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Views on Mario Draghi's report: "The future of European Competitiveness"

The Confederation of Swedish Enterprise welcomes Mario Draghi's report on the future of European competitiveness. The report paints a grim economic picture, and we share Draghi's analysis that Europe must address the need for boosting productivity growth. However, Europe is in many ways still a leading economy, and there are reasons to be optimistic about Europe's economic prospects, provided the right policies are pursued.

Draghi's proposal for an EU competitiveness strategy for the future contains both new and old proposals and takes as its starting point the need to address three major transformations: to accelerate innovation, to bring down high energy costs while continuing to decarbonise and shift to a circular economy, as well as to also react to a world of less stable geopolitics. The call for significantly raising investment levels is a central and cross-cutting theme.

While Draghi identifies Europe's competitiveness challenge as being about improving productivity, the report lacks an extensive analysis of key drivers of productivity to underpin his policy recommendations, except for calling out EU's relative weakness in digital technology. This is unfortunate, as developing measures to raise productivity growth requires insights, based on evidence, of what factors have a positive impact on productivity.

A main driver of productivity growth is that resources in the economy continuously are being reallocated to more productive companies that deploy new and better ideas and innovations. Several factors are considered to be important for this process. Examples of important external factors are institutions and regulatory frameworks, for example competition legislation, framework conditions for entrepreneurship and risk-taking, and access to capital and labour. Openness to the outside world in terms of trade and investment is also considered an important factor. To be impactful, any programme aimed at raising productivity levels will have to take these factors into account.

Swedish Enterprise believes that open and competitive markets offer the best path to a more prosperous future and that this must be a guiding principle in policy development. Investments should be mainly driven by the private sector and the primary task of policy makers in this respect is to ensure the right framework for private sector investments. Some proposals are therefore particularly welcome as helpful means to achieve higher productivity growth, such as ensuring a properly functioning Single Market, creating the conditions for increased R&D&I spend and easing the regulatory burden. Others translate into quite heavy-handed interventionism and provide a more protectionist direction.

Draghi has chosen a multi-layered approach, and addresses several areas, which oftentimes overlap. Our commentary focuses on some of the central themes: innovation, decarbonisation, security and dependencies, financing and better regulation. This paper serves to set out our views on some of the key points and proposals contained in the report.

Closing the innovation gap

Promoting more investment in research and development and innovation

Swedish Enterprise agrees with Draghi's points on the need for Europe to accelerate its rate of innovation, not least in harnessing new breakthrough technologies. This will require conditions for commercialising innovation, making better use of existing digital capacities and development of new ones. Digital capacity, not sovereignty, should be the guiding principle.

Going forward, European research and development and innovation (R&D&I) resources must be mobilised. The EU should prioritise R&D&I in its own budget even if that means reducing its budgetary spending in other policy areas. Swedish Enterprise agrees with Draghi that R&D&I funding at EU level is fragmented and would argue that it keeps getting more fragmented through new initiatives such as STEP. Therefore, we welcome the proposal to launch an action plan for better coordination of public R&D&I across member states – as long as it is market oriented and focused on attracting private knowledge-intensive investments. In addition, we would welcome a more limited set of support schemes, and a focus on broad financing of R&D&I based on open, non-discriminatory calls ranked on excellence.

Moreover, given that two thirds of EU R&D&I is invested by companies, the EU should focus on incentivising European businesses to increase their R&D&I spending. The EU spending on higher education should support European universities and research institutions at the global frontier.

We support Draghi's proposal to enhance financing for disruptive innovation, start-ups, and scale-ups while removing growth barriers, but the emphasis must be on mobilising private capital – not public intervention. Furthermore, Draghi contends that European companies spend less on R&D&I due to specialisation in mature technologies where potential breakthroughs are limited. We take the view that all businesses are important. The European car industry and manufacturing, for example, is more advanced compared to the US. There is a need for a more dynamic European business sector, but we should be more nuanced when evaluating industries.

Unlocking the potential of Europe's digital economy

Swedish Enterprise believes that an important starting point for the new Commission is to reduce the regulatory burden, regulatory overlaps and legal uncertainty in the digital field. The EU has around 100 tech-focused laws. Draghi notes that the EU's regulatory approach to technology companies is hampering innovation. The General Data Protection Regulation (GDPR) and the new regulations the Digital Markets Act (DMA), the Digital Services Act (DSA), the Data Act and the AI Act provide a regulatory jungle that is difficult to get through. The application of the GDPR should be harmonised and guidelines and practices should not become an interpretation based on the operations of the largest companies as they are often not relevant to start-ups and SMEs.

Draghi's proposal to exclude SMEs from regulations that only large companies can comply with is telling. However, his proposal fails to consider the need for a level playing field, and SMEs' opportunities to participate in value chains. All companies need rules that they may comply with at reasonable cost and which favours growth prospects.

The regulatory framework must be limited to what has been the market failure according to the Commission's impact assessment if we are to have a competitive tech sector. To limit new legislation, the co-legislators need to carry out impact assessments for their respective substantive amendments.

As far as private investment is concerned, the business environment in the EU needs to improve. An important piece of the puzzle is clear and predictable legislation that gives investors the security to enter a start-up or growing company. The market changes quickly and much legislation has been added, and it is central for an SME company without legal expertise to be able to manage regulatory compliance at a reasonable cost.

Expanding digital infrastructure

Digital infrastructure can raise the productivity of all factors of production, broadening the productive capacity of the economy as a whole. Draghi proposes to facilitate telecom sector consolidation to boost investment in connectivity. Swedish Enterprise believes this can also be achieved in other ways.

The regulatory landscape for electronic communications in the EU is too fragmented and this makes it especially difficult for actors who want to scale up and operate across borders and it discourages investment in the EU.

Operators in the EU must also be able to benefit from the opportunities offered by new technologies, which in turn will create the economies of scale that attract investors. In order to benefit from technological development, national barriers must be pulled down so that network operators are able to use the safest and best services regardless of where such services are domiciled, for example.

To compete globally, the EU also needs to support frontrunner member countries and regions. The ongoing paradigm shift requires a more differentiated approach. Current regulations and support have too much focus on markets in the EU that are lagging and thus have a levelling effect that inhibits rather than supports frontrunners.

The report proposes to harmonise EU-wide spectrum licensing rules. Increased co-ordination can be beneficial for everyone, but if all 27 EU countries need to agree on when certain radio frequencies are to be launched, 6G for example, there is a real risk that such improvements will be made much later than when frontrunner countries need them to be implemented. Instead of regulating and controlling innovation and leadership, focus should shift to relying on market forces.

The role of intellectual property rights in boosting incentives to innovate

The transactional costs for handling digital innovations in Europe cross borders are enormous. This must be changed for European businesses to be able to scale up. Innovation protection needs to be harmonised and strengthened. In particular, the EU needs to provide legal certainty and harmonisation of IPRs in the Single Market especially on copyright as many innovations are produced in the digital economy. Doing away with these legal uncertainties would substantially improve the opportunities for commercialising R&D&I and boost incentives to innovate.

Examples of positives among key points and specific proposals under innovation:

- Enhancing financing for disruptive innovation, start-ups, and scale-ups while removing growth barriers – but emphasis must be on mobilising private capital and not on public intervention.

- Launching an action plan for better coordination of public R&D&I across member states – as long as it is market oriented and focused on attracting private knowledge-intensive investments.
- Replacing EIC by a (D)ARPA-like agency – EIC should be discontinued as EIC lacks financial goals and exit strategy.
- Highlighting that the EU's regulatory approach to technology companies is hampering innovation.
- Introducing a Single Market passporting regime for EU cloud services – preventing Member States from exceeding GDPR and AI Act requirements.
- Highlighting the need for a legal framework to encourage universities, RTPs and researchers to register and commercialise IPR.
- Draghi's overall analysis regarding closing the skills gap where EU efforts can contribute. However, member states have the lead in this area and solutions are most likely to be found close to local labour markets where employers needs can be met.

Examples of negatives or missing among key points and specific proposals under innovation:

- The European Commission should initiate a review of the GDPR, preceded by a competitiveness and Single Market check. This issue should have been addressed.
- The EU should increase its work on trade agreements, regulatory convergence and developing standards and codes of conduct for AI development and use. This issue should have been addressed.
- The EU should secure international data flows through more adequacy decisions (approval of data transfer to third countries) and updated country information on applicable data protection regulations of trading nations around the world. This issue should have been addressed.
- It is important that the telecoms market can develop and consolidate, but this can also be achieved in other ways than through the consolidation of vertically integrated operators, particularly by reducing fragmentation on the Single Market.
- If all 27 EU countries need to agree on when certain radio frequencies are to be launched, 6G for example, there is a real risk that such improvements will be made much too late compared to when frontrunner countries need them to be implemented.
- Handling of IP is a key tool to protect and leverage innovation. Enhancing financing is largely linked to IP. This issue should have been addressed.
- EU's CEF4 4 funding programme should be directed to support and connect front-runner areas/regions with high-capacity digital highways. This issue should have been addressed.
- EU should develop better legislation on trade secrets. This issue should have been addressed.

Competition and State Aid

The role of competition in driving productivity

Draghi acknowledges that the current empirical evidence overwhelmingly shows that stronger competition generally not only delivers lower prices, but also tends to stimulate greater productivity, investment, and innovation. Still, he deliberates whether competition rules might need to be altered, not to stand in the way of increased innovation or the scaling up of companies.

Swedish Enterprise's assessment is that the competition rules in this regard are fit for purpose, and that no major revisions are called for. The Commission updated in February 2024 its market definition notice, which lays the foundation of the analysis in most merger and antitrust cases. In this update, there is specifically new texts on the matters listed by Draghi, namely i) a recognition of the importance of non-price parameters for market definition, including innovation, quality, reliable supply and sustainability, and ii) clarifications on dynamic and forward-looking assessments especially in markets undergoing structural transitions, such as regulatory or technological changes.

The new market definition notice should lay the groundwork for an updated application of the competition rules, and the use of the notice should in any case be awaited before further changes are considered.

Furthermore, we are sceptical to the suggestion to develop security and resilience criteria for competition assessments. Competition assessments are already extremely complicated, just considering the economic effects of a certain behaviour or transaction, including taking innovation into account. Adding additional factors, such as sustainability and/or security and resilience, will further complicate the analysis and will give the competition authorities a more normative and political role, sometimes weighing different goals against one another. We believe security and resilience are important, but they should be dealt with separately from the competition assessment.

Finally, we are completely against introducing a New Competition Tool on EU-level, as suggested by Draghi. This new tool would give the Commission extensive powers to investigate markets with certain structural competition problems and target these problems through behavioural and structural remedies. Such actions could severely punish companies, even though they have not broken any rules. We strongly reject introducing such a tool. It would also increase administrative burden and introduce high uncertainty on certain markets, chilling investment and innovation in such markets. Vigilant application of the regular competition rules, which are very powerful, are quite sufficient to create well-functioning markets.

Safeguarding EU state aid rules

Regarding state aid, it should primarily be noted that the report emphasises the important role of a strict state aid control to safeguard a level playing field. It acknowledges the risk of undermining the Single Market and putting smaller member states that cannot afford to participate in a subsidy race at a disadvantage. This is most welcome.

Even though the report suggests that it is necessary to return to the previous, more rigid, state aid regime, without temporary exemptions, it also states that it could be necessary for the Temporary Crisis and Transition Framework (TCTF) for strategic investment in the net-zero transition to be extended beyond 2025. We believe, on the contrary, that it is important to return to a strict state aid regime, with long-term rules that have been added after due consultation with stakeholders, and which are based on the Commission's own decision-making practice.

Draghi also expresses a general desire to gradually move state aid from member state level to EU level. It is not clear in detail how this would be done and how member state aid would be reduced. There is an obvious risk that it would lead to a scenario with sustained levels of state aid from member states, or even gradually increased, as has been the trend during the last decades, in addition to a built-out use of subsidies at EU-level. This is certainly not a desirable scenario.

A number of ideas are put forward under the heading “State aid control as a competition tool for efficiency-enhancing industrial policies”. Swedish Enterprise welcomes that the report puts an emphasis on the need to return to a “normal enforcement” of state aid control, meaning phasing out temporary rules to get more stable and proportionate rules. The other points are a bit vague, and potentially in conflict with the desire to tighten state aid control. It is unclear what is meant by “allow for greater amounts of aid where EU coordination is enhanced”. EU coordination here is particularly unclear, except IPCEI which is dealt with in proposal 6. We do not believe more state aid is warranted purely based on the granted project and undertakings contributing to “EU coordination”.

Draghi’s main proposals in this area is to reform and expand the use of Important Projects of Common European Interest (IPCEI). IPCEI are state aid granted to cross-border infrastructure projects or, as lately primarily has been the case, to R&D&I-projects involving a large number of companies and granting member states. IPCEI is therefore nothing more than state aid for R&D&I at its core. As such, it is one of the more desirable objectives to support in general. However, it makes possible larger amounts of aid, and aid also to first industrial development, increasing the risk of competition distortions. The involvement of many companies, compulsory collaboration between these companies and sharing of knowledge, are meant to alleviate some of the competition distortion concerns. We are nevertheless not convinced that IPCEI should be used to a larger extent. It is using a model which cannot be made much more efficient and streamlined, and it has never yet been evaluated. Often regular R&D&I-aid is probably to be preferred. That being said, proposals to make IPCEI more streamlined and the analysis more high-quality should be explored.

Finally, the report suggests that IPCEI should not only be funded by member states but also receive additional EU funding. This is not a good idea, since it is only companies from member states which are active in a project and contributing with state aid who will be receiving such EU funding. Companies from member states that are not engaging in IPCEI will therefore neither receive state aid nor EU funding attached, making the competition distortion even more severe.

Examples of positives among key points and specific proposals under competition and state aid:

- Continued support for strong competition supervision and a return to the previous, more rigid, state aid regime.
- Highlighting that competition rules need to be updated and reflect today's reality on the markets. – However, the new market definition notice already creates the conditions for this, and no major changes are therefore required.

Examples of negatives or missing among key points and specific proposals under competition and state aid:

- Introducing of a New Competition Tool, causing administrative burden and considerable uncertainty on the markets.
- Expanding the IPCEI-rules to make them even more commonly used, due to its drawbacks.

A joint plan for decarbonisation and competitiveness

Increasing energy supply and lowering costs

Swedish Enterprise agrees with the point of departure for the report’s analysis. High energy costs are impediments to growth and competitiveness of European companies, and in particular for the energy-intensive industries.

Decarbonisation drives investments and growth for European companies, both energy producers and energy consumers. Even though the EU’s higher decarbonisation ambitions impose short-term costs, they also incentivise early adoption of new technologies and present a business opportunity.

On clean technology, Europe cannot not, and should not, meet all its demand domestically. Short-term costs of decarbonisation should be mitigated by both ensuring competitive framework conditions in Europe and leveraging the most cost-efficient solutions through global supply chains.

To that end, Draghi presents several good proposals, for instance on the need to accelerate decarbonisation in a cost-efficient way, leveraging all available solutions through a technology-neutral approach, and on the need to speed up and digitalise permitting processes and to address resource constraints in permitting authorities. A European coordinator to assist with permits, monitor progress in permit granting, and facilitate regional cooperation for cross-border infrastructure is also an interesting idea to be explored further.

In addition, efficiency will not be achieved in the permitting area without ensuring policy-coherence between EU and member states' permitting policy. A more systemic approach to streamline the permitting policy needs to be undertaken by the next Commission to ensure policy coherence between different pieces of legislation affecting the prerequisites for member states' permitting processes with the aim to reduce overlap and cut red tape.

Swedish Enterprise welcomes the ambition to improve decision-making, mobilise financing, and innovate grid assets to unlock the potential of clean energy/grid development. However, a prerequisite for a strengthened internal market for electricity going forward is that member states respect the principle that each state has a responsibility to ensure a resilient and reliable electricity system.

The ambition to strengthen the functioning of the European electricity system through interconnectors should therefore also include incentives for individual member states to assume responsibility to build electricity systems that contribute to the provision of wider system benefits and stability for the European electricity market. Such incentives or requirements at national level could include areas such as ensuring sufficient fossil free dispatchable power generation in connected bidding-zones to meet expected demand and ensuring more optimal design of connected bidding-zones to minimise structural bottle necks.

Improving infrastructure conditions

Swedish Enterprise agrees with Draghi regarding the need to increase investments in infrastructure, increase digitalisation in all modes of transport, finding alternative sources of financing and that the transport sector is going through a necessary transition. However, too little focus is put on the need for boosting competition in transport services and to strengthen the Single Market in the transport area that is still too fragmented, for instance in railway services where legal and technical barriers still exist between member states. Further integration and removal of barriers would improve transport services and increase competition. Lacking in the report is also a focus on the economic benefits of infrastructure investments. Infrastructure projects can spur growth but evaluation from an economic perspective is continuously needed.

Examples of positives among key points and specific proposals under decarbonisation and competitiveness:

- The point of departure for the report's analysis. High energy costs are impediments to growth and competitiveness of European companies, in particular for the energy-intensive industries.

- Decarbonising using the most cost-efficient tools available in a technology-neutral approach. A technology-neutral approach is essential in this respect to find the most cost-efficient alternatives to accelerate the decarbonisation of the European energy supply.
- Maintaining the existing nuclear supply in Europe through e.g. extending the life-span of the existing nuclear supply and accelerating the development of new nuclear supply.
- Moving the Energy Union forward – it will be necessary to develop a governance system to address trade-offs in investment decisions. We welcome that the relationship between cross-border grids, availability of dispatchable generation and lower total system costs are all mentioned in this context. Moreover, it is positive that this work could draw inspiration from the EU's Economic and Monetary Union (EMU).
- Placing the primary focus on competitiveness as a complement to cohesion in the transport sector.
- Promoting alternative sources of financing in the transport sector, including private capital. Risk-sharing between public and private is necessary in this context.
- Removing barriers to integration and interoperability in all modes of transport, including introducing SES (Single European Sky).

Examples of negatives or missing among key points and specific proposals under decarbonisation and competitiveness:

- The ambition to ensure access to competitive EU energy sources for industries exposed to international competition is welcome but requiring the suppliers to make a predefined share of production available to a certain set of industry customers risks distort competition and could negatively impact incentives for new investments.
- The rationale behind investing more of the ETS revenue stream in energy intensive industries is understandable. It is positive if the relationship between those who are required to buy ETS and those who benefit from the ETS revenue stream is strengthened. The focus here should however be on CAPEX rather than OPEX and measures should be time-limited, based on competition and excellence with ex-post evaluation.
- The introduction of quotas for locally produced products or components in CfDs, EIB financing or public procurement. This may increase the price of fossil free energy production or sustainable products and make the adoption of clean tech less cost-efficient.
- The proposal that national price relief interventions in energy markets should be limited is welcome but the proposed method for how this aim is supposed to be achieved is unclear and needs to be further explained and elaborated.
- Lack of focus on the need for boosting competition in transport services and to strengthen the Single Market in the transport area that is still too fragmented.
- Lack of focus on the economic benefits of infrastructure investments. Infrastructure projects can spur growth but evaluation from an economic perspective is continuously needed.

Increasing security and reducing dependencies

Strengthening the defence industry

Given multidimensional and coinciding threats such as the Russian war of aggression against Ukraine, increasing geopolitical tensions, and the threats posed by climate change, Swedish Enterprise believes, like Draghi, that reducing external vulnerabilities and strengthening industrial capacity for defence and space are crucial priorities for our nations in the coming years.

Only a strong, stable and resilient economy can sustain its security. Apart from strengthening the European business climate at large, European businesses need opportunities for diversifying sources of supply, for instance for critical raw materials (CRMs), and to access foreign high-end skills, services and technologies. Import tariffs and regulatory barriers that increase trade costs between the EU and other parts of the world undermine EU's competitiveness and, by extension its economic resilience.

The European defence industry is both fragmented and underfinanced. Different countries often pursue their own defence projects independently, leading to duplication of efforts, inefficiencies, and a lack of coordination. Demand aggregation and joint European procurement are important solutions. By pooling demand and conducting joint procurement, European countries can achieve economies of scale, greater standardisation and more interoperable systems across the European defence industry.

Market consolidation to ramp up European defence production and helping Europe's most promising companies compete is as vital as significantly ramping up European-level funding for defence R&D&I if we are to stay ahead of the game internationally. Having said that, subsidies, exemptions, market regulations, consolidation, and standardisations need to be fully in line with the principles of sound markets and competitive companies and enterprises.

There are evident risks that a more European approach will work to the advantage of certain countries' national interests. Subsidising certain firms can limit competition and innovative startups since state aid often favours large firms with more resources to influence and secure government financial support. This could result in a lack of fair competition and hinder the overall goal of creating a unified and competitive European defence industry.

Swedish Enterprise supports Draghi's proposals on swiftly implementing the European Defence Industrial Strategy (EDIS) and the European Defence Industry Programme (EDIP). It is important that member states cooperate and prioritise European solutions to ensure a strong and resilient defence capability in Europe. In addition, improving access to finance for the European defence industry, including by removing restrictions on access to EU-funded financial instruments is an important proposal, which would create equal opportunities for companies and between different industrial sectors.

On Draghi's proposal to ensure that EU competition policy enables industrial defence industry consolidation to reach scale, where needed, we are supportive in so far as it focuses on strengthening EU's competition policies. However, we would like to issue a word of caution on the text "where needed". The question is then who will make the decisions. Assessment and decision should be based on the company's competitiveness requirements.

Addressing critical dependencies

Regarding Draghi's analysis on Europe's dependence on external sources for CRMs, Swedish Enterprise largely agrees. Therefore, we agree with his proposal that the Critical Raw Materials Act (CRMA) should be fully implemented, and we agree on the need to take the perspective of the entire supply chain. However, although Sweden and other EU countries have significant deposits, technologies for extraction and demand, capacity to process and refine is lacking.

We also support Draghi's proposals to enhance permitting speed, create favourable market conditions to scale up circular solutions in the Single Market, and invest in R&D&I to develop alternative materials and processes to reduce reliance on critical raw materials. However, we are sceptical of setting a goal of meeting 50-75% of metal needs for clean technologies by 2050 through local recycling. Professor Draghi's idea to create an EU Critical Raw Material Platform and a G7+ Critical Raw Materials Club is interesting but needs to take non-discriminatory multilateral trading rules into consideration.

However, Draghi's focus on looking towards like-minded/neighbouring regions when looking for access to critical inputs, such as raw materials, is too narrow. Only trading with like-minded countries will not be sufficient, and those that are like-minded today might not be in a few years. In addition, his focus on legislation and strategic stockpiling at EU level to reduce dependencies is not the right answer. In terms of looking at how trade policy can be leveraged to diversify supply and reduce dependencies, we need a stronger focus on finding ways to open new markets for EU businesses, for instance through free trade agreements.

When it comes to formulating strategies and policies on the dependence of advanced technologies, we believe that digital capacity, not sovereignty, should be the guiding principle. Businesses in like-minded countries such as the U.S. have the best support and security on the market, and many of the technologies of fundamental importance for European businesses.

Examples of positives among key points and specific proposals under security and dependencies:

- Aggregating demand and facilitating joint European procurement are important solutions so that European countries can achieve economies of scale, greater standardisation and more interoperable systems across the European defence industry.
- Swiftly implementing EDIS and EDIP.
- Fully implementing the Critical Raw Materials Act (CRMA), taking the perspective of the full supply chain.
- Enhancing permitting speed and creating favourable market conditions to scale up circular solutions in the Single Market.
- Investing in R&D&I to develop alternative materials and processes to reduce reliance on critical raw materials.
- Creating an EU Critical Raw Materials Platform and a G7+ Critical Raw Materials Club – but needs to take non-discriminatory multilateral trading rules into consideration.

Examples of negatives or missing among key points and specific proposals under security and dependencies:

- There are evident risks that a more European approach to defence industry will work to the advantage of certain countries' national interests. Subsidising certain firms can limit competition and innovative startups since state aid often favours large firms with more resources to influence and secure government financial support. This could result in a lack of fair competition and hinder the overall goal of creating a unified and competitive European defence industry.
- The proposal to set a goal of meeting 50-75 % of metal needs for clean technologies by 2050 through local recycling.
- Lack of ideas on how to open new markets to create diversification opportunities for EU businesses and too much focus on legislation and strategic stockpiling.
- Digital capacity, not digital sovereignty, should be the guiding principle.

Trade policy and the alignment with industrial policy

Swedish Enterprise's starting point for EU trade policy is "open by default". International trade is serving EU well and should not only be seen as means to an end, but rather as an end goal itself – bringing prosperity and growth, helping in addressing the global challenges of our time, accessing raw materials and other needed imports, and providing EU businesses with market opportunities globally that are crucial for strengthening competitiveness and economic resilience. Open trade is also fundamental to boost productivity.

Draghi's proposals on sub-ordinating trade policy to industrial policy and moving away from a generic stance to trade to a case-by-case approach are therefore problematic. This interventionist approach would mean that trade no longer is based on supply and demand on an open market, but rather the cherry-picking of certain sectors at the relative expense of others. However, Draghi is not consistent in pursuing this new logic. He makes valid points, partly contradictory to the case-by-case approach. He acknowledges the benefits trade has brought to the EU, not least the importance of access to imports both in the form of raw materials and components. Based on this, he therefore issues a warning against a systematic use of defensive trade instruments and the way tariffs can create perverse incentives for European businesses. He also to some extent rightly elaborates on comparative advantages, for instance on the need for imports of cutting-edge technology, and the fact that the EU will do better not to throw public money at, or erect trade barriers for, industries where it cannot compete.

Having said that, a sectoral, case-by-case approach to trade policy – sub-ordinated to industrial policy – also ignores the fact that trade relations is a two-way street and that the agendas of our trading partners must also be considered. If the EU intervenes in a sector, that might well have repercussions in other sectors as countries negatively affected by the intervention might hit back with their own measures. Hence, the EU cannot alone decide which sectors will be open and which ones should be closed.

Even though Draghi discusses imports, he does not bring up the need for exports. Swedish Enterprise are missing concrete ideas on how to expand trading opportunities and open new markets for European businesses. There are no arguments in favour of free trade agreements for example. The argument that we should tap into the 85 % of world growth that is happening outside of the EU is not made.

Examples of positives among key points and specific proposals under trade policy:

- Highlighting the importance of open markets, in particular imports, and not systematically using defensive trade instruments that could potentially hurt our access to critical goods.

Examples of negatives or missing among key points and specific proposals under trade policy:

- Approaching trade policy on a case-by-case basis and sub-ordinate it to industrial policy – moving away from an "open-by-default" approach.
- Ignoring the need for trade diplomacy to forge trade agreements and to avoid tit-for-tat interventions in markets.
- Ignoring the need for better market access in third countries.
- In general, downplaying the role of trade to reach the targets in his report, i.e. not realising its potential.

Financing investments

Draghi identifies Europe’s competitiveness challenge as being about improving productivity, including by closing an annual private and public investment gap of around €800 billion. The report suggests that mobilising private capital will be critical in this respect but that the private sector is unlikely to be able to finance the lion’s share of this investment without public sector support. A central argument put forward by Draghi is that the EU’s inability to respond to the new environment in a more joined up fashion – both in terms of coordinating policies and funding – comes at the cost of collective effectiveness. Draghi suggests scaling up the EU budget and redirecting spending to strategic priorities.

Mobilising private investments

Swedish Enterprise believes that investments should be mainly driven by the private sector. That is why it should be the primary task of policy makers to ensure the right framework for private sector investments – with long-term policy certainty to support the business case for private investment, and regulation which is principles- and outcomes-based rather than targeting particular firms, business models or technologies. Public support could then be limited to essential public goods that would not be delivered by the market and providing broad horizontal support for R&D&I without trying to pick winners.

Mobilising private investments will be all the more important as national budgets in many member states are stretched, which in all respects means that major public commitments are not realistic. Achieving sustainable debt levels is important to meet future challenges. The better financial position a country is in, the better it can handle economic downturns and crises. Swedish Enterprise advises against additional broad-based joint borrowing and common debt as it risks putting long-term competitiveness and the need for structural reform at risk.

Swedish Enterprise would like to see an increased focus on the effectiveness of spending through the EU budget. Funds must not only meet the projects’ goals, but also deliver the most “bang for the buck”. IMF’s study on fiscal support published in April this year shows that there might be an important role for public policy to bridge the gap between private investments and firms at the technological frontier. However, it is hard to target active industrial policy and achieve increased welfare. The IMF concludes that industrial policy is not a panacea for higher economic productivity and growth. Such policies are only advisable when social benefits can be identified (emission reductions or other market failures), knowledge spillovers from innovation are strong and spread well into society and governmental administrative capacity is in place. Also, for small export-dependent economies, the "welfare impact" is considered to be smaller or even non-existent.

Evaluating EU spending

In terms of Draghi’s ideas to deploy the EU budget more effectively, refocusing funding sounds good, but we also have to keep a wide spectrum of programmes that allows different technologies and sectors to benefit in order to maintain fair competition. Here we would like to add that it would be beneficial if the European Court of Auditors could better assess the impact of EU-funding to measure how much value-added that public funding has achieved. Overall, small subsidies/guarantees/other kinds of support across sectors have proved to be more efficient “industrial policy” than to give large support to a few.

Swedish Enterprise would like to improve the possibilities of the European Court of Auditors to assess the efficiency and how much value EU's citizens get for their paid taxes. In the end fiscal spending must be paid by EU's companies and citizens, either now or in the future and either by individual member states or by the EU budget.

Fiscal spending by individual member states is more efficient in terms of administrative costs than EU spending. However, unequally high fiscal spending in individual countries leads to an uneven playing field. Hence, there is a balance to be kept to ensure fair competition in the Single Market (see further comments in part on state aid). There is also a bias towards wanting to spend more if you are not charging your own taxpayers. This reasoning therefore puts into question Draghi's proposal to issue more common debt. It is better if individual member states undertake national fiscal spending in line with the rules for state aid than if the EU expands its programmes.

Swedish Enterprise welcomes research-intense public investments that are technology-neutral and targeted to many firms at the technological frontier. Small funds to many firms often lead to better results from fiscal spending. It gives many firms the possibility to have access to financing and acts to maintain competition.

Developing EU capital markets

Swedish Enterprise supports the aims to develop and further strengthen the capital markets within the EU. Well-functioning capital markets are critical for EU companies, and a requirement to succeed in the green and digital transition. The focus on private investments is welcome as opposed to a narrow focus on public spending.

While we welcome the EU capital market focus, it is important to maintain realistic expectations regarding what can be achieved within the framework of the Capital Markets Union (CMU) or the Savings and Investment Union. To increase investment in the EU, a continued focus on improving the competitiveness is vital. Actions to reinforce and implement the CMU should be designed to strengthen EU companies' access to capital by identifying and addressing their unmet financing needs, areas of potential improvement and facilitating financial market innovation.

The Swedish capital market is among the strongest in Europe and is one of very few public equity markets in the world that is growing. The removal of inheritance and gift tax, the introduction of the PPM and the investment savings account (the "ISK") have all been important factors in the development of Swedish capital markets. In addition, the Swedish model of self-regulation plays an important role. We suggest that EU legislators consider the Swedish experience in the context of the CMU.

A structured exchange of best practices and reforms at national level is key, as member states have diverse capital markets at different levels of development and maturity. Inspiration could also be drawn from the OECD Capital Market Reviews, and it could perhaps be considered if OECD involvement could be beneficial to get an international perspective. Harmonisation at the EU-level should only be pursued where necessary and must not come at the expense of well-functioning markets.

On the matter of moving towards a unified securities market regulator, we believe that such a move would not solve the challenges we face today nor strengthen or develop the capital markets within the EU. Reviewing how to organise the supervision, and whether to have one single regulator, should be the last step, following other potential means to strengthen the EU capital markets. In brief, centralised supervision of financial markets within the EU would naturally only make sense in areas with a great degree of regulatory harmonisation across the Union. Centralising supervision presents significant challenges as it risks creating a supervisory framework detached from local market conditions, lacking the understanding needed to address specific circumstances and practical considerations in different member states. Moving towards centralised supervision therefore risks ultimately undermining the credibility and effectiveness of supervision across the EU.

On the ongoing work regarding EU insolvency law specifically, one of the areas of interest in view of the CMU, it needs to uphold legal certainty and a balance between the interests of creditors and debtors.

We believe that the proposal to assess prudential regulation adequacy is a very good idea. Specifically, the output floor as it relates to unrated corporates must be revised. While we are not opposed to the idea of addressing model risk in principle, the practical issue of calibrating the output floor to a level where it is appropriate to a wide range of countries creates serious challenges which are currently unresolved. In the Swedish context, the output floor would lead to a substantial increase in the regulatory capital requirements for lending to low-risk corporates without an external credit rating. This is because corporate risk weights in Sweden are generally low relative to the minimum requirements of the output floor, due to loan losses also having been low for an extended period despite adverse events such as the financial crisis. It is also questionable if reducing incentives for banks to lend to corporate customers with lower risk is beneficial to financial stability. To date, there has been no satisfactory resolution to this issue.

Examples of positives among key points and specific proposals under financing investments:

- The mobilisation of private capital will be critical.
- Extending the flexibility to companies across Europe to have dual class share structure, as long as market confidence is maintained, and existing well-functioning structures are not disrupted.
- Exploring the possibilities of a 28th regime form of European company making it easier to operate across the EU member states and reducing the regulatory burden of companies, as long as any such initiatives focus on making a 28th regime available for companies and not on harmonisation of the areas of law referenced across the Union (e.g. company law, labour law, insolvency law and tax law).
- Public-private-partnerships is good for achieving a balance of risk-taking. Turning to guarantees is also good for taking the edge of risk-taking and ease private financing and we welcome this.

Examples of negatives or missing among key points and specific proposals under financing investments:

- Swedish Enterprise advises against additional broad-based joint borrowing and common debt as it risks putting long-term competitiveness and the need for structural reform at risk.
- Harmonising capital markets and related regulation at the EU-level, including IPO rules, should only be pursued where necessary and must not come at the expense of well-functioning markets undermining their efficiency and flexibility.
- Moving towards a unified securities market regulator would not solve the challenges we face today nor strengthen or develop the capital markets within the EU but risks ultimately undermining the credibility and effectiveness of supervision across the EU.
- Draghi’s observation that InvestEU projects are more low risk than high risk is disconcerting.

Strengthening governance and better regulation

Advancing the better regulation agenda

Over the last five years, we have seen an unprecedented amount of legislation passed in the EU, at times without substantial impact assessment and consultation with the private sector. Swedish Enterprise believes, and shares the thinking of Draghi, that improving the quality and predictability of regulation, alongside better transparency in the regulatory process is of central importance going forward.

In this sense, Draghi makes several good proposals, including digitalising all business-to-authority reporting, reducing overall regulatory burden, quantifying costs for all new legislative proposals to be adopted, strengthening enforcement of Single Market rules, and introducing a revamped competitiveness test. Another proposal that should be pursued is to make the Regulatory Scrutiny Board a fully independent body.

Improving governance

On Draghi's proposal to extend qualified majority voting (QMV) to more areas, Swedish Enterprise takes a critical stance. For instance, taxation is the competence of individual member states and should remain so. Tax sovereignty is essential for countries to implement their national financial and social economic policy. It is crucial to have instruments in place to safeguard that EU tax regulation result in a fair and equitable economic outcome for all EU member states. Extending QMV to taxation would effectively shift the influence and decision-making process to big countries to the detriment of smaller countries. Over the past decade, despite the unanimity requirement, nearly 20 tax directives have been approved. The ones rejected have been conceived controversial and bad. This shows that the EU decision-making process in tax matters is working.

Examples of positives among key points and specific proposals under strengthening governance and better regulation:

- Reducing overall regulatory burden.
- Minimising the cost of member state transposition and enhance enforcement of Single Market legislation.
- Introducing a revamped competitiveness test.
- Bringing attention to the problem of gold-plating and the need for a uniform method for measuring the consequences of this, as well as for quantifying the costs of amendments introduced by co-legislators during the legislative process.

Examples of negatives or missing among key points and specific proposals under strengthening governance and better regulation:

- Extending qualified majority voting (QMV) to certain areas, e.g. taxation
- Missing a proposal to make the Regulatory Scrutiny Board (RSB) fully independent.