Council of the European Union

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| From: | General Secretariat of the Council |
| To: | Permanent Representatives Committee (Part 1) |
| Subject: | Work Programme of the Working Party on Competitiveness and Growth (High Level)<br>- Approval |

1. On 31 October 2014, the Permanent Representatives Committee approved the establishment of a High-Level Working Group on Competitiveness and Growth (HLG) with the mandate to "*monitor the state of Single Market integration and discuss the policy priorities set out in the relevant documents, including within the European Semester*" and "*support the Council in its reinforced role of monitoring and mainstreaming competitiveness, in particular industrial competitiveness*"[1]
The Committee agreed on arrangements concerning the membership of the HLG, the appointment of its chair and its work programme. In particular relating to the work programme, the Committee agreed that *"in order to align the COMPCRO HLG's agenda with the Trio Presidency Programme of the Council, the High Level Working Group will have a work programme, with a duration corresponding to the 18-month Trio Programme, taking into account the Commission's work programme, and which will be submitted for consideration and approval to the COREPER*".

[1] Doc 15006/14.

2. According to the above agreement, the current Trio Presidency Poland, Denmark and Cyprus appointed the chair and vice-chairs of the group and prepared a work programme for the period from January 2025 to June 2026, which was sent to the Member States for comments.

3. At the meeting of the HLG on 13 February 2025, the Member States expressed broad support for the above work programme, exchanged views and commented on the priorities reflected in it. Following the exchange of views, the work programme was deemed endorsed and is now submitted to COREPER for consideration and approval.

4. The <u>Permanent Representatives Committee</u> (Part 1) is invited to consider the work programme of the COMPCRO HLG for the period from January 2025 to June 2026, as set out in the Annex, and approve it.

**ANNEX**

**Work Programme for the Working Party on Competitiveness and Growth (High Level)**

**by the PL-DK-CY trio**

# I. INTRODUCTION

In the face of new geopolitical realities, the European Union is committed to acting decisively to ensure its long-term competitiveness to the benefit of European citizens and businesses. This will require an integrated approach across all policy areas to increase productivity and sustainable and inclusive growth throughout Europe, build a robust, innovative and resilient economy and advance Europe's unique social and economic model that will boost the Union's competitive transition towards digital sovereignty and towards climate neutrality.

To achieve our shared goals, the European Council has in April 2024 called for a new European competitiveness deal, anchored in a fully integrated Single Market. This will require efforts at both Union and Member State levels and across policy areas to reduce the growth, productivity and innovation gaps between the Union and its international partners and main competitors.

The European Council has also, in its April 2024 conclusions, listed nine competitiveness drivers that should be part of the new competitiveness deal laying out a holistic and cross-cutting programme of work covering 1) Single Market 2) Capital Markets Union 3) Industry 4) Research and Innovation 5) Energy 6) Circular Economy 7) Digital 8) Social and 9) Trade.

The Competitiveness Council (COMPET), at its meeting on 24 May 2024, further expanded on the need to increase Europe's competitiveness in its conclusions on "A competitive European industry driving our green, digital and resilient future" as well as its conclusions on "A Single Market for the benefit of all".

The EU leaders, at their informal meeting on 8 November 2024, adopted the Budapest Declaration on the New European Competitiveness Deal. They highlighted the urgent need and determination to boost EU competitiveness making the EU the first climate-neutral continent in the world and ensuring the EU's sovereignty, security, resilience and global influence, and to make the Union more competitive, productive, innovative and sustainable, building on economic, social and territorial cohesion, and ensuring convergence and a level playing field within the Union and globally. They also called for decisive and collective action on a number of competitiveness drivers.

To this end, the role of the Working Party on Competitiveness and Growth (High Level) (HLG) during the PL-DK-CY trio presidency will be centred around:

- Producing strategic advice to the COMPET Council, in particular in the context of expected debates at its meetings, on how to strengthen the long-term competitiveness of the European Union focusing on the nine competitiveness drivers listed by the European Council.

- Providing policy signals to the Commission on strategic and horizontal issues related to European competitiveness and contributing to the mainstreaming of competitiveness across all relevant policy areas, including in the context of expected initiatives (e.g. Clean Industrial Deal, Competitiveness Compass, Competitiveness Coordination Tool). European competitiveness is an issue that remains not only within the competences of the COMPET Council, hence it will be necessary to take into account the perspectives of different Council formations. To this end, the HLG will make an effort to move away from silo competence thinking and engage in discussions with high-level forums operating within other Councils (e.g. Trade Policy Committee - full members, Economic Policy Committee, European Research Area and Innovation Committee (ERAC)).

- Engaging with external stakeholders to ensure that policy development is grounded in the needs of companies, consumers and other stakeholders.

The Council's ambitions for European competitiveness are high and still increasing. Consequently, the HLG must also increase its ambitions to continue to fulfil its role. The core objective of the work programme is to lay the foundation for focused discussions that provide clear and valuable outputs. The work programme of the PL-DK-CY Trio (the Trio) reflects an analytical approach to the prioritisation of problems most relevant for HLG discussions (Annex I). The success of the HLG relies on its members' openness to new perspectives and ideas, as well as their motivation to engage in challenging discussions.

The specific meetings of the HLG will focus on challenges of strategic importance for Europe's long-term competitiveness. The work programme therefore contains a high-level outline of the challenges that the HLG can use as a starting point for its discussions. This outline is inspired by relevant conclusions and reports from EU fora including the European Council, the COMPET Council, the DG GROW Chief Economist Team and the Chief Economist Network with Member States, the "Much more than a market" report by Enrico Letta, the "The future of European Competitiveness" report by Mario Draghi and "Safer together. Strengthening Europe's Civilian and Military Preparedness and Readiness" report by Sauli Niinistö.

The discussions of the HLG will be data driven to provide actionable and impactful guidance that can deliver real value for citizens and businesses. The data will be drawn from existing analyses including the Draghi report, the Annual Single Market and Competitiveness Report as well as notes prepared by the Chief Economist Network for the HLG and analysis prepared by the rotating Presidency. This will also allow us to compare EU performance against global competitors and differences between Member States within the EU.

## II. THE STATE OF THE EU'S COMPETITIVENESS

The European Union is one of the three major economic regions of the world, with the trade in goods and services with the rest of the world representing 16.2% of world trade. However, since the year 2000, the European economy has developed at a slower pace than other major economic regions. A declining share of the global economy presents a significant challenge in an era of increasing geopolitical rivalries, which are progressively disputed through economic means, and underlines that dependencies can become vulnerabilities. Instability and protectionist trends hamper the competitiveness of European businesses and a fast-pacing technological uptake by countries such as the US and China means that our productivity is increasingly lagging behind. We need to respond to these challenges for the EU to remain relevant at the global stage and defend our core values and prosperity. There is an urgent need to define a strategic direction for Europe's long-term competitiveness, with a focus on emerging digital and green technologies that will be vital for future growth, economic security and preserving for social inclusion. Technology must become an asset, not a vulnerability.

According to Mario Draghi "Europe's need for growth is rising". His report contains a comprehensive analysis of the state of European competitiveness. It is a wake-up call for Europe, which is falling behind our global competitors. Our productivity growth is slow, our businesses are burdened with regulation, we have weak positions in the growth sectors of today and tomorrow, including in digital technologies, and we are losing ground in traditionally strong European sectors such as automotive, chemicals, life sciences and clean tech. At the same time, our economic model, which is founded on a rules-based international trading system, is challenged in a time of increased geopolitical fragmentation. Recent crises have demonstrated that Europe relies too heavily on a few foreign suppliers of certain raw materials, energy imports and critical goods, and is therefore vulnerable to the weaponisation of such dependencies by exporting countries. Some challenges vary across Member States, but many are common.

The following examples illustrate some of the challenges to the EU's competitiveness, also identified in the Draghi-report.

Gross National Income per Capita in the EU is still high in a global comparison, but it is significantly lower than in the US. Since 2010 this income gap has been widening, while China has been catching up. This indicates that we need to adapt to changing global circumstances to preserve and progress our competitiveness and prosperity.

Average productivity growth in the EU has been weaker than in other major economies, leading to an increasing gap in productivity levels vis-à-vis the US. US productivity per hour is both significantly higher and has been growing at a faster pace compared to the EU. In addition, the average annual working hours in the European Union are lower than in the US – a gap that has been increasing since 2000, despite the average annual working hours in the US also declining slightly.

Productivity developments are linked to net investments, where the EU since 2000 has witnessed a significant drop as a percentage of GDP, and the EU has since 2010 consistently invested less than the US. This also indicates that the European economy is seen as a less attractive place to invest for global investors. This conclusion is further reinforced by the fact that stock market values in Europe since 2010 have experienced significantly lower growth than stock market values in the US, with market capitalization doubling in the EU, while more than quadrupling in the US.

As these findings as well as the broader analysis in the Draghi report illustrate, the European competitiveness challenge did not arise overnight. This, combined with an increasing hostile external economic environment, underlines the importance of renewed and holistic efforts to strengthen Europe’s competitiveness, both building on our strengths and eliminating our weaknesses, including those identified in the Draghi report.

## III. COMPETITIVENESS DRIVERS AND BARRIERS

To improve European competitiveness we must systematically identify and address the main drivers and barriers of competitiveness. The European Council has listed nine key drivers of competitiveness, while the Draghi and Letta reports have identified a number of concrete barriers. The Trio wants to focus the efforts of the HLG on three particular categories of barriers:

1) *Fragmentation.*

We define this as a need for further harmonization and coordination across Member States. Otherwise, European businesses are exposed to higher costs, have problems with scaling up and trade across borders in the EU. Fragmentation refers to differing national rules, different implementation and interpretation of EU rules, and insufficient implementation of EU initiatives.

2) *Regulatory complexity.*

We define this as overlap, inconsistency, inefficiency as well as lack of clarity and proportionality in EU-level regulation and procedures which makes compliance unnecessarily burdensome and costly, in particular for SMEs. It refers to incoherent, duplicative and/or overburdening reporting requirements, overlapping regulations, and long approval processes.

3) *Limited resources for innovation and production.*

We define this as the lack of access to input such as capital and human resources which makes it difficult to produce in the EU. It includes the lack of public and private investments, raw materials, stable and affordable energy, infrastructure and skills. This also refers to the impact different policy options considered in this context have on the level playing field in the Single Market and globally.

The Trio views these barriers as horizontal in the sense that they are relevant to all nine competitiveness drivers listed by the European Council. To help prioritize and narrow down the challenges for the HLG discussions, the Trio has developed an analytical framework for the HLG's conceptualization of competitiveness (Annex I). The framework compares the three horizontal barriers to the nine competitiveness drivers. This comparison is then used to specify which aspect of the relevant driver will be the focus of the discussion. In other words, the framework can help zoom in on the particular challenge that the HLG discussion can help solve. The rationale is that challenges, relevant for the HLG, can be identified in the intersection between the drivers of competitiveness and the barriers for competitiveness.

This work programme reflects the Trio's prioritization of the challenges that are the most relevant for the HLG, based on the current outlook of the new policy cycle and the relevant expected policy initiatives the discussions can feed into. However, new challenges can be prioritized based on new knowledge or political developments.

## IV. PRIORITIES OF THE HLG

The Trio will prioritize discussions on challenges where the HLG can help explore opportunities for long-term solutions. The challenges are divided into three avenues of action depending on which of the horizontal barriers the challenge relates to: 1) promoting Single Market integration and coordination, 2) promoting a simple regulatory environment, 3) promoting access to financial resources and critical supplies.

The overarching objective of all three avenues of action is to strengthen the EU's global competitiveness while advancing the green and digital transitions.

### 1. Promoting Single Market integration and coordination

The first challenge is ***how to remove barriers for the cross-border trade of goods and services*** i.a. through more harmonisation and an increased use of digital tools, the enhanced application of the principle of mutual recognition as well as addressing barriers arising at the national level including uneven application of the four Treaty freedoms. These obstacles are especially problematic for the services sector, even though it has the most significant untapped economic potential according to the Commission's estimates, at the same time workers' rights should be ensured. As input for the COMPET Council policy debate on the horizontal strategy for the Single Market, the HLG will discuss how to address the services sector in the strategy through dedicated roadmap with timelines and milestones for urgent and concrete actions. The HLG will also engage the Commission in dialogue about how to strengthen the collaboration with Member States on implementing, interpreting and enforcing EU rules to avoid delayed, incomplete or unnecessarily burdensome implementation.

The second challenge is ***how to bring in a business and competitiveness perspective to the cross-cutting efforts in bringing down energy prices i.a. through the integration of the Internal Energy Market***. The prices of energy and its sources pose challenges for companies' competitiveness on global markets. The disparity in energy prices between global actors, identified in the Draghi report, will make it very difficult for European industrial production to regain competitiveness in areas that were recognized years ago as the engine of EU development – such as energy intensive industries, clean technologies or electromobility. Both Letta and Draghi have put the EU's fragmented energy market among the root causes of the high energy prices in the EU. Moving towards a true single market for energy will require closer cooperation and coordination across the relevant policy areas as well as investments in the energy infrastructure necessary to link supply and demand. The HLG will invite other Council formations, such as TTE (Energy), and the Commission to a dialogue about how to ensure effective coordination and stakeholder engagement in the efforts to address bottlenecks in the roll out of energy production and infrastructure, including cross-border projects. The dialogue should also focus on how to boost the supply and demand for nascent energy vectors like hydrogen and hydrogen-derived fuels. The cooperation with other Council formations will be necessary, also taking into account future initiatives of the European Commission, including the Clean Industrial Deal.

### 2. Promoting a simple regulatory environment

The first challenge is ***how to simplify and streamline EU regulation***. There is a need for a dedicated focus on simplification across policy areas in order to reduce the cumulative burden on companies, in particular on SMEs and mid-caps, caused by EU regulation. This is well reflected in the new Commission's declared objective to make Europe simpler and faster. The challenge will be to simplify EU regulation and ensure that the policy objectives that the regulation serves, including high social and environmental standards, are still met – especially considering the sheer volume of regulation. The HLG will help identify which existing regulations could be reviewed, simplified, and digitalised, and engage in dialogue with the Commission about how to prioritize them. The HLG will also contribute to the debate about how to implement better regulation principles during negotiations in the Council which can prevent disproportionate burdens on companies and public administrations.

The second challenge is ***how to simplify and streamline EU investments in strategic areas***. The HLG agrees that public and private investments in strategic areas will continue to play a central role in financing our long-term competitiveness. The EU has already set aside substantial amounts of funding at EU and national level, for instance for the green transition. However, Draghi points out that the effectiveness of EU's collective spending is hampered by complexity and rigidity. Draghi singles out the fact that the EU has close to 50 spending programmes. The issue is not only the lack of funding, but also that access to existing funding is too difficult, overly bureaucratic and not flexible enough for companies, in particular SMEs and mid-caps. Given that EU spending programmes are managed by different Directorates-General and cover different strategic priorities/sectors, the HLG could provide strategic advice on how to simplify and streamline the EU's funding priorities and application processes to make it easier for companies, including SME's. This should not pre-empt negotiations on the structure and volume of the next MFF.

The third challenge is ***how to use digital tools and data sharing to reduce the compliance costs*** of businesses and administrations and to support the digitalization of the economy. While the potential of digitalization and data sharing to reduce burdens is broadly accepted, it is less clear how this should be done in practice. The HLG will discuss best practices in Member States in order to contribute to the debate on how to ensure that regulation is fit for digitalisation from the start, supported by the right standards, and that the building blocks required for the safe and secure transfer of data between business and authorities are in place. The HLG will also identify areas where the use of digital tools and data sharing can deliver significant benefits for companies, in particular SMEs and mid-caps, in areas such as sustainability reporting. The discussions will also be relevant for the European Data Union Strategy.

The fourth challenge is ***how to speed up market access for innovative technologies***. In light of increased global competition to develop and produce key technologies, it is necessary to consider where and how EU legislation can be more research and innovation friendly so that the EU does not lose out on competitive advantages or risks undermining our economic security. The HLG will thoroughly assess and help identify actions to ensure that regulatory frameworks are optimal for innovative technologies with a focus on getting products from the lab to the fab and, crucially, faster to the market, for instance by taking product categories, definitions and risk assessment into consideration. A specific focus could be on sensitive sectors as identified by the European Council in its Conclusions of 17-18 April 2024.

The fifth challenge is ***how to speed up permitting procedures for the planning and deployment of energy and raw materials projects***, ***including for the relevant extraction, refining and manufacturing facilities***. Uncertainty and national differences related to permitting procedures and the application of environmental EU legislation hamper the roll-out and deployment of renewable energy in Europe. The HLG will examine the possibility of the Commission to deliver clearer and more accessible guidelines on the interpretation of regulations, including guidelines on methodology and projects by other forums, in particular SMET. The aim is to identify solutions, in particular through digitalisation, to clarify and simplify rules at EU level in order to speed up permitting procedures, without compromising environmental objectives.

### 3. Promoting access to financial resources and critical supplies

The first challenge is ***how to increase the mobilisation of private capital.*** As public funds are limited, the EU needs to mobilize private capital on almost every level – from venture capital to scale-up companies to financing large-scale projects. Working on the Savings and Investment Union will be crucial in this regard. In Commission President von der Leyen's Political Guidelines it is stated that completing the Capital Markets Union (CMU) could attract an extra EUR 470 billion per year. To turbo-charge investments, the HLG will discuss how to increase private investments in strategic technologies and ensure that we use the EU budget to leverage and de-risk private investments in strategic goals in dialogue with other Council formation, in particular the ECOFIN Council formation.

The second challenge is ***how to promote greater risk appetite in public financing without undermining the level playing field within the Single Market***. To close the investment gap, we also need public financing with greater risk appetite to complement and mobilise private market-driven investments. An increased orientation towards high-risk emerging technologies and disruptive innovations could promote new sectors which are crucial for future growth, economic security and resilience. Similarly, a greater appetite for risk-sharing in traditional sectors, which are also vital for Europe's growth, could accelerate capital intensive investments in the decarbonization of Energy-Intensive Industries while maintaining their competitiveness. This points to the need for a balanced and effective State aid framework to safeguard the level playing field and to avoid any risk of fragmentation and market distortions. This also includes an effective and inclusive use of the Important Projects of Common European Interest (IPCEI) as a valuable instrument for European industrial policy to enable all Member States to cooperate to foster innovative projects and bring them to the market, as well as a debate on the role of promotional banks such as the EIB. Draghi emphasizes that the EU's current approach to public financing risks undermining the Single Market. At the same time the Council conclusions on "A competitive European industry driving our green, digital and resilient future" stress that a subsidy race among Member States would be harmful for the Union as a whole and should therefore be avoided. They also stress the need to simplify and accelerate the state aid notification procedures. The Draghi report states that the EU budget is constrained by too little appetite for risk. For example, the report argues that InvestEU and the EIB Group are still insufficiently oriented towards risk absorption. The HLG will discuss how public investments can help to mobilise private-driven investments without adverse consequences for the level playing field in the Single Market.

The third challenge is ***how to reduce critical dependencies while limiting the associated costs.*** The HLG should help identifying the value chains that are truly critical for the EU's competitiveness and economic security. The focus should be on prioritising our limited resources on mitigating dependencies around critical value chains. To help scope and focus the discussion, the DG GROW Chief Economist Team has developed a methodology to identify strategic dependencies and monitor supply chain distress. In addition, as part of the European Economic Security Strategy, the Commission is undertaking risk assessments with the Member States related to the resilience of supply chains, security of critical infrastructures, technology security and technology leakage, and weaponisation of economic dependencies or economic coercion, which will contribute to a better identification of economic security risks and development of risk mitigation measures. The Draghi report also suggested to distinguish between various types of industries, and develop dedicated toolboxes for strategically important industries, industries of significant economic importance, and industries with high growth potential. Mitigating critical dependencies can be done using an array of tools. The HLG should discuss which of them would be appropriate to consider in relation to various types of dependencies. Dependencies vary in their level of criticality and in terms of the characteristics of the various value chains. The appropriate risk mitigation tools should be adapted to these variations.

## ANNEX I – COMPETITIVENESS FRAMEWORK

<table>
<tr><td></td><td colspan="3">Barriers to competitiveness</td></tr>
<tr><td>Drivers of competitiveness[2]</td><td>Fragmentation<br><br>Lack of harmonisation and coordination across Member States</td><td>Regulatory complexity<br><br>Overlap and inconsistency in EU-level regulation</td><td>Limited production resources<br><br>Insufficient access to inputs, capital, human resources etc.</td></tr>
<tr><td>1) Single Market<br><br>[Unrestricted movement of goods, services, capital and people]</td><td>How to remove barriers to the cross-border trade of goods and services.</td><td>How to simplify and streamline EU regulation.</td><td></td></tr>
<tr><td>2) Capital Markets Union<br><br>[Access to private capital in all Member States]</td><td></td><td></td><td>How to increase the mobilisation of private capital.</td></tr>
<tr><td rowspan="2">3) Industry<br><br>[Effective industrial policy to develop the Union’s competitive edges]</td><td rowspan="2"></td><td>How to simplify and streamline EU investments in strategic industries.</td><td rowspan="2">How to promote a greater risk appetite in public financing without undermining the level playing field within the Single Market.</td></tr>
<tr><td>How to speed up market access for innovative technologies.</td></tr>
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[2] Based on the European Council conclusions of April 2024.

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| | | | How to reduce critical dependencies and eliminate risks in value chains while limiting the associated costs. |
| **4) Research and innovation**<br><br>*[An innovation-friendly environment that accelerates commercialization and market uptake]* | | | |
| **5) Energy**<br><br>*[Abundant, affordable and clean energy to secure European energy sovereignty and climate neutrality]* | How to bring in a business and competitiveness perspective to the cross-cutting efforts to integrate the Single Market for energy. | How to speed up permitting procedures for energy projects. | |
| **6) Circular economy**<br><br>*[Circularity and resource efficiency to reduce resource dependencies]* | | | |
| **7) Digital** | | How to use digital tools and data sharing to reduce compliance costs. | |

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| *[Digital transformation of businesses, government and society]* | | | |
| **8) Social**<br><br>*[High-quality jobs throughout Europe, increased labour market participation and lifelong learning]* | | | |
| **9) Trade**<br><br>*[Ambitious, robust, open and sustainable trade policy that defends the EU's open strategic autonomy]* | | | How to reduce critical dependencies and eliminate risks in value chains while limiting the associated costs. |