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BACKGROUND NOTES

With the support of the Directorate for Relations with National Parliaments

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Committee on Economic and Monetary Affairs (ECON)

Session I: The future of Banking Union and Capital Markets Union

The European Union finds itself in front of vast challenges: innovation, infrastructure and greening to name the most important. Huge sums of money have to be invested to tackle these challenges. For years, the EU has been pursuing two initiatives that should help invest people's savings to this end: Banking Union and Capital Markets Union. Both initiatives taken together can help channel savings where they find the most productive investments. And through more efficient intermediation, the two initiatives can help to fund inevitably risky long-term investments, while mitigating the risks for savers. The two initiatives can reinforce each other: more efficient cross-border banks can excel as providers of services and liquidity for European capital markets, and more integrated capital markets can improve funding for banks. That said, and despite long-standing efforts, neither of these initiatives has yet shown its full potential.

Capital Markets Union (CMU)

Some framing questions for participants:

- *What are the priority policy areas that need to be addressed for SMEs to have better access capital markets?*
- *What are the current obstacles to be overcome, and where can we find the necessary momentum?*
- *What can be done at national level to support capital markets, for instance promoting pension savings, accelerating collateral enforcement and insolvency, reducing possible tax bias favouring debt over equity?*

Capital Markets Union (CMU), or, as some call it more recently, Savings and Investment Union, currently receives much attention because of the proposals in three high-profile reports by Mario Draghi, Enrico Letta and Christian Noyer (see a separate EP briefing that analyses their recommendations). The three reports unanimously suggest policies on pension savings, securitisation, supervision and market infrastructures. Then there are numerous other policies that appear in one or two of the reports, but not in all of them. A particular far reaching among these concerns a harmonised legal regime, covering for instance securities and company law, possibly as a 28th regime (i.e., a European regime that some firms can be subject to instead of their local laws).

However, while the reports agree on certain priority *policy areas*, they suggest quite distinct *policy options* or ways forward in each area. So, one challenge will be to pick the most effective policy options. The second challenge will be to muster the necessary political momentum. We have already seen two CMU action plans with diverse legislative and non-legislative measures and we have to recognise that in all of the areas that are prominent in the three reports, EU policies have been tried. Note that the recent "**Competitiveness Compass**" by the European Commission announces a Package of measures on "Savings and Investment Union" for the first quarter of 2025, specifically referring to savings, pensions, securitisation, market infrastructures, "much more unified" supervision, insolvency reform and taxation barriers to investment. On a related note, a 28th business law regime for "innovative companies" is announced.

Banking Union

Some framing questions for participants:

- *What should be the done to speed up the creation of a genuine European single market for banking services? Where do you see remaining obstacles for banks to go cross border?*
- *What keeps savers and depositors from making use of banks from other Member States?*
- *Do you see merits in a general review of bank capital requirements, or in reviewing specific aspects (e.g. supporting venture capital and securitisation), and if so, how do you recommend to go about it?*

The institutional framework of the Banking Union consists of a Single Supervisory Mechanism and a Single Resolution Mechanism which take responsibility for banks in the participating Member States. There is also a Single Resolution Fund to support crisis management, but a pending proposal for a European Deposit Insurance Scheme has not been implemented and neither has a backstop facility for the Single Resolution Fund. The institutional framework builds on an (incomplete) Single Rule Book for banks. The main objective of the Banking Union was financial stability, nevertheless, the single set of rules and their uniform application facilitate banks becoming active in other Member States and allowing savers and borrowers to deal with banks from other Member States with confidence.

Yet, while much can be credited to the Banking Union in terms of banks' stability, the Banking Union has not delivered much progress in cross-border banking or more generally, market integration. This is documented in a series of external expertise papers from the ECON Committee's Banking Union expert panel.[1] The experts suggest different ways forward to foster banking market integration, and, in particular, point out the possible merits of:

- harmonising insolvency and the enforcement of collateral;
- creating a dedicated prudential and crisis management regime for cross-border banks;
- ensuring a level playing field between banks directly supervised by the ECB and banks directly supervised by national competent authorities.

Finally, and linking back to the three reports on CMU, Draghi in particular insinuates that capital and liquidity requirements as reinforced multiple times since the great financial crisis, may have started to negatively impact banks' ability to finance the economy. He recommends assessing whether these requirements are "adequate to have a strong and international competitive banking system in the EU".[2]

[1] Please find here a summary of the external papers and links to each of them.

[2] Note that also Letta and Noyer in their reports argue in a more limited way for reassessing certain bank prudential requirements in order to support financing of the economy.

Session II: Creating an ecosystem for European investments

Some framing questions for participants:

- *What are the barriers and obstacles to creating an eco-climate for investment in the EU?*
- *What are the first steps to be undertaken to promote the commercialization of innovations by European companies?*
- *What should be the involvement and role of the European and national parliaments within the Competitiveness Coordination Framework, announced by the European Commission?*

Polycrisis, aging population and changes in the global world order pose a challenge to Europe's economy and accentuate Europe's vulnerabilities such a persistent low growth and external dependency. The reports by **Enrico Letta (**The much more than a market report), by **Mario Draghi** (Future of European Competitiveness) by **C**hristian Noyer (Developing European capital markets to finance the future) are topical. While the preceding section of this background note looked at private sources of finance – Capital Markets Union and Banking Union – this section turn to the role of the public sector and the wider ecosystem to help Europe to muster the investment needed to tackle the challenges before it.

The European savings and financial architecture could be reinforced by a **centralized Platform for Institutional Investors**, **a blended finance approach,** combining public funds with private investments for de-risking strategic projects, and **transparent metrics** for tracking investment impact in particular in the green and digital fields.

Public finance can play an important role in **addressing market failures, bridging investment gaps** (as proved by the InvestEU programme) and **boosting investments**, for instance by supporting strategic projects through guarantees (EU, EIB and national promotional banks). In addition, **streamlining access for project holders** might help SMEs and innovative Start-ups thanks to simplified application processes and dedicated innovation funds, such as Horizon Europe.

Reforming State Aid policies to better support **cross-border strategic European investments** while ensuring fair competition and compliance with EU rules might also support the creation of an eco-system. It may **ensure flexibility for strategic investments and a proportional mechanism to avoid any distortion or fragmentation of the Single** Market (for example, through a State aid contribution mechanism). In addition, EU governments could take innovative public support mechanism such as **equity stakes and revenues guarantees, and to improve an efficient distribution of AI** through data-driven allocation and centralized monitoring.

Emerging sectors may need **tailored support**, for instance, through a **European Competitiveness Fund**, as proposed by the European Commission **and through enhancing EU-supported incubators and accelerators for start-ups**. Funding barriers could be tackled **through risk-sharing instruments and knowledge sharing, by overcoming challenges in commercializing research and innovation** by strengthening University-Industry linkages (Horizon Europe initiatives in biotech or AI), European Innovation Ecosystems (EIE) Programme, Venture Capital for start-ups and tax breaks for R&D investments.[3]

Last but not least, given **the urgency of implementing the necessary governance reforms,** Draghi recommended to establish a new "**Competitiveness Coordination Framework**" to foster **EU-wide coordination in priority areas**, replacing other overlapping coordination instruments. The coordination of all economic policies relevant to the EU's agreed strategic priorities would be merged into the new coordination framework.

In this spirit, the recent "**Competitiveness Compass**" by the European Commission entails a number of elements that concern public investment or public support for private investment:

- Emphasis on the **role of national budgets** making up 50% of EU GDP and thus much larger than the EU budget: it is argued that the EU's revised Economic Governance Framework supports this goal by reinforcing the integration of sustainable fiscal and growth-enhancing policies;
- New **Competitiveness Coordination Tool (together with Member States)**to align industrial and research policies and investments at the EU and the national levels;
- New **European Competitiveness Fund** in the EU's next Multiannual Financial Framework to support strategic technologies and manufacturing - to invest directly or to "de-risk" private investment;
- "Fully **leveraging**" **the EIB groups**' potential to support private investments, envisaging better capital utilisation and making its mandate "broader, simpler, faster".

[3] According to the Draghi report support for breakthrough disruptive innovation remains limited in the EU. The 'Innovative Europe' pillar (EUR 13.6 billion) under Horizon Europe aims to make Europe a frontrunner in market-creating innovation under the European Innovation Council (EUR 10.1 billion) by supporting breakthrough disruptive innovation with potential for scale-up. The three main EIC instruments – the EIC Pathfinder, EIC Transition and the EIC Accelerator – are based on the concept of providing a 'one-stop-shop' for breakthrough innovators at all stages of their development. A key feature has been the creation of the EIC Fund – a dedicated equity investment fund for start-ups and SMEs selected by the EIC.

Committee on Employment and Social Affairs (EMPL)

Session I: AI and the labour market with a focus on changing working conditions

Some framing questions for participants:

- *Which standards and benchmarks should be established at European level to ensure that the introduction of AI in the workplace maintains or improves working conditions?*
- *What best practices at national, regional, or company levels have proven effective in ensuring that the use of AI in workplaces positively impacts job quality, the respect of workers' rights and well-being, including through transparency and fairness in algorithmic management?*
- *How can social dialogue and consultation with trade unions and other stakeholders contribute to those ends? How has collective bargaining on the use of AI or algorithmic management in the workplace been promoted or regulated, if so, in the Member States?*

Artificial intelligence (AI) is increasingly shaping workplaces through two primary applications: the **automation** of tasks traditionally performed by workers and the automation of managerial functions, often referred to as **algorithmic management**[4]. The latter is a defining feature of digital labour platforms, but also widespread in sectors such as customer service, transport, logistics, banking, and healthcare[5]. A 2020 survey revealed that 42% of EU enterprises use at least one form of AI[6], and globally, more than 75% of companies plan to adopt AI-powered applications between 2023 and 2027[7].

Impacts of artificial intelligence on the labour market and working conditions

AI's impact on jobs is twofold, influencing both their **quantity and quality**, and offers numerous economic benefits, as well potential for workers to **increase their flexibility**, **autonomy and enjoyment** of work, including by automating routine tasks, and ultimately to **improve work-life balance**[8]. AI tools can, through automation, **enhance workplace safety and reduce injuries[9],** and **improve fraud detection and risk assessment**, helping to address poor working conditions and undeclared work[10]. Further, global research suggests that AI is likely to create more jobs than it displaces[11].

At the same time, the digital transformation, notably algorithmic management, has given rise to a number of specific challenges linked to the hierarchical nature of the employment relation, such as **intensifying work and extending working hours** with repercussions on occupational health and safety[12], increasing **monitoring and surveillance** in the workplace, including on work performance[13], or accentuating risks of **discrimination** at the workplace[14].

[4] International Labour Organisation, Artificial intelligence
[5] International Labour Organisation, Algorithmic management in the workplace
[6] IPSOS, 2020, European enterprise survey on the use of technologies based on artificial intelligence
[7] World Economic Forum, Future of Jobs Report 2023
[8] Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, 2021, Improving working conditions using Artificial Intelligence
[9] *Ibid.*
[10] World Economic Forum, Future of Jobs Report 2023
[11] World Economic Forum, Future of Jobs Report 2025
[12] Nguyen, A., 2021, The constant boss: Work under digital surveillance
[13] Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, 2023, Minimum health and safety requirements for the protection of mental health in the workplace
[14] Ponce del Castillo, ETUI, 2024, Artificial intelligence, labour and society

It bears, therefore, significant risks for workers' rights, such as the right to information and consultation, the right to collective bargaining and action, or to fair and just working conditions, and occupational health and safety. Regarding the effect of AI, it is projected at global level that one hundred million workers will be affected in some way[15], with clerical support workers being especially vulnerable to automation.

Artificial intelligence in the European Semester

As set out within the **European Pillar of Social Rights Action Plan**, fostering quality jobs is key to promoting social inclusion and active participation. As part of the European Semester, the **Joint Employment Report (JER)** by the European Commission and the Council monitors the employment situation in the Union and the implementation of the **Employment Guidelines**. Within this framework, the JER highlights the importance of monitoring **the impact of AI on labour markets, working conditions, and the role of social partners** in shaping these transformations (**Guideline No.7**). According to the **2025 JER proposal,** AI adoption, estimated to impact up to 60% of employees in advanced economies – half of whom may face adverse effects – poses multiple challenges[16]. Indeed, the JER proposal identifies issues such as routine **job displacement and skill mismatches** as advanced technologies reshape production and service delivery. Moreover, it points out that, unlike previous waves of automation, generative AI could significantly impact high-skilled workers, while challenges persist around ensuring workers' rights in cases of use of algorithmic management. The relatively limited **involvement of social partners** exacerbates these challenges, with the JER proposal finding that only around 20% of policies related to digital transformation are based on co-determination or meaningful consultation.

Addressing **skill gaps** is critical, as 37% of Europeans in the workforce lack basic digital skills[17] and only 22.8% of EU enterprises provided ICT-related training in 2024[18]. The latest JER proposal highlights that 3 out of 4 companies report difficulties in finding workers with the required skills. This skills gap presents a challenge for businesses as for workers who must adapt to new technological demands to secure sustainable employment. To ensure a fair digital transition aligned with **Employment Guideline No. 6**, Member States must prioritise **high-quality digital education and training**, adapting systems to technological advancements like AI.

Policy responses

Legislative measures, including the **AI Act** (in force since August 2024) aim to ensure that AI systems are trustworthy, safe, and aligned with EU fundamental rights, putting in place risk management procedures for high-risk AI systems, including those used in the workplace. The **Platform Work Directive** provides platform workers and other persons performing platform work with new individual rights, with view to enhancing transparency, fairness, and accountability in algorithmic management, as well as rights destined to the organisations representing them, while promoting social dialogue and collective bargaining. The **General Data Protection Regulation (GDPR)** provides the more general framework for the protection of personal data, including those of workers, while the proposed **AI Liability Directive** aims to hold employers accountable for AI-related consequences.

[15] ETUC, For a Sustainable Economy and Social Progress – Trade Union Inputs for the European Semester 2025
[16] European Commission, 2024, Proposal for a Joint Employment Report from the Commission and the Council
[17] Draghi. M.,, 2024, The future of European competitiveness
[18] Eurostat, Enterprises that provided training to develop/upgrade ICT skills of their personnel

The rapid advancement of AI and related digital technologies is driving profound transformations in the labour market, and impacting working conditions for EU workers, requiring **vigilant monitoring and policy responses**. Some Member States are beginning to address these challenges by introducing legislation to **improve working conditions in platform work** and tackle issues arising from algorithmic management, with all required to comply with the Platform Work Directive by the transposition deadline of December 2026[19]. Effective implementation of these measures relies on **fostering social dialogue at sectoral and workplace level** regarding the use of AI at work. Countries with strong consultation frameworks, such as those in the Nordic Member States and Germany, demonstrate how participatory approaches can increase worker acceptance of new technologies[20]. The **Council's December 2024 employment policy guidelines** urge Member States to **foster job creation through new forms of work while ensuring compliance with social rights**. This includes supporting social partners in representing workers in atypical roles, such as platform work and telework, and strengthening enforcement through labour inspectorate training and guidelines. Key measures also contain the promotion of ethical AI tools, up- and reskilling workers, the respect of mental health at work and work-life balance, algorithm transparency and accountability, and effective enforcement of consultation rights and collective bargaining.

Session II: The role of social and employment policies in the EU's reviewed economic governance

Some framing questions for participants:

- *Does the EU economic governance framework allow for sufficient room for investment in the social and employment field? How could investments and reforms be further promoted in the framework?*
- *How could the involvement of the European Parliament, national parliaments, social partners and civil society be improved in the European Semester process?*

Introduction

The EU's economic governance framework refers to a system of institutions and procedures to coordinate Member States' (MS) economic policies and to achieve the EU's economic objectives. It comprises an elaborate system of policy coordination and surveillance. The EU economic governance tools are integrated in the European Semester, including the EU-level multilateral and bilateral surveillance of MS' fiscal policies under the Stability and Growth Pact, economic and structural policies under the Macroeconomic Imbalances Procedure (MIP), and employment policies under the employment guidelines. In previous years, the focus of the Semester has widened to better take into account the employment and social aspects, i.a. through the integration of the European Pillar of Social Rights (EPSR) and the Social Scoreboard, the inclusion of employment headline indicators in the scoreboard for the surveillance of macroeconomic imbalances[21], however, without triggering effects on in-depth reviews as well as through increasing emphasis on social objectives in its priorities, key messages, country-specific recommendations (CSR). While progress was made towards a stronger social dimension already before last year's reform of the economic governance framework, concerns about the

[19] *Ibid*.

[20] International Labour Organisation, Mind the AI Divide

[21] Following revisions to the MIP scoreboard in 2024, the number of employment headline indicators in the MIP scoreboard decreased however from four to two; the current ones being unemployment and labour force participation rate.

imbalance of the framework as well as calls for strengthening the role of the social and employment policies persisted.

Reviewed economic governance framework

The revised rules of the EU's economic governance framework with the medium-term fiscal-structural plans at their centre entered into force on 30 April 2024 (Regulation (EU) 2024/1263, amended Regulation (EC) 1467/97 and amended Council Directive 2011/85/EU). The new rules reply to the calls for a stronger social dimension mainly by encouraging MS to implement reforms and investments that contribute to the EU's common priorities, i.a. fair green and digital transition, social and economic resilience, including the EPSR, by integrating the social convergence framework and improving national ownership.

This year's **Autumn package**[22] launches the first implementation cycle of the revised economic governance framework. As part of the package, the Commission assessed **MS' medium-term fiscal-structural plans** that according to the new rules should bring together the fiscal policy, structural reforms and investments including in the common EU priorities. The Commission took the view that MS have included in their plans a broad reform and investments agenda covering the policy areas related to the EU's common priorities and the challenges identified in CSRs. Examples of measures taken in the plans include reforms of social protection and pension system, measures to improve the effectiveness and efficiency of healthcare, to support skills development and life-long learning and improve the availability of childcare. MS' implementation of the medium-term plans will be assessed as part of the Semester Spring Package 2025 following the submission of the first Annual Progress Reports by MS. A further element of the Autumn package, the **draft Council euro area recommendation on economic policy** includes several calls to MS in the social and employment fields related e.g. to upskilling and reskilling, quality jobs, labour market participation and integration of underrepresented groups, active labour market policies, vocational education and training, early childhood education and care, long-term care, incentives to work by shifting the tax burden away from labour, fighting poverty and access to affordable and sustainable housing.

A major social element of the revised economic governance framework is the integration of the **social convergence framework**. While earlier initiatives to introduce a Social Imbalance Procedure similar to the MIP were not adopted, a new Social Convergence Framework (SCF) was included for the first time in the draft 2024 Joint Employment Report (JER). Following this pilot, in the revised economic governance framework, Regulation (EU) 2024/1263, confirmed this approach laying down that the surveillance of the employment guidelines and of the related CSRs within the Semester shall include the progress in implementing the principles of the EPSR and its headline targets, 'via the social scoreboard and a framework to identify risks to social convergence'.

The SCF comprises a two-stage analysis in order to assess challenges to upward social convergence in MS. The first stage is predominantly based on the Social Scoreboard headline indicators and identifies potential risks to upward social convergence using a traffic-light system. Each of the headline indicators is assessed and in a second stage, further analysis follows for MS where six or more headline indicators are flagging red ('critical situation') or

[22] The Autumn package marks the launch of a new cycle of the European Semester. It includes several Commission documents offering an overall overview of the socio-economic landscape, highlighting key priorities and risks and providing.

orange ('to watch')[23]. This second-stage analysis relies on a wider set of quantitative and qualitative evidence in order to determine the existence of actual challenges and the key driving factors. It also describes measures to be taken by MS.

Accordingly, the **2025 draft Joint Employment Report** (part of the Autumn package) incorporates a country-specific first-stage analysis of labour market, skills and social developments. This year's edition highlights continued upward convergence in the labour market in 2023, while the skills and social policy areas showed more limited improvements and risks to upward convergence. It identifies **ten Member States** (including seven identified already in 2024) **showing potential risks to upward social convergence** and thus requiring a deeper second-stage analysis.

Proposals for improvement

Several concerns were raised about the insufficient **level of reforms and investments**. The **European Parliament** (EP) noted that the reform of the economic governance framework does not provide EU financial incentive mechanisms to support and promote national policy reforms and investments. It expressed concerns that some MS will not have the financial capacity to finance the just green and digital transitions on their own. **ETUC** Confederal Secretary, Ludovic Voet criticised the national spending plans showing no sign of the investment needed. ETUC also called for the introduction of 'an EU-financed instrument for investments and stabilisation of social expenditure'.

Employers' organisations took the view that the possibility of extending the fiscal adjustment period under the new rules shall not result in growing national deficits but should be used responsibly and contribute to implementing reforms and investment commitments stemming from CSRs.

Further requests were raised regarding **participation in the Semester process**. The **EP** advocated for its increased engagement in the Semester, including 'instruments that allow it to apply consequences based on its assessment of the performance of the European Semester'. The **European social partners** in their joint statement called for their meaningful and appropriate involvement in the Semester process, with requirements to be set in a European rulebook.

[23] For the methodology, see **2025 draft Joint Employment Report**, page 40

Committee on Budgets (BUDG)

Session I: Bridging the competitiveness gap: how to increase synergies between the national budgets and the post-2027 Multiannual Financial Framework

Some framing questions for the participants:

The role of the next MFF

- *How could the architecture of the next MFF contribute to improve the synergies between the funding at national and EU levels?*
- *What about the intention of the President of the Commission to introduce in the next MFF "a plan for each country linking key reforms with investment, and focusing on our joint priorities"? Are there any lessons learned from the RRF in this regard?*
- *How can co-financing arrangements be optimized to ensure that both the EU and Member States maintain political ownership and share the financial burden equitably in strategic areas of mutual interest?*
- *How can the EU and national governments create joint investment mechanisms to fund strategic projects in areas like infrastructure, R&D, and green technologies?*

The role of the coordination frameworks

- *What role can the European Semester play in ensuring greater policy coherence between national budgets and EU strategic objectives? How can the European Semester process be better integrated with the EU budget cycle?*
- *Looking ahead, which structural reforms could be introduced alongside the MFF or national budgetary frameworks to ensure more effective and flexible coordination between national governments and the EU? In particular what about the proposal of Professor Draghi and EVP Séjourné to establish coordination frameworks for competitiveness?*
- *Beyond competitiveness, which specific policy areas present the greatest opportunities for synergies between national budgets and the MFF? In this context, how can a smart design of the system of own resources finance the EU budget create fiscal or policy co-benefits?*

Governance aspects

- *What improvements could be made to the current mechanisms for dialogue between national parliaments, national governments, and the European Parliament to better coordinate budgetary planning?*
- *What role should the European and national parliaments play in existing and potential EU coordination frameworks?*

The European Union's Multiannual Financial Framework (MFF) is the EU's long-term budget aligning the financial resources of the EU with its strategic priorities and objectives. National budgets, on the other hand, reflect each Member State's fiscal policies and priorities. In some areas such as research and innovation, a lack of coordination between the two levels may result in some inefficiencies, misalignments, or missed opportunities for greater impact.

In his report on the future of European competitiveness, Mario Draghi criticises that we spend a similar amount on research and innovation as a share of GDP in the EU and in the US, but only one tenth of spending takes place at the EU level. As a consequence, EU public spending is fragmented and lacks scale to spur innovation.

In this context, the Draghi report calls to focus EU spending on strategic priorities and for increased coordination between the EU and the national level including through a new Competitiveness Coordination Framework. Under such a Framework, the European Council would adopt EU competitiveness priorities. These priorities would be further broken down into 'EU Competitiveness Action Plans' by areas which would provide the means of action for each area: governance, financial incentives, and measurable objectives. In this content, the report recommends establishing a "Competitiveness Pillar" under the next EU budget to direct EU funding towards priority projects identified under the Framework and calls to leverage better the large spending power of the Member States by incentivising and co-financing multi-country industrial projects. Executive Vice-President Séjourné also calls for more coordination to support the competitiveness of the EU and suggests the establishment of a Competitiveness Coordination Tool translating EU-wide competitiveness objectives into coordinated national policies, ensuring public and private financing for each strategic priority.

As the EU faces pressing challenges, such as competitiveness, climate change, digitalization, and geopolitical shifts, it becomes increasingly important to find the right framework to better focus and align the MFF and national budgets in order to optimise the use of public spending.

The aim of the session would be to explore what frameworks would be best suited to better coordinate competitiveness related economic and social spending at EU and national levels and how to proceed in order to translate common strategic priorities and economic rationale into an effective EU budgetary architecture post-2027. Additionally, the session could look into the possibility to extend the approach to other strategic and underfunded priorities such as Defence.

Session II: European Public Goods: how to identify and finance them?

Some framing questions for participants:

Defining and identifying European Public Goods (EPGs)

- *What criteria should be used to define a European Public Good (EPG), and how do these differ from national or local public goods?*
- *How can we ensure that EPGs are identified in a way that reflects both the needs and preferences of individual member states as well as the collective interests of the EU as a whole?*
- *Given the diversity of EU member states, how can the EU ensure that the identification of EPGs does not disproportionately benefit wealthier countries at the expense of poorer ones?*
- *What are the key lessons learned from past EU initiatives in financing European Public Goods, and how can these be applied to future projects?*
- *What role do national parliaments play in identifying potential European Public Goods, and how can they be involved in this process?*

Governance aspects

- *What institutional mechanisms should be put in place to ensure that EPGs are delivered efficiently and that their benefits are equitably shared across the Union?*
- *What are the political challenges in financing and managing EPGs, and how can these be addressed? In particular, how can the EU balance the demands for greater integration and common action on EPGs with the subsidiarity principle?*

- *How can the governance of EPGs be effectively organized at the EU level, ensuring that EU institutions such as the European Parliament, but also national parliaments, have clear roles in the decision-making process?*
- *How can the EU ensure that citizens and stakeholders are actively engaged in the process of identifying and financing EPGs and that the added value of EPGs is communicated to citizens and businesses?*

Financing European Public Goods

- *Given the increasing pressure on public finances, how can we ensure the long-term sustainability of financing for European Public Goods, particularly those with high upfront costs such as climate change mitigation or defence infrastructure?*
- *Which types of European Public Goods best lend themselves to being financed or co-financed by the EU budget? Are there good examples of EPGs that are already financed under the present MFF and which ones could or should be included in a post-2027 perspective?*
- *Can the EU's NextGenerationEU recovery fund serve as a model for financing future European Public Goods, in areas such as green transition or defence?*
- *In light of the negotiations of the upcoming EU's long-term budget (, how can the EU prioritize the financing of European Public Goods?*
- *What role should EU financial instruments like the European Investment Bank (EIB), the InvestEU programme, and the European Stability Mechanism (ESM) play in financing large-scale European Public Goods?*
- *How can the EU incentivize private sector investment in European Public Goods, particularly in areas like green technologies and digital infrastructure, without compromising the public interest or creating market distortions?*

The identification and financing of European Public Goods (EPGs) represent one of the key challenges facing the European Union (EU) as it strives to fulfil its strategic objectives in a context of budgetary constraints.

EPGs are commonly defined as goods that benefit all EU member states and their citizens, being non-excludable and non-rivalries, meaning that they are available to all EU citizens and one person's use does not diminish the availability for others. Examples of EPGs spans from Galileo - the Europe's Global Navigation Satellite System to infrastructure - to transport and energy infrastructures or border management.

EPGs have gained increasing prominence in EU policymaking, especially in light of global challenges such as competitiveness, climate change, migration or defence. Due to the cross-border nature of many of those challenges, the EU's collective action can be the most effective way of providing such goods. However, while the EU's ability to provide public goods is significant, it also faces challenges, particularly related to political preferences, financial resources and uneven access between wealthier and less prosperous regions.

The aim of the session would be to exchange on the nature and practical definition of European public goods, what is the right decision making process to identify them, what would be the strengths and potential weaknesses of an approach based on EPG and what are the different options to finance them.

Plenary session I: Improvement of EU's competitiveness through the single market, innovation policy, better regulation and quality jobs

Some framing questions for participants:

- *Given that only 4 of the world's top 50 tech companies are European, what specific reforms to the Single Market and innovation policy would enable more European startups to scale up within the EU rather than relocating to the US?*
- *How can we ensure that reducing regulatory burdens to boost competitiveness does not compromise EU's high social and environmental standards? What role should "smart regulation" play?*
- *The Draghi report estimates annual investment needs of €750-800 billion. How can we best promote private and public funding to meet these needs while ensuring fiscal sustainability? What role should common EU investments and funding play?*
- *How can national parliaments and the European Parliament work together to accelerate decision-making on reforms and investments while ensuring democratic oversight? What institutional changes might be needed?*
- *With the EU workforce projected to shrink by 2 million workers annually by 2040, how can education and skills policies be reformed to boost both productivity and labor market participation? What role should immigration play?*
- *How can the European Semester and the Competitiveness Compass efficiently interact to deliver on the priorities outlined in the Draghi report?*

The European Union has strong foundations to be a highly competitive economy, combining an open market economy, robust market competition and active policies to fight poverty and redistribute wealth. This model has enabled the EU to achieve high levels of economic integration and human development while maintaining lower levels of inequality than the United States and China. However, as highlighted in Mario Draghi's report on European competitiveness presented to the European Commission in September 2024, Europe is now facing unprecedented challenges to maintain and improve its living standards. To address these treats urgent actions would be needed on many policies and fronts.[24]

As outlined in his address to the European Parliament, Mario Draghi identified three main areas where the EU needs to act to remain competitive in an increasingly challenging global environment. First, **Europe must profoundly refocus its collective efforts on closing the innovation gap with the US and China**, especially in advanced technologies. Second, **the EU needs a joint plan for decarbonisation and competitiveness to lower energy costs while capturing industrial opportunities**. Third, **Europe must increase its security and reduce dependencies in critical areas such as raw materials and advanced technologies**.

As also highlighted in Draghi's address to the European Parliament, Europe's social market economy model remains a key strength, and improving competitiveness should reinforce, not weaken, this model. High-quality jobs, particularly in innovative sectors and green technologies,

[24] The EU's GDP gap with the US has gradually widened from slightly more than 15% in 2002 to 30% in 2023, driven mainly by slower productivity growth. This has translated into slower income growth, with real disposable income growing almost twice as much in the US as in the EU since 2000. The situation is particularly concerning as Europe is entering the first period in its modern history where GDP growth will no longer be supported by sustained net growth of the labour force. By 2040, the EU's workforce is projected to shrink by close to 2 million workers each year.

will be crucial for maintaining Europe's skilled workforce and ensuring that increased competitiveness translates into shared prosperity.[25]

Analysis of the Draghi report[26] underline that, despite the annual investment of €800 billion that will be needed, 53% of the proposed measures do not require additional public investment. Many proposals involve regulatory changes, coordination between stakeholders and redesigning programmes already underway. However, the implementation of these reforms will require significant changes to EU governance, increasing the depth of coordination while reducing the regulatory burden on companies.

The report emphasises that unless action is taken, Europe will have to compromise either its welfare, its environment or its freedom - outcomes that would fundamentally undermine the EU's reason for being.

Main Areas for Action Identified in the Draghi Report

The first priority identified in the report is closing the innovation gap with the US and China. EU companies spent around €270 billion less on R&D than their US counterparts in 2021, largely due to a static industrial structure. As highlighted in Mario Draghi's address to the European Parliament, there is no EU company with a market capitalisation over €100 billion that has been set up from scratch in the last fifty years, while all six US companies with valuations above €1 trillion have been created during this period. This lack of dynamism is particularly evident in digital technology, where only four of the world's top 50 tech companies are European.

The second key area for action is implementing a joint plan for decarbonisation and competitiveness. While EU companies face electricity prices that are 2-3 times higher than those in the US and natural gas prices that are 4-5 times higher, decarbonisation presents an opportunity for Europe to lower energy costs and take the lead in clean technologies. The EU is already a world leader in clean technologies like wind turbines and electrolysers, with more than one-fifth of clean and sustainable technologies worldwide developed in Europe. However, Chinese competition is becoming acute, driven by subsidies, rapid innovation, and the ability to produce at continent-wide scale.

The third priority area involves increasing security and reducing dependencies. According to the Draghi report, around 40% of Europe's imports are sourced from a small number of suppliers and difficult to substitute, with around half of these imports originating from countries with which the EU is not strategically aligned. The EU defence industry also suffers from fragmentation - European collaborative procurement accounted for less than a fifth of spending on defence equipment procurement in 2022. As emphasised in both the report and Draghi's parliamentary address, these dependencies are becoming vulnerabilities in an increasingly unstable geopolitical environment.

[25] "*The EU innovation model should ensure: (i) that workers are supported through social insurance policies, as well as active upskilling and reskilling programmes (ii) the creation of high-quality jobs (in terms of pay, flexibility, and worker security); and (iii) that social and geographic cohesion remains an integral component of the model. The example of Sweden – which has a tech sector that is more than twice as productive as the EU average – shows that a strong social model and a thriving technological environment are not only compatible, but even self-reinforcing when combined with programmes targeted at creating high-quality jobs for well-skilled workers living in affordable cities. Combining the creation of high-quality jobs with high levels of social protection and redistribution is a fundamental value of the EU model, which should be preserved to successfully transform the EU into a more technologically advanced society*" (Draghi report).

[26] See in particular the analysis by the Elcano Royal Institute

To address these challenges, the report proposes a comprehensive reform agenda combining different policy tools and approaches. The [analysis from the Elcano Royal Institute] shows that 16% of the measures can be viewed as "Quick Wins," being both highly viable politically and classified as most urgent. This includes measures across key sectors such as digitalisation, energy, and competition policy. However, implementation will require significant investment – estimated at €750 to 800 billion in additional annual investment – as well as substantial reforms to EU governance and decision-making processes.

Implementation Challenges and Governance Reform

The Draghi report emphasises that successful implementation of the proposed reforms faces three main barriers that must be addressed. First, Europe currently lacks focus – while common objectives are articulated, they are not backed by clear priorities or joined-up policy actions. For instance, while claiming to favour innovation, the EU continues to add regulatory burdens onto European companies, with more than half of SMEs flagging regulatory obstacles and administrative burden as their greatest challenge.

Second, Europe is not efficiently using its common resources. While the EU has large collective spending power, it is diluted across multiple national and EU instruments. For example, the public sector in the EU spends about as much on R&I as the US as a share of GDP, but just one-tenth of this spending takes place at the EU level, despite the large spillovers from public R&I investment to the private sector. Similarly, European collaborative procurement in defense accounted for only 18% of expenditure on defense equipment procurement in 2022.

A fundamental governance reform is therefore needed. As Draghi outlined in his parliamentary address, Europe's decision-making rules have not substantially evolved as the EU has enlarged and as the global environment has become more hostile and complex. The result is a legislative process with an average time of 19 months to agree new laws. The report recommends establishing a new "Competitiveness Coordination Framework" to foster EU-wide coordination in priority areas, replacing other overlapping coordination instruments. This would be divided into Competitiveness Action Plans for each strategic priority, with well-defined objectives, governance, and financing.

The report also emphasises that financing these reforms will require significant changes. To meet the objectives laid out in the report, a minimum annual additional investment of €750 to 800 billion is needed. While historically around 80% of investment has been undertaken by the private sector, delivering private investment of around 4% of GDP through market financing alone would require substantial support from public funding. However, as highlighted in the Elcano analysis, if the strategy outlined in the report is implemented and productivity rises, it will be much easier for the public sector to finance its share.

Key Policy Recommendations

Based on the comprehensive analysis in the Draghi report, several concrete priority actions emerge as essential for improving EU competitiveness. **In the innovation domain, the report recommends doubling the EU's Framework Programme for R&I to €200 billion per 7 years, with a larger allocation towards financing disruptive innovation**. To facilitate scaling up of successful ventures, it proposes creating a new EU-wide legal statute – the "Innovative European Company" – which would provide companies with a single digital identity valid throughout the EU and access to harmonised legislation.

For decarbonisation and competitiveness, the report advocates a differentiated approach according to sectors and technologies. This includes leveraging Europe's strength in clean technologies while taking a pragmatic approach to sectors where foreign producers have gained a significant lead. The report recommends decouple the remuneration of renewable energy and nuclear from fossil-fuel generation and accelerating permitting for clean energy projects, while ensuring effective protection for strategic industries.

To reduce dependencies, the report calls for developing a genuine EU "foreign economic policy", coordinating preferential trade agreements and direct investment with resource-rich nations. For defence, it recommends increasing substantially the aggregation of demand between groups of Member States and raising the share of joint defense procurement. As highlighted in Draghi's parliamentary address, these measures are not about protectionism but about ensuring Europe's strategic autonomy while maintaining its commitment to open markets.

The successful implementation of these recommendations requires strengthening EU governance by establishing a new Competitiveness Coordination Framework. This would ensure better alignment of policies and resources behind common goals, while reducing regulatory burdens that currently hinder European companies' competitiveness. The framework should be supported by sufficient financing, combining private investment with public support, potentially including some joint funding through common debt instruments for key strategic projects.

On 29 January 2025, the Commission proposed a Competitiveness Compass in order to establish a coherent EU framework to make progress on these various policy actions.

Plenary session II: The first national plans under the revised Economic Governance Framework - lessons learned

Some framing questions for participants:

- *How to ensure appropriate involvement of national parliaments and independent fiscal institutions in the preparation and monitoring of national fiscal-structural plans?*
- *What lessons can be drawn from the technical dialogue between Member States and the Commission in this first implementation cycle? What measures could be taken to increase the transparency of this exercise?*
- *How to ensure effective implementation and monitoring of the agreed fiscal paths at both national and EU level?*
- *What are the main challenges identified in translating the agreed net expenditure paths into annual budgetary decisions?*
- *What improvements could be considered for the next round of plans to strengthen democratic accountability of the process?*
- *To what extent has the new framework delivered on its promise of greater country-specificity and ownership in fiscal planning?*
- *How can national parliaments encourage their governments to discuss progress reports with them to ensure effective monitoring and maintain democratic accountability?*

The reform of the EU economic governance framework, which entered into force in April 2024, marks a significant shift in the European Union's approach to fiscal surveillance. This reform introduces a new framework centred on country-specific medium-term fiscal-structural plans and a single operational indicator for the budgetary surveillance framework - the net expenditure path.

The first implementation cycle of this revised framework was launched in June 2024 with the Commission's transmission of fiscal guidance to Member States, followed by the submission of national plans in September-October 2024. By end-November 2024, the Commission had assessed 21 Member State plans, marking a crucial first test of the new framework's effectiveness.

This plenary session aims to discuss early experience with implementing the reformed framework, drawing lessons from the preparation and assessment of the first national plans, and discussing the challenges and opportunities identified in this initial phase.

The discussion is particularly timely as it can inform the implementation of the framework in the coming years, including for those Member States that have yet to submit their plans.

Key features of the new framework

The reformed framework represents a fundamental change in the EU's approach to fiscal surveillance, moving from a complex set of rules to a more tailored system based on country-specific analysis. At its core is the requirement for Member States to submit medium-term fiscal-structural plans covering a four-to-seven year horizon. These plans must detail fiscal strategies, structural reforms, and investments, with particular focus on EU priorities such as green and digital transitions, social resilience, and defence capabilities.

A central innovation is the introduction of a single operational indicator – the net expenditure path – which replaces the previous multiple fiscal targets. This path, which excludes interest expenditure, discretionary revenue measures, and EU-funded spending among other items, serves as the primary metric for monitoring fiscal policy implementation. The path is established to ensure that government debt is put on a plausibly downward trajectory or stays at prudent levels, while maintaining budget deficits below 3% of GDP.

The framework introduces several safeguards to ensure fiscal sustainability. These include a debt sustainability safeguard requiring minimum annual debt reduction for countries with debt above 60% of GDP, a deficit resilience safeguard targeting structural deficits, and a no-backloading requirement to prevent delay in fiscal adjustments. Member States can request a three-year extension of their adjustment period if they propose substantial reforms and investments that support growth and fiscal sustainability.

First implementation cycle – State of play

As of January 2025, the Commission has assessed the medium-term fiscal-structural plans of 22 Member States, while five countries (Austria, Belgium, Bulgaria, Germany and Lithuania) have yet to submit their plans, mainly due to national elections and government formation processes. The Commission's assessment has been largely positive, with 21 out of 22 plans deemed to set out credible fiscal paths to ensure fiscal sustainability. Only in the case of the Netherlands did the Commission find that the proposed net expenditure growth would lead to a breach of Treaty reference values in the medium term. On 21 January 2025, the Council adopted the recommendations endorsing the medium-term fiscal-structural plans and setting the related net expenditure path for 21 Member States. The endorsement for Hungary is still pending given the later submission and Commission assessment of the plan.

Five Member States (Finland, France, Italy, Romania and Spain) have requested a longer adjustment period of seven years instead of four, based on their commitment to implement substantial reforms and investments. The Commission has assessed these requests positively, finding that the proposed reforms and investments credibly contribute to sustainable growth and resilience, effectively address country-specific recommendations, and maintain required levels of public investment. The Council has also endorsed the extension of the adjustment period for these five Member States.

The fiscal adjustment requirements emerging from the assessed plans are substantial for several high-debt countries[27]. However, these requirements are generally less demanding than would have been the case under the previous framework. The assessment has also shown that numerical safeguards are not significantly constraining fiscal paths in this first implementation, except for Finland where the debt sustainability safeguard is binding.

Main challenges and lessons learned

The first implementation cycle of the new framework has provided important insights into its practical operation.

Technical dialogue between Member States and the Commission has played a significant role in establishing agreement on net expenditure figures, highlighting the importance of this aspect of the process.

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[27] See analysis by Bruegel, *"The implications of the European Union's new fiscal rules"*

This exercise however poses a number of challenges to the transparency of the framework, notably when it comes to parliamentary involvement. Notably, some **revisions of the net expenditure paths already presented in publicly available medium-term fiscal-structural plans have taken place behind closed doors**, with official communication between national authorities and the European Commission being released only after the publication of the Commission's assessment or, in the French case, after the endorsement in Council

For the first-cycle of plans, the regulation provided an exemption from the obligation to consult national parliaments in the preparation of the plans, thus limiting their engagement in the preliminary phases. Regarding national procedures, thirteen out of twenty-two Member States have presented their plans to their national parliaments. Seven Member States have received formal opinions from their independent fiscal institutions on the submitted plans, suggesting **potential for broader involvement of these bodies in future cycles**.

The implementation experience has also identified areas requiring further consideration. These include ensuring coherence between the medium-term fiscal-structural plans and the excessive deficit procedure, and clarifying how proposed reforms and investments are integrated into debt sustainability assessments.

Additionally, while the framework includes provisions to support public investment, **careful consideration needs to be given to how Member States can maintain or increase such investment while meeting their fiscal adjustment requirements**. These aspects will be important to monitor as the framework continues to be implemented.