

## Spanish non-paper on European competitiveness:

### a sustainable growth strategy for an EU that leaves no one behind

The international environment on which Europe's growth model was built has fundamentally changed. We now face intense competition from major economic, industrial and technological powers, yet implementation of the key recommendations of the Draghi and Letta reports remains limited. Competitiveness has not been restored, the Single Market remains fragmented, and European savings continue to flow abroad instead of financing our own productive economy.

Incremental progress is no longer enough. If we are serious about growth, resilience and strategic autonomy, Europe must move faster, act more decisively and focus on clear priorities. At the same time, strengthening competitiveness cannot come at the expense of our core values, our climate commitments or our social model.

The European Union needs more than adjustments at the margins. It needs a genuine economic grand strategy, a **Ten-Point Agenda for European Competitiveness**.

#### 1. Simplification through integration and harmonization

The best hedge against geopolitical risk is our own strength. A 2% reduction in internal Single Market barriers would offset the impact of U.S. tariffs. However, integration is stagnating: according to the latest Single Market and Competitiveness Report, only 6 of 29 integration KPIs improved in 2024, and intra-EU trade in goods fell from 23.5% to 22% of EU GDP.

**Deepening the Single Market remains the most effective way to simplify and reduce costs, but the competitiveness debate risks being reduced to deregulation.**

**Spain supports legislative simplification** and the reduction of administrative burdens, particularly for SMEs. We share the objective of **streamlining permitting and procedures**, provided this does not weaken legal certainty, social and environmental standards, or financial resilience. We also should **harness AI** to reduce administrative burdens for firms and citizens. Political action could accelerate deployment of secure AI systems that would both make compliance simpler and more efficient, and strengthen Europe's sovereign AI ecosystem. But regulatory and administrative simplification is only one part of the equation.

**We must start by putting our own houses in order.** Spain is advancing a Regime 20 domestically and working to develop operational integration measures in areas where progress with other Member States is most feasible. The objective is clear: to contribute to a more efficient and genuinely integrated Single Market across the EU.

At the European level, **prioritising Regulations over Directives** would enhance harmonisation and reduce gold-plating. This should guide the forthcoming **EU Inc.** initiative, which must deliver **practical convergence and benefit companies of all sizes**, not only start-ups. We cannot afford a solution that looks radical on paper but brings little change in practice. In parallel, an interinstitutional agreement with a clear **timetable for the adoption of key pieces of EU legislation** is essential. We cannot allow the legislative process to drag on indefinitely. The solution is not to withdraw proposals, but to streamline processes.

**Deepening the Single Market must also focus on strategic sectors.** Further integration in **energy, finance and telecommunications** would unlock economies of scale and mobilise resources for key priorities such as digital sovereignty.

Finally, **competition policy** must be adapted pragmatically, enabling **European champions when scale is necessary** to compete globally and invest in innovation, without compromising effective competition or consumer welfare. Competition policy has to come to terms with the reality of the single market when interpreting concepts such as 'relevant market'.

## **2. Decarbonisation as an engine for long-term competitiveness**

The EU must **continue to unequivocally commit to sustainability and decarbonisation.** As the European continent is experiencing the fastest rate of global warming, we must advance and accelerate, not dilute, the green agenda. This is not just a moral imperative, but a lever for sustained, long-term competitiveness and resilience and a structural driver of industrial transformation. According to the EIB, cleantech industry already accounts for 1/3 of EU GDP growth, while the European Environment Agency estimates that fully implementing the Green New Deal would generate 2.5 million new jobs.

Europe is a fossil fuel-poor continent: the alternative to green energy would not only be a return to the technological past, but locking ourselves into permanent dependence on third parties for our energy security. **Sun and wind must be the EU equivalent to fossil reserves.** Competitive energy prices should be achieved structurally rather than through ongoing subsidies for costly imports that strain public finances and fragment the Union along fiscal lines.

Decarbonisation is already leading to lower electricity prices. The EU cannot afford to ignore the global technological and investment race towards cleantech solutions. **Any slowdown in decarbonisation would play directly into our competitors' hands.** Europe risks losing the race to in EVs, batteries, electrolyzers and other green technologies unless it invests in innovation across the entire value chain.

The green transition will only succeed if we avoid sending mixed signals to investors. We have the potential to electrify around 50% of our economy by 2040, which would reduce our dependence on oil, gas and coal by two-thirds. It is time to **invest heavily in renewables (including green hydrogen and sustainable fuels), storage and flexibility, grids and interconnections, and facilitate and accelerate permitting**. The next Multiannual Financial Framework should play a key role in this regard, including through an ambitious Clean Transition and Industrial Decarbonisation window within the European Competitiveness Fund.

The EU also needs a true Energy Union and sufficient cross-border interconnections. **The ambition of the EU Grids Package should be increased**, enabling projects identified as Energy Highways to be fast-tracked at EU level through a dedicated regime to reduce permitting delays and regulatory fragmentation.

In addition, dismantling the emissions trading system is the wrong answer to high energy prices. **The ETS is the real cornerstone of European climate policy** and has proven an efficient and cost-effective incentive to cut emissions. While some adjustments to the current system to reduce volatility could be welcome, **a misguided and rushed reform would risk distorting the price signal it has successfully been sending without bringing competitiveness gains. Postponing the entry into force of the ETS2 is also not the answer** to our problems.

Finally, promoting a **circular economy** through innovation in recycling, reuse, second-life applications and alternative materials is essential to reduce dependence on critical raw materials and strengthen the resilience and strategic autonomy of Europe's industrial value chains.

### **3. Human capital as a driver of competitiveness**

Labour markets are being reshaped by new technologies, with 90% of jobs already requiring digital skills. Persistent shortages—especially in digital and green transition profiles—are constraining competitiveness and growth: skills gaps are now the second-largest barrier to investment for nearly 80% of firms, and four in five SMEs struggle to find workers with the right capabilities. At the same time, 7 million working-age Europeans remain outside the labour market, and the rapid deployment of AI risks worsening inequality and deteriorating working conditions.

Skills, technology and decent work anchor competitiveness in resilience rather than in cost-cutting. Beyond attracting talent and ensuring that it moves freely across our borders, we need to **realise the Union of Skills**: expanding and harmonising the automatic recognition of professional qualifications, and aligning education and human capital policies with industrial and technological priorities. This requires investing in digital skills, making vocational training more flexible, increasing women's participation in STEM pathways, and scaling up reskilling and lifelong learning.

#### 4. A socially grounded competitiveness framework

Europe's competitiveness must rest on social cohesion, our welfare model and decent living conditions for all. Rapid technological and economic shifts will profoundly reshape employment and equality, and rising social tensions already threaten the foundations of our democratic societies. Without social cohesion, no competitiveness strategy is sustainable.

Competitiveness requires **quality jobs and fair labour conditions**. Stable employment, fair wages, broad collective bargaining coverage and safe workplaces strengthen human capital, reduce turnover and give firms the predictability needed to invest. Strong social dialogue helps align wage growth with productivity and supports smooth green and digital transitions. Quality jobs are not a social add-on but a structural driver of productivity.

Ensuring affordability is equally essential. When families have access to **adequate and affordable housing**, and can rely on high-quality essential services—from healthcare and long-term care to childcare, education and mobility—they are better able to invest in skills and entrepreneurship.

A socially grounded competitiveness agenda also requires fair taxation and stronger fiscal capacities. **Combating tax evasion and fraud** is key to preserving trust in welfare states and safeguarding the fiscal base for long-term investment.

Finally, as Mario Draghi stresses, Europe must learn from the mistakes of hyper-globalization and prepare for a fast-changing future. **EU Cohesion Policy, including the European Social Fund, must be reinforced**, not weakened, and other EU instruments should incorporate social conditionality and quality-job standards more systematically, while steering investment toward high-value, low-carbon and socially responsible production. The 2028–2034 MFF should clearly reflect this.

#### 5. Public investment for European public goods

The main reason Europe is lagging behind is not regulation, but lack of investment. Mario Draghi estimates our investment gap at about 1.3 trillion euros annually. To remain competitive, we must mobilise investments at scale towards priority sectors: technology and AI, security and defence, energy and green industries.

This means **boosting public investment**. Given the European Public Good nature of the key investments necessary to close the existing competitiveness gap, effective and efficient provision depends on decisive action **at EU level**. It is not just a question of scale: the financing of these goods should be truly European, **instead of through the uncoordinated and asymmetric use of State Aid**. We should **use the next MFF** to scale them up, increasing our common budget to **2% of EU GNI**.

## 6. Unlocking investment at scale

Public investments will not be enough: there is a clear need to **mobilize private investments**. Europeans save more than Americans, yet around 300 billion euros flow to the U.S. every year, while about 12 trillion of private savings sit mostly idle.

We must make **decisive progress towards the Savings and Investment Union (SIU)**. Advancing the Market Integration Package would accelerate the creation of a genuine single market for euro-denominated securities.

Spain stands ready to lead the way. We put forward the **European Competitiveness Lab**, where initiatives such as the Finance Europe have been launched. Ahead of the March European Council, the E6 group of economy and finance ministers will be working on **concrete proposals** that may be fast tracked on the SIU for Leaders' consideration.

Still, households cannot manage Europe's liquidity and investment needs on their own. We must **reform banking, insurance and capital markets supervision**, including the EU implementation of Basel and Solvency rules, to better align institutional incentives with our investment objectives. This is the quickest and most powerful lever to expand EU-wide balance sheets.

Delivering meaningful impact at speed also requires allowing the EIB Group to operate with capital ratios closer to those of major commercial banks, and establishing a European Venture Fund alongside the EIB and the European Investment Fund to invest directly in venture capital and scale-up finance.

Yet these efforts will be insufficient without a qualitative leap in **joint debt issuance**. If we want to break the vicious circle whereby European savings finance fiscal expansion and investment elsewhere, the EU needs a **permanent safe asset**. It will anchor liquidity, strengthen our financial autonomy and allow us to finance European public goods on equal terms and without the distortions caused by State Aid.

## 7. Strengthening financial sovereignty

Completing the SIU will not be enough to ensure financial sovereignty unless we **strengthen our financial autonomy and the international role of the euro**: a sovereign Europe requires autonomous financial infrastructures and institutional capability to withstand geopolitical shocks.

Europe needs a **sovereign payment architecture**. The noticeable increase in U.S. stablecoin-based financial intermediation increases the urgency for Europe to act. In this regard, the **Digital Euro** is not just a payment instrument but a **macro-sovereignty tool**: it ensures the European payment

system remains anchored in public money governed by the Eurosystem; and it increases resilience of the payment system with an offline functionality. We must **bring forward its launch to 2028**.

Progress on the Digital Euro should complement and be compatible with **private payment systems**. Last month, diverse European payment solutions moved towards cross-border interoperability. This is a fast and pragmatic way to strengthen Europe's resilience. Payment systems are only as sovereign as the infrastructures that power them.

Beyond payments, Europe must also reduce exposure to **extraterritorial financial coercion**, especially where reliance on non-EU infrastructures could force firms into de facto compliance with third-country sanctions. Strengthening **autonomous European financial rails**—in clearing, settlement, messaging, and digital identity—is essential to ensure that cross-border finance operates under EU law and oversight. Ultimately, this is about preserving Europe's ability to act and to engage with partners on its own institutional terms.

#### **8. An open economy within a trading system for the 21<sup>st</sup> century**

The EU must remain committed to open and rules-based trade with the WTO at its core. Beyond opening new opportunities for our companies and farmers, we will only be able to strengthen our capabilities and resilience by diversifying markets and supply chains.

This means **moving ahead ambitiously with negotiations** with countries such as Australia or the UAE, or blocks such as the GCC. This is what we have just done with the historic deals with **India and MERCOSUR**: it is also time to **ensure they enter into force swiftly**.

Trade agreements also help us **reduce our dependencies on critical raw materials**. While strengthening domestic processing, refining and recycling capacities, we must work with reliable partners to reduce bottlenecks and production cost disparities, while strengthening and accelerating financing for critical raw materials projects. Linkages in this regard and on broader supply chain issues should be explored with the countries forming the Trans-Pacific Partnership.

Finally, while committed to the rules-based trading system, the EU should be more assertive in demanding a **deep reform of the WTO**. At a time of growing imbalances and paralysis by consensus, maintaining the organisation's relevance warrants considering new avenues, such as boosting the use of more flexible plurilateral agreements.

#### **9. A smart European industrial policy**

Competitiveness and strategic autonomy should go hand in hand. In the context of the forthcoming Industrial Accelerator Act (IAA), Spain supports the establishment of **European preference**

mechanisms, provided they are carefully calibrated and effectively strengthen Europe’s industrial base and strategic value chains. They should be aligned with trade and public procurement policies to avoid conflicts, distortions of the Single Market, or breaches of the EU regulatory framework and WTO rules. Local content requirements based strictly on rules of origin could lead to inflationary pressures, supply chain disruptions, and increased dependencies.

We defend a “**Value in Europe**” approach, focusing on effective industrial contribution and high value-added activities—such as R&D, innovation, design, advanced engineering, intellectual property, and industrial data management, as well as advanced manufacturing and scale-up capacity—that strengthen European competitiveness.

Europe’s capacity to lead in transformative technologies will also depend on its ability to use public investment to **create and scale lead markets** that generate predictable and stable demand, particularly in energy-intensive industries, automotive and cleantech, thereby providing long-term visibility and de-risking private industrial investment.

Finally, to avoid a race to the bottom among Member States, the IAA should establish **harmonised EU-wide conditions for foreign direct investment in strategic sectors**, based on common criteria of economic security (including cybersecurity, data control, corporate governance, and technology transfer), socioeconomic impact, and sustainability.

## **10. Advancing digital technology and innovation**

Europe cannot continue to depend structurally on external technologies in the age of AI. We must commit to digital and tech sovereignty and move towards a **European technology stack**, from cloud to AI, actively promoting EU alternatives, while strictly enforcing the DSA and the DMA.

In this effort, **free and open-source software** is a strategic resource. Europe should use public procurement to *prioritise open-source solutions, creating demand and long-term support* to develop common, integrated and usable digital platforms, reducing lock-in and fragmentation.

In the field of AI, further to ensuring sufficient processing power through the establishment of **EU Gigafactories** across the Union, we should also focus on our unique strengths: training models with industrial data and deploying them in advanced manufacturing, robotics, biotechnology, precision agriculture and sustainable mobility.

We should also **boost innovation and R&D** as a truly European public good. This requires consolidating a **Fifth Freedom** within the Union and moving beyond fragmented national efforts towards coordinated, mission-driven action at EU level. Strengthening pan-European technology

transfer networks, integrating universities, industry and finance, and embedding entrepreneurship and mobility into research careers would help transform scientific excellence into economic competitive advantages. Europe also needs to increase funding and leverage capital to scale technologies across borders. **Joint European innovative procurement and common standards in emerging technologies** would also generate scale effects and help ensure that knowledge generated anywhere in Europe benefits all, reinforcing cohesion, competitiveness and sovereignty.

### Conclusion

Leadership requires balancing urgency with long-term strategy. Strengthening competitiveness and strategic autonomy will involve trade-offs: deepening the Single Market, advancing the green transition and pursuing industrial policy all demand difficult choices, including at national level. But **the cost of continued fragmentation, paralysis or backtracking would be far greater**. Europe's future does not lie in renationalisation or dismantling our common acquis.

We need a shared vision to accept the opportunity costs that meaningful integration entails. In a Union that often moves at the *pace of the slowest among us*, a **pragmatic multi-speed approach**, allowing more ambitious Member States to advance further, may be necessary in a more hostile geopolitical environment.

At the same time, competitiveness cannot be pursued at the expense of our social model. Without competitiveness our citizens will suffer; but if competitiveness is built on social erosion, it will not endure. We should **not accept simplification and deregulation in labour standards and social protection** — which are, and must continue to be, a hallmark of our economic model.