

What the EU Needs to Halt Its Decline and Regain Control of Its Destiny

THE DRAGHI REPORT ON
EUROPEAN COMPETITIVENESS



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The future
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1. Introduction

On 9 September, 2024, Mario Draghi, addressing the European Parliament, delivered a report on the **future of European competitiveness** [1]. This report, commissioned by the presidency of the European Commission, gathers and analyses a vast amount of data, most of it already known, collected and published by various research centres and public institutes. These data offer us a comprehensive picture of the health of our European Union and indisputably expose its difficulties and loss of competitiveness, particularly in comparison with two major global competitors, the United States and China. It comes hot on the heels of the presentation of another report, Enrico Letta's **Much More than a Market** [2], which, focusing on the need to complete the European single market, similarly highlights the limits of the level of integration achieved by the EU to date.

Draghi's report, for its part, examines in depth the weaknesses of the European system as a whole, and addresses both the need for a new common industrial strategy and the need to reform EU governance. In recent years, Europe has indeed lost considerable ground to its main competitors (China and the US), especially in advanced tech sectors where its failure to keep pace with innovation has seriously harmed productivity, which in Europe has remained too low. Europe also struggles for other reasons: its dependence on external partners in many strategic sectors (in addition to the technology sector, we may cite, in particular, that of security and the supply of essential raw materials and energy); its excessively low rate of investments and poor efficiency in procuring the resources necessary for growth; and the fragmentation of its capital market and banking system.

In short, the EU is increasingly lagging behind, a situation that is leading to: progressive impoverishment of our societies and of large sections of the European population;

greater inequalities and a consequent loss of social cohesion; a growing difficulty in maintaining the levels of welfare that Europe had previously achieved; and a weakening of the democratic fabric within the member states. And all this, combined with our strategic dependence and inability to guarantee our own security, is also threatening our freedom.

Fundamentally, the malfunctioning of the system, which the Draghi report demonstrates factually through numerous concrete examples, is linked to the financial, economic and, ultimately, political fragmentation of the European Union. Always, and across all areas, the cause of the EU's failure to develop its still-enormous potential lies in the persistence of a system fragmented into national political and regulatory frameworks, and in the member states' inability to take the decisive steps towards the indispensable greater integration that would give rise to a truly unitary framework.

The report points out that effective *'industrial policies today — as seen in the US and China — comprise multi-policy strategies, combining fiscal policies to incentivise domestic production, trade policies to penalise anti-competitive behaviour abroad and foreign economic policies to secure supply chains. (...)* However, owing to its complex governance structure and slow and disaggregated policymaking process, the EU is less able to produce such a response.' The member states, it goes on to explain, each act with a view to protecting their own national interests, rather than prioritising mutual coordination; and this lack of coordination also applies to financial instruments.

[1] M. Draghi, The Future of European competitiveness, September 2024, [1] M. Draghi, The future of European competitiveness, Settembre 2024, https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en
[2] E. Letta, Much more than a Market, Aprile 2024, <https://european-research-area.ec.europa.eu/documents/letta-report-much-more-market-april-2024>

The EU's real problem, therefore, is to achieve a real awareness of the transformations that are taking place in the world and the consequent need to change its economic and governance model. A single market in which policies, including industrial policy, remain national is no longer sufficient; today, we need to act together in a whole series of areas that currently remain the prerogative of the member states (whereas the national perspective and national instruments are completely inadequate). For this reason, the EU must become a true political union and equip itself with appropriate governance tools, suited to the new challenges. The EU could still recover the ground it has lost, and does indeed potentially have what it takes to become a virtuous model for the rest of the world; but, as Draghi has already said on other occasions, the EU needs to embrace 'pragmatic federalism' and 'become a state'. As the report says, 'In many areas, the EU can achieve a lot by taking a large number of smaller steps, but doing so in a coordinated way that aligns all policies behind the common goal. In other areas, a small number of larger steps are needed — delegating tasks to the EU level that can only be performed there.'

Clearly, Donald Trump's election to the White House makes this necessary change in Europe all the more pressing. It was Draghi again, speaking on the fringes of the European Council meeting in Budapest on November 8, who pointed out that Europe can no longer afford to postpone decisions while it waits for consensus. It has already tried that, and the consensus didn't come. What came, instead, was stagnation.

What this means, according to Draghi in his report, is that should it prove impossible to advance as a bloc of 27 — if the consensus doesn't come, to use his Budapest expression —, then it will take a group of willing states to press ahead alone, even by means of agreements reached outside the framework of the Treaties. Because the priority is to overcome the current state of paralysis and deepen integration, even if that means building a European Union based on different levels of integration.



That is why the EU must become a true political union and give itself the appropriate governance tools to face the new challenges. The potential to make up lost ground is there and, indeed, the EU would have the numbers to become a virtuous model for the rest of the world.



We can no longer postpone decisions: we waited for consensus, and consensus did not come, stagnation arrived

**Mario Draghi
Budapest, 8 November 2024**

Through this paper, we, as the **European Federalist Movement (Movimento Federalista Europeo, MFE)**, aim to contribute to the process of reflection started by the Draghi report, and we start from the need not to underestimate its political message. Europe is in very grave danger of being completely crushed; and it is precisely because Europe's problem is primarily political that the urgent strategy outlined in the report embraces all areas. On the one hand, therefore, we must be careful not to fall into the trap of mistaking the report for a set of economic proposals, thereby failing to grasp the political core of Draghi's analysis; and on the other, we must avoid the temptation to merely implement single, uncoordinated projects, when what is actually needed is a shared and coherently pursued strategy across all the necessary areas: an all-round strategy that, as Draghi himself indicates, covers finance, industrial policy, foreign and commercial policy, security and defence. And this strategic vision remains valid even should it be deemed opportune to start the process with some initial, intermediate steps; in this case, there should nevertheless still be a very clear understanding of the political framework that needs to be built, namely a very clear understanding that the outcome has to be the creation of a supranational political community, endowed with its own sovereignty in areas

agreed among the member states. And the same applies even should a group of governments decide to press ahead outside the framework of the Treaties. In so doing, they would have to be clear that they are striving to reach the capacity for, in the future, a unitary and coherent government of all areas.

In addition to having to be based on a shared vision, the unitary strategy suggested by Draghi also raises the question of Treaty reform. The report indeed shows that some transfers of competences and powers are, in fact, unavoidable, and this automatically raises the question of democratic control, i.e., of the need for active involvement of the European Parliament as the representative of the citizens, for a solid and more direct link between the popular vote and the selection of the European Commission (together with the European government's choices), and for a strengthening of the role of Court of Justice in Luxembourg. Therefore, **opening the debate on institutional changes** (also linking them to the need to equip the EU with the tools necessary to implement the new European course) **is a necessary step**. Accordingly, our second point concerns the essential reforms of governance needed in the light of the report.

Summary

Draghi's report on competitiveness is not a proposal of purely economic solutions, but rather an organic analysis of the competitiveness of all economic sectors.

A comprehensive European political strategy is needed to implement it, and we cannot therefore limit ourselves to implementing single projects that are not coordinated with each other.

The member states can implement this strategy only: 1) through institutional reforms, giving decision-making powers to the EU through a reform of the Treaties, or 2) by advancing through intermediate steps in all sectors, but with the clear vision of moving towards a future unitary European government.

2. The Essential Reforms of European Governance Needed in the Light of the Draghi Report

First of all, **it highlights the need to accelerate innovation in technological sectors in order to catch the next wave of the industrial revolution.** To this end, in a nutshell, we need to be able to promote the development of cutting-edge technologies (e.g., generative AI) and advanced training (also by investing in research centres and academic institutions of excellence), and better integrate new digital technologies in industry (in the chemical and pharmaceutical sectors, for example). These objectives imply the need, on the one hand, to eliminate the national barriers that still prevent European companies (especially tech ones) from growing large enough to be competitive at global level; and on the other, to review both the model of widespread regulatory harmonisation and the bureaucratic obstacles that characterise the EU and the member states and hamper innovation and industrial development.

Second, **a new balance has to be found between the ongoing decarbonisation process and the European economy's need to recover competitiveness.** On the one hand, the EU must maintain its climate ambitions, and thus the target of climate neutrality envisaged by the Green Deal. At the same time, it is essential to develop more effective tools to pursue the European economy and European society's green transition. This can be done, first of all, by investing massively in the development of cutting-edge clean technologies to be applied to European industry and transport

(e.g., in the development of new generations of electric batteries), but also by reducing taxation on less polluting energy products and by moving towards joint rare earth purchases.

Europe's **third competitiveness challenge concerns its need to pursue greater security by reducing its dependence on the outside world.** It therefore has to develop a foreign economic policy that will result in diversification of the sources of the energy and raw material supplies it needs for industrial production. European investment policy, on the other hand, must be designed to encourage increased domestic production of strategic technological products, such as microchips. There is also a need to relaunch the European defence industry, which remains fragmented and heavily dependent on the United States.

To be able to develop these long-term strategies, the member states have to agree to radically change the current system, which focuses solely on the internal market; and they must also agree on the need to adapt the tools currently available to the EU within the legal framework defined by the Treaties in force.

In other words, the strategy outlined by Draghi requires a profound reform of the structural mechanisms of the Union's functioning, as also pointed out by the European Parliament in its resolution of November 2023 aimed at starting a procedure for amendment of the Treaties. [3]

[3] European Parliament resolution of 22 November 2023: https://www.europarl.europa.eu/doceo/document/TA-9-2023-0427_EN.html. See also: Luca Lionello, Parliament Activates the Treaty Revision Procedure: the Significance of the Vote and Europe's Priorities, *The Federalist*, 65, Single Issue, page 86, <https://www.thefederalist.eu/site/index.php/en/documents/2623-parliament-activates-the-treaty-reform-procedure-the-significance-of-the-vote-and-europes-priorities>, and Luca Lionello, La riforma dei Trattati presentata in AFCO pone le basi di un processo costituente federale, *Il Federalista*, 65 n. 1, p. 42, <https://www.thefederalist.eu/site/index.php/it/documenti/2597-la-riforma-dei-trattati-presentata-in-afco-pone-le-basi-di-un-processo-costituente-federale>.

The EU has to transform itself from an organisation that is essentially founded on voluntary cooperation between states in sectors close to the heart of sovereignty, and that lacks a political 'head', into an entity capable, in the sectors within its competence, of taking decisions democratically and independently of the member states, depriving the latter of the power of veto and becoming capable of expressing the general interest of the European citizens.

These reforms entail strengthening the Union's competences in certain sectors, transforming the Commission into an embryonic government of the Union, and reforming the EU's decision-making and financing mechanisms in a way that deprives the states of their right of veto and enables the Union to legislate and decide on its own financing democratically and autonomously vis-à-vis its member states.

a) Improving the EU's Decision-Making Capacity.

To improve the decision-making capacity of the European Union, it is necessary both to allow its institutions to act without being constantly blocked by the use of national vetoes, and to democratise decision-making mechanisms, removing them from the exclusive monopoly of the member states' governments. This will mean extending the ordinary legislative procedure to most decisions, and at the same time transferring the related competences to European level. In this way, the European Parliament will be enabled to permanently exercise the role of political co-decision maker of the Union alongside the Council, which will be required to speak by majority vote. In other words, it is a question of consolidating a substantially bicameral model, but also strengthening the political link between the European Commission and the Parliament and the role of the Court of Justice. This system would allow the efficient adoption and complete legitimisation of genuinely European policies aimed at the EU's general interest.



What is needed is the extension of the ordinary legislative procedure to most decisions, together with the transfer of the relevant competences to the European level; this will allow the Parliament to permanently exercise the role of political co-decider of the Union alongside the Council, which will have to decide by majority vote.

b) Reforming EU Financing.

At the same time, the Union has to be able to mobilise more financial resources for competitiveness. Some can be recovered without amending the current Treaties, a consideration that applies first and foremost to the resources that can be drawn from the private sector through completion of the single capital market. This would require removal of the barriers that still prevent the full movement of capital in Europe, greater supervisory and regulatory powers for the Union, and the introduction of European safe assets to function as key benchmarks in the financial market and allow citizens' resources to be mobilised towards European projects of common interest. Obviously, the creation of the EU's single capital market also rests on a strengthening of the financing capacity of the banking sector through greater recourse to securitisation, naturally in compliance with prudential rules, and on completion of the banking union.

In the area of national public spending, too, the existing conditions could be improved without touching the Treaties. In this context, the report proposes flanking the European Semester, still too focused on fiscal convergence, with a new 'Competitiveness Coordination Framework' that would make it possible to synchronise, at European level, the states' efforts in relation to strategic investments for the purchase of raw materials, the development of technological projects, energy production, and the strengthening of research and development policies.

At the same time, the report also underlines the need to increase public spending at European level through investments in common public goods (e.g., 'in grids and interconnectors, and financing the joint procurement of defence equipment and defence R&I'), with a view to strengthening the Union's competitiveness and security. To do this, it is essential to extend the Union's budgetary capacity, which means, among other things, freeing the European budget from the political constraints and size limits to which it is subject due to its total dependence (with the exception of the small portion made

up of revenue from duties) on sovereign decisions and member states' contributions.

It is therefore essential to amend the Treaties, granting the EU true autonomy when it comes to finding the resources necessary to finance these European public goods, and directly involving the European Parliament in this area. In fact, recourse to the possibility of issuing new common debt — building on the NextGenerationEU experience — must go hand in hand with the realisation that, in view of the need to repay the debt contracted and the interest on it, the EU also needs to be given its own, autonomous power of taxation, even if this extends only to taxes, on large corporations and financial transactions, conceived in synergy with the political and economic objectives pursued by the EU. Even an immediate first step in this direction — that of postponing NGEU debt repayment so as to instantly increase the resources available to the Commission for financing programmes geared at promoting innovation and increasing productivity — should be seen in this light.

Summary

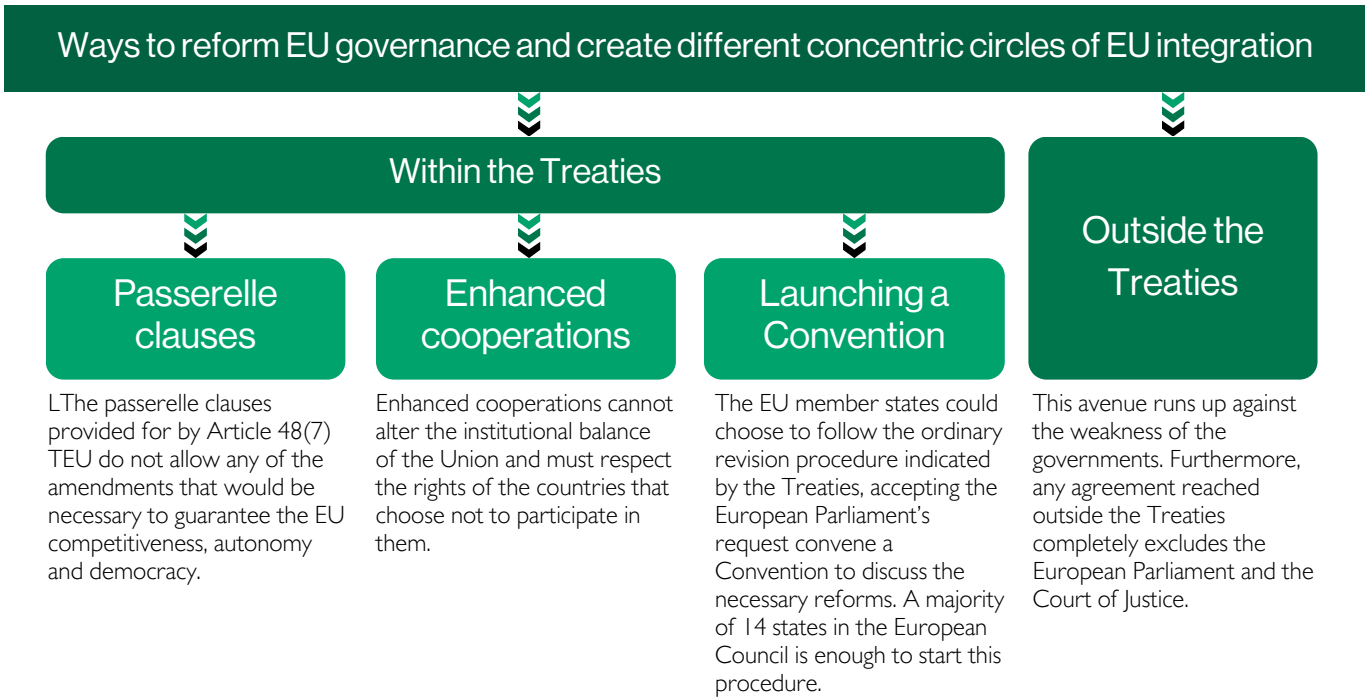
The EU must undertake major transformations to recover lost ground: accelerating innovation in strategic technological sectors, finding a new balance in the ongoing decarbonisation process, and pursuing greater European security by reducing its dependence on the outside. The strategy outlined by Draghi demands profound reform of the EU's structural mechanisms of functioning:

- 1) strengthening of the Union's competences in key areas;*
- 2) transformation of the Commission into an embryonic EU government;*
- 3) reform of the Union's decision-making and financing mechanisms, removing the member states' right of veto and enabling the Union to legislate and decide on its own financing in a democratic and autonomous manner vis-à-vis the member states.*

3. How Essential Reforms of European Governance Can Be Achieved

The Draghi report, in the reform of governance section, clearly says that there is a need for Treaty reform, and adds that even in this initial phase, with the governments still unable come to an agreement on starting a Treaty amendment procedure, useful steps in this direction can nevertheless be taken in the areas where they have the political will to work in a closely coordinated manner. Should this political will prove to be lacking at the level of the 27 member states, those that are 'willing' to proceed will have to go ahead and pave the way, defining a new EU structure based on different, concentric circles of integration. The report points out that the Treaties offer two legal instruments that can be leveraged to allow a group of countries to move ahead of the rest (use of passerelle clauses and the mechanism of enhanced cooperation), and that once these options have been exhausted (i.e., should they prove inapplicable), the only one that remains is that of an initiative by a group of governments outside the framework of the Treaties, along the lines of the ESM; this latter avenue completely excludes the European Parliament and the Court of Justice.

However, quite apart from the difficulty of reaching the political consensus required in order to use them, the instruments provided for by the Treaties remain difficult to apply in the framework outlined by the report. The passerelle clauses provided for by Article 48(7) TEU do not in fact allow any of the amendments that would be necessary to guarantee the European Union competitiveness, autonomy and democracy. First, these are clauses that effectively provide for the possibility of a transition from unanimity to qualified majority, or from a special to an ordinary legislative procedure, but they do so only for those competences already assigned to the EU by the Treaties; they therefore cannot be used to increase the competences of the Union, or to strengthen the mechanism for appointing the Commission and transforming it into the embryo of a government. Second, they expressly exclude from their scope of application any decision with military or defence implications as well as the mechanism for determining the EU's resources, and thus cannot affect the two key sectors in which reform is most necessary and urgent.



If we also consider that they would have practically no effect in the foreign policy sector either, it has to be concluded that the passerelle clauses amount to a wholly inadequate instrument.

Enhanced cooperations, meanwhile, i.e., the mechanism that allows a group of at least nine member states to advance more rapidly than the others in areas of non-exclusive competence of the Union, are an option that cannot alter the institutional balance of the Union and must respect the rights and obligations of the member states that choose not to participate in them; therefore, as shown by the enhanced cooperations thus far achieved (always in relation very specific matters and having no political or economic impact), they are simply a mechanism for forming various groups of states that wish to cooperate more closely, among themselves, on specific issues. In other words, they are not instruments that can allow the Union to make a political leap in the areas within its competence, because such a leap presupposes a modification of the institutional structure of the Union, and that is something that enhanced cooperations cannot change.

Recourse to **intergovernmental cooperation mechanisms outside the Treaties**, on the other hand, today runs up against the weakness of governments, even when these are led by pro-European forces

(particularly in France and Germany, traditionally considered the 'engine' of the European Union). This makes it very difficult for member states to summon the will and the strength necessary to take a courageous political initiative in the direction of greater integration, with or without the support of all 27 member states. However, it has to be understood that the political and economic pressure that Europe will come under following the installation of the new American administration is destined to jeopardise the very existence of the EU, and will make it necessary for the member states to choose whether to attempt to save themselves singly, by splitting up and placing themselves in the hands of the external power best placed to take advantage of the situation; or rather, whether they prefer to react by strengthening the integration and political unity of the EU. This time it will not be possible to take refuge in micro-solutions, technical or limited to single areas, designed to guarantee the survival of the existing system — namely the single market and currency.

The challenge will be to prove capable of reacting politically, which means taking those political steps that Draghi has clearly set out and that we have presented in the previous paragraphs. Faced with the different reactions that the national governments are bound to have to the Trump administration, it is not inconceivable that a group of countries, resolved not to sell off their future, will find the strength to break with the framework of unanimity and sit around a table to seriously discuss a common foreign and defence policy, a common economic and industrial policy, and the political-institutional instruments necessary to achieve them.



All it takes is a majority of 14 states in the European Council to start with the convening of a Convention; and it is a procedure that is not subject to any limits of subject matter, or intangibility of the existing institutional structure, and can therefore cover all the necessary reforms.

The point is that the EU has no loopholes or escape routes it can use. If it wants to survive, it must strive to become a cohesive political community, and give itself a federal-type supranational government so that it can act effectively and transparently, with the support of its citizens. In this regard, there is a fourth possibility that the European states could exploit: **they could choose to follow the ordinary revision procedure indicated by the Treaties, accepting the European Parliament's request convene a Convention to discuss the necessary reforms.** A majority of 14 states in the European Council is enough to start this procedure, which, moreover, is not subject to any limitations in terms of either subject matter or the untouchability of the existing institutional structure, and for this reason can cover all the necessary reforms. Furthermore, from a procedural point of view, and unlike all the other hypotheses, it provides for the direct involvement, alongside the representatives of the governments and national parliaments, of both the Commission and the European Parliament, and therefore takes the debate on the necessary EU reforms out of the purely intergovernmental sphere of compromises between the interests of the different states, and opens the way for a full public discussion. In this eventuality, i.e., if the states wanting to strengthen integration opt to use what is a unitary instrument provided for by the Treaties and launch a Convention, those same states will have to include among the crucial issues at the centre of the debate the

creation of an EU structure based on different circles of integration, given that there is no chance of all 27 member states advancing at the same pace, particularly today with the number of euro-lukewarm and/or eurosceptic governments on the increase.

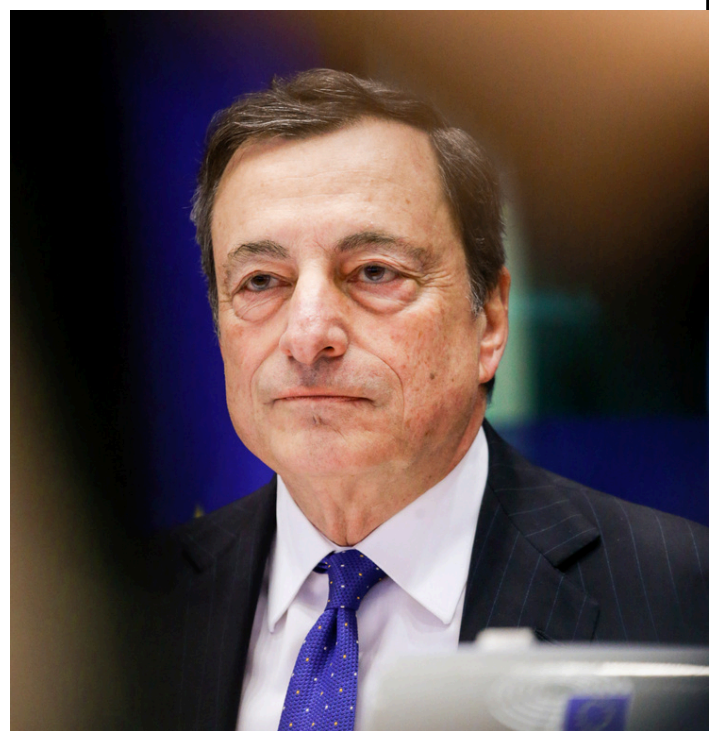
In conclusion, **the Draghi report highlights the urgency for Europeans, faced with the transformation of the international framework, to equip themselves with the political-institutional tools and mechanisms they need in order to act together with a common vision and strategy.** There is plenty that the European Commission and European Parliament can do to push the member states towards deciding to act in this direction; however, there can be no denying that the initiative must come from the governments, and it is certain that the first step can only come from the initiative of countries that are ready to act outside the framework of unanimity and press ahead alongside those that take the same view. The tools and procedures available are clear; just as it is clear that, to truly address the issues at stake, the motivation driving these states will have to include a true realisation of the need to build a shared sovereignty at European level.

As Draghi has stressed, Europe can no longer afford to postpone decisions: history is beating at the Europeans' door and time is running out.

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Decisions can no longer be postponed

Mario Draghi



**We need not only
of a pragmatic federalism
but an ideal federalism.**

Mario Draghi
Strasbourg, European Parliament
3 May 2022



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