

A new agenda to boost competitiveness and growth in the European Union

As a new European cycle gets under way with the upcoming elections, Germany and France want to propose a joint contribution to the EU's Strategic Agenda for boosting growth in Europe over the next five years. Together with our partners, we want to enhance Europe's global competitiveness and resilience while upholding and implementing our ambition to make the EU the first climate-neutral continent in the world. Europe must not fall behind: we want to remain an industrial and technological powerhouse and be the world leader in the green and digital technologies of tomorrow. As the world's most powerful common market we will pursue an ambitious, robust, open and sustainable trade policy. We will build on the success of the Green Deal and the Green Deal Industrial Plan and also carry forward the remaining unfinished pillars of the Green Deal, mainly on pollution and biodiversity, but will do so in a way that supports economic momentum in Europe. In addition, we need to make sure Europe is strong enough in the face of new emerging threats, including our defence sectors which have to be sufficiently integrated. Overall, the EU needs more innovation, more investment, more level playing-field and a smarter regulatory framework.

The new Commission will have the strong support of France and Germany to advance and implement these objectives in its coming mandate.

The need to address Europe's competitiveness challenges is increasing

To ensure Europe's long-term competitiveness, prosperity and global role as a geopolitical actor, efforts will be required at all levels and across all policy areas to close growth, productivity and innovation gaps between the EU and its international partners and main competitors.

The green and digital transitions will fundamentally transform our economies. This means huge market opportunities for the industries of tomorrow, creating new, well-paid and secure jobs. At the same time, the Russian war of aggression against Ukraine, rising geo-political tensions, the COVID-19 pandemic and the energy crisis against the backdrop of the globally dramatically increasing effects of climate change have been powerful wake-up calls for Europe, highlighting the need to address strategic dependencies as well as structural weaknesses of our economies.

Europe has enormous potential: we have the skills, the people, the highly innovative companies from small firms to large multinationals, strong research institutions, the capital and the industrial base to succeed and take a leading role in key technologies. With the Single Market, we have one of the largest and most integrated markets in the world, promoting a highly competitive social market economy. But we must put in place the right policies to spur private investment and innovation across the whole of the EU. This means eliminating unnecessary bureaucratic burdens; developing our regulatory framework further in a way that boosts economic momentum; better promoting our interests; and fostering the mobilization of the necessary public and private investments. Europe will need a fresh economic dynamism in the coming five years and we should direct all our efforts and instruments towards unleashing it and achieving our goals. It also means strengthening the rule of law as a fundamental value of the EU as well as a basis for the Single Market.

The European Commission estimates that, compared to the last decade, additional private and public investments of over EUR 620 billion annually will be necessary in the EU as a whole to meet the objectives of the Green Deal and REPowerEU. Besides, the investment needs in the EU for the digital transition are estimated at EUR 125 billion annually by the Commission. Private financing is a first contributor to address these investment needs, and aiming at a genuine Capital Markets Union mobilizing savings and investments in the Union is a key leverage in this respect.

Decisive actions should be undertaken to boost growth, productivity and competitiveness in Europe

In view of the next institutional cycle, we hereby put forward a joint proposal on how to make Europe more competitive, including by making the twin transitions a success, building on the achievements of the past five years:

- 1. We should strengthen the Green Deal and the Green Deal Industrial Plan as a growth agenda for Europe and in particular for the successful transformation of our industrial base. Through developing and implementing an effective industrial policy, we need to ensure that Europe remains a manufacturing powerhouse.**

We need to work on our resilience and long-term competitiveness as stated in the Versailles declaration of March 2022 which called inter alia for further developing key technologies of the future, reducing our

dependencies in strategic sectors, diversifying and strengthening our economic base and becoming a world leader in the green and digital technologies as well as products of tomorrow, while ensuring the sustainability of our economic model, including the social dimension also reflecting the comprehensive approach set out in Granada.

We call for a complete implementation of the strategy regarding the sectors identified in the Versailles agenda (defence, energy, critical raw materials, digital technologies, semi-conductors, health and agri-food).

We also call for efforts to reduce strategic dependencies and to make Europe a global leader in additional key sectors: Net zero technologies, AI, quantum technologies, space and aeronautics, biotechnologies, robotics, mobility, chemicals.

This will require private investments, making full use of existing instruments – including IPCEIs and further improvement of the state aid framework, in order to provide a targeted support to companies in their transition process, in the most strategic industrial sectors and in highly innovative technologies, thus creating space for European companies to become globally competitive.

This should also include the use of well calibrated public procurement, where appropriate, in particular to foster green lead markets and boost European resilience. It should encompass a revision of the 2014 public procurement directives, in order to simplify and streamline them and to further integrate in particular innovation, environmental and resilience considerations.

We need to develop and strengthen the European chemicals industry on its way to climate neutrality. We highlight the outstanding role of the chemicals industry in managing the transformation and its crucial importance for almost all industrial sectors in Europe and call on the Commission to maintain a good balance between our shared environmental and competitiveness ambitions, by ensuring that the sector's transformation (EU chemicals legislation) is effective, innovation-friendly and its approach risk-based rather than using broad product bans.

In addition, we will foster decarbonisation, recycling and the circular economy as a source of green growth by *(i)* supporting the development of green lead markets and regulatory sandboxes in the EU and worldwide for new climate friendly (green) basic materials and products (in particular chemicals, steel and cement), supporting the transition of the retail sector, in particular for circular economy and business models based on the sharing economy, and *(ii)* creating recycling criteria for waste management and a single secondary market for recycled raw materials in Europe. We will strengthen resource-saving recycling technologies, prioritize the development of mechanical recycling technologies but also consider and advance chemical recycling procedures as well as the mass balance method in order to achieve the aspired recycled usage rates.

We call for a resilient and sustainable agricultural and fisheries sector in Europe, notably by reducing the administrative burden and achieving simplification for farmers and fishermen, by strengthening the position of farmers in the food supply chain, in particular to ensure a fair income, and by ensuring rules-based and fair competition globally and in the internal market.

We reaffirm the need to ambitiously reduce administrative and compliance burden and forcefully reform, simplify and fast-track administrative procedures in order to make the most of creative forces in business and civil society and in particular in our SMEs, as previously stated in our October 2023 joint initiative on better regulation and modern administration in Europe.

We call on the European Commission to develop an ambitious Bureaucracy Reduction Action Plan to achieve this objective, in particular by *(i)* focusing on better regulation, with more appropriate assessments of the horizontal impact of new regulations; more efforts to better involve, from the outset, companies, citizens and territories, including outermost regions, taking into account their constraints from the stage at which the rules are drafted, but also during implementation; *(ii)* further efforts to eliminate overlapping regulations and to reduce compliance burdens, and a reduction of reporting obligations, primarily for SMEs but also for larger companies. We need an ambitious target, based on a robust methodology to measure the reduction target while maintaining our political ambition and related standards; we call on the launch of so called "reality checks" at European level to identify unnecessary bureaucratic burden in a more targeted way and support the call to continue the initiative to reduce reporting by at least 25%; *(iii)* by taking into account inflation development in the financial thresholds of the SME-definition and by adding a new company category of small mid-caps from 250 up to 500 employees to extend the administrative exemptions already

provided for SMEs; (iv) with faster, more effective, simplified and transparent procedures for European funding programs and state aid, which include a more user-friendly General Block Exemption Regulation and a targeted framework that allows industry in every European region to transform with a view to efficient and accelerated state aid procedures; and (v) by providing for appropriate framework conditions for investment projects, to create an attractive and consumer-friendly investment environment, including in advancing harmonizing commercial and business law, and ensuring that we meet the objectives of the Green Deal without adding complexity or hindering competitiveness. This implies a focus on implementation and simplification, and where necessary, effectiveness of new regulations. To accelerate the development and modernisation of sustainable production capacities for industrial facilities, energy facilities and grids as well as infrastructure projects, we advocate faster and simpler planning and approval procedures.

The potential of IPCEIs needs to be optimized, to drive deep tech and disruptive innovation. IPCEIs allow to bring together knowledge, expertise, financial resources and economic actors throughout the EU. Based on the good working basis which France and Germany have developed on a number of IPCEI related issues, we call for necessary simplifications in IPCEI application procedures and the speeding up of the Commission's assessments. We fully support the establishment of a Joint European Forum on IPCEI. We propose to drive forward deep tech and other kinds of fundamental innovations particularly in most relevant fields, such as quantum computing, generative AI and robotics, material sciences, space, biotech, energy and chemistry, including through setting up new IPCEIs. Combining available EU instruments and IPCEIs should be tested.

- 2. We are committed to reducing remaining unjustified barriers in the Single Market**, which remains unduly and overly fragmented, in order to reap the full benefits of European integration and convergence, whilst setting high economic, social and environmental standards. It needs to be leveraged to accelerate the structural transformation of our economies, drive productivity gains and secure long-term growth and jobs. The Commission should develop a new horizontal strategy for a modernised Single Market in this respect. We welcome the presentation of the report by Enrico Letta and are looking forward to the presentation of the upcoming report by Mario Draghi on competitiveness and to taking the work forward on their recommendations.

The process of harmonisation, that has begun e.g. with Ecodesign in the area of products, should be ambitiously pursued, notably to inform consumers on the carbon footprint of products and harmonize its calculation methodologies while ensuring a level playing field also with third countries. We must ensure that the EU's global emissions are really reduced and not displaced outside the EU. We also need strong implementation and enforcement of our existing rules as well as functioning, harmonized and enhanced market surveillance, in particular when it comes to products that are imported into the Single Market. We need to ensure effective enforcement of the new responsibilities of online platforms as set out in the Digital Services Act (DSA) and in the Product Safety Regulation. The Single Market also benefits from cross-border services and connecting infrastructure, especially in border regions. We therefore want to facilitate the elimination of obstacles in border regions for their mutual benefit.

We call to advance the ecosystem for telecommunication and digitalisation. To take full advantage of digitalisation Europe needs best possible coverage with cutting edge mobile networks using the most advanced network technologies such as 5G standalone. Therefore, we have to urgently and jointly address fragmentation and resilience issues in the mobile network sector. We highlight the enormous potential for businesses and society offered by state-of-the-art 5G mobile communications in various areas, such as in intelligent energy supply, telemedicine applications, autonomous driving, the Internet of Things, smart city and smart farming applications. We need to create the conditions for a strong industrial and innovative 6G ecosystem. When standardizing 6G, we call for pooling European forces in order to play a leading role in shaping the standard. We call to keep on strengthening the European cloud market to develop secure and large-scale European actors to ensure true confidentiality of their most sensitive data and availability of this data whatever the evolution of the political or economic context.

- 3. Effective competition in the Single Market is the cornerstone of the competitiveness of European companies and the EU's comparative advantage.** Structural competition problems in the global context, in particular in sectors which have an international dimension and are of high importance for the overall EU economy, should be tackled properly by assessing the need to introduce any new legal instrument. We need to review the current European competition rules and practices whether they are still appropriate to contribute to achieving this goal and allow for establishing consortia and consolidation in key sectors (e.g. mobile network sector, airspace) in order to strengthen European resilience. Besides, we strongly advocate

to adjust the current EU merger control rules and regulations in order to address strategic acquisitions of potential competitors impeding innovation („killer acquisitions“). We also ask for a thorough implementation and monitoring of the Digital Markets Act, which could be financed by supervisory fees. We should consider including European preference for public procurement in strategic sectors, such as defence and space, where appropriate.

- 4. We need to spur investments**, in order to match our goals. We need to make full use of the available EU funding possibilities in particular for European public goods and infrastructures for digital and green transitions, when there is a mutual benefit and a sound economic justification, including cross-border when relevant. National investments and reforms needed for the green and digital transitions, for competitiveness and strategic sovereignty will have to be complemented by an adequate and efficient EU support. We will make the EU budget fit for the future and further prioritise investments in future and transformational expenditure and the funding of European public goods, as well as work to introduce new own resources based on the interinstitutional agreement of December 2020, including the road map for the introduction of new own resources. The EIB group has a key role to play with a view to supporting the necessary investments and helping to address critical challenges.

In parallel, we aim to pursue a more ambitious agenda to achieve the Capital Markets Union, and by continuing efforts towards completing the Banking Union in line with the agreed sequencing. We need to use the start of the new institutional cycle to provide a renewed impetus to intensify work in the Council and the Commission and achieve quick and decisive progress on all identified measures that are necessary to create truly integrated European capital markets. This will require progress especially in the following focus areas: relaunching the European securitization market including through regulatory and prudential changes using possible room for maneuver, as well as exploring possible further avenues to enhance the securitization market; improving the convergence and efficiency of supervision of capital markets across the EU, e.g. enabling the European Supervisory Authorities to effectively supervise the most systemic relevant cross-border capital and financial market actors, with the aim of strengthening financial integration and ensuring financial stability, simplifying processes and reducing compliance costs, taking into account the interests of all Member States; harmonization of relevant aspects of national corporate insolvency frameworks and tax law; review and simplification of the financial market regulation framework; improvement of the conditions for institutional, retail and cross-border investment in equity and of the financing and exit-options for European scale-ups; as well as the design and implementation of a simple and effective cross-border investment/savings product for retail investors. More integrated financial markets as well as a more integrated Single Market on tax matters would foster innovation and productivity. Household savings should be enabled to fund more directly the massive investments we need to boost our competitiveness. We will also need to reassess our key financial regulations and resynchronize them with main global players, in order to maintain a level playing field and to protect the competitiveness of European financial actors, while taking due account of financial stability aspects and applying a risk-based approach.

- 5. We aim to build a competitive decarbonised energy system through renewables and low carbon technologies, energy efficiency, flexibility and the respective reliable investment framework.** We recall the importance of stepping up integration of the internal energy market to increase resilience and security of supply of abundant, affordable and clean energy, that serves the dual objective of pursuing strategic energy sovereignty and delivering on our climate neutrality goal by 2050, providing welfare gains for consumers and producers and fostering innovation and efficiency. This will require ambitious electrification using renewables, net-zero- and low-carbon solutions, flexibility, and substantial deployment of and investment in grids, storage and interconnections. To this end, we need to further accelerate the transition of our energy systems in particular through concrete simplifications in EU law and a reliable investment framework. We call for the focus to be on energy infrastructure that is designed on a pan-European basis and on closing existing gaps and bottlenecks. We will work together to find common ground on the future EU Climate and energy framework for 2040. We will implement the reform of the EU electricity market design adopted last year. It will contribute to reducing electricity price volatility for companies and consumers and incentivise investments in decarbonised electricity by providing stable revenues for producers. This will help lower electricity prices and strengthen European competitiveness.

While implementing our climate targets, we will also make sure to effectively prevent carbon leakage, as part of the revision of the European carbon market (ETS) and the implementation of the carbon border adjustment mechanism (CBAM). We need to ensure that the decarbonization trajectory and competitiveness of energy-intensive industries notably exposed to international trade are not hampered.

We have to implement CBAM and create clarity, efficiency, effectiveness and simplicity in its implementation, tackling the risks of resource shuffling and carbon leakage of downstream sectors, designing a WTO-compatible solution for exports, as well as cooperating with our partners in avoiding unintended consequences, while ensuring there are no possibilities of circumvention. We will collaborate closely to advance the work of the Climate Club.

- 6. To strengthen the EU's technological capabilities, we will promote cutting-edge research, research transfer and its industrialisation at European level** (in sectors such as AI, quantum, biotech, space, advanced materials, net zero technologies) by *(i)* fostering active partnerships with industry to improve technology transfer, *(ii)* building on and deepening the foundations laid by the European Innovation Council, especially by taking more risks, *(iii)* promoting a European venture capital industry in order to strengthen the financing of European start-ups and scale-ups and *(iv)* engage in identifying technologies where the development of an IPCEI would be relevant, for example in the Joint European Forum (JEF) and create added value for the EU's innovation ecosystem.

We need to foster health and pharmaceutical sectors, including through an ambitious Critical Medicines Act, in order to tackle our dependencies and enhance our sovereignty, resilience and capacity to innovate and produce in the EU. We call on the Commission to continue to strengthen the internal market in the health and pharmaceutical sectors, whilst ensuring adequate incentives for fostering and protecting innovation, and to develop a European research plan to find treatments for cancer, Alzheimer's disease and other neurodegenerative diseases, rare and orphan diseases, through an alliance of European research centres and shared initiatives.

Regarding digitalisation and artificial intelligence as well as other key technologies, we need a common understanding for a European Tech Deal that strengthens the EU's technological capabilities and that will accelerate digitalisation across industries and seizes opportunities of innovative technologies by *(i)* ensuring that the European regulatory framework fully unleashes the potential of the Single Market through a unified regulatory space. Such a framework has to preserve European innovation capacities and competition and resilience, its implementation and application should generate minimal red tape, it should be timely evaluated and, if necessary, improved, *(ii)* aiming to secure the value chain of game-changing digital technologies (from chips to computing capacity and large models) at the European level to mitigate the potential hegemony of major digital players, *(iii)* disseminating digital technologies (for e.g. AI, big data, cloud, 5G, robotics) and improving digital skills within companies and administration, and *(iv)* accelerating the development of European digital commons. We call to increase our common ambition, mobilize more investments regarding AI and data infrastructures and to improve European computing capacities, with an effective access for European start-ups.

- 7. We will build on our high human capital and adapt our skills to promising new industrial jobs** by *(i)* fostering the development and circulation of human capital in the industry, *(ii)* working for a better recognition of qualifications across borders, and *(iii)* implementing a European visa coordination scheme for employees, founders and investors of tech start-ups. Building on the success of our bilateral transborder cooperation, we will promote European mobility for apprentices, with an ambitious target at European level, aiming at defining a unified status for apprentices on a mobility scheme in another EU Member State, and working on a mutual and automatic recognition of qualifications and providing adequate financial support.
- 8. We call for an ambitious, robust, open and sustainable EU trade policy**, that allows fair trade agreements to promote EU interests, diversification, resilience, social standards and sustainability. In order to ensure a global level playing field, the EU's toolbox should be used consistently, where necessary, to effectively encounter unfair or abusive trade or competition practices. We need to modernize the EU's approach on trade agreements, in light of the geostrategic need for securing our supply chains and reflecting the trade and sustainable development approach adopted by the Commission in June 2022, and by focusing on thematic areas of mutual interest with partners across the globe, that guarantees a true level playing field and creates mutually beneficial market access opportunities. The EU should adopt a pragmatic and flexible stance in reaching these objectives which include deeper partnerships based on mutual respect and on equal footing. This encompasses the aim to increase local value creation, in particular the processing of raw materials locally as well as the use of local sources of energy including for the production of fertilisers in line with partner countries' interests. We underscore our objective to strengthen transatlantic trade and investment in a mutually beneficial way, reflecting the importance of this relationship.

We commit to strengthening the multilateral, rules-based trading system with the WTO at its core. The full restoration of the two-tier dispute settlement mechanism is of the utmost importance.

We call for ensuring, in line with WTO rules, that products imported into the Single Market meet all relevant product standards, and underline the need for an effective implementation and enforcement of relevant legislation.

EU's **economic security** needs to be enhanced by making progress in all pillars of the European Economic Security Strategy: Promote, Partner and Protect. This also includes an effective screening of non-European investments in sensitive sectors and strengthening Europe's global partnerships.

We will enhance the coordination of our external financing tools, while respecting their respective mandates. The EU Global Gateway strategy could be made more impactful by having Team Europe work more closely with national ECAs which have experience in mobilising private capital, building on the French-German longstanding cooperation (for example in aircrafts through mutual reinsurance schemes) and exploring new fields (critical raw materials, industry decarbonation, Ukraine's reconstruction, etc.).

9. **Stepping up investment in security and defence to support our European defence technological and industrial base, together with our defence readiness and resilience.** We need to reduce our critical dependencies and strengthen our capability to design and produce the defence goods and technologies we need in the European Union. Therefore, we should jointly boost our defence industries, inter alia by reviewing possibilities to aggregate demand and identifying appropriate models for cooperation in early stages of the production chain, including critical raw materials. We should also enhance defence industry's cooperation and work towards a greater integration across borders. We need to improve the European defence industry's access to public and private finance and recall the European Council's invitation to the Council and the Commission to explore all options for mobilising funding (and report back by June). We should enable further investment by the EIB in the security and defence sector, in a manner which takes into account the impact on EIB's risk profile and that safeguards EIB's financing basis.