Good morning to everybody,

This, in essence, is the first time that I have the opportunity to start sharing with you the overall, not philosophy, we are not there yet, but how the overall design and philosophy of the report is shaping out.

For a long time, competitiveness has been a contentious issue for Europe.

In 1994, the economist, Nobel-prized, Paul Krugman called focusing on competitiveness a "dangerous obsession". His argument was that long-term growth comes from raising productivity, which benefits everyone, rather than through trying to improve your relative position against others and capture their share of growth.

The approach we took to competitiveness in Europe after the sovereign debt crisis seemed to prove his point. We pursued a deliberate strategy of trying to lower wage costs relative to each other – and combined this together with a procyclical fiscal policy - the net effect was only to weaken our own domestic demand and undermine our social model.

The key issue is not that competitiveness is a flawed concept. It is that Europe has had the wrong focus.

We have turned inwards, seeing our competitors as ourselves, even in sectors like defence and energy where we have profound common interests. At the same time, we have not looked outwards enough: with a positive trade balance, after all we did not see our external competitiveness as a serious policy question.

In a benign international environment, we trusted in the global level playing field and the rules-based international order, expecting that others would do the same. But now the world is changing rapidly, and it has caught us by surprise.

Most importantly, other regions are no longer playing by the rules and are actively devising policies to enhance their competitive position. At best, these policies are designed to re-direct investment towards their own economies at the expense of ours; and worst, they are designed to make us permanently dependent on them.

China, for example, is aiming to capture and internalise all parts of the supply chain in green and advanced technologies and is securing the access to the required resources. This rapid supply expansion is leading to significant overcapacity in multiple sectors and threatening to undercut our industries.

The United States, for its part, are using large-scale industrial policy to attract high-value domestic manufacturing capacity within the borders – including that of European firms – while using protectionism to shut out competitors and deploying its geopolitical power to re-orient and secure supply chains.

We have never had an equivalent "Industrial Deal" at the European Union level, even though the Commission has been doing everything in its power to fill this gap. As such, despite a number of positive initiatives that are underway, we are still lacking an overall strategy for how to respond in multiple areas.

We are lacking a strategy for how to keep pace in an increasing cutthroat race for leadership in new technologies. Today we invest less in digital and advanced technologies than the US and China, including for defence, and we only have four global European tech players among the top 50 worldwide.

We are lacking a strategy for how to shield our traditional industries from an unlevel global playing field caused by asymmetries in regulations, subsidies and trade policies. Energy-intensive industries are a case in point.

In other regions, these industries not only face lower energy costs, but they also face a lower regulatory burden and, in some cases, they are receiving massive subsidies which directly threat the ability of European firms to compete.

Without strategically designed and coordinated policy actions, it is logical that some of our industries will shut down capacity or relocate outside the European Union.

And we are lacking a strategy to ensure that we have the resources and inputs we need to fulfil our ambitions without increasing our dependencies.

We rightly have an ambitious climate policy agenda in Europe and hard targets for electric vehicles. But in a world where our rivals control many of the resources we need, such an agenda has to be combined with a plan to secure our supply chain – from critical minerals to batteries to charging infrastructure.

Our response has been constrained because our organisation, decision-making and financing are designed for “the world of yesterday” – pre-Covid, pre-Ukraine, pre-conflagration in the Middle East, pre return of great power rivalry.

But we need, we need,an European Union that is fit for today’s and tomorrow’s world. And so what I am proposing in the report that the President of the Commission has asked me to prepare, is radical change, because that is what is needed.

Ultimately, we will need to achieve transformation across the European economy. We need to be able to rely on decarbonised and independent energy systems; an integrated and adequate EU-based defence system; domestic manufacturing in the most innovative and fast-growing sectors; and a leading position in the deep-tech and digital innovation that is close to our manufacturing basis.

But with our competitors moving fast, we must also assess priorities. Immediate actions are needed in the sectors with the highest exposure to green, digital and security challenges. In my report, we are focusing on ten of these macro-sectors in the European economy.

Each sector requires specific reforms and tools. Yet in our analysis there are **three emerging common threads** for policy interventions.

The first common thread is **enabling scale**. Our major competitors are taking advantage of the fact that they are continental-sized economies to generate scale, increase investment and capture market share for the industries where it matters most. We have the same natural size advantage in Europe, but fragmentation is holding us back.

In the defence industry, for example, lack of scale is hampering the development of European industrial capacity, which is a problem acknowledged in the recent European Defence Industrial Strategy. The top five players in the United States represent 80% of its larger market, while in Europe they constitute only 45%.

This difference arises in large part because EU defence spending is fragmented.

Governments do not procure much together – collaborative procurement accounts for less than 20% of spending – and they do not focus enough on our own market: almost 80% of procurement over the last two years has been from outside the European Union.

To meet new defence and security needs, we need to step up our joint procurement, increase the coordination of our spending and the interoperability of our equipment, and substantially reduce our international dependencies.

Another example where we are not making use of scale is telecommunications. We have a market of 445 million consumers in the EU, but investment per capita is only half of that in the United States, and we are lagging in 5G and fibre deployment.

One reason for this gap is that we have 34 mobile network groups in Europe and by the way 34 is a conservative estimate, we have in fact many more but 34 is the consolidated group figure. So, we have 34 mobile network groups in Europe
often operating only on a national scale, versus three in the United States and four in China. To produce more investment, we need to streamline and further harmonise telecoms regulations across Member States and support – not hamper - consolidation.

And scale is crucial also in a different way, for young companies that generate the most innovative ideas. Their business model depends on being able to grow fast and commercialise their ideas, which in turn requires a large domestic market. And scale is also essential for developing for new innovative medicines through the standardisation of the European Union patients' data and the use of artificial intelligence, which needs all this wealth of data we have, if only it could be standardized.

In Europe we are traditionally very strong in fundamental research, but we are failing to bring innovation to market and upscale it.

We could address this barrier by, among other things, reviewing current prudential regulation in bank lending and setting up a new common regulatory regime for start-ups in tech.

The second thread is **providing public goods**. Where there are investments from which we all benefit, but no country can carry out alone, there is a powerful case for us to act together – otherwise we will underdeliver relative to our needs. We will underdeliver in climate and defence for example, but in other sectors as well.

There are several chokepoints in the European economy where lack of coordination means that investment is inefficiently low. Energy grids, and in particular interconnections, are one such example.

They are a clear public good, as an integrated energy market would lower energy costs for our firms and make us more resilient in the face of future crises – a goal that the Commission is pursuing in the context of REPowerEU.

But interconnection require decisions on planning, financing, procurement of materials and governance that are difficult to coordinate – and so we will not be able to build a true Energy Union unless we agree on a common approach.

Another example is our super computing infrastructure. The EU has a public network of high-performance computers (HPCs) which is world-class, world-class, but the spillovers to the private sector are currently very, very limited.

This network could be used by the private sector – for example Artificial intelligence startups and SMEs – and in return, the financial benefits received could be reinvested to upgrade High Power Computers and support an EU cloud expansion.

Once we identify these public goods, we also need to give ourselves the means to finance them. The public sector has an important role to play, and I have spoken before about how we can better use the joint borrowing capacity of the EU especially in areas – like defence – where fragmented spending reduces our overall effectiveness.

But most of the investment gap will need to be covered by private investment. The EU has very high private savings, but they are mostly funnelled into banks deposits and do not end up financing growth as much as they could in a larger capital market. This is why advancing the Capital Markets Union (CMU) is an indispensable part of the overall competitiveness strategy.

The third thread is securing the **supply of essential resources and inputs**.

If we are to carry out our climate ambitions without increasing our dependence on countries on whom we can no longer rely, we need a comprehensive strategy covering all stages of the critical mineral supply chain.

We are currently largely leaving this space to private actors, while other governments are directly leading or strongly coordinating the whole chain. We need a foreign economic policy that delivers the same for our economy.

The Commission has already started this process with the Critical Raw Materials Act, but we need complementary measures to make its target more tangible. For example, we could envisage a dedicated EU Critical Mineral Platform, primarily for joint procurement, secure diversified supply, the pooling of financing, and stockpiling.

Another crucial input which we need to secure – and this is particularly relevant to you, the social partners – is our supply of skilled workers.

In the EU, three-quarters of companies report difficulties in recruiting employees with the right skills, while 28 occupations representing 14% of our workforce are currently identified as having labour shortages.

With ageing societies and a less favourable attitudes towards immigration we will need to find these skills internally. Multiple stakeholders will need to work together to ensure the relevance of skills and shape flexible upskilling pathways.

One of the most important players in this regard will be you the social partners. You always have been crucial in times of change, and Europe will rely on you to help adapting our labour market to the digital age and empower our workers.

These three threads require us to think deeply about how we organise ourselves, what we want to do together and what to keep at the national level. But given the urgency of the challenge we face, we do not have the luxury of delaying the answers to all these important questions until the next Treaty change.

To ensure coherence between different policy tools, we should be able to develop now a new strategic tool for the coordination of economic policies.

And if this is not feasible, in specific cases, we should be ready to consider going forward with a subset of Member States. For example, enhanced cooperation in the form of a 28th regime could be a way forward for the CMU, for the capital markets union. To mobilise investments.

As a rule, political cohesion demands that we act together. Possibly always. We need to be aware that the same political cohesion is now being threatened by the changes in the rest of the world.

Restoring our competitiveness is not something we can achieve alone, or by beating each other. It requires us to act as a European Union in a way we never have before.

Our rivals are stealing a march on us because they can act as one country with one strategy and align all the necessary tools and policies behind it.

And if we are to match them, we will need a renewed partnership among Member States – a re-define of our Union that is no less ambitious than what the Founding Fathers did 70 years ago with the creation of the European Coal and Steel Community.

Thank you.