shortages. In this regard, it is essential to support better mapping of demand and supply of workforce. More precise and comprehensive measurement of labour shortages and surpluses at regional and sectoral level, anticipation of labour market trends as well as better information and job matching for individuals and employers will support the increase of intra-European labour mobility, will help mitigate the workforce imbalances and better calibrate the need for external skills and talents.

Faced with the common challenges of **skills and labour shortages**, a decisive theme for the future of the internal market, the European Union has been able to show itself reactive with the adoption of a recommendation on individual training accounts in 2022 and the decision to dedicate the European Year 2023 to skills, but efforts still need to be stepped up to help the unemployed into employment, as well as those furthest from the labour market, particularly young people and senior citizens. We need to place greater emphasis on basic skills, with the aim of moving the EU up more than 20 points by the next PISA ranking by the OECD. Even if this is a national competence, raising the subject to European level would make it possible to highlight best practices, coordinate efforts and, inter alia, provide better support for the "freedom to stay" in Europe (particularly for our researchers), by strengthening growth and innovation in the territories. Moreover, as outlined in the fifth freedom chapter, we need to **simplify the recognition of academic qualifications and introduce a European Degree**.

Also **simplifying procedures is of crucial importance**. Digitalisation has immense potential to promote fair mobility and simplify compliance with the rules on the posting of workers. A move towards a single, electronic format for declarations would reduce the administrative burden on businesses while respecting workers' rights. The Commission has launched infringement procedures against several Member States for introducing unjustified and disproportionate notification requirements, and work is underway to create a single common electronic form for these declarations. This form can also help to **reduce the administrative burden for employers to exercise their rights in the internal market**. To further simplify posting procedures for employers and national administrations, the two notifications (PDA 1 and the posting declaration), currently required under EU law for each posting, could be merged into a single notification.

In addition, **improving the coordination of social security** must become a key priority in the EU's policy agenda. In 2021, around 235 million people in Europe held a European Health Insurance Card, which helps them get the medical help they need when they are abroad. In addition, 6 million pensions were paid to pensioners living in another country. In addition, national administrations received 3.6 million requests for proof of social security coverage in cross-border situations, such as posting to another Member State. However, for many companies and individuals, the administrative burden required to ensure full portability of their social security rights remains cumbersome. **The full implementation of the Electronic Exchange of Social Security Information by all Member States needs to be completed**. In addition, Member States should **continue to engage in ESSPASS pilot activities** to introduce digital solutions for verifying people's social security entitlements in other EU countries - among which portable documents, including **the European Health Insurance Card** - as part of the EU's wider agenda on interoperability and the European Digital Identity framework. The ultimate aim should be to relaunch the proposals for the introduction of a European Social Security Number, starting with the professional categories that need it most, such as lorry drivers and other highly mobile workers. This will also help limit social dumping and fighting against abuses.

**We ought to address changing working patterns and new needs**. As stressed above, **cross-border workers, digital nomads, and intra-EU seasonal workers** represent crucial groups that would greatly benefit from new initiatives, allowing for programs and resources to be more efficiently streamlined and accurately targeted. With regard to the **EU Talent Pool initiative**, removing barriers to the external recruitment of skilled third-country nationals is crucial to its success. Facilitating the successful integration of these workers into EU labour markets is of paramount importance. There is also the need to strengthen support **mechanisms for EU citizens returning to their home countries after working abroad**, as some regions struggle to retain skilled talent. The Cohesion Fund and targeted action by the European network of employment services could play a vital role in this respect.

Finally, more attention must also be paid to **improving access to information**. More attention must also be paid to providing clear information on how to enforce citizens' social security rights. The European Labour Authority already plays a key role in this area. However, further initiatives should be explored and resources allocated to ensure that national authorities, also in cooperation with the social partners, provide citizens with access to the information they need to exercise their mobility rights across the EU. Such efforts would also contribute to better implementation and enforcement of the rules by competent authorities.

## Avoiding a race to the bottom

One of the downsides of free movement is that it can be used to undermine or evade existing labour standards and regulations in order to gain a competitive advantage over *bona fide* companies. Free movement can also be used by workers to take unfair advantage of the various social-security systems into which they pay and claim benefits to which they do not have rights.

Ensuring a level playing field, combating social dumping and mitigating the risk of abuses are key elements of a well-functioning Single Market. Over the years, the EU has implemented an important set of instruments to address these risks, but more can be done to improve implementation and keep pace with an evolving world of work. The revised Posting of Workers Directive aims to promote the principle of equal pay for equal work, but implementation varies between Member States. Several actions must be considered for the future.

**Strengthen the European Labour Authority.** The European Labour Authority (ELA) has played a key role in ensuring the application of EU rules to ensure a level playing field. The report on "Fair Mobility in the EU and the role of the European Labour Authority", commissioned under the Belgian Presidency of the Council of the EU, provided a comprehensive assessment of the functions and effectiveness of the ELA, highlighting significant achievements of the ELA, identifying several areas for improvement and making recommendations to increase its impact, which must be endorsed by all EU institutions. These include involving the social partners more frequently in concerted and joint inspections (CJIs), extending the organisation of CJIs without an underlying case for their preventive effect, organising trainings to raise awareness of the ELA's activities, streamlining procedures to reduce administrative burdens and ensuring more accessible legal support for CJIs. An EU-level regular review and benchmarking of the resources of national inspectorates across the European Union would help address capacity gaps of the competent national authorities in tackling fraud and undeclared work across the Union.

**Clarify the legal framework for the posting of third-country nationals**, including those working through temporary agencies or recruited via intermediaries. Third country nationals are exposed to higher vulnerability to social fraud also because of the lack of a clear legal framework at EU level linking labour and migration law. Understanding and reviewing the enforcement and legislative gaps with respect to posted third country nationals, also with the support of ELA, will highlight the need for possible legislative interventions and common enforcement initiatives at EU level.

**An improved co-ordination of social security**, as discussed above, will also be essential to avoid the risk of abuse by enabling national social security institutions to exchange information regularly and verify the accuracy of the information provided.

Particular attention should be paid to avoiding a race to the bottom in **health and safety at work**. According to the latest data available from Eurostat, there were 3.347 fatal accidents and 2.88 million non-fatal accidents resulting in at least four calendar days' absence from work in the EU in 2021. More than a fifth (22.5%) of all fatal accidents at work in the EU occurred in the construction sector. This is an unacceptable cost, too often resulting from neglect, underinvestment and greed rather than an unfortunate event. The **European Agency for Safety and Health at Work (EU-OSHA) plays a crucial role in this context**, advocating for safer working environments across the EU and supporting the implementation of best practices in occupational safety and health.

**Robust data collection and analysis is essential**. National and EU authorities must prioritise the collection of detailed statistics, particularly on the frequency and severity of incidents involving posted and mobile workers. This disaggregated data is essential for designing targeted interventions and evidence-based safety policies. The public sector also has a responsibility to use its influence. Publicly funded construction projects should serve as models of safety excellence. Strict procurement guidelines must prioritise contractors with exemplary safety records and require compliance with the highest occupational health and safety standards. It is also essential to include social responsibility clauses that ensure respect for workers' rights, trade union involvement and the protection of collective agreements.

In addition, **health and safety at work policies must evolve to address issues that have received less attention, such as mental health, including stress and burnout, and the risks associated with climate change**. The guidelines recently developed by the European Agency for Safety and Health at Work are a good first step, which should be followed by more binding rules in the coming years. The emergence of digital platforms has ushered in novel models of work arrangement and outsourcing. It is imperative for these platforms to acknowledge their obligation to workers, guaranteeing equitable wages, safety measures, and social safeguards, encompassing sick leave and insurance coverage.

**Persistent discrimination faced by specific groups**, whether due to gender, disability, ethnicity, or other factors, hinders their full participation in our Single Market and undermines the promise of opportunity for all. This calls for targeted actions, renewed funding, and meticulous monitoring to **dismantle systemic barriers**.

As we focus on fortifying the social fabric of the Single Market and try to address the increasing labour shortages, it is essential to recognize the role of external partnerships and international cooperation in achieving these goals. **The European Training Foundation (ETF)** exemplifies this approach by assisting neighbouring regions and Central Asian countries in developing their education, training, and labour market systems. This collaboration not only extends the reach of European values and standards but also prepares the ground for a more integrated and cohesive socioeconomic relationship between the EU and its neighbours, reflecting our commitment to a prosperous, stable, and well-educated global community.

## Preserving and consolidating the European social market economy

To deepen the Single Market, we need to ‘play big’ as underlined in the previous sections. But this need not be at the expense of those organisations that put social and environmental objectives first and reinvest most of their profits back into the organisation. There are 2.8 million social economy enterprises in the EU, employing 13.6 million people and providing solutions to key challenges in our societies. They cover a wide range of sectors, activities and organisational models, from care services to recycling, from cooperatives to social enterprises. They should be able to participate in the Single Market on an equal footing with other, more mainstream competitors. Creating the right environment for the social economy to thrive will not only lead to further job creation in the sector, but will also contribute to strengthening the social dimension of the Single Market.

**Social economy businesses are pivotal in fostering proximity and the sustainable development of territories, embodying the essence of a people-centred economy that is deeply rooted in local communities**. Their close ties to the regions they serve enable a unique understanding of local needs, driving innovation in social and environmental practices that resonate with territorial development goals. This local grounding not only enhances the social fabric of communities but also promotes resilient and sustainable territorial ecosystems, ensuring that the growth and progress fostered by the social economy are inclusive and beneficial to all.

The **Porto Social Agenda** has identified the key areas in which a further refinement of the Single Market may be needed to create the right conditions for the social economy to operate. The selection of these areas, including the area of state aid rules, has been confirmed by the Council Recommendation on the development of framework conditions for the social economy, adopted in November 2023.

In order to realise the full potential of the social economy, several policy measures need to be considered. First, we need to facilitate **access to finance for social economy actors** throughout their life cycle. This could include adapting the General Block Exemption Regulation (GBER) for state aid to social enterprises and reassessing the rules on aid for the recruitment of disadvantaged workers.

Secondly, in line with the priority actions of the Social Economy Action Plan, the development of an **EU-wide approach and definition of social impact financing**, including relevant financial instruments and labels, would encourage private investment in initiatives with a social focus.

Thirdly, as highlighted in the Council Recommendation, **public procurement** is a powerful tool to support social enterprises. Actions outlined in the 2021 Action Plan should be accelerated, with a focus on the strategic use of public procurement to support the social economy, possibly including joint tenders between mainstream and social economy enterprises.

## Unleash the potential of European SMEs

The European Union's economic strength rests on the shoulders of its many millions of small and medium enterprises (SMEs). Employing approximately two-thirds of the EU workforce and accounting for a bit more than half of its value-added, they play a vital role in every economic sector. **SMEs are catalysts for innovation, tackling pressing issues like climate change, resource efficiency, and social cohesion, spreading their solutions throughout Europe**. Deeply embedded in Europe's socio-economic fabric, they create two-thirds of all jobs, offer training opportunities across regions and skill levels (including those traditionally underserved), and contribute to societal well-being, particularly in remote areas. The connection between SMEs and the lives of European citizens is undeniable – as mentioned in the European Commission's SME Strategy for a sustainable and digital Europe "*every European citizen knows someone who is an entrepreneur or works for one*".

The Single Market should be the natural place for SMEs to grow, prosper and innovate. However, often this is not the case. A wide variety of barriers and lack of integration prevent SMEs from accessing other EU markets and benefiting from the Single Markets opportunities. All EU businesses report regulatory and practical obstacles to doing business or scaling up within the Single Market and beyond, but ongoing obstacles disproportionately affect SMEs. For instance, only 17% of manufacturing sector SMEs export to other Member States, a surprisingly low figure. As highlighted by the Single Market Barriers Communication, Regulatory compliance, standards, labelling, and administrative requirements strain the limited financial and human resources of SMEs more severely than larger companies; in sectors like business services, compliance costs for SMEs can reach up to EUR 10,000.

**As a result, many SMEs may perceive the Single Market only as a burden or as a source of increased competitive pressure, and not as a source of opportunities**, because these are out of their reach. The very definition of SMEs can also be perceived as restrictive by many enterprises and should be updated to reflect the economic landscape of the 21st century. Similarly, recognizing Mid-caps distinctly from large corporations in EU regulations will enable more suitable standards, fostering their growth and equitable participation in the Single Market, especially during crises.

However, the threat some SMEs can feel does not come from the Single Market itself, but from its fragmentation: **an efficient Single Market can benefit both SMEs active in their local market and SMEs willing to cross borders**.

In the last years, European businesses have vocally voiced their fears about Single Market barriers. In November 2023, **73% of Members of the European Parliament of Enterprises indicated that the Single Market is not sufficiently integrated to allow their company to operate and compete freely**, the main obstacles being different contractual/legal practices, different national service rules, inaccessibility to information on rules and requirements, cost of regulation and different national product rules.

The Single Market cannot fail to address these concerns. **It is vital to make it dramatically easier to do business in the Single Market, especially for SMEs**. The whole European integration project is at risk if most European businesses cannot effectively benefit from the Single Market: it is both a matter of productivity and of political support.

### A European code of business law for a simpler Single Market

For entrepreneurs or SMEs looking to navigate the Single Market, the landscape of business law presents a daunting complexity that comes with considerable expense. Entrepreneurs eager to establish a business, whether domestically or across borders, find themselves compelled to incorporate as a French, German, or Italian entity due to the absence of a European company framework suitable for SMEs. Moreover, their financing options are predominantly national. Should they aspire to market their products in another Member State, they must adhere to that country's adaptations of consumer protection directives and be governed by its national legislation. Furthermore, despite recent advancements, the legal framework for addressing companies in distress continues to be varied across jurisdictions.

In the 2024 Eurochambres Single Market Survey, 68% of respondents found differing contractual/legal practices within the Single Market to be a “significant” obstacle. While large companies possess the resources to navigate the bureaucratic hurdles of the Single Market, employing consultants, legal teams, and specialists to tackle complex regulations, this advantage comes at a significant cost and time investment. **For SMEs, however, these very obstacles can prove insurmountable**. Lacking the financial and human capital of their larger counterparts, these smaller businesses are effectively excluded from fully accessing the Single Market's potential, hindering their growth and stifling the overall dynamism of the European economy.

Addressing this issue is not simply a matter of fairness; it holds profound economic implications. By streamlining regulatory processes and reducing complexity, we can unlock significant time and resource savings for all EU companies, but particularly large enterprises, boosting their productivity and competitiveness against non-EU rivals. However, **the true game-changer lies in the impact on SMEs. For them, dismantling these barriers represents an opportunity to finally tap into the full potential of the Single Market, an opportunity currently far beyond their reach**. This would unleash a wave of SME growth and innovation, which would have a transformative effect on the European economy, significantly impacting territorial cohesion. Outside large urban areas, where SMEs dominate the landscape, this newfound access would breathe new life into local economies and communities.

**A European Code of Business Law would be a transformative step towards a more unified Single Market, providing businesses with a 28th regime to operate within the Single Market**. It would directly address the current patchwork of national regulations, acting as a key to unlock the full potential of free movement within the EU. Recognizing its potential benefits, the European Commission has actively explored the codification of EU business law, finding widespread support for the concept among Member States. A code of business law can enhance competitiveness and attractiveness, as demonstrated by numerous foreign examples. For instance, the Uniform Commercial Code (UCC) in the United States has facilitated the creation of a market of critical size. Similarly, the Organization for the Harmonization of Business Law in Africa (OHADA) is widely recognised as a lever for growth in trade and investment.

An initial step involves the systematic codification of the existing legal framework. However, merely codifying existing laws will not suffice to realise a truly integrated European market. It is essential to complement the codification process with innovative elements and new European tools designed to meet the needs of European enterprises. Such innovations must include the 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.

Where the EU has exclusive competence, it is crucial for the Code to replace national laws to address the current overlap. In other areas, the Code will supplement national laws with new instruments that businesses can choose to utilise: enterprises will have to comply with the

Code, but they will be free to choose whether or not to use a new European instrument and compare it with existing national laws. Therefore, **a European Business Code would provide economic players with a 28th regime to aid their Europeanisation**, making the Single Market the natural horizon for business development. The next Vice President in charge of the freedom to stay must prioritise the creation of a European Business Code.

The creation of a European Business Code is a long-term project, but there are a number of steps that can be taken in the meantime to reduce the complexity of the Single Market. Two areas where action is particularly needed are services and tax. The services sector is one of the most important parts of the European economy, but it is also one of the most heavily regulated. This makes it difficult for businesses to provide services across borders, and it can discourage them from entering the Single Market altogether. Tax is another area where complexity is a major barrier to cross-border trade and investment. The different tax systems in place in each EU member state make it difficult and expensive for businesses to operate in multiple countries.

Moreover, the need to **simplify administrative procedures and cut red tape** will be discussed below in this Report. However, it is worth stressing its importance again in this section, as administrative procedures are particularly burdensome for SMEs, which do not have the capacity and staff to deal with the often-cumbersome procedures required by EU legislation.

## Accelerating integration in the Single Market for services

Given that most EU SMEs operate in the service sector, further integration in this area is crucial. This requires a renewed commitment to remove long-standing barriers. According to the European Commission's own research, **around 60% of the barriers to the Single Market for services identified in 2002 still persist today**, more than 20 years later.

Moreover, modern economies are built on a complex web where **services and goods are inseparable**: nearly 40% of the value created within the EU's manufacturing sector is directly fueled by services. Tackling barriers within the services market doesn't just boost services, it creates a ripple effect that multiplies benefits for the goods sector.

The Services Directive of 2006 stands as a pivotal initiative aimed at fostering a truly integrated Single Market for services within the European Union. The Directive's reach is extensive, encompassing a substantial portion of the EU's economic activity. Yet, despite significant strides, barriers remain deeply embedded, impeding the Directive's full potential and hampering the frictionless operation of the single services market.

Recent European Commission reports paint a concerning picture: progress in dismantling these barriers has slowed to a worrying degree. Accelerated reforms are essential to overcome the regulatory and administrative obstacles confronting service providers across EU borders. Failing to address these challenges would deny us the full economic benefits envisioned by the Single Market.

The Directive's early implementation undoubtedly fostered Single Market integration. This initial momentum, however, has noticeably dissipated since 2010. For the sake of the Single Market vision, a renewed sense of determination from all stakeholders is imperative.

**To achieve any meaningful breakthrough, specific types of restrictions that persist under the Services Directive framework must be addressed**. These barriers encompass discriminatory practices based on nationality or place of residence, restrictions limiting service providers to operating within a single Member State, the utilisation of protectionist economic needs tests, authorization processes influenced by entrenched competitor involvement, and hindrances to the smooth temporary provision of services across borders. The Commission's comprehensive 2021 survey illuminates the sector-specific landscape of restrictions, showcasing some areas of progress but also confirming an overall sluggish pace of reform.

Particular attention should be focused on the **retail sector**, where there is little political will to further integration and localised protectionism obstructs market entry, inhibits competition and therefore harms new potential producers and consumers alike. A meticulous examination of regulatory environments and the rigorous application of proportionality assessments are crucial to eradicate undue restrictions in this domain. Similarly, addressing construction and installation services within the Services Directive framework is of utmost importance. The absence of harmonisation in regulations on the **posting of workers** and the fragmented administrative burdens imposed by Member States directly undermine the cherished freedom to provide services. A coordinated EU-level intervention is needed to streamline and simplify these processes.

Reflecting on prior efforts to advance the integration of services within the Single Market reveals that a sector-specific strategy may lead to more significant achievements. Broad attempts at market integration have often been thwarted by the lack of political support and the resistance of entrenched stakeholders. **Tailoring policies to the unique dynamics of individual service sectors emerges as a more effective path to overcoming these challenges**.

This approach allows for precise identification of integration barriers, distinguishing technical impediments from those rooted in a lack of political will. For technical barriers, fostering an exchange of best practices and providing technical assistance to Member States by the European Commission are essential steps. When a deficit in political will is the primary barrier, the Commission must assert its authority, employing procedural infractions if necessary, to drive the integration forward. Adopting this dual-pronged strategy enables the European Union to navigate the complexities of service sector integration more effectively, ensuring both technical and political obstacles are addressed with specific, impactful measures. This not only accelerates progress towards a unified and dynamic Single Market but also strengthens the core values of solidarity, cooperation, and advancement at the heart of the European project.

**Even within sectors covered by specific directives, barriers persist that create frictions within the Single Market**. For instance, in the field of statutory audits, divergences in national regulations regarding liability caps lead to significant barriers. The fact that some Member States impose a maximum amount on the financial liability that auditors can face, while others do not, illustrates how inconsistencies across national frameworks can disrupt the smooth functioning of the Single Market, discouraging cross-border service provision and distorting competition, while creating unreasonable disparities in professional liabilities which hinder the development of smaller organizations. Addressing these disparities is crucial for achieving a more integrated and seamless Single Market.

In conclusion, a multi-pronged approach is needed. Member States must re-commit to dismantling barriers with urgency. The provision of cross-border services must be streamlined through **simplified procedures**, while reaffirming that the Services Directive does not and should not override the provisions of the Posting of Workers Directive. Member States should actively engage in mutual learning to identify and adopt **best practices** for liberalisation. By overcoming these challenges, the EU can unleash a thriving and integrated service market, fuelling economic progress, competitiveness, and boundless opportunities for businesses and consumers alike.

# Addressing tax fragmentation to empower the Single Market

Tax fragmentation is another major barrier faced by EU businesses and SMEs in particular. As outlined in 'The Single Market at 30' communication, the EU Single Market requires bringing down barriers to cross border business activity, including those related to the administrative burdens associated with the coexistence of 27 different tax systems. Achieving better alignment through a harmonised EU tax framework is key to facilitating the free movement of workers, goods and services and in supporting growth and private investment. Driven by the strong initiative of the European Parliament and the Conference on the Future of Europe, the Commission has presented numerous legislative proposals focused on taxation. Significant advancements have been made in recent years. **To enhance the Single Market, future policy priorities must include completing ongoing projects while decisively embracing systemic reforms**. These reforms should aim to create a level playing field and avoid harmful tax competition, while promoting productivity and sustaining the EU's social market economy model.

In order to address the complexity of tax compliance, which remains a significant cost and a major barrier for SMEs, the EU must be determined to create a new, single set of rules to determine the **tax base of enterprises**, with differentiated frameworks for large groups of companies and for SMES. Furthermore, tax barriers in cross-borders investments must be lifted, concerning **withholding taxes** on dividends on holdings of equities and on the interest on holdings of bonds paid to investors who live abroad. This will ensure a more uniform tax environment, simplifying the current complexities and reducing internal fiscal competition within the EU.

## Making progress in the harmonisation of indirect taxation

Regarding indirect taxation, the Treaties explicitly assign the Union the task of adopting the necessary provisions to prevent national taxes linked to goods and services from hindering their free movement eventually.

As for the value-added tax (VAT) system, harmonisation has been progressing, albeit slowly, for almost four decades now. After years of negotiation, the rules governing VAT rates for goods and services have eventually been revised to ensure that, while Member States have the necessary flexibility to make their VAT systems reflect national policy choices, coherence is maintained with respect to common European priorities. Nonetheless, VAT arrangements in the EU can still be burdensome for businesses, especially for SMEs, scale-ups, and other companies with cross-border operations.

**Pending legislative initiatives in the field of VAT must be finalised** to address challenges posed by the platform economy, modernise the VAT system, and improve its functionality for businesses, especially micro-enterprises. Furthermore, **it is crucial to tackle fraud**: according to the Commission's VAT Gap reports, it still represents a revenue loss for Member States of nearly 100 billion euros yearly. VAT is also the basis for an EU own resource.

Against that background, there is certainly a need to ensure even closer cooperation among Member States and to step-up efforts to guarantee a **simple compliance to VAT rules for businesses**. Furthermore, the tourism sector, which is intrinsically linked to a cross-border dimension, has been waiting for years for a review of the VAT rules applicable to the activities of travel agents, passenger transport and of the VAT exemption regime for non-EU travellers.

To encourage charitable giving, the EU should consider greater harmonisation of VAT neutralisation options for donations across the Single Market. While EU VAT law allows Member States to establish relief criteria, participation remains inconsistent.

**In the area of excises, there is an even wider room for improvement**. Economic operators involved in distance selling of excise goods in the EU complain of highly obstructive barriers, which disproportionately affect SMEs, such as small wine producers. Also, the directive governing **excise taxes on energy products** is now more than 20 years old and does not take into account the significant developments in the energy market nor the climate goals that are now so high on the agenda of the European Union. The complex patchwork of exemptions and reductions that has proliferated across Member States must be reorganised in order to level the playing field across the Single Market and to avoid giving the wrong incentives in terms of energy consumption and pollution.

## Tackling aggressive tax planning, tax avoidance and tax evasion

Given the cross-border nature of aggressive tax planning, tax avoidance and tax evasion, the European Union **must act to protect the level playing field between Member States and for European taxpayers**.

With the critical need to safeguard the Single Market, where severe distortions require EU intervention, the Treaties provide for the safety-valve of **Article 116 TFEU on the market distortions rules**. Its application does not require unanimity, but only a qualified majority, which suffices to overrule any single unwilling Member State, regardless of its size. Based on a thorough economic and legal analysis already initiated by the Commission, the political viability of a targeted and timely use of this important instrument offered by the Treaties is key over the next years.

In addition, while there is still a degree of dispersion across the Member States in terms of statutory corporate tax and overall gross fixed capital formation, we have to underline that the EU has been among the first to implement the OECD tax reform ensuring a global minimum level of corporate taxation. The **Directive on the so-called *Pillar 2* of the OECD global tax agreement** entered into force on 1 January 2024 and will help ensure that all large companies operating in the EU pay an effective minimum tax rate of at least 15%.

**The European Union has been at the forefront of efforts to design at the multilateral level a fairer system of taxation**. Alongside Pillar 2 on minimum taxation, the Commission is still pushing hard for a successful conclusion of the other pillar of the OECD Global Deal on the partial reallocation of taxing rights. The two pillars aim to address different but related issues. What is certain is that the increasing globalisation and digitization of the economy, as well as the concentration of ever greater wealth in the hands of fewer individuals, are problems that directly call European institutions into question. Indeed, they can only be solved at the multilateral and supranational level. The more the Union is able to speak, and eventually act, in a united and cohesive way, the better the chances of effectively defending both its fundamental values and the common interests of all its Member States. In this sense, **the political and technical work carried out by the Commission in recent years should be supported and strengthened**.

# A Single Market for Consumers

The Single Market is of crucial importance for EU consumers. It gives them access to a wider choice of more innovative, safer and cheaper goods and services. Problems with border-crossing and the temporary reintroduction of national measures during the COVID crisis showed how quickly choice, prices and quality suffer when the Single Market backtracks.

EU consumers are equally important for the Single Market. In 2022, EU total household expenditure amounted to 51.5 % of GDP (Eurostat). **Access to 450 million consumers with high purchasing power is a formidable proposition for businesses in terms of economies of scale, sales and revenues needed to innovate and remain competitive**. Conversely, the energy crisis showed the devastating impact for many sectors when overall demand shrinks as well as the difficulty to compensate this with public investment or private capital formation. Now that the volume of consumer consumption is back to 2019 level, data show how shifting consumer preferences may also badly impact EU businesses. Inflationary pressures led many consumers to buy less expensive goods and take more risk by increasing purchases from non-EU traders and online shops. For several reasons including remaining barriers to the Single Market, EU manufacturers and retailers cannot compete on prices, to the detriment of their market share. EU rules should address such lose-lose dynamics EU businesses and consumers are confronted with.

Consumer preferences are a market force which influences what is produced, in which quantity and at what price. **EU rules should ensure that consumers can exert their collective force to get a fair share of the Single Market's benefits** as well as accelerate the necessary changes for a greener and therefore more resilient EU.

**Many EU rules are in place or have been recently adopted to protect consumers against new challenges** and harness their power for the greater good of the Union. Stakeholders overwhelmingly plead for a win-win approach for consumers, businesses and public authorities. **Further harmonisation** makes it easier to produce for the entire Single Market, which is good for the scaling up and competitiveness of EU companies, precondition for producing what EU consumers want at a price they can afford. Further harmonisation also makes it easier for public authorities to enforce EU law, offering a better protection to consumers.

## Greater access to what is sold in the Single Market

The EU regulates the Single Market, but these rules must not unduly encroach upon contractual freedom. Freedom to sell is therefore not an obligation to sell as long as sellers don't discriminate, notably on grounds of nationality and place of residence. **Non-discrimination** is indeed a general principle of EU law that applies to the Single Market among other policy areas - as established by Article 18 TFEU.

### Territorial Supply Constraints

Territorial Supply Constraints (TSC) are usually defined as restrictions imposed by multinational manufacturers to prevent retailers and wholesalers from sourcing where they wish within the European Single Market. Some see these TSC as a way for these manufacturers to ensure higher profit margins. Others TSC are created by national laws regulating transactions in the country, sometimes with indirect extraterritorial effect on other Member States. Some are presented as a way to balance commercial relations between different actors of a national value chain.

In the case of the agri-food ecosystem, farmers and food processors claim that large distributors and retailers are engaging in unfair trading practices. The call for public intervention was answered by the 2019 Directive on unfair trading practices in agri-food business-to-business relationships. This Directive sets key rules protecting farmers as well as food and drink operators with a yearly turnover below €350 million - Member States having the possibility to extent this protection to all. However, its effectiveness is disputed because it provides no formal procedure for tackling cross-border cases, which makes it very difficult for national authorities to act.

As for large wholesalers and retailers, they invoke their Single Market right to source products where they wish, a right extensively used by manufacturers. Concretely, they say that retailers wishing to buy branded consumer packaged goods face compulsory referral to the national branch of their manufacturers. They also face deliberate hindrances to parallel trade (the possibility to import products from low-price Member States towards a high-price Member States through channels other than those established by the brand owner). They underline that such TSC prevent them from getting the best deal for consumers. Large manufacturers respond that TSC have not been objectively substantiated, pointing at the volume of parallel trade in the EU.

The 2018 study of the Benelux General Secretariat on this topic concluded that "the supply of goods and the level of prices vary greatly depending on where you are" in the Benelux, that consumer prices in the border regions in Germany and France are often lower than in the neighbouring Benelux countries, and that part of the price differences is hard to explain by differences in labour costs, tax rates, excise duties or rental prices. A 2020 'Study on territorial supply constraints in the EU retail sector' for the European Commission estimates that the elimination of TSCs would result in € 14 billion for EU consumers.

**The EU should strengthen the capacity of national authorities to tackle suspected TSCs thanks to a formal procedure common to all for cross-border cases**. Beyond that limited but useful measure, the EU needs to ask itself whether it should intervene when a market malfunctions for other reasons than those covered by competition law. It should provide a credible alternative to national measures aimed at restricting the possibility of sourcing and trading freely within the Single Market. Rebalancing commercial relations between different actors of an ecosystem may be necessary in some cases, but the renationalisation of sourcing and trading is bounded to affect ultimately the benefits that consumers derive from the Single Market.

**Geo-blocking**

'Geo-blocking' refers to situations where consumers from another Member State are not accepted as purchasers, cannot have the product or services delivered or cannot enter payment details successfully – their bank account number being usually rejected because it does not start with the 'right' two-letter country code. **Divergence of national rules is the main source of geo-blocking** (some traders being rebuked by the extra-costs and risks ensuing from selling to some countries). In any case, the wider phenomenon of **geo-blocking clearly runs counter to the spirit of the Single Market** and irritates considerably consumers.

The 2018 Geo-blocking Regulation solved a large part of these problems by restating the rights of EU consumers in the Single Market. Except for audio-visual & cinematographic services, the Regulation harmonised a basic set of rules by no longer permitting to discriminate against consumers on the basis of their nationality, the Member State of their residence or their establishment. Merchants are prohibited from doing the following: blocking or limiting a customer's access to their online interface (or redirecting the customer to a different website); imposing different general conditions of access to goods or services (such as price, and limitation of guarantee); and reject means of payment accepted for national consumers, as referred to above.

The first, short-term review of the Geo-blocking Regulation, published in 2020, reported some improvements in terms of the diminishing of obstacles for cross-border access to goods and services by customers, and announced further monitoring on progress in further reducing cross-border barriers and on progress achieved on the availability of audiovisual content. A specific stakeholder dialogue on cross-border access to audiovisual content took place to identify how to foster better circulation of audiovisual content across the EU

**Remaining obstacles for consumers to buy and consume services at distance from another Member State should be tackled as a matter of urgency**, chiefly the "cannot deliver the product to that destination". Furthermore, traders could feel reassured and encouraged to serve products and services in wider markets if a full harmonisation regime for the sales under certain threshold.

## Better information to make the right choices

There is an asymmetry of information between the seller who usually knows what is sold in terms of performance or durability and the consumer who must take for granted the commercial information provided by the seller.

It is therefore crucial to impose EU information obligations on the seller, so that **consumers buy in full(er) knowledge**. Without obligations, some manufacturers would segment the Single Market with products presented as identical but incorporating here and there lower quality ingredients. This is why the 2005 Unfair Commercial Practices Directive requires that consumers are presented with truthful information.

**Harmonised labelling and standardised information to consumers are also beneficial for suppliers**. It protects them from spurious liability claims and enable them to get a better return on investment for more advanced products. For example, if mandatory EU energy labels for domestic appliances - such as televisions or washing machines - helped EU consumers cutting their energy bills and carbon footprint, they also helped manufacturers charging a premium for higher performance.

### Sustainable products

Sustainable products are the next frontier for 'better information to make the right choices'. Building on win-win dynamics, the 2024 'Ecodesign for Sustainable Products' Regulation and the 2024 Directive on 'empowering consumers for the Green Transition' aim at giving consumers reliable and **clear information at the point of sale on the durability, reparability and recyclability of goods**. This is bound to change progressively the behaviour of EU consumers, safeguarding their interest and increasing the resilience of the Single Market. Indeed, shifting demand for longer life and recycled products means less imports of raw materials over which the EU has little control and, therefore, more market stability.

A right balance needs to be found for other key topics - including sustainable mobility, prevention of food waste and sustainable waste management - between providing sufficient information while **avoiding information overload**.

IT tools, such as the Digital Product Passport (DPP), are an effective way to access rich information by simply scanning a data carrier instead of having to add more information on already overloaded products' packaging. As long as required information is **properly standardised**, this should reduce costs for companies once adjustment costs are amortised.

## Green claims

The 2020 European Commission study of 230 sustainability labels and 100 green energy labels in the EU concluded that 53% of green claims give vague, misleading or unfounded information; 40% have no supporting evidence; and half of all green labels offer weak or non-existent verification.

This led the Commission to table in 2023 a proposal for a Directive on Green Claims aimed at making explicit environmental claims reliable, comparable and verifiable across the EU. This would protect consumers from greenwashing, **establish a level playing field when it comes to environmental performance of products** and contribute to the development of a greener circular EU economy.

In order to better inform on sustainable products and green claims, the EU should harmonise without delay information on legal guarantees as well as on labelling for commercial guarantees on durability. It should also support the rapid spread of the DPP made mandatory for all regulated products by the 2024 Ecodesign for Sustainable Products Regulation, prioritising key products where information for consumers is confusing like electric batteries for vehicles. The necessary DPP technical standards should be quickly developed to retain EU leadership on this promising innovation for consumers and virtuous value chains. Finally, it should adopt the Green Claims Directive as soon as possible.

## Better protection against unfair practices and harmful products

Despite a high and harmonised level of consumer protection in the EU, there are still many differences creating a daunting complexity that comes with considerable expense for businesses operating across the Single Market as well as for national authorities when confronted with cross-border cases.

A large share of consumers is exposed to unintended or deliberate **infringements with EU consumer law**. For instance, the 2021 joint screening ('sweep') of online consumer reviews conducted by National Consumer Authorities (NCAs) concluded that at least 55% of 223 major websites were potentially in breach of the 2005 Unfair Commercial Practices Directive. The last sweep of 399 online shops ranging from textiles to electronic goods found manipulative practices on 148 of them (2023 Consumer Conditions Scoreboard).

When confronted with infringements at national level, NCAs have to power to swiftly enforce rules by requesting information from domain registrars and banks to detect the identity of the responsible trader and order the immediate take-down of websites hosting scams.

It is less easy when they are confronted with cases requiring **cross-border enforcement**, which are bound to increase with the continuous expansion of e-commerce and digital markets. The 'Consumer Protection Cooperation Network' - set up by the 2004 Regulation on 'cooperation between national authorities responsible for the enforcement of consumer protection laws' - provides a framework for addressing cross-border cases through coordinated action by the Commission and NCAs leading to dialogues with companies. Upgraded in 2017, this system has a deterrent effect but is showing its limits. Out of 102 NCAs, 9 never participated in a coordinated action due to lack of resources, while 64 said that they do not have sufficient staff to issue alerts to the whole Network. More worrying for the future, many don't have the resources to hire people with rare IT profiles needed for identifying new types of unfair practices.

**Unfair B2C commercial practices**

Unfair practices go beyond false or misleading information. They also include, inter alia, **price discrimination based on information collected on the web and 'dark patterns'** (subscription traps, fake countdown timers, pre-selecting options by default, drip pricing - presenting a low price incrementally increased with additional charges).

NCAs may coordinate their action to bring these unfair practices to an end through a dialogue with the concerned companies. But most of these companies are aware that this coordination is complicated and that it is relatively easy to slow down dialogues, in order to perpetuate their lucrative practices as long as possible. The '**Consumer Protection Cooperation**' (CPC) network engaged for instance with the top 3 online platforms for booking accommodations over the presentation of their offers. Parallel dialogues eventually led to the presentation of separate lists of voluntary commitments to comply with EU rules. These commitments were then shared with travel associations in the hope of seeing the industry follow suit. The entire process was fairly long. Its results come with the pros and cons of self-regulation.

**Harmful products**

The circulation of harmful products in the Single Market is on the rise with significant consequences. Recent Impact Assessments presented by the Commission estimate that EU **consumers waste €19.3 billion per year buying dangerous products**, while injuries and death caused by these products could cost € 11.5 billion per year.

Around 75% of identified hazardous products are coming from outside the EU. Damages resulting from defects are high because market surveillance authorities also lack resources for spotting these products, stopping their trade and securing the immediate recall of those already sold. Demand shift towards cheaper products bought online from non-EU traders is likely to increase this percentage. The 2023 version of the General Product Safety Regulation should help addressing digitalisation challenges and risks related to new technology products.

In order to better protect EU consumers against unfair practices and harmful products, the EU and the Member States should step up **joint enforcement** in particular of EU product safety rules. This should go through the development of **common Artificial Intelligence tools for inspection** such as the eSurveillance webcrawler. This tool detects dangerous non-food products flagged - more than 2.000 in 2022 - in 'Safety Gate', the EU rapid alert system, by sweeping hundreds of websites to find products which, under a different name and traded by a different seller, display similar visual and written description. In order to improve the effectiveness of these tools, traders should be obliged to disable anti-bot systems protecting their public websites, this for listed tools used by enforcement authorities. Building stronger capacities also requires more financing for Coordinated Actions during which Member States jointly test different categories of products.

Furthermore, the EU needs to turn the Single Market into a global model in terms of enforcement. The EU should therefore strongly **support the development of global instruments on general product safety principles** and provide specific training program on EU product safety rules for manufacturers in the countries from which most hazardous products originate.

## Better compensation for loss or harm

The findings of the latest 'Survey on scams and fraud experienced by consumers' (2020) suggest that the EU adult population incurred **€24 billion of financial losses resulting from scams and fraud over a two-year period**. The share attributable to cross-border infringements is estimated at €2.6 billion annually - including € 356 million attributable to third-country traders - based on the 2021 'Market Monitoring Survey'.

Authorities involved in a coordinated action act by consensus. This means that, in practice, differences in Member States judicial and administrative procedures as well as their enforcement cultures make the **imposition of coordinated fines a very challenging endeavour**. These differences combined with resource problems lead to unequal level of compliance across the EU.

Under the 2019 Directive on enforcement and modernisation of consumer law, the Commission can alert national authorities and better coordinate their action against practices harming a large majority of EU consumers. This is normally followed by negotiation with the businesses concerned, directly at EU level. The sanction could reach 4% of their turnover in the Member States concerned. This possibility to sanction abuses at EU level has never been used.

**Redress from large multinational companies**

Seeking redress from large corporations with vast resources is even more challenging, when the latter decide to fight the fines from the NCAs and deny compensation for individuals or groups except in their home market. This proved very expensive for NCAs and consumer associations, which **deters them from starting or continuing national procedures**. It remains to be seen if the mechanisms for collective redress put in place by the 2020 Representative Actions Directive will be effective and affordable in the near future.

**Redress from non-EU traders**

Between 5% to 10% of consumer grievances in the European Consumer Complaints Registration System for 2019-2021 concern a non-EU trader. The harm incurred by consumers in terms of stress and loss of time is often higher in these cases.

In order to better protect EU consumers from rogue traders operating in several Member States, the EU should strengthen the capacity and competence of the CPC Network, the sanction mechanism for EU-wide infringement and international cooperation mechanisms.

A first step should be to pool resources for the **development of common AI tools**. A second step should be to revise the 2017 Consumer Protection Cooperation Regulation for granting direct investigative powers to the Commission for well-defined high impact EU-wide infringements as well as the power to impose direct sanctions and request traders to provide remedies to consumers. This should apply to all traders selling in the EU, wherever they are established. The findings of automated market monitoring tools should also become admissible evidence to prove infringements. A longer and possibly more expensive alternative to the revision of the CPC Regulation could be to establish an **EU level independent consumer ombudsman** with enforcement powers (like in certain Nordic countries).

# A Single Market to go fast and go far

# A Single Market to go fast and go far

The Single Market stands as a testament to the vast array of direct and indirect benefits stemming from European integration, serving as a cornerstone for economic cooperation and growth within the European Union. However, the dynamism and efficiency of the Single Market are currently being significantly impeded by a complex web of challenges, primarily due to the excessive regulatory burden and bureaucratic red tape. These issues have not only created an intolerable barrier to the effective implementation of Single Market rules but have also severely undermined business competitiveness, particularly for small and medium-sized enterprises (SMEs). This over-regulation places significant **additional costs on businesses, proving unsustainable for SMEs and inadvertently favouring non-European companies** that are not bound by the same stringent rules.

Moreover, the tendency – present at all levels in Europe and among Member States following the economic and financial crisis - towards a **risk-averse regulatory approach** has led to a surplus of overlapping regulations, creating legal uncertainty and imposing substantial compliance costs. This scenario has adversely affected the business environment and economic activities, hitting SMEs the hardest. Thus, addressing these regulatory challenges is not merely a task of reform but a crucial necessity to unlock the full potential of the Single Market.

Amidst these regulatory complexities, the phenomenon of "**gold plating**" exacerbates the challenge, where Member States add additional requirements to EU directives beyond what is stipulated. This practice not only intensifies the regulatory burden on businesses, especially SMEs, but also fragments the Single Market, creating uneven playing fields across Member States.

Tackling the complexities of regulatory reform goes beyond mere adjustments; it's a vital step towards unleashing the Single Market's full potential. By refining the application of existing regulations on goods and services, there's an opportunity to unlock efficiency gains amounting to up to 700 billion euros by 2030, according to the European Commission. This not only highlights the substantial untapped potential within the Single Market but also underscores the importance of enhancing the institutional and regulatory framework for broader benefits.

For the European Union to harness these benefits, its policies must be crafted to be effective, efficient, and coherent. Effective policies should eliminate barriers to the free movement of goods, services, workers, and capital while ensuring that rights facilitating these freedoms are protected. Efficiency in policy **implementation** means achieving desired outcomes swiftly and cost-effectively. Moreover, policies should be coherent, avoiding any inconsistencies, overlaps, or gaps between horizontal and sectoral rules that could hinder the Single Market's functionality.

In recent years, the Commission has been making significant progress in the area of simplification and reduction of administrative burdens. **The proposals presented by President Von der Leyen signify a major commitment** that must be pursued as an absolute priority in the coming years. This is the direction taken by the proposals presented in this chapter.

Ways to optimise EU policies and legislation are usually regrouped under the 'Better Regulation' label. The good news is that the EU is at the forefront in this domain according to the latest OECD comparative study focusing on structures put in place and documented procedures. However, the journey towards Better Regulation faces several challenges, encompassing various stages of the regulatory process.

These challenges are systematically addressed through proposals organised into six distinct parts. This structure mirrors the chronological phases of rule **design, adoption, implementation, and enforcement**, enriched with initiatives aimed at **simplifying existing regulations**. Such a comprehensive approach not only elucidates the path towards a more efficient and competitive Single Market but also advocates for a streamlined and vibrant economic ecosystem.

This Report identifies the challenge of simplifying the regulatory framework as a principal hurdle for the future Single Market. A pivotal proposition emerges: to reaffirm and embrace the Delors method of maximum harmonisation coupled with mutual recognition, fully enshrined by the European Court of Justice's rulings. This method underscores the paramount importance of Regulations as the cornerstone for achieving such harmonisation across the Single Market. It posits that **EU Institutions should unequivocally prioritise the use of Regulations in the formulation of Single Market binding rules**.

# Enhancing proposal design in the Single Market

In the pursuit of enhancing the Single Market, mechanisms through which proposals are formulated must be refined. This endeavour aims at not only bolstering inclusivity and efficiency but also addressing consultation fatigue among stakeholders, which often grapple with limited resources and technical expertise.

## Streamlining consultation processes and empowering weaker stakeholders

It is necessary to overhaul the consultation process to mitigate redundancy and alleviate the fatigue felt by various stakeholders. A 'once only' approach in gathering essential information and opinions is pivotal to this end. Furthermore, the EU must augment financial and technical support to underrepresented groups, such as environmental bodies, consumer organisations, and SMEs, to enable their effective participation in the consultation processes. The utilisation of "European citizens' panels" is crucial for deepening democratic participation.

Moreover, a two-step approach for impact assessments - initiating with a call for evidence followed by a focused consultation - should enhance the effectiveness of these assessments. These actions are geared towards fostering a participatory and inclusive policy development landscape, ensuring that all voices, particularly the less heard, have a say in the crafting of the Single Market.

In terms of empowering weaker voices, it would be also useful to look at best practices from outside Europe. For example, the US Office for Information and Regulatory Affairs (OIRA) provides regular public training on effective participation and reaches out to those who have not traditionally requested meetings. Complementing the "European Citizens' Platforms", such tools would bring more participatory democracy to the EU, so crucial for the acceptance of the Single Market.

## Streamlining the Better Regulation toolbox and considering experimental options

The Impact Assessments (IAs) prepared by Commission services are largely considered a major progress. However, many stakeholders consider that their priorities are not sufficiently taken into consideration in these IAs.

The evaluation of the Better Regulation toolbox reveals its perceived complexity and occasional ambiguity, raising concerns over its approach to IAs. While the introduction of IAs marks significant progress, the demands for a more comprehensive analysis and the integration of diverse tests reflect a complex landscape of stakeholder priorities. This complexity poses challenges, including time constraints and resource limitations, which the EU faces in policy preparation. Several stakeholders also question the user-friendliness of the Better Regulation Toolbox – exceeding now 600 pages – and claim that some of its elements are not specific enough to be operational.

To enhance the effectiveness and transparency of the regulatory framework it is necessary to streamline the Better Regulation toolbox and upgrade it without multiplying 'pass or fail' tests. Upgrading the Better Regulation toolbox should prominently incorporate a robust 'risk-risk assessment' to centralise its application. The abundance of governance literature evidences that addressing one risk often precipitates the emergence of another. Implementing an 'ecosystem' approach, as initiated by the Commission, facilitates such assessments.

Furthermore, the production of Impact Assessments should be aimed at elucidating, rather than obscuring, the political decisions involved, thus promoting a more transparent decision-making process. Choosing a preferred policy option is inherently a political decision, balancing various advantages and disadvantages. Consequently, this choice should be articulated at the outset of a political document — the legislative proposal issued by the College of Commissioners — rather than at the conclusion of a technical document, the Impact Assessment. The citizen summary, explanatory memorandum, and recitals that precede the proposal rules are designed for this purpose. The Impact Assessment could conclude with a table summarising the policy options' benefits and drawbacks, including their effectiveness, costs, and alignment with other policy objectives. This table could serve as a foundation for evaluating the impact of significant amendments proposed by the co-legislators, introducing a Dynamic Impact Assessment approach - as presented below in this section.

Adopting a 'policy package' approach is recommended, as it facilitates a holistic examination of policies and their impacts. Advocating for policy packages offers several benefits over singular policy measures, including enhanced policy design. Package dealing, a negotiation strategy to facilitate difficult measures by securing stakeholder support through concessions, also leverages synergies for increased effectiveness and minimises unintended consequences for greater efficiency. The 'Fit for 55' proposals exemplify this approach.

Additionally, there should be a more systematic consideration of flexibility instruments, which can offer adaptable solutions to emerging challenges. Typically confined to review, revision, or sunset clauses, flexibility should also extend to experimental clauses, regulatory sandboxes, and the enhanced cooperation mechanisms provided for in the Treaties. These embody the principles of adaptive or agile regulation, ensuring legal stability without rigidity. Enhanced cooperation, in particular, allows a group of willing and capable members to explore advanced Single Market solutions without jeopardising it, provided a centripetal force keeps non-participants engaged.

Finally, it is crucial to further develop and broaden the European Commission's in-house expertise, ensuring that policies are not only well-informed but also effectively implemented. Investing in good legislation yields substantial returns. Leveraging the Joint Research Centre for internal impact assessment work, reallocating funds from external sources, and supporting Eurostat's efforts to rapidly produce more detailed data are strategic moves to enhance legislative quality and effectiveness.

# Enhancing rule adoption through informed decision-making

The process of adopting new rules within the Single Market necessitates a methodical and coherent approach to ensure that the legislation not only addresses present needs but also anticipates future challenges, thereby fostering an environment of innovation and growth. The proposals outlined aim to refine this process across three distinct yet interconnected dimensions: assessing the impact of co-legislators' amendments, committing to a principle of 'non-regression' to safeguard the achievements of the Single Market, and revitalising the Delors method of harmonisation combined with mutual recognition. These measures are designed to strengthen the regulatory framework, making it more adaptive, inclusive, and effective in meeting the diverse needs of the Single Market.

## Assessing the impact of the Co-legislators' amendments before their final decision

The legislative process within the European Union is perceived as being complex, involving multiple stages where amendments are proposed and negotiated. The introduction of amendments by co-legislators, which can significantly alter the original intent and effectiveness of proposed regulations, needs a specific focus. The existing framework, as stipulated by the 2016 Inter-Institutional Agreement on Better Law-Making, acknowledges the necessity of assessing the impact of these amendments. However, reality falls short of this ideal.

Most of the legislative proposals are closed with an agreement during the first reading which has increased the capacity to produce legislation in a timely manner. However, the pressure to reach a compromise between co-legislators has led to the creation of rules that reflect the balance of power rather than sound policy-making grounded in evidence. The result is often legislation that lacks coherence, with potential unintended consequences that could undermine the effectiveness of the Single Market. Recognizing this, **it is imperative to consider a mechanism that will assist the co-legislators with a Dynamic Impact Assessment (DIA) that is both pragmatic and streamlined**. This approach would involve simplified update of the original impact assessment with 'back of the envelope' evaluations and explicit guesstimates to forecast the implications of amendments introduced in the opinion of the co-legislators. This is to some extent already case when the EU the case when Institutions exchanges their views on the respective opinions. But the current practice would benefit from a deeper analysis. The assessments of impact of co-legislators opinions would not only enhance transparency but also ensure that the subsequent legislative negotiations and final trilogues negotiations start with a clear understanding of the potential economic, social, and environmental impacts of proposed changes.

The DIA aims to mitigate the risk of legislative deadlock by providing a swift means of evaluating the consequences of amendments without demanding extensive additional assessments, which can be used strategically to delay or obstruct the legislative process. This proposed mechanism would foster a collaborative environment that respects the prerogatives of the legislators while ensuring that amendments are subject to a rigorous evaluation process. This approach aligns with the overarching goal of the Better Regulation agenda, striving for legislation that is both effective in achieving its objectives and efficient in its implementation, without sacrificing the fundamental principles upon which the Single Market is built.

## Committing to a principle of ‘non-regression’ for the Single Market

The Single Market is increasingly under threat from instances advocating for a retreat to national borders as a means of protecting local businesses and workers. This perspective overlooks the intrinsic value of the Single Market.

**Against this backdrop, it is crucial to introduce a principle of ‘non-regression’ within the Inter-Institutional Agreement on Better Law-Making.** By doing so, the three signatories – Parliament, Council and Commission – would commit to maintain at the very least the existing freedoms – including the Fifth Freedom presented in this Report – and integrative achievements of the Single Market, in line with the 1st Article of the Treaty on European Union under which Member States have all committed to “creating an ever closer union among the peoples of Europe”. As the guardian of the EU Treaties and promoter of the European General interest, the Commission should also consider withdrawing a proposal if amendments threaten the Single Market. For the rest, the Commission should continue to act as an honest broker between the co-legislators after the first reading stage.

## Reaffirming Delors method of maximum harmonisation with mutual recognition

In recent years, the European Single Market has witnessed a concerning trend towards 'false' harmonisation, characterised by legislation replete with exceptions, derogations, minimal alignment, and an inclination towards "gold plating" — where Member States add additional requirements to EU directives, further complicating and fragmenting the regulatory landscape. This approach, while offering a facade of unity, actually fosters fragmentation and undermines the seamless operation of the Single Market. Such legislation, often resulting from compromises in the co-legislative process, invites Member States to introduce or maintain national rules that deviate significantly from EU directives or regulations, leading to a piecemeal landscape of standards and regulations across the Union. This scenario not only complicates the regulatory environment for businesses and consumers but also detracts from the Single Market's core objective of fostering economic integration and competitiveness.

Acknowledging these challenges, there is a pressing need to revisit and reaffirm the Jacques Delors method of harmonisation, who championed the completion of the Single Market during his presidency of the European Commission. This method advocates for maximum harmonisation of essential provisions, coupled with mutual recognition for procedural aspects. By setting a uniform standard for key regulatory areas while allowing for procedural flexibility, this approach strikes a balance between ensuring a level playing field and accommodating the diversity of legal and administrative traditions within the Member States.

Maximum harmonisation offers a powerful tool to prevent the re-fragmentation of the Single Market. It eliminates the possibility for Member States to impose divergent national requirements, thereby reducing barriers to cross-border trade. This method has proven its effectiveness in the past, contributing significantly to the deepening of the Single Market and enhancing the Union's global competitiveness. Since Regulations are the most effective tool for maximum harmonisation, the EU Institutions should commit to prioritising their use in Single Market rules.

When the use of directives remains unavoidable or preferable, it is imperative to make two key choices to ensure their effective implementation. Firstly, Member States must demonstrate greater discipline by avoiding the inclusion of measures that exceed what is strictly necessary under the directive. Secondly, there should be a systematic preference for utilizing the legal basis of the Single Market framework, specifically relying on Article 114 of the Treaty. This provision supports exhaustive harmonisation, crucial for maintaining consistency across the Member States, whereas other Treaty provisions permit minimum harmonisation, allowing Member States to adopt stricter measures that may lead to fragmentation and adversely affect the Single Market.

## Implementing EU Rules with effectiveness and efficiency

The cultivation of a compliance culture within public authorities across Member States is paramount for the effective enforcement of Single Market rules. This principle hinges on the notion that enforcement originates at the national level, where authorities are directly involved in the application of these rules. The engagement and responsibility of these authorities are heightened when they are not only well-informed about the requirements but also involved in their development, fostering a sense of ownership and legitimacy. This approach not only promotes a deeper understanding of EU regulations but also represents a more efficient and cost-effective method for ensuring compliance compared to the protracted and costly infringement procedures.

However, the increasing complexity and volume of EU regulations pose a significant challenge for national authorities, often hindering their ability to effectively implement these rules. This challenge is acknowledged by both public authorities and stakeholders, emphasising the necessity for a collaborative effort beyond the capabilities of the European Commission alone. In response, the Commission has introduced various guidance tools to assist Member States in the application of EU law, notably the Technical Support Instrument (TSI) - that this report addressed above, calling for strengthening it.

Moreover, the Commission introduced remedial mechanisms, such as SOLVIT and The Single Market Enforcement Task Force (SMET). Concerns persist regarding the effectiveness of these remedial mechanisms in preventing non-compliant national practices that could hinder access to professions or services and the adoption of technical standards that could obstruct the Single Market. If these new tools have all their merits, it begs the question of the division of tasks and the risk of piling up of partially duplicating structures.

SOLVIT, in particular, while notable for its contribution to resolving out-of-court disputes regarding the misapplication of EU rules, operates below its potential due to issues such as unresolved cases, delayed case handling, and inconsistencies in the application of EU law. The root causes of these challenges - which had already been identified in the 2010 Monti Report -include inadequate staffing, lack of oversight, and varied procedural standards. Consequently, businesses and workers face significant delays and sometimes lose the opportunity to appeal against administrative decisions, highlighting the need for urgent improvements in SOLVIT's efficiency and effectiveness.

**In addressing these challenges, it is recommended to establish a legal framework for SOLVIT and consider consolidating enforcement instruments under a 'Single Market National Office' in each Member State and a 'EU Single Market Office' at the EU level**. Replacing the Commission Recommendation on SOLVIT with a legally binding EU Regulation represents a significant stride towards enhancing the operational stability and effectiveness of the SOLVIT network. Such a transition would safeguard the network against the unilateral discontinuation of national SOLVIT Centres, streamline access to EU funding under the Single Market Programme, and ensure a uniform application of procedures across all Centres. This shift would also increase the accountability and visibility of the lead Centres, fostering greater responsiveness and facilitating a consistent interpretation of EU law, thus addressing the critical need for uniformity in handling cases across the network.

# Strengthening enforcement to uphold market integrity

The effectiveness of the Single Market is contingent upon the integrity of its rules, and major breaches pose a significant threat to this integrity. Currently, the detection of significant infringements suffers from inadequate reporting and monitoring mechanisms, compounded by the underutilization of available resources. This deficiency in the system delays the identification of significant breaches, undermining the deterrent effect of enforcement actions. Moreover, the process for addressing major cases through infringement procedures is criticised for being not transparent enough, overly protracted, and resulting in penalties that lack sufficient dissuasiveness to prevent future violations.

## Spotting major infringements much faster

To effectively mitigate the challenges of identifying major infringements within the Single Market, a multifaceted strategy is essential. **Central to this strategy is the establishment of binding minimum criteria for investigation of potential breaches across Member States**. By implementing clear, mandatory standards for investigations, we can ensure greater consistency and efficacy in monitoring efforts, thereby facilitating the swift detection of major breaches. This uniformity is crucial for the integrity of the Single Market, as it helps in preempting the uneven application of rules and the resultant fragmentation.

Additionally**, harnessing advanced technologies such as Artificial Intelligence (AI)** - based on data from different sources including satellite imagery - represents a forward-looking approach to enforcement. Integrating these technologies, particularly in sectors and regions most susceptible to significant infringements, can dramatically accelerate the identification process. The predictive capabilities of AI offer unparalleled opportunities for early detection and intervention. This technological leverage is vital for maintaining a step ahead of potential violations, ensuring that enforcement measures are not only reactive but also preventive in nature.

## Launching an infringement procedure for all major cases

**The process of addressing and rectifying major infringements is critical, yet it currently faces challenges that diminish its effectiveness**. These include the slow pace of proceedings, and the inadequacy of penalties to serve as a genuine deterrent against future violations.

Official figures point indeed at a sharp drop in infringement cases, which is not compensated by the number of EU Pilot cases or proportionate to the drop in the number of new complaints. The last systemic shocks (Covid19, war of aggression in Ukraine) might have contributed to this trend.

Addressing these issues is paramount to ensuring that the Single Market remains a cornerstone of European economic integration and cooperation.

**One viable approach could involve adopting a model similar to that used in EU Competition law enforcement for handling cases of significant legal, economic, or social impact**. This model would streamline the process introducing more transparency and codified procedural steps starting from the initial steps until the final decision of referral to the Court of Justice that might lead to the imposition of fines.

**An alternative strategy would entail delegating a specialised entity to investigate potential infringements helped by a cohesive network of independent Single Market**

**enforcement bodies across Europe**. This system could take inspiration from the functioning of OLAF or from some elements of the European Public Prosecutor's Office, featuring a Central Prosecutor at the EU level supported by National Prosecutors. This enforcement network could potentially operate as a segment of the 'EU Single Market Office,' in collaboration with the national 'Single Market Offices' referred to above in this section.

To underscore the paramount importance of enforcement while these changes are being implemented, **it is proposed that the next European Commission appoint an Executive Vice-President, responsible for Single Market and specifically tasked with serving as the Chief Enforcement Officer**.

Moreover, to enhance transparency and mitigate the risk of fuelling criticism regarding perceived overreach by Brussels, it is suggested that when the infringement procedure is initiated, the public communication should be oriented towards sober and objective information, thereby reducing dramatization and focusing on the substantive issues.

## Simplifying regulations for a more dynamic Single Market

In the evolving landscape of the Single Market, ensuring that rules and regulations remain not only relevant and efficient but also minimally burdensome is paramount. This necessity comes into sharper focus as we address the dual challenges of simplifying existing legislation and leveraging digital technologies to ease administrative processes.

### Focusing rigorously on unnecessary and incoherent rules that are most burdensome

The vast regulatory framework governing the Single Market, while essential for its functioning, has been subject to scrutiny over its complexity and the burden it imposes on businesses, especially small and medium-sized enterprises (SMEs). The drive towards simplification is guided by a fundamental principle: regulations should facilitate, not hinder, economic activity and innovation within the Single Market. In her **2023 State of the Union** address, President von der Leyen emphasized the crucial need for fostering simplification. These commitments must be steadfastly supported and actively advanced.

To enhance efficiency and effectiveness, it is recommended to prioritise efforts towards the identification and alleviation of the most burdensome unnecessary obligations. However, defining what is 'unnecessary' is often a matter of political appreciation. **Hence, it is advisable to structure simplification programs into two distinct segments: firstly, a universally agreed upon section targeting redundant, obsolete, and inconsistent regulations that could be expediently eliminated, possibly via omnibus legislation; secondly, a segment focused on 'political' simplification, which necessitates comprehensive debate on the fundamentals**.

Prioritising the alleviation of the most burdensome obligations is essential not only for managerial efficiency - optimising the limited resources allocated for simplification efforts - but also for practical reasons. This approach significantly increases the likelihood that the advantages of streamlined regulations will outweigh the costs associated with adapting to these changes, such as retraining personnel and altering data collection and dissemination processes.

**A significant aspect of regulatory burden reduction involves reassessing reporting and compliance obligations**. By setting clear deadlines and establishing baselines for such efforts, the European Union can make tangible progress in reducing the administrative load on businesses. This approach not only aids in maintaining a competitive and innovative market environment but also supports the EU's broader objectives of economic growth and integration.

**An important tool for simplification is to reduce the number of EU legislative acts by means of codification** and when necessary recast of a number of legislative acts which belong to the same subject matter. There are plenty of examples in EU law in the area of green, digital, consumer protection, financial regulations of legislation adopted over time that can be codified or when necessary recasted in order to simplify and streamline reporting obligations. **The European Code of Business Law** proposed in the Report is a major example of this approach.

Codification and recasting might at times result complex and not sufficient to cover all instances. Therefore, another important legislative tool might be horizontal instruments such as 'simplification law' that reduce and modernise the reporting obligation across the board introducing for examples the principle of digital by default and once-only submission of the information and self-certification and fast track procedure to deal with minor non compliances.

## Accelerating the digitalisation of authorisation and reporting procedures

The acceleration of digitalization in authorization and reporting procedures represents a transformative step towards a more efficient and accessible Single Market. This strategic shift aims to significantly ease the administrative burden faced by businesses and workers engaging in cross-border activities, harnessing digital technologies to streamline processes that have traditionally been time-consuming and complex. It is also environmentally friendly, significantly reducing the amount of paperwork and the space and energy required to store and move it.

**Central to this effort is the implementation of the Single Digital Gateway (SDG), an initiative designed to serve as a comprehensive online access point for key information, administrative procedures, and assistance services and the newly adopted digital EU wallet**. The SDG's ambition extends to automating the exchange of authentic data between authorities through its 'Only Once Technical System' (OOTS), thereby eliminating redundant submissions of the same information by businesses and individuals across Member States.

The challenge now is to ensure that all relevant entities, including national, regional, and local administrations, as well as social security bodies and educational institutions, actively connect to the OOTS. To date, the integration of these entities into the OOTS has been slow, highlighting the need for a concerted effort to onboard them. The reason for such slowness was the absence of standards and procedures for exchange and recognition of different attributes and attestations.

Aligning the SDG with the forthcoming EU Digital Identity Wallet will be a game changer as it promises to further enhance the digitalization of authorization and reporting procedures. This alignment will facilitate seamless and secure identity verification processes, making it easier for businesses and workers to complete cross-border procedures online. Additionally, building interoperability with existing data exchange systems will ensure a smooth and efficient information flow, crucial for the effective functioning of the Single Market.

# The Single Market beyond its borders

# The Single Market beyond its borders

In the face of an increasingly complex and unpredictable global landscape, **the European Union is compelled to extend its focus beyond internal concerns**, placing significant emphasis on the **external dimension of the Single Market**. Today, it is no longer possible to make a clear distinction between these two dimensions, we must take them in consideration **together**. With the green and digital twin transformations, which are based on the deployment of critical technologies that have a global footprint and that are based on global standards, the EU's ability to shape these standards is essential for its competitiveness.

Economic security emerges as a condition for economic stability and resilience, especially in light of recent challenges such as the pandemic, the resurgence of conflict, and the energy crisis. These events have highlighted the vulnerabilities inherent in our current development model, which relies heavily on global trade interdependence. Adapting to the new global context requires us to seek **an harmonious balance between the integration into the global market and ensuring security,** with the aim of enhancing our competitiveness and resilience.

The **'Brussels effect'** requires specific efforts as alternatives are available and the EU's influence is increasingly challenged due to geopolitical tensions and the rise in state-led trade interventions for security purposes. Instead than interpreting global dynamics through the lens of the Single Market, we must now tailor the Single Market to align with these global shifts. It's imperative to review EU trade policy to preserve our credibility. **Our approach should aim to strike a balance between competitiveness, strategic independence and equitable global conditions, avoiding the imposition of detrimental regulations and instead fostering strategic partnerships based on well-founded policies.**

Another vital aspect concerns the relationship between the Single Market and EU enlargement. The integration process poses significant challenges for both candidate countries and the EU's integrity. Our strategy must seamlessly combine economic and political integration, aiming for equilibrium and safeguarding against the perception of the EU as merely an economic entity.

Effectively addressing **Economic Security**, refining our **trade policy,** managing **enlargement** and governing our relations with key **strategic partners** is pivotal for the Single Market's future. The geopolitical shifts witnessed in recent years underscore the importance of focusing on the Single Market's external dimension, ensuring its responsiveness and relevance in a rapidly changing world.

## A resilient Single Market in the new geopolitical scenario

The global economy is experiencing radical turmoil, which directly threatens the global economic landscape and the Single Market in its domestic and external dimension. From a strategic, long-term perspective, this could be the most critical geo-economic challenge for Europe in years, or even decades. Its implications are manifold, negatively affecting global growth rates and possibly inflation among other factors. New economic policies and geopolitical tensions are leading to a different phase in globalisation. This scenario is undesirable and unwelcome, particularly for the European Union and the Single Market, which are founded on the principle of global, rule-based, free trade.

In contrast to globalisation, which is primarily driven by market forces, **the roots of fragmentation lay predominantly in geopolitics.** The international landscape is marked by escalating distrust, security anxieties, and an increasingly ingrained perception of misalignment interests'. In this new environment, economic barriers are being erected, and protective measures, especially in the technology sector, are being implemented.

The full impact of the global economy's fragmentation and its potential implications remain elusive. Nonetheless, it's clear that current political and strategic divergences among leading economic powers could result in the emergence of competitive and increasingly independent economic blocs. This shifting landscape poses significant challenges for the EU, particularly affecting the Single Market and its political underpinnings. The EU, historically a fervent advocate for open markets and global economic integration, has adopted a stance of greater self-reliance through the implementation of numerous economic security measures. Navigating this delicate juncture, the EU finds itself balancing two priorities: **the imperative to preserve its open and dynamic economy, and the need to safeguard national security and protect its economic interests against aggressive international actors.** Fortifying and completing the Single Market to enhance its resilience emerges as the most effective strategy to counteract economic fragmentation and insecurity.

The new European posture materialised with the Versailles Declaration of March 2022, later followed by the Granada Declaration of October 2023, providing the political impetus for the concept of European sovereignty. The Declaration expressly commits to complete the Single Market in all its dimensions and addresses critical Single Market issues such as trade, critical raw materials, semiconductors and digitalization.

**Economic security is pivotal for the Single Market's future.** The EU aims to craft a new framework, introduced in June 2023 through a Joint Communication by the European Commission and the High Representative, balancing risk minimization with the maintenance of economic openness and vitality. Building on this, January 2024 saw the Commission launch a more detailed Communication outlining five key initiatives to boost the EU's economic security. These initiatives focus on refining FDI screening, enhancing dual-use technology export controls, assessing outbound investment risks, encouraging R&D in dual-use technologies, and advising on research security strategies at both national and sectoral levels.

The impact on the Single Market is multifaceted, encompassing both external and domestic dimensions that significantly shape its development. The external dimension is closely tied to the Single Market's interactions in terms of trade, investment, and the movement of people. This facet has become increasingly complex due to the widespread use of sanctions, export controls and restrictions, and scrutiny on investments. Such measures have a considerable effect on the Single Market, highlighting the importance of its external engagements. Concurrently, the domestic dimension plays a critical role, primarily focusing on fortifying the EU's technological and industrial base. The urgency to reinforce this aspect has been amplified by external threats, making the completion of the Single Market in strategic sectors paramount. It is evident that only by fostering a Europe-wide industry can the EU aspire to hold its ground on the international stage, especially against economically aggressive global powers.

In response to these complex challenges, **the EU has devised and implemented a suite of instruments aimed at effectively addressing both the external and domestic dimensions.** These include the Critical Raw Materials Act, the European Chips Act, and the Net-Zero Industry Act, alongside tools such as export controls and the Single Market Emergency Instrument. Additionally, strategic measures such as the Anti-coercion Instrument, the Foreign Direct Investment Screening Regulation, the Toolkit on Tackling Foreign Research and Innovation Interference, the 5G Toolbox, and the Global Gateway have been developed. Each of these instruments is designed not only to safeguard the Single Market's integrity but also to enhance its resilience and competitive edge on the global stage.

Fragmentation is a reality that is likely to intensify in the coming years, although we do not know at what pace. EU policymakers must engage in managing this process to minimise its economic damage and to preserve the rule-based international order while guaranteeing the Union's economic security.

The European Union stands at a crucial juncture, faced with multifaceted economic threats that demand a strategic and cohesive response. Recognizing the evolving landscape of external economic security threats - including predatory investments, economic dependencies, technological theft, and cyber threats - **a comprehensive approach to enhance the EU's resilience, support its economic competitiveness and safeguard its interests is imperative**. In addition to what the EU has already committed to do, there are further essential steps that must be taken into consideration.

A foundational step in this direction will be the creation of an **Economic Security Council** within the Council of the European Union. This would be designed to encourage all Member States to appoint an Economic Security Minister, following Japan's pioneering example set in August 2022. The aim is fostering inter ministerial cooperation on economic security issues within each country, directly linking this enhanced coordination to the protection and resilience of the Single Market. This strategic move is deemed essential, offering an effective mechanism for confronting economic security challenges with the ultimate objective of defending and strengthening the Single Market against external challenges.

**On technologies which must be "de-risked" there's a pressing need to broaden the scope of attention beyond the current focus areas** of semiconductors, artificial intelligence, quantum computing, and biotech, as identified in the European Commission's list of critical technologies published on 3 October 2023. The list's expansion to include a wider array of technologies is crucial, alongside the implementation of more rigorous risk assessment procedures. Integral to this effort is the full engagement of the private sector, fostering a collaborative environment to identify and mitigate risks effectively.

**On the front of export controls, coordination at European level must be enhanced.** As the domain of export controls expands to include a diverse range of products beyond traditional military and dual-use items, a harmonised European-wide approach is essential. Such coordination not only safeguards single Member States from targeted retaliations by affected countries but also benefits the private sector through clear and transparent procedures.

**Addressing the resilience of supply chains represents another critical area of intervention to protect the Single Market.** Alongside efforts to either 'reshore' or 'friend-shore' critical production inputs, the EU must significantly ramp up its actions concerning the supply of critical raw materials, acknowledging their fundamental role in ensuring the stability and sustainability of European industries. This entails navigating the intricate web of policy objectives, including value chain resilience, reindustrialization, labour market challenges, decarbonization, and the attraction of investments, with an enhanced focus on securing a reliable supply of critical raw materials essential for these sectors. In this area, in addition to mining, projects which engage in recycling and in groundbreaking laboratory research on materials must be supported. A balanced approach is required - one that prevents unhealthy competition among Member States in reshoring policies while allowing them the flexibility to leverage their competitive advantages.

Lastly, **defining a framework for economic cooperation with 'rival partners' is essential.** It is crucial to emphasise that our strategy **focuses on derisking rather than decoupling**, highlighting our dedication to maintaining openness while simultaneously enhancing our ability to secure our interests. This involves delineating a 'perimeter' of cooperation, adjustable in response to fluctuating geopolitical climates, developed in concordance with traditional allies and within existing multilateral frameworks. Such a strategy aims to preserve the benefits of globalisation, while providing European investors and corporations with a clear perspective to evaluate risks and opportunities.

## Trade as a crucial tool to project the Single Market's influence

Over time, the appeal of accessing the Single Market has significantly enhanced the EU's external influence. EU rules have become global golden standards for issues like data protection, online platforms, AI, food security and cybersecurity, among others. Through an active agenda of bilateral negotiations and strategic application of trade defence mechanisms, the EU has fostered an international regulatory environment that improves visibility and stability for European businesses in global trade. Consequently, the Single Market has positioned the EU as the world's leading trading entity and the foremost global investor. However the "Brussels effect," once considered a given, now requires active policies.

In response to these evolving dynamics, the European Union must reassess its approach beyond merely reinforcing the external dimension of the Single Market. The shifting global landscape, coupled with a relative decline in European influence, necessitates a shift in perspective. Rather than viewing global developments through the lens of the Single Market, **it is imperative for the EU to consider the broader international context in shaping the future direction of the Single Market.** This strategic pivot is essential for navigating the complexities of the current geopolitical environment and ensuring the long-term resilience and competitiveness of the European economy. Moreover, we need to address the potential erosion of the legitimacy of European trade policy among trading partners, which have taken on a new strategic dimension for EU security. An increasing number of countries are becoming critical of the EU's inclusion of high social and environmental standards in new free trade agreements, labelling it as protectionism. As compliance with multilateral rules of fair competition erodes and new power dynamics emerge, resource-rich countries - especially those rich in critical minerals - have realised that they have a new lever in their bilateral negotiations with the EU.

European trade policy should take into account the competitiveness of European companies on the international stage and the need to maintain fair conditions both within the EU and externally to move away from a logic of imposing regulations that harm partners and our ability to negotiate strategic partnerships. **We need evidence-based policies that consider the costs/benefits of action and inaction, our external competitiveness, and other external impacts, and that respond to the concerns of our trading partners** and ensure that we remain an attractive destination for investment. It is essential to better integrate the external dimension by conducting thorough evaluations throughout the legislative process, implementation, support, and awareness-raising among key partners. Likewise, **when developing standards, we will need to work with others by allocating more resources to active regulatory cooperation to ensure that our businesses are well placed in global competition**. In the case of standards applying to imports, it is important to ensure that our businesses have access to the inputs they need at affordable prices. At the same time we need to ensure that EU suppliers of such inputs are not put at a disadvantage. Ultimately, this could lead to a recalibration of the transformative ambition of European trade policy by seeking more coherence between different objectives (commercial, regulatory, and development cooperation) and different levels of intervention. This would mobilise a comprehensive approach across Commission DGs, with Member States, and the private sector to achieve these objectives. **Trade agreements should not be used as a trojan horse to weaken legislative frameworks**, and the EU should use its economic toolbox to the full, to promote its Single Market regulations as a competitive advantage, positioning the Union as a high-value and high-quality exporter of safe, secure and human-centric digital technologies and services.

**Another issue to address concerns the ratification procedures for trade agreements.** Given the new security issue of trade agreements, revisiting the conclusions of the Laeken Council of 2001, which committed the EU to strengthening the legitimacy of EU governance through "more democracy, transparency and [also] efficiency," would encourage avoiding exposure to the impossibility of ratifying mixed agreements, as some national assemblies increasingly oppose any type of trade agreement. This should lead to **a revaluation of the European Parliament's role in conducting trade negotiations and its legitimacy to ratify agreements falling within the exclusive competence of the EU**. While it does not have a formal role in adopting negotiation directives, it is closely involved in all stages of negotiating an agreement and, in practice, can use parliamentary resolutions, hearings, opinions and exchanges organised by its International Trade Committee with Commission officials, as well as written questions to the Commission, to influence negotiations. Furthermore, the right to veto the conclusion of agreements and its formal role in adopting implementing legislation mean that the EP's substantive demands can hardly be ignored when the Commission and the Council set negotiation objectives and EU positions in negotiations with third countries. This would lead to the adoption of two different legal instruments, as was done for the agreement signed with Chile. The first is a **Global Agreement**, which includes both the Political and Cooperation and the Trade and Investment components. As a mixed agreement not solely involving the exclusive competences of the EU, it should be ratified by all Member States. The second legal instrument is an **Interim Free Trade Agreement** covering only the parts of the Trade and Investment component falling within the exclusive competence of the EU, which do not need to be ratified by all Member States, but only by the Council of the EU and the European Parliament. This second part expires once the Global Agreement is ratified. This approach must be streamlined and become the rule rather than the exception.

In safeguarding the Single Market from competition distortions, the European Union has fortified its arsenal with innovative autonomous trade defence instruments, supplementing the existing traditional mechanisms. This suite of tools includes the regulation on foreign subsidies, designed to curb unfair financial advantages; an instrument targeting enhanced reciprocity in the opening of public procurement markets of our trading partners; and the anti-coercion instrument, which seeks to counteract coercive practices. However, the efficacy of these measures hinges on the unwavering political support from Member States towards the Commission. Such backing is imperative to ensure that these instruments achieve their intended objectives, thereby maintaining the integrity and competitiveness of the Single Market within the global trade landscape.

.

## The Single Market as a key tool in the enlargement process

The enlargement of the European Union remains a central objective. However, the focus lies not merely on the goal itself but on the careful execution of its implementation. The interplay between the Single Market and enlargement raises complex questions requiring meticulous consideration. A nuanced approach must be found, facilitating the early extension of Single Market benefits to candidate countries while simultaneously safeguarding the stability of both their economies and the Single Market. Crucially, **economic integration must remain firmly aligned with political integration based on shared values.**

Overly separating the economic dimension from the political dimension risks not only practical implications but also the perception that the EU primarily represents economic integration, distinct from political dimensions. This perception must be avoided to **ensure the EU remains consistent in its stance, as demonstrated during Brexit negotiations where "cherry-picking" was not allowed.** Moreover, rapid integration into the Single Market could be destabilising for candidate countries, potentially resulting in significant and disruptive adjustment costs.

The Single Market, conversely, can **lay the groundwork for a gradual accession process.** This necessitates a shift from the logic that governed the enlargements of 2004, 2007, and 2013. Back then, the focus was on pinpointing areas where Single Market preparation presented the greatest, if not insurmountable, challenges. The new strategy must prioritise **areas where early preparation is achievable, allowing candidate countries to reap the benefits of specific elements of the Single Market well before full accession, exceeding what association agreements currently offer**. However, this approach must be embedded within a broader framework for gradual accession that incorporates meaningful political elements, holds symbolic weight, and delivers substantial "quick wins." While adapting to the internal market's standards will undoubtedly be a gradual process for candidate countries given their current state of readiness, integrating these elements into a more comprehensive, step-by-step approach to accession can pave the way for a smoother, more manageable expansion.

To strengthen and complement the approach to EU enlargement, several key actions are required. Integration into the Single Market should foster socio-economic convergence between candidate countries and the EU. **Finding the right balance and establishing financial support mechanisms are crucial.** These mechanisms should ensure the process contributes to economic alignment while also addressing socio-economic disparities. Meanwhile, **addressing the concerns of current EU Member States is essential.**

An **Enlargement Solidarity Facility** should be envisaged, based on a data driven ex ante assessment of the costs of enlargement and its impact on the Single Market. **Some sectors and some Member States will be more exposed than others to the externalities of the enlargement process.** An **adequate funding instrument should be calibrated to support and compensate for these imbalances** with the aim of ensuring a smooth accession process for both Member States and candidate countries.

The issue of absorption capacity demands pragmatic and effective solutions. Beyond funding availability, a crucial challenge lies in ensuring candidate countries possess the administrative and institutional capacity to optimally utilise EU funds. Innovative solutions are also needed to facilitate gradual integration into EU institutions and decision-making processes, especially in areas where Single Market integration is progressing. This gradual institutional integration would foster stronger connections between candidates and members, help candidates feel valued, and cultivate a sense of a shared EU community.

In addition, a robust system of safeguard clauses, transition periods, and other tools – as proven effective in previous enlargements – must be carefully designed to anticipate and mitigate potential adverse effects of Single Market integration for both sides. These measures are essential for reassuring the public, preventing disruptive economic shocks, and ensuring a smooth and mutually beneficial integration process.

**The European Union's enlargement process is contingent upon candidate countries' comprehensive fulfilment of the Copenhagen criteria.** Among these, **the rule of law** holds a paramount position. It is not only crucial for accession but also indispensable for full participation in the Single Market. A robust rule of law guarantees that all rights enshrined in EU treaties are fully exercised within a framework where legal obligations and standards are not merely respected but actively enforced. This, in turn, fosters the mutual trust that underpins the EU's operational effectiveness and the integrity of the Single Market.

The Treaty on European Union enshrines the rule of law as a fundamental value in Article 2. This principle draws on the shared constitutional traditions of member states and forms the bedrock of the Union itself. **While the EU's values are not hierarchical, the rule of law plays a critical role in safeguarding others, such as freedom, democracy, equality, and respect for human rights.** It mandates that all public authorities operate within the confines of the law, reflecting the principles of democracy and respect for human rights. This encompasses a commitment to legality, which implies a legislative process that is transparent, accountable, democratic, and pluralistic. Furthermore, it upholds legal certainty, the prohibition of arbitrary actions by the executive, effective judicial protection including access to justice by independent and impartial courts, and the separation of powers.

The seamless operation of the Single market, envisioned as a space free of internal borders, is fundamentally contingent upon the mutual trust among Member States in their adherence to a shared base of fundamental values. This trust underpins the expectation that judicial decisions within this sphere are issued by courts that are both independent and impartial. It is this collective confidence in the mutual respect for a common standard, particularly concerning the protection of the right to a fair trial, that underpins the Single market. Without such a foundational belief, the assurance of fundamental freedoms and the principle of mutual recognition - which are critical to the nourishment and structural integrity of the Single market - would be untenable. This underscores **the indispensability of mutual trust**, rooted in the respect for fundamental values and judicial independence, as essential to the viability and effectiveness of the internal market within the European Union. Therefore, the respect for the rule of law stands as a vital pillar for the functionality and integrity of the Single Market. It is the bedrock upon which mutual trust is built, ensuring that fundamental freedoms and the principle of mutual recognition are effectively upheld within the European Union.

## The role of the Single Market in enhancing economic cooperation with strategic partners

The Single Market stands as a testament to Europe's commitment to free trade and economic integration, extending its benefits beyond the boundaries of the European Union to include countries like **Iceland, Liechtenstein, Norway, and Switzerland.** This unique arrangement underscores the attractiveness and global influence of the Single Market, reflecting its role as a powerful economic entity on the world stage. Through the Agreement on the **European Economic Area** (EEA) and various sectoral treaties, these countries, alongside the EU, participate in an expansive marketplace that fosters economic growth, innovation, and prosperity.

**The inclusion of Iceland, Liechtenstein, and Norway in the Single Market not only illustrates the market's appeal but also its strategic importance in the global economy.** These affiliations, which include the European Free Trade Association (EFTA) countries, signify a shared commitment to the core values and principles that underpin the Single Market.

This unprecedented cooperation has created the world's largest integrated market, offering equal opportunities to over 500 million people and facilitating a dynamic economic space where businesses can thrive, innovate, and expand. The EEA Agreement is a cornerstone of this relationship, ensuring a level playing field and fostering a cooperative approach to common challenges, such as the digital and green transitions. **The EEA and EFTA States are vital partners in the EU's efforts to enhance Europe's economic security, resilience, and competitiveness**, contributing significantly to the Union's strategic objectives.

However, as EU policies in areas not fully covered by the EEA Agreements – such as trade, security, and industrial policy – are evolving to address new challenges, it is crucial to ensure that these developments do not inadvertently erect barriers within the Single Market. Ensuring the integrity of the Single Market while adapting to new economic realities requires a delicate balance, emphasising the need for continued dialogue and cooperation with EEA countries.

Switzerland's participation in the Single Market through bilateral agreements further exemplifies the depth of integration and mutual benefit inherent in these cross-border partnerships. As a leading trading partner and source of foreign investment for the EU, Switzerland's engagement in the Single Market enhances the economic vitality of both entities. The relationship, characterised by mutual benefits, has been instrumental in areas such as industrial regulations, electricity, food safety, and could extend to financial services, highlighting the importance of cooperation in strengthening the Single Market.

In addition, the strategic relationship with Turkey is pivotal as we consider the broader geographic and economic landscape surrounding the Single Market. As a key partner in the Customs Union, there are several areas where the EU - Turkey cooperation can provide mutual benefits and help to address the challenges posed by the global economic environment, including the imperative shifts toward sustainability and security

The relationship with the United Kingdom post-Brexit presents another dimension to the Single Market's external relations. The Brexit negotiations, successfully carried out by Michel Barnier, underscored the EU's stance against selective participation in the Single Market. Looking forward, we must maintain this approach with **the aim of finding a balanced and mutually beneficial framework to strengthen the economies ties with the UK.**

In line with these considerations, we should intensify our efforts to **improve economic relations with the US**, with the long-term goal of reigniting discussions on the foundational concepts for developing a **Transatlantic Single Market**. This idea seeks to more closely link the EU and US markets through the systematic and mutual reduction of market barriers. By promoting deeper trade and investment ties, regulatory alignment, and mutual recognition of standards, a Transatlantic Single Market could significantly bolster the relationship between two of the world's largest economies. **The pursuit of such a market is not without challenges, requiring committed dialogue, reciprocity, negotiation, and compromise**. However, the potential benefits in terms of economic growth, job creation, and global influence make it a compelling objective, aligning with the broader goals of the Single Market to support open, fair, and prosperous economic spaces.

The EU's partnerships are based on shared values and mutual interests, contributing to Europe's economic strength and competitiveness. As the EU continues to navigate the complexities of global economic dynamics, **it is imperative to maintain the integrity of the Single Market**, ensuring it remains a cornerstone of European prosperity and a model for international economic cooperation. The future of the Single Market, therefore, lies not only in deepening integration within the EU but also in fostering constructive and beneficial relationships with its closest partners.

# Conclusions

# Conclusions

It is time to craft a new compass to guide the Single Market in this complex international scenario. Powerful forces of change - spanning demographics, technology, economics, and international relations - necessitate innovative and effective political responses. Given the ongoing crises and conflicts, action has become urgent, particularly as the window of opportunity to intervene and relaunch the European economy risks closing in the near future.

This Report, which contains policy recommendations for the future of the Single Market, aims to inspire a genuine call to action among the European public opinion. For maximum impact, it should be implemented at EU institutions, Member States, social partners and citizens level.

The conclusions of this Report aim to clarify the urgency and importance of the proposed recommendations, while emphasising the need for broad engagement and concrete actions.

Given the crucial importance of the Single Market for strengthening European competitiveness, it is essential for the European Council to play a decisive role in advancing necessary reforms for its completion. This initiative should represent a focal point on the agenda of the next legislature, highlighting our joint commitment to revitalising the European economic context. **The Council is urged to delegate to the European Commission the task of drafting a comprehensive Single Market Strategy**. This plan should clearly articulate actions to break down existing barriers, promote consolidation, and enhance the competitiveness of the Single Market, along the lines of the proposals contained in the Report. It is essential that political direction acts as a catalyst for swift agreement among the **Council of the EU** and the **European Parliament** on an ambitious plan, also including detailed impact analysis and thorough parliamentary work to support the process. It is also necessary for the **European Economic and Social Committee** and the **European Committee of Regions** to prioritise these reform initiatives in their advisory role, ensuring that the legislative process is guided by a comprehensive and practice-oriented analysis. This collective commitment will not only strengthen the Single Market but also ensure that it continues to be a pillar of European economic resilience and competitiveness globally.

At the core of the European social model, inaugurated by Jacques Delors with the Val Duchesse dialogue in 1985, was a commitment to robust social dialogue. However, in recent years, the essence of these dialogues has somewhat weakened. On the contrary, the need for coordination and negotiation mechanisms between employers and workers must increase if we want to support businesses and create quality jobs. Social dialogue and collective bargaining remain unique tools for governments and social partners to find targeted and fair solutions. **It is essential to acknowledge the important role played by social partners** in addressing today's challenges, such as climate change and digitalization, in the context of revitalising the EU Single Market. Furthermore, promoting fair working conditions amid changes in production models is crucial to ensure that transitions are widely shared and accepted. The renewed commitment to strengthening social dialogue at the EU level, exemplified by the relaunch of the Val Duchesse Summit promoted by Ursula von der Leyen in her 2023 State of the Union address, constitutes a welcome change. To make the most of this tool, the rules governing the Single Market must allow room for collective bargaining and local representative structures, and encourage (or at least not discourage) the self-organisation of workers and employers. The same, even more so, must occur within the legislative process.

The Single Market stands as a testament to the collective aspirations of its citizens, who form the very core of its structure. Voting, the quintessential expression of democratic engagement, serves as the pivotal tool through which citizens assert their will. From June 6 to 9, the European elections will unfold, offering a decisive reflection of the public's vision for the future. **The electoral outcome will not only guide the strategic direction but also shape the recommendations detailed in this report.** In this critical juncture, the European Parliament is entrusted with a profound responsibility: to spearhead the development and implementation of a robust new framework for the Single Market, ensuring it fully embodies the democratic values and meets the evolving needs of its people.

To strengthen this process, it would be useful to establish a **Permanent Citizens' Conference** to inform and support the follow-up to this Report. The Conference on the Future of Europe has clearly indicated the citizens' desire for greater systemic involvement in the development and implementation of European public policies. In particular, one of the proposals that emerged in the Conference's Plenary suggested holding periodic Citizen Assemblies. This proposal was embraced by the Presidency of the European Commission with the initiatives of the European Citizens' Panels, which are set to become a constitutive feature of European life, contributing to strengthening our democracies. **The Citizens' Conference could liaise with the three main EU institutions and produce recommendations on how to implement the Report, providing a valuable, certainly broader, and more grounded perspective.** Certainly, if the Single Market has always been and must continue to be the core and the engine of European Union integration, no reform, no innovative design, no real progress will be possible, understood, and accepted by our public opinions without the active participation and genuine involvement of European citizens.

**The time to act is now.** We must work all together for a stronger Single Market and a stronger European Union.

## Acknowledgments

*The Report is the outcome of extensive collective debates and elaboration for which I must thank many people.*

*I express deep gratitude to the sponsors of the Report, the Belgian government led by Alexandre de Croo and the Spanish government of Pedro Sánchez, who, with the support of the entire European Council chaired by Charles Michel, initiated the Report, along with President of the European Commission Ursula von der Leyen, and requested me to write it. To the Commission, to the President first and then to all the Commissioners, Directors and Officials, I owe profound gratitude for the continuous exchanges and passionate support I have felt at every moment. I have always had the idea that the Commission was a special place, a unique and virtuous blend of expertise and passion. I have had the best confirmation of this notion in these months. A special mention, among all, obviously goes to those responsible for the Single Market in the Commission, to the entire competent DG and to Commissioner Thierry Breton.*

*I am very grateful to the European Council and the national Heads of State and Government, as well as to all the institutions of the 27 Member States that have welcomed and supported me. Thanks also to the representatives of European countries not members of the European Union and to those who will be future members of the Union with whom I have had useful interactions.*

*The European Parliament has strongly supported me from the outset. I thank all those with whom I have been able to interact, both members of parliament and officials, the many Committees and Subcommittees I have met, and all the Parliamentary Groups. A special thanks to the President of the European Parliament, Roberta Metsola, and to the President of the Committee on the Internal Market and Consumer Protection, Anna Cavazzini. It has been a particularly emotional experience for me to walk through the halls in Strasbourg and Brussels where I had been so many times with the unforgettable David Sassoli.*

*I am very grateful to the President of the European Central Bank, Christine Lagarde, the President of European Investment Bank, Nadia Calvino, and all the representatives of the National Central Banks and national and European financial institutions and Union agencies I have met around Europe.*

*I would like to extend my special thanks to Koen Lenaerts, President of the Court of Justice of the European Union, for our numerous productive discussions. The European Economic and Social Committee, led by Oliver Röpke, has played a fundamental role in these months in monitoring and supporting my work. I thank him as well as express a deep sense of gratitude to all social partners and associations I have encountered on multiple occasions in Brussels and in various capitals. I have always believed in the fundamental active role of social partners, and I have had the best confirmation of this belief in these months. I would like to express my gratitude also to the Committee of the Regions, led by President Vasco Alves Cordeiro, and to the many representatives of territorial communities whom I have had the pleasure of meeting over these months.*

*This Report would not have seen the light without the contribution of the people who have supported me in these months, starting with Eric Philippart, Tullio Ambrosone, and Andrea Lamberti. Thank you. It has truly been a great human and professional adventure.*

*Equally crucial and irreplaceable was the extraordinary support of the researchers and coordinators of the Jacques Delors Institute's network in Paris, Berlin, and Brussels, coordinated by Pascal Lamy, and of the experts from the AREL Research and Legislation Agency in Rome, chaired by Francesco Merloni. Special thanks also to Nicolò Conti and Monica Nardi.*

*I thank them all, one by one, from the bottom of my heart. Without their help, without our shared passionate advocacy for the European integration project, all of this would have been impossible.*

*There are many people who have provided suggestions and contributed with valuable advice, reviews, and corrections. Each of them knows how much gratitude and esteem I owe for all the passionate and intelligent contributions received. Thank you.*

*This Report is dedicated to the memory of Jacques Delors.*