

# A closer look at... Draghi's report on the European competitiveness

Emmanuelle Inacio reports on the long-awaited report on the future of European competitiveness



EMMANUELLE INACIO  
INSOL Europe  
Chief Technical Officer

**T**he former European Central Bank President and Italian Prime Minister, Mario Draghi, delivered on 9 September 2024 to the European Commission President, Ursula von der Leyen, his long-awaited report on the future of European competitiveness that she commissioned on 13 September 2023.

The findings of Draghi's report will contribute to the European Commission's work on a new plan for Europe's sustainable prosperity and competitiveness and in particular, to the development of the new Clean Industrial Deal for competitive industries and quality jobs, which will be presented in the first 100 days of the new Commission mandate.

Draghi's report is structured in two parts: Part A<sup>1</sup> presents the competitiveness strategy for Europe, while Part B<sup>2</sup> contains in-depth analysis and sectoral and horizontal policy recommendations.

The report highlights the EU's weak productivity growth and the widening gap between the EU and US GDP levels. Draghi's report outlines three major changes facing Europe today and proposes a new industrial strategy to address these challenges.

1. Accelerating innovation and finding new drivers of growth. Only four European companies are among the world's top 50 tech companies, and the EU's global position in tech is deteriorating. The EU's



share of global tech revenues fell from 22% in 2013 to 18% in 2023, while the US's share increased from 30% to 38%. In this context, Draghi's report underlines the need for Europe to close the innovation gap and redress the EU's slowing productivity.

2. Reducing high energy prices while continuing to decarbonise and move towards a circular economy. The report highlights how EU companies still face electricity prices that are two to three times higher than in the US and natural gas prices that are four to five times higher. To reduce energy prices and seize the industrial opportunities of decarbonisation, Draghi's report calls for a joint plan for decarbonisation and competitiveness.
3. Navigating an unstable geopolitical environment characterised by dependencies and security challenges. To tackle these challenges,

Draghi's report calls on Europe to enhance its security and reduce its dependence in order to remain resilient in an increasingly volatile global context.

Draghi's report sets out the four building blocks of the proposed industrial strategy. First, the report stresses the need for a full implementation of the Single Market. Second, the report calls for the alignment of industrial, competition and trade policies to ensure that they work together as part of a coherent strategy, with a focus on supporting sectors rather than individual companies. Third, massive investment will be essential to the success of the industrial strategy, which will require the mobilization of private finance. To achieve this, Draghi's report also advocates for the integration of Europe's capital markets, enabling high household savings to be channelled into productive investments within the EU.



*The report highlights the EU's weak productivity growth and the widening gap between the EU and US GDP levels*



The recommendations include achieving the highest level of harmonisation across the EU Single Market, ensuring coherence across different pieces of legislation. Indeed, the report highlights that despite the recent progress made inter alia on insolvency, regimes across Member States remain substantially unaligned. The report also points out that harmonising insolvency frameworks will be critical to remove fragmentation created by differing creditor hierarchies. Indeed, the report underlines that significant differences exist across countries in thresholds for insolvency, rules for proceedings, priorities of claims, and restructuring mechanisms.

Lastly, the report proposes reforming EU governance, improving coordination and reducing the high regulatory and administrative burdens that hamper the competitiveness of EU businesses. Draghi's report underlines how regulation is seen by more than 60% of EU companies as an obstacle to investment, with 55% of SMEs flagging regulatory obstacles and the administrative burden as their greatest challenge.

According to the report, investors cannot be envisaged to invest cross-border if there is no cross-border certainty about what happens if a company goes bankrupt. Therefore, further steps have to be taken towards a common, harmonised insolvency framework.

The report focuses on the General Data Protection Regulation (**GDPR**), Due Diligence Directive (**DDD**), and the Packaging and Packaging Waste Regulation (**PPWR**) to illustrate the difficulties businesses face complying with EU law, the gold-plating of legislation by Member States, and the proportionally higher regulatory burden faced by SMEs compared to larger companies.

Proposals to address these challenges include streamlining the EU acquis under a new Vice-President for Simplification. The report also calls on the EU institutions to refocus and apply a 'self-restraint' principle in policymaking by filtering future initiatives and streamlining the existing acquis of EU law. It also calls for a more active use of the subsidiarity principle by national parliaments to counter the Commission's legislative activity

which has been growing excessively over the years.

To accelerate the work of the EU, if action at the EU level is hindered or blocked by existing institutional procedures, the report recommends resorting to the possibility of enhanced cooperation foreseen by Articles 20 TEU and 329 TFEU where *"the objectives of such cooperation cannot be attained within a reasonable period by the Union as a whole, and provided that at least nine Member States participate in it."* As a last resort and in the clear absence of the required conditions to fall back on enhanced cooperation, intergovernmental cooperation should be considered.

*To be continued...* ■



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#### Footnotes:

- 1 The Future of European Competitiveness, Part A, September 2024: [https://commission.europa.eu/document/download/97e4816d-2dc3-412d-be4c-f152a8232961\\_en?filename=The%20future%20of%20European%20competitiveness%20-%20A%20competitiveness%20strategy%20for%20Europe.pdf](https://commission.europa.eu/document/download/97e4816d-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20-%20A%20competitiveness%20strategy%20for%20Europe.pdf)
- 2 The Future of European Competitiveness, Part B, September 2024: [https://commission.europa.eu/document/download/c1409c1-d4b4-4882-6bdd-3519866bb92\\_en?filename=The%20future%20of%20European%20competitiveness\\_%20In-depth%20analysis%20and%20recommendations\\_0.pdf](https://commission.europa.eu/document/download/c1409c1-d4b4-4882-6bdd-3519866bb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf)

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