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NOTE

From:	Permanent Representatives Committee (Part 1)
To:	Council
Subject:	The 2024 Annual Single Market and Competitiveness Report - Presidency note for discussion

Delegations will find attached a note from the Permanent Representatives Committee (Part 1) for discussion on the 2024 Annual Single Market and Competitiveness Report, with a view to the Competitiveness Council on 7 March 2024.

ANNEX

The 2024 Annual Single Market and Competitiveness Report[1]

Presidency note for discussion

I. Context

Thirty years ago, President Jacques Delors initiated the EU's most ambitious and successful achievement: the Single Market. We owe it to him to handle his legacy carefully and adapt it to a new geopolitical reality.

Article 3(3) of the Treaty on European Union clearly states the Single Market's ambition: "*The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of* the quality of the environment. It shall promote scientific and technological advance."

Preserving what has been achieved and progressing further is not a given. It requires constant analysis and debate. The first Annual Single Market and Competitiveness report (ASMCR) released by the European Commission on 14 February 2024 feeds this discussion, as requested by the March 2023 European Council. As agreed by the Competitiveness Council last June, there should be a regular follow-up at ministerial level to this annual reporting exercise. The topic of the Single Market and Europe's competitiveness is high in the political agenda. It will also be addressed by the Heads of States and Governments at their meeting April.

The 2024 ASMCR is accompanied by:

- Two Staff Working Documents presenting detailed info on key performance indicators and the findings of the European Monitor of Industrial Ecosystems;
- The 2024 Single Market and Competitiveness Scoreboard;
- The 2022–2023 Single Market Enforcement Taskforce (SMET) report.

[1] ST 6622/24 + ADD 1-2

II. The key findings of the report

The report recalls that the Single Market is one of the world's largest integrated market areas, and that it boosts the EU's economy with a large demand pool, diversified supply sources, opportunities for innovating and scaling up production, strong social rights, and fair working conditions, while serving as a geopolitical lever.

The report details Single Market's strengths and challenges, tracking yearly developments according to the 9 competitiveness drivers identified in the EU's 2023 Long-term competitiveness Communication: (1) Functioning Single Market; (2) Access to private capital; (3) Public investment & infrastructure; (4) Research & innovation; (4) Energy; (6) Circularity; (7) Digitalisation; (8) Education & skills; and (9) Trade and open Strategic Autonomy. For each of these drivers Key Performance Indicators were developed.

The key findings of the Commission's analysis per competitiveness driver are:

- **Functioning Single Market**. Trade integration in goods in the EU has more than doubled in the last 30 years, confirming that the Single Market has provided the EU with a strong economic base. In 2022 integration reached respectively 26.3% of GDP for goods (up from 23.5% in 2021) and 7.5% for services (up from 6.6% in 2021). Efforts to modernise enforcement and cooperation with Member States, as outlined in the *Communication on the Single Market at 30*, is bearing fruit. For instance, the Single Market Enforcement Taskforce (SMET) has helped eliminating many barriers (including 60% of the 170 process-related barriers for wind and solar energy projects), while the percentage of incorrectly transposed directives (1.2%) has improved in 2023. Preventive tools such as Single Market Transparency Directive and the ex-ante assessment of new restrictions in national regulation of professional services were reinforced (MS committing to remove 301 prior checks for professions "where not proportionate"). Initiatives such as the Single Digital Gateway, the Internal Market Information System (IMI) and the Interoperable Europe Act are easing regulatory compliance. However, the report points to the needs to step up enforcement of agreed rules, and to simplify their implementation at EU and MS level. Following last year commitment to reduce administrative burden by 25%, the Commission has already planned for 2024 measures that will save business more than EUR 2.5 billion.

Single market policy is also adapting to the digital reality through initiatives such as the Digital Markets Act, the Digital Services Act, the Data Governance Act, the Data Act and the AI Act.

The Internal Market Emergency and Resilience Act (IMERA) will prevent market disrupting actions in critical situations.

Single market policy is preparing the enlargement of the EU. Most candidate countries are now associated to the Single Market Programme and the Digital Europe Programme. Roadmaps for the enhanced implementation of the Deep and Comprehensive Free Trade Areas with Ukraine and Moldova have been agreed for 2023-2024.

- **Access to private capital**. *Private investment* (19.3% of GDP in 2022, up from 18.7% in 2021) has held up well since the financial crisis compared to other international players. However, despite improved EU capital markets, the availability of risk capital, such as venture capital (only 0.08% of GDP in 2022 and at lower levels than in 2021), remains insufficient for the scaling up of innovative companies and to finance future growth. To increase the availability of risk and venture capital funding and scale up innovative companies, the report recommends to further strengthen the Capital Markets Union, building on the initiatives already approved since 2020. Member States, private stakeholders and the EU institutions must keep working together on the CMU, including by ensuring larger pools of private capital, such as pension funds.

- At 3.2% of GDP in 2021 and 2022, *public investment* in the EU recovered from the low levels after the financial crisis, also thanks to the Recovery and Resilience Facility and other EU funding as well as Important Projects of Common European Interest (IPCEI). Yet financing the green and digital transition requires additional funding sources at European level. The report points out public procurement as an instrument to prioritise sustainability, resilience, innovation, socially responsible practices and strategic autonomy. Targeted instruments such as the Net-Zero Industry Act, the Chips Act and the Critical Raw Materials Act will also play an essential role for key sectors through a mix of regulatory action and funding.

- **Research & innovation**. In the 20 years to 2021, the EU's R&I investments increased from around 1.8% of GDP to 2.2%, although slightly down from 2.3% in 2020, and Europe remains a scientific powerhouse. Yet, this does not always translate into industrial and commercial leadership, notably due to difficulties in scaling up business activities. Therefore, the report underlines the necessity to further prioritise research efforts around the EU's long-term needs, to translate fundamental research into business applications and sustain scale-up of businesses in strategic areas.

- **Energy**. With a 32.5% reduction in greenhouse gas emissions since 1990 and a 23% share of renewable energy in 2022 (up from 21.7% in 2021), the EU confirms its world leadership in the transition towards a clean energy system. Over the last five years, the EU has massively updated its energy policy toolbox to meet the European Green Deal objectives, including in terms of its industrial plan. But more will be required, notably through action at Member States' level, to facilitate the deployment of decarbonised electricity, its integration into energy grids and increase the manufacturing of net-zero technologies.

- **Circularity**. Europe is slowly progressing towards a more circular economy. The rate of use of secondary raw materials is slightly down (11.5% in 2022, from 11.7% in 2021) and less than half of the aspirational target agreed for 2030. There is significant untapped potential, with unsustainable consumption and related production remaining key bottlenecks to circularity. Member States could promote sustainable material consumption by supporting the industrial use of secondary materials. Recently adopted or politically agreed legislation, such as the Critical Raw Materials Act and the Ecodesign for Sustainable Products Regulation, creates a strong business case for more circularity in the EU. But to ensure its effectiveness, Member States need to strengthen the market surveillance of product regulatory requirements linked to circularity. Up- and reskilling the workforce will also be of crucial importance to realize the circularity objectives.

- **Digitalisation**. In 2022, the share of SMEs with at least a basic level of digital intensity in the EU was on average 69.1%, to be compared to the 90% 2030 target. Achieving the 2030 policy targets still requires collective efforts and Member States' careful implementation of the Digital Decade Policy Programme. Given the drastic decrease of EU share in global information and communication technology industries (from 21.8% in 2013 to 11.3% in 2022), the EU has taken important policy measures to reduce strategic dependencies and invest in strategic digital technologies such as chips, cloud services, AI and quantum computing. Member States are expected to align strategies to build industrial capacity in these areas, also using joint governance tools like the European Semiconductor Board.

- **Education & skills**. With a 75% employment rate in 2022, the EU is on track towards the 2030 target of 78%. At the same time, three quarters of SMEs currently face *skills shortages*, while the green and digital transition create demand for new skills requiring up- and re-skilling of the workforce. Through the Pact for Skills, and through the specific partnerships set out in each of the 14 industrial ecosystems, the EU is contributing to the required up- and reskilling of millions of workers across the industrial ecosystems. The skills academies proposed under the Net-Zero Industry Act could further contribute to this goal. More effective and targeted use of EU funds for investment in education and skills at national level, for instance in order to support actions under the Pact for Skills and net-zero skills academies, can help achieving progress in aligning education and training with skills demand.

- **Trade and open Strategic Autonomy**. Accounting for 16% of global exports, the EU plays a major role in trade and is a strong promoter of open and rules-based trade. Trade in goods has increased and accounted for 17.6% of the EU GDP in 2022. At the same time, new risks arising from increased geopolitical tensions and asymmetric dependencies have led the EU to take new steps towards supply diversification, building manufacturing capacity in critical areas and reinforcing our economic security toolbox to defend a level playing field. This can only be achieved through a combination of policy actions. While reinforcing multilateral cooperation and open trade, the EU should build a modern network of trade agreements, partnerships and alliances. The EU should not hesitate to use trade defence instruments when necessary to safeguard economic security. The resilience of the strategic value chains and the risks in the field of economic security must be continuously monitored. Coherence with strengthening European industrial capacity in strategically important areas must be monitored, including by the Semiconductors Board, the Critical Raw Materials Board and the Net-Zero Europe Platform. Finally, efforts should be made to diversify supply chains through partnerships between the EU and friendly countries in areas such as critical raw materials.

In short, the main areas for maintaining and improving the EU's global competitiveness identified in the report are:

- Reducing red tape;
- Deepening the capital market and facilitate access to private funding;
- Continuing public investments, including through the timely use of Union funds;
- Translating research results in practical business applications;
- Address energy costs through accelerated deployment of decarbonised energy and investment in infrastructure;
- Closing the skills and labour gaps;
- Promoting fair and open trade and employ trade defence instruments when necessary.

This exchange of views will be complemented by the publication of Enrico Letta's upcoming High-Level Report on the future of the Single Market and Mario Draghi's Report on the future of European competitiveness.

III. **Questions for discussion**

- The European Commission has built its analyses around 9 drivers for competitiveness. Which drivers do you consider most important, including for SMEs? Based on your own experience, can this analytical framework be improved? Do you see other or different KPIs to measure those drivers?
- How can we prevent the measures taken to strengthen the EU's open strategic autonomy, including at Member States level, from leading to distortions and compromising the level playing field within the single market?
- In your opinion, what should be new areas for the Single Market Enforcement Task Force (SMET) to focus on?