Address by Mr. Draghi – Presentation of the report on the Future of European competitiveness – European Parliament – Strasbourg – 17 September 2024

Dear Madame President,

Dear Honourable Members of the European Parliament,

Dear Executive Vice-President of the European Commission,

Let me start by saying that I'm very honoured to be invited to speak to you in this plenary today.

And I would like to thank the President of the European Parliament, Roberta Metsola, for this invitation and for her continuous support of my work.

Let me also thank the representatives of the political groups whom I had the pleasure to meet some weeks ago. Our exchange was wide-ranging, frank, fruitful and contributed decisively to shaping my thinking as I was finalising the report.

Last week, I presented this report on the future of Europe's competitiveness to the President of the European Commission.

The starting point is that Europe is facing a world undergoing dramatic change. World trade is slowing, geopolitics is fracturing and technological change is accelerating.

It is a world where long-established business models are being challenged and where some key economic dependencies are suddenly turning into geopolitical vulnerabilities.

Of all the major economies, Europe is the most exposed to these shifts.

We are the most open: our trade-to-GDP ratio exceeds 50%, compared with 37% in China and 27% in the United States.

We are the most dependent: we rely on a handful of suppliers for critical raw materials and import over 80% of our digital technology.

We have the highest energy prices: EU companies face electricity prices that are 2-3 times higher than those in the United States and in China.

We are severely lagging behind in new technologies: only four of the world's top 50 tech companies are European.

And we are the least ready to defend ourselves: only ten Member States spend more than or equal to 2% of GDP on defence, in line with NATO commitments.

In this setting, we are all anxious about the future of Europe.

My concern is not that we will suddenly find ourselves poor and subservient to others. We still have many strengths in Europe.

It is that, over time, we will inexorably become less prosperous, less equal, less secure and, as a result, less free to choose our destiny.

The European Union exists to ensure that Europe's fundamental values are always upheld: democracy, freedom, peace, equity and prosperity in a sustainable environment.

If Europe cannot any longer deliver these values for its people, it will have lost its reason for being.

So, this report is not only about competitiveness – it is about our future and the common commitment that we need to reclaim it.

The challenges Europe faces are complex and, as such, they present us with difficult choices. But they are choices we must confront.

The purpose of this report is to lay out a strategy for Europe to change course: pinpointing the priorities we should focus on, explaining the trade-offs we face, and offering pragmatic solutions to resolve them.

The report identifies three main areas for action.

The first is aiming at closing the innovation gap with the United States and China.

EU companies spent around EUR 270 billion less on R&D than their US counterparts in 2021, largely because we have a static industrial structure dominated by the same companies and technologies as decades ago.

The top 3 investors in R&D in Europe have been dominated by automotive companies for the last twenty years. It was the same thing in the US in the early 2000s, with autos and pharma leading, but now the top 3 are all tech companies.

The core problem in Europe is that new companies with new technologies are not rising in our economy. In fact, there is no EU company with a market capitalisation over EUR 100 billion that has been set up from scratch in the last fifty years. All six US companies with valuations above EUR 1 trillion have been created in that period of time.

This lack of dynamism does not reflect lack ideas or lack of ambition. Europe is full of talented researchers and entrepreneurs. It is because innovation often lacks synergies, and because we are failing to translate ideas into commercial success. Innovative companies that want to scale up in Europe are hindered at every stage by the lack of a Single Market and an integrated capital market, stopping the cycle of innovation in its tracks.

As a result, many European entrepreneurs prefer to seek financing from US venture capitalists and scale up in the US market. Between 2008 and 2021, close to 30% of the "unicorns" founded in Europe – that is to say, start-ups that went on the be valued at over USD 1 billion – relocated their headquarters abroad.

And these figures do not include the many young, talented Europeans who go to study in the United States and found their companies there. It is a huge loss for our economy in terms of jobs and brain drain.

The innovation gap is at the root of Europe's slowing productivity growth relative to the US. So, we must bring innovation back to Europe – and the report proposes to do so through reforming the whole innovation ecosystem.

It starts with establishing our universities and research institutions at the frontier of academic excellence, and making it easier for researchers to commercialise their ideas. Only about one-third of the patented inventions registered by European universities are commercially exploited.

The next step is encouraging innovative start-ups to scale up in Europe by removing regulatory hurdles. This is not about deregulation: it is about ensuring the right balance between caution and innovation, and ensuring that regulation is consistently applied within Europe.

A key initiative we propose is the creation of a new EU-wide legal statute: the "Innovative European Company". This status would immediately provide companies with a single digital identity valid throughout the EU, and it is foreseen that these companies could then have access to harmonised legislation.

We also call for a profound review of how we spend public money on innovation in Europe. If spent wisely, public funds can be a powerful tool to launch breakthrough technologies. These technologies are often too risky or require too much financing for the private sector to undertake alone, especially in an environment like ours is where scaling up is typically difficult.

Yet, even though the public sector in the EU spends about as much on innovation as the United States as a share of GDP, just one-tenth of this spending takes place at the EU level. The report calls for EU spending on innovation to be expanded and refocused on a smaller number of commonly agreed priorities, with a larger allocation for disruptive innovation. In other words, we need to increase the intensity of financing.

The success of these measures will in turn depend on integrating the Single Market and Europe's capital markets, so that private investment can be reoriented towards hi-tech sectors and the industrial structure can evolve.

Finally, a critical issue for Europe will be integrating new technologies like artificial intelligence into our industrial sector. AI is improving incredibly fast, as the latest models released in the last few days show. We need to shift our orientation from trying to restrain this technology to understanding how to benefit from it.

The cost of training frontier AI models is still high, which is a barrier for companies in Europe that don't have the backing of US big tech firms. But, on the other hand, the EU has a unique opportunity to lower the cost of AI deployment by making available its unique network of high-performance computers.

The report recommends increasing the capacity of this network and expanding access to start-ups and industry. Many industrial applications of AI do not require the latest advances in generative AI, so it's well within our reach to accelerate AI uptake with a concerted effort to support companies.

That said, the report recognises that technological progress and social inclusion do not always go together. Major transitions are disruptive. Inclusion hinges on everyone having the skills they need to benefit from digitalisation.

So, while we want to match the United States on innovation, we must exceed the US on education and adult learning. We therefore propose a profound overhaul of Europe's approach to skills, focused on using data to understand where skills gaps lie and investing in education at every stage.

For Europe to succeed, investment in technology and in people cannot substitute for each other. They must go hand in hand.

The second area for action is a joint plan for decarbonisation and competitiveness.

If Europe's ambitious climate targets are matched by a coherent plan to achieve them, decarbonisation will be an opportunity for Europe. But if we fail to coordinate our policies, there is a risk that it could run contrary to competitiveness – and ultimately be delayed or even rejected.

The first priority is to lower energy prices.

Over time, decarbonisation will help shift power generation towards secure, low-cost, clean energy sources. But without a European plan, it will take a long time before end users see the full benefits.

In 2022, at the peak of the energy crisis, natural gas was the price-setter 63% of the time, despite making up only 20% share of the EU's electricity mix. Even if our renewable targets are met, fossil fuels will still set energy prices for much of the time for at least the remainder of this decade.

We must transfer the benefits of decarbonisation faster to Europeans by making energy prices lower and less volatile in Europe. And the report puts forward a set of – several initiatives – to achieve this goal.

In parallel, we call for pressing ahead with clean energy installation in a technology-neutral way. This approach should include renewables, nuclear, hydrogen, bioenergy, and carbon capture, utilisation and storage.

Increasing the pace of permitting and raising investment in grids will be key – *the key* – to unlocking this potential. Otherwise, by 2040 we could lose up to 10 times more renewable energy generation than we lose today owing to grid constraints. From a European perspective, rapidly increasing the deployment of interconnectors should be the focus.

Decarbonisation is also an opportunity for the EU industry.

The EU is a world leader in clean technologies like wind turbines, electrolysers and low-carbon fuels. We are also strong in green innovation. More than one-fifth of clean and sustainable technologies worldwide are developed here.

Yet, it is not guaranteed we will seize this opportunity. Chinese competition is becoming acute, driven by a powerful combination of subsidies, innovation and scale. By 2030 at the latest, China's annual manufacturing capacity for solar photovoltaic is expected to be double the level of global demand, and for battery cells it is expected to at least cover the level of global demand.

Europe faces a trade-off. Increasing reliance on China may offer the cheapest route to meeting our climate targets. But China's State-sponsored competition represents a threat to otherwise productive industries, and to the promise that the green transition will bring "good green jobs".

We will not be able to manage this challenge with black-and-white solutions. This is why the report proposes a differentiated approach according to sectors and technologies.

There are some technologies, like solar panels, where foreign producers are too far ahead and attempting to capture production in Europe will only set back decarbonisation. Even if those countries are using subsidies, we should let foreign taxpayers finance cheaper installation of clean energy in Europe.

There are other sectors, however, where we are open to using foreign technology and to increasing inward investment.

There are still other sectors, like batteries, where we do not want to be fully dependent on foreign technology for strategic reasons, and so it is key to keep the know-how in Europe. Determining strategic value should take place according to rigorous criteria which avoid protecting vested interests.

Finally, there are the so-called "infant industries" where Europe has an innovative edge that we need to nurture until companies are ready to compete internationally.

To be clear: this should not be read by anyone as a call for blanket protectionism. Our priority is to do everything possible to make all partners comply with the WTO rules, including those who presently do not. Although some of the proposals in the report will require negotiations, they are generally aligned with the spirit of those rules.

Insofar as we use trade measures, they should be careful, defensive and especially designed only to level the playing field. We should clearly distinguish between innovation abroad – which is good for Europe – and State-sponsored competition, which harms our workers.

The proposals should also not be seen as a programme for defending national champions or "picking winners", like some of the failed industrial policies of the past. In fact, the report argues for returning to the normal State aid regime, while foreseeing State aid for investment projects of common European interest.

The third area for action is increasing security and reducing dependencies.

Peace is the first and foremost objective of Europe, at home and abroad. And we must continue in this steadfast effort. But security threats are rising and we must prepare.

For Europe to remain free, we must be more independent. We must have more secure supply chains for critical raw materials and technologies. We must increase production capacity at home in strategic sectors. And we must expand our industrial capacity in defence and space.

But independence comes at a cost.

Securing critical raw materials will mean diversifying away from countries that were the cheapest suppliers in the world of yesterday. Strengthening the supply chain for semiconductors will require major new investments. The cost of developing our defence capability will be substantial.

These costs will be much more manageable if we have a strategy to reduce our dependencies and increase our security together.

The report recommends developing a genuine EU "foreign economic policy", coordinating preferential trade agreements and direct investment with resource-rich nations, building up stockpiles in selected critical areas, and creating industrial partnerships to secure the supply chain of key technologies.

It also sets out a strategy to enhance Europe's domestic presence in the most advanced chips segments.

This "foreign economic policy" should reflect European values and reconcile our security interests with solidarity towards middle and low-income countries, helping them to develop and decarbonise as we do.

For defence, our key weakness is excessive fragmentation of the industrial base, compounded by lack of coordination among Member States, unnecessary duplication and lack of interoperability of equipment. In the defence sector, common planning comes before common expenditure.

EU countries are, collectively, the second largest military spenders in the world, but we do not help our defence and space industries to build up scale. Collaborative procurement accounted for less than a fifth of spending on defence equipment procurement in 2022. Almost four-fifths of total procurement spending went to non-EU suppliers.

The report therefore recommends increasing substantially the aggregation of demand between groups of Member States, as well as raising the share of joint defence procurement and common R&D spending.

In the defence sector, this consolidation of spending should be matched by selective integration and consolidation of EU industrial capacity, with the explicit aim of increasing scale, standardisation and interoperability.

However, at the same time, higher scale should not lead to lower competition. Europe has many highly sophisticated SMEs in the defence sector that could make an exceptional contribution to our common defence.

A key question that has arisen in the last few days is how to finance the massive investments that transforming Europe's economy will entail.

Europe has set itself a series of ambitious objectives that have been endorsed by EU institutions and the Member States.

We have enshrined becoming carbon-neutral by 2050 in EU law. We have committed to raise public spending on innovation to 3% of GDP a year. Member States that are part of NATO are committed to invest at least 2% of GDP on defence per year. Over the past months, this House and the EU leaders have discussed and agreed on the urgent, immediate and medium-term defence needs for Europe. And they have also set out targets for upgrading our digital infrastructure as part of the Digital Decade.

The report contains a bottom-up analysis by Commission staff of the investment needs to carry out these objectives. And they reach the conclusion that EUR 750-800 billion in additional investment will be required each year. Analysis by the European Central Bank arrives at similar figures.

These investments are vital to carry out the objectives of the report. But let me be clear: they are not new investment needs that the report has identified. They are the needs required to *deliver on the EU's existing objectives*. Once these objectives were agreed, the numbers followed.

However, it is a massive volume of investment. And we calculate that, to marshal investment on this scale, the share of investment in GDP would have to rise to levels not seen in Europe since the 1960s and 70s. The effort would be more than double that of Marshall Plan.

So, we must ask the question of how we will finance it.

Historically, investment in Europe has been financed about 80% privately and 20% publicly. We asked staff from the Commission and the International Monetary Fund to conduct simulations to see whether we could maintain that split for such a large investment push.

The results show that to finance this volume of investment, we must make progress on Capital Markets Union, so that private savings can be channelled into investment across the whole EU. But even with mobilising private finance, public support will still be required.

Two key conclusions emerge.

First, if the EU carries out the strategy outlined in the report and productivity rises, capital markets will be more responsive to the flow of private savings, and it will be much easier for the public sector to finance its share. Faster productivity growth could reduce the costs for governments by one-third.

Second, to lift productivity, some joint investment in key projects – such as breakthrough research, grids, defence procurement – will be critical, and these projects could be funded through common debt.

It is natural that these large numbers create worries about rising debt levels. It is also legitimate to be concerned about common debt issuance.

But it is important to remember that this debt is not for general government spending or subsidies. It is to carry out the objectives that are critical for our future competitiveness, and that – and I stress this – we have all already agreed upon.

If one objects to building a true Single Market, to capital market integration, and objects to debt issuance, one objects to our EU objectives.

This report has come out at a difficult time for our continent.

On many key questions, we are divided about what to do. There is discontent in large parts of Europe about the direction in which we are heading. And there is considerable unease about the future.

My role, as set out by the European Commission, is to present you with a diagnosis of where Europe stands and to offer you recommendations on how to move forward. But it is for you, our elected representatives, to turn this agenda into actions.

We will only overcome division in Europe if the will to change receives broad democratic backing. The choices we face are too important to be settled by technocratic solutions. Our elected institutions must be at centre of the debate on Europe's future – and on the actions that will shape it.

I trust that we can find consensus, if only because the alternatives look progressively bleaker.

As I observed some time ago, Europe faces a choice between paralysis, exit or integration. Exit has been tried and has not delivered what its proponents hoped for. Paralysis is becoming untenable as we slide towards greater anxiety and insecurity.

So, integration is our only hope left.

It is important that all of us understand that the size of the challenge we face far exceeds the size of our national economies. And we are facing a world where we risk losing not just peace, but also our freedom.

In this world, it will be only through unity that we will be able to retain our strength and defend our values.

Thank you.