EGMONT POLICY BRIEF 369

– JANUARY 2025 –

From Report to Reality: Moving Beyond Draghi's Vision

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On 6 December 2024, the Egmont Institute and the FPS Foreign Affairs organized a conference "From Report to Reality: Moving Beyond Draghi's Vision". Through a series of keynote speeches and breakout sessions, key Belgian governmental and non-governmental stakeholders discussed Belgium's position in restoring EU competitiveness. The deliberations were fed primarily by recommendations from Mario Draghi's "The Future of European Competitiveness" report, and by Enrico Letta's "Much More than a Market," and the Budapest Declaration on the New European Competitiveness Deal. This policy brief is a thematic synthesis of the key strategic takeaways of the conference.

INTRODUCTION

European competitiveness is a top priority for EU and Belgian policymakers. Despite a strong single market, a status as reliable trading partner, and a reputation for democracy and human rights, the EU's growth is slowing. In a rapidly changing world, it must renew its competitive edge to drive productivity, fuel sustainable growth, and secure future prosperity.

For Belgium and the EU, the stakes are high; both have strengths and assets, but as open market economies, they are also heavily dependent on their environment. For this reason, the EU must strive for an open strategic autonomy, but with an updated external economic policy – protectionism is not an option.

In this context, **Belgium needs to identify its own priorities**, forge opportunities and leverage its position at European level to stay competitive and thrive in this evolving landscape. The operational strategy to be prioritized by Belgian stakeholders should seek to address European and international challenges while respecting Belgium's economic framework, essentially based on small and medium-sized enterprises (SMEs). Assessing Belgium's strengths and priorities and putting them forward in EU policy development is essential to ensure a fair and common European approach.

The aim of this conference was to contribute to Belgium's positioning for promoting EU competitiveness through a comprehensive exchange of ideas among relevant Belgian stakeholders, including both governmental and non-governmental actors. It posed a unique opportunity to take stock of Belgium's expectations and priorities for the EU competitiveness agenda and highlighted the **urgent need** for Belgium and the EU to advance with concrete approaches in the road ahead. The informal and bottom-up approach of the dialogue allowed for mutual exchanges, facilitating the identification of operational recommendations, specifically on the four overarching themes of **reducing administrative burdens, furthering the full implementation of the single market, upscaling research and development (R&D) and innovation, and addressing skills and labor shortages**.

CLEAN INDUSTRIAL DEAL

The transition to a competitive, sustainable, and low-carbon future presents both an imperative and an opportunity for Europe's industrial transformation.

Belgium, as a leader in industrial and energy innovation, seeks to contribute to shaping this transformative agenda. The Antwerp Declaration on a New Industrial Deal, signed on 20 February 2024 during the Belgian Presidency of the EU, is testimony of the industry's involvement in shaping the EU agenda.

The Draghi report highlights a joint plan for competitiveness and decarbonization, translated to a Clean Industrial Deal pledged by President von der Leyen in the first 100 days of the new European Commission, as central to achieving Europe's dual objective of (re) industrializing and decarbonizing the EU economy. Here, Belgium has an opportunity to feed into what such a deal should entail and ensure its interests are reflected.

The decarbonization of industries currently faces several key challenges, particularly concerning the lack of integration in the European energy market. This lack of a truly integrated energy market has already led to vulnerabilities, particularly in the face of global energy crises and following EU sanctions on Russian gas. At their current rates, energy prices are too high to scale up production to levels which can compete with other global powers like the US or China. The EU must prioritize building a true, coordinated energy union to provide an accessible, affordable, and sustainable energy supply. This will require scaling up investments for decarbonization, including for the **expansion of infrastructure and electricity grids, carbon capture and storage (CCS) systems, and the promotion of domestic renewable energy**. This should be approached in a careful manner to ensure that an updated EU energy policy is compatible with the competitiveness agenda, such that decarbonization goals are met while also ensuring that energy costs are going down.

Another major challenge is the insufficient investment in research and development (R&D). The EU's funding for R&D is significantly lower than that of global competitors, leaving critical industries like semiconductors, batteries, and clean tech lagging behind. This gap is exacerbated by the EU's reliance on national budgets, which disadvantages smaller states like Belgium from integrating into large EU projects, despite promising efforts in high-tech industries like pharmaceuticals, chemicals, and biotechnology. Boosting R&D and innovation through efficient EU-level tools must be a priority, but this will be about more than just the money. However, for Belgium, which already invests a significant share of its GDP in R&D, the key lies not only in funding innovation but also in upscaling and facilitating its application.

Tackling the current skills gap across EU industries is another challenge, particularly in developing emerging technologies like AI, batteries, and electric vehicles. Attracting skilled talent to Belgium is vital. In the context of demographic challenges in Belgium and across the EU, significant efforts will have to be made to address skills and talent shortages by looking for solutions in education, upskilling, and labor migration.

Moreover, **trade instruments should also be taken into consideration**. For instance, the Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading System (ETS) provide tools for balancing green transition goals with industrial competitiveness. However, these instruments must be applied strategically. For instance, while CBAM can protect EU industries from carbon leakage, its current structure risks increasing export costs, highlighting the need for a more comprehensive approach that considers entire value chains.

Despite existing challenges, **Belgium has an innovative and diverse industry, a strong position in critical raw materials (CRM) value chains, and a geographic advantage**. These must continue to be leveraged for trade, investment, and energy.

Fostering a cooperative mindset and developing a common EU industrial policy, as opposed to the current fragmentation across Member States, is crucial. An example could be to better integrate waste markets for the purpose of further developing the EU's circular economy. Rather than trying to imitate models like those of the US or China, the EU should leverage its unique strengths and build resilience in its own configuration.

THE SINGLE MARKET AND A LEVEL-PLAYING FIELD

The Single Market is one of the European Union's greatest achievements, fostering economic integration and enabling businesses to thrive in a seamless trading environment. Its full implementation is a crucial building block and precondition for a competitive Europe. To date, however, it remains fragmented, especially in the area of services. In his report, Mario Draghi, in line with Enrico Letta's recommendations, affirms that the full implementation of the Single Market is a critical precondition for all building blocks for the New EU Industrial Strategy.

One of the key obstacles to overcoming fragmentation of the internal market is excessive administrative burdens and regulatory barriers. A crucial first step is thus to improve efficiency in administrative and reporting obligations, through the establishment of a centralized reporting entity— a "one-stop shop" — for businesses to manage regulatory requirements in a simplified and streamlined process. Additionally, Belgium is encouraged to propose efforts to reduce red tape for the sake of generating a more attractive environment for businesses. Simplifying financial schemes and reducing procedural delays are also prioritized to create a more business-friendly landscape. However, while reducing bureaucracy can foster competitiveness, caution is urged in sectors like telecommunications to avoid adverse effects such as market consolidation and inflated consumer prices, drawing lessons from international examples.

As an example, **the use of Important Projects of Common European Interest (IPCEI) can be a key instrument of boosting economic growth** using domestic resources while at the same time creating potential for cooperative European approaches. However, in view of past experiences a reform of the instrument will be required to create a more level playing field between EU Member States, using a stronger common EU framework and possibly EU funds. The lengthy and cumbersome procedures of getting approval must also be tackled to facilitate the participation of SMEs in IPCEI.

Similarly, **variations in national policies tend to affect fairness and transparency**. Here, it is necessary to **set clearer and uniform minimum standards for public procurement**. Further, a more flexible approach to **state aid** is recommended particularly for producers of components of necessary medicines in healthcare and biotech industries. At the same time, the consolidation of the currently fragmented **EU financing schemes** should be prioritized, as EU aid is preferable to national state aid to limit market distortions and maintain a level playing field with fair competition. Lastly, Member States should avoid imposing higher obligations than those of the EU, to steer away from gold-plating.

ECONOMIC SECURITY AND TRADE

Defending free trade and economic security is essential for strengthening EU's open strategic autonomy, fostering economic prosperity across all Member States and achieving the green and digital transitions.

For Belgium, adopting an EU trade policy based on a more pragmatic, tailor-made approach begins with a clear understanding of Belgium's national strategic strengths, weaknesses, and direct and indirect dependencies throughout value chains. A comprehensive mapping of specific trade interests per sector is essential to guide European decision-making and to enable the development of swift and tailored trade policies aligned with industrial strategy. This would allow for remedying the technological gap, consideration of the specific needs of the agricultural sector, and decision on where intellectual property rights must be protected. At the same time, tailor-made agreements should complement, not replace, comprehensive free trade agreements, to preserve the cohesion and competitiveness of the Single Market.

Given the increasing tension between trade relations and security risks, there is a need to develop a vision on a shared security culture, both within Belgium and at the EU level. When addressing risky strategic dependencies, it is crucial not to undermine the principles of open trade, which is fundamental to the Belgian and EU economy. Yet, trade defence tools such as FDI screening are expected to become even more important in the coming years to balance openness with security concerns. Trade, economic security and competitiveness policies can become contradictory if their perspectives aren't aligned in a comprehensive approach. A paradigm shift seems to be emerging and a shared vision between Member States to build consensus on how to strike the right balance is thus fundamental.

Economic security policies cannot come at the expense of open competition or the principles of the Single Market. The wrong implementation of financing measures, such as excessive subsidization or deregulation, also risks distorting competition and undermining the Single Market. A balanced approach is essential—one that keeps trade open while reducing risky strategic dependencies on foreign sources for critical needs, among others through the diversification of supply chains.

Belgium's vision for the way forward emphasizes a comprehensive economic security policy based on the three pillars of protection against risks, promotion of European competitiveness, and partnership with other countries to address shared interests. Strengthening Europe's economic security necessitates a framework that ensures fair competition and enables open strategic autonomy without compromising the dynamic forces that drive our prosperity.

FINANCING EUROPE'S GROWTH

Europe's full growth potential can only be reached by leveraging the required financing to fund it. Despite a high savings rate, the level of productive investment in the EU remains low and is not sufficient to meet the needs of the twin digital and green transitions, financing needs for R&D and expected defense expenditures. The Draghi report estimates the annual additional investment needs at between €750 and 800 billion, the majority of which is to come from private sources.

Institutional investors, including pension funds as an example, should be a primary point of focus when leveraging public funds to mobilize private capital. These not only have more funds at their disposal than retail investors but also have a more long-term outlook. In this regard, the example of the Scandinavian countries holds valuable lessons for Belgium.

When it comes to **private financial resources**, these are more than readily available, and several ways exist to motivate private actors to upscale investments. This can include using public funds as leverage, accompanying projects with the necessary expertise, making use of guarantees, and setting up public-private partnerships. One option could be to offer investors a single point of entry, as was the case, for example, in the healthcare sector with the EU Health Hub project. At the same time, government intervention remains crucial in cases of market failure.

There is certainly **room to create a European savings product**, but to be successful such a project would require tax incentives. Furthermore, the use of labels indicating how and where funds will be allocated can prove helpful.

The **banking sector can be an additional valuable contributor**, yet current regulations limit its scope. Revising securitization regulations can be one path towards freeing up funds, but it should be treaded carefully taking into consideration the lessons learned during the 2008 financial crisis. The aim should be to create a simpler and more coherent system, while avoiding lowering the bar.

In this regard, the **EIB can be encouraged to take higher risks in supporting businesses**. By taking up a leading role in investment projects, the EIB can send signals to the private sector to partake in investments. Moreover, lessons can also be drawn from proven derisking practices whereby development banks take up the *'first loss pieces'* of an investment project.

Finally, **leveraging by the EIB or the EU-Budget (InvestEU) has great potential**, but has so far not been sufficiently used in Belgium. Therefore, efforts could be made to increase the involvement of national promotional banks and institutions.

CLOSING THE GAP ON INNOVATION AND PRODUCTIVITY

R&D and innovation are the main drivers of productivity and people's well-being. Focusing on innovation is crucial to boost competitiveness, strengthen technological leadership, and close the gap with the US and China. The Draghi report considers research and innovation as one of the key drivers to rekindle EU's competitiveness, using the EU Innovation Action Plan as a framework to pave the way. Recommendations in the latter can be brought together with Letta's proposal for a fifth freedom for education, research and innovation in the Single Market.

Belgium has been a leader among Member States since 2021, having dedicated more than 3% of its GDP in R&D expenses, outnumbering the target set by the Lisbon Treaty. Yet, Belgian companies still struggle to take their innovations to the market and especially to scale up, for a variety of reasons. Similar to other EU-based innovative businesses, many Belgian companies tend to flee to the US at the scaling up phase, where the environment is better adapted in terms of access to capital and labour markets, and lower energy and production costs. Fragmentation of the Single Market is another barrier, as companies are sometimes required to establish legal entities in each Member State, posing a clear obstacle to benefitting from efficiency and market integration.

Transversal overregulation and early regulation are important barriers to innovation itself and to bringing innovation to the market. Evidently, regulations are in place for good political, societal, and ethical reasons, but do not always reach the target audience, and instead disproportionately hinder small-scale startups. What is needed is to find the right balance between precise targets to meet policy objectives and flexibility for businesses, particularly start-up companies.

The Single Market should be leveraged such that it offers growth opportunities for companies. Harmonization between Member States is essential to avoid harmful competition. The registration of a company in a Member State should lead to an automatic exchange of data between European countries and administrations, and here, increasing coordination and data exchange between Member States can help. Further, effective innovation thrives in clusters of research and businesses around shared EU projects, therefore a European approach should strive to overcome fragmentation and commit to fostering better synergy between traditional and innovative companies.

The digital transformation is a significant opportunity for enhancing innovation and productivity. Notwithstanding the lack of trust and understanding surrounding AI, Europe should be ready to capitalize on these tools and use them in a responsible manner. This approach can also be applied to address the need for improving technical support in the use of financing instruments, in particular for SMEs.

Financing should be more accessible and flexible, at both the Belgian and European level. Overall, greater financial resources should be available at all stages of the innovation process, but especially at market entry and towards the scaling-up phase, when risks are the highest. The development of a European venture capital market and capital risk mindset would support companies in these critical steps. It is also recommended that financial support for excellence in fundamental research be increased, with a particular focus on innovation in strategic sectors with spill-over effects on other sectors, such as clean tech. The ambition to ensure that Europe maintains its manufacturing capacities in certain critical technologies such as semiconductors, biotech or pharma should be prioritized in future financial schemes. However, it is strongly advised to choose a value-chain-oriented approach over a sectorial one. Furthermore, a future-oriented approach should be structured around providing innovative solutions for pressing societal challenges, notably those related to climate change.

CONCLUSIONS AND THE WAY FORWARD

The outcomes of the conference on 6 December highlight that **there are still many challenges to be addressed to unlock the EU's full competitiveness potential while preserving the European model**, but that the Draghi report effectively contains the roadmap outlining the necessary steps to be followed. While the European Institutions will be crucial for steering this agenda, a lot also depends on the willingness of the Member States to cooperate and commit to the deepening of a shared European vision.

In the way forward, **the Belgian vision for a comprehensive EU competitiveness strategy could be built on five pillars** which came up time and again in this paper:

- The first is the need for the **simplification of regulatory procedures**. Administrative burdens remain far too high a barrier to scaling up growth and production and must be simplified, though with caution to avoid deregulation detrimental to the objectives of the legislation, into a streamlined and centralized process.
- The second pillar, as also strongly emphasized in the Draghi report, is **the full implementation of the Single Market**. Without a harmonization of rules and a true commitment to creating a level playing field, the EU cannot effectively compete as a unified actor on the global stage. Practices like gold-plating must be avoided and the provision of state aid must not jeopardize fairness in the internal market. Concerning the latter, greater flexibility for state aid regulations could be introduced for certain sectors, e.g. healthcare and biotech, but the general approach should be to favor EU aid over national state aid.
- Third is **the need to strike the right balance between further diversifying supply chains** through a strengthening of our strategic trade relationships, and **the assertive protection of our own industries** through trade defense measures.
- Fourth, **increasing funds for investment is imperative**. Access to capital must be facilitated and investors incentivized to allocate the necessary funds for R&D and address the EU's struggle to bring innovation into the market due to a lack of capital.
- Finally, as the fifth pillar of this vision, **skills are indispensable in driving productive growth and competitiveness**. The EU must adopt an approach to skills which is future-oriented to address skills shortages emerging from demographic changes, as well as the digital skills required for the digital transition. Strategies should be developed to attract and retain qualified workers through education and migration pathways, to not only address labor and skills shortages, but also ensure that upskilling and re-training can support those facing unemployment in the twin transitions.

For Belgium, another strong priority is the commitment to maintaining balance in the triangle between competitiveness, sustainability, and social well-being. Belgium's contributions during its presidency of the Council of the EU, particularly its role in the Antwerp Declaration, the La Hulpe Declaration, and the Letta report, are testament to the country's dedication to being a leader in upholding this solidarity and balance. Ultimately, Europe must continue to strengthen and uphold solidarity as this is our strongest asset as a global competitive actor.

The next steps must now be for Belgium to thoroughly map its strengths and its priority sectors, as other Member States are already doing, and advocate for their interests and positions more strategically in EU policy development.

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