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**GOVERNMENT OF FLANDERS
POSITION STATEMENT**
on the recommendations formulated
in Mario Draghi's report
“The Future of European Competitiveness”

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POSITION STATEMENT on the recommendations formulated in Mario Draghi's report "The Future of European Competitiveness"

SUMMARY

On 9 September, Italian former Prime Minister Mario Draghi published a report with recommendations on the future of European competitiveness. This report was prepared at the request of the President of the European Commission, Ursula von der Leyen. The report provides a detailed analysis of the challenges facing European industry and also identifies certain solutions to meet them.

The Government of Flanders welcomes this report and endorses its urgency. Through this communication, the Government of Flanders defines its position on recommendations from the report that are important to Flanders and asks the European Commission to work on a number of themes as a priority.

1. GENERAL MESSAGES

The Government of Flanders welcomes Mario Draghi's report on the future of European competitiveness and expresses satisfaction that the topic is placed high on the European political agenda. It appreciates the thorough analysis and endorses the message of urgency about the current state of European industry.

For Flanders, the next European Commission must prioritise work on the following areas for action from the Draghi report:

- **Closing the innovation gap:** Flanders welcomes renewed focus on innovation as an engine to boost competitiveness, strengthen technological leadership, and close the gap with the US and China. The EU must make a stronger commitment to innovation programmes based on excellence criteria.
- **Creating a joint plan for decarbonisation and competitiveness:** Flanders supports the emphasis on decarbonisation through technology-neutral ways which must be accompanied by ambitious and pragmatic targets that go hand in hand with strengthening our competitiveness. Adjusting the European framework in this area must not a priori be taboo without compromising the objectives. Furthermore, Flanders looks forward to the announced Clean Industrial Deal and asks the European Commission to move swiftly on the Industrial Decarbonisation Accelerator Act, which will focus on the development, production and dissemination of clean technologies, with a specific focus on energy-intensive industry. In addition to addressing structurally high energy prices, investments in storage and interconnections for cross-border energy infrastructure (electricity, H2 and CCS) are essential.
- **Develop a realistic vision on an open strategic autonomy:** It is necessary to increase our strategic independence on key technologies, sectors and raw materials. We do this by strengthening our own position, but our export region benefits in particular from diversifying international (trade) partnerships to secure supply chains and reduce unwanted dependencies. Protectionism must not be the guiding principle.
- **Pursue a well-functioning single market with a view to fair competition:** Additional attention to the enforcement of the existing rulebook is necessary for the level playing field within the European single market. Furthermore, deepening the single market is a priority, especially concerning services and by further removing barriers. Furthermore, Flanders is actively advocating for the restoration of a level playing field regarding European State aid rules.
- **Commit to better regulation with greater respect for the subsidiarity principle:** Reducing the regulatory burden on businesses (and SMEs in particular) must be the focus. Flanders wants to reduce reporting requirements by at least 25%. The EU must continue to focus on those competences where it can really add value and take more account of the unique characteristics of each Member State throughout the legislative process (e.g. population density, presence of energy-intensive industry).

2. FUNDING AND BUDGET

Financial instruments

The Draghi report emphasises the need for significant investment of an additional 800 billion euros annually to meet policy targets. Flanders supports the report's suggestion that the focus **must be on mobilising private resources, while public investments will also have to increase without derailing the public debt ratio**. The use of (European) public funding must be explored to curb the overall funding cost.

The Commission must come up with concrete proposals focusing on a deeper capital market and effective completion of the capital markets union. Where there is a **market failure** and no other options are adequate, we can take targeted action through public subsidies or other incentives, e.g. through an **Important Project of Common European Interest (IPCEI) or the possibilities at the European Investment Bank (EIB)**. However, the IPCEI instrument needs to be greatly administratively simplified to drastically speed up the process and make it more accessible to SMEs.

The European Union needs a **strong and up-to-date State aid framework that ensures a level playing field within the single market**. The Temporary Crisis and Transition Framework (TCTF) has led to fragmentation. It is therefore necessary to return to a stable and minimalist State aid framework that ensures the integrity of the single market. After all, an intra-European subsidy race cannot be a response to an extra-European subsidy race.

For Flanders, EU funding for competitiveness under the next multiannual financial framework (MFF) must be more focused on a more limited number of strategic priorities, with less fragmentation. In addition, it is important for Flanders that the allocation of European funding is based on **the merits of the project**.

Furthermore, Flanders also sees merit in scaling up an instrument such as **contracts for difference for decarbonisation technologies in energy-intensive industries** to the EU level and coordinating it there. High energy prices are putting our industries, especially the **energy-intensive industry**, under pressure and creating a competitive disadvantage. To accelerate the industry's green transition, in line with climate and energy targets, the industry must be properly supported.

Furthermore, we support the provision of **financing schemes** for scale-up companies **with more flexibility and risk appetite**. In practice, this is still perceived as a real deficit, leading companies to relocate outside the EU. Flanders also favours the proposal to increase **the EU guarantee for the InvestEU Programme**, as well as adjusting the mandate of implementing partners (including regional promotional banks and institutions such as the Flanders Holding Company (PMV)) to facilitate more risk.

Draghi said investment through **cohesion policy** is necessary to ensure that all regions can benefit from economic growth within the EU. Flanders believes that cohesion policy must be continued in all regions, including more developed ones. Indeed, innovative investments in these economically stronger regions, especially in the field of the green and digital transition, also have positive spillover effects to other regions.

Budget

In the European multi-annual budget, we argue for a budget shift, focusing on the innovation programmes that are important for Flanders, based on excellence criteria, and on strengthening budgets for cross-border, strategic infrastructure projects (such as 3RX, pipelines, etc.).

3. RESEARCH AND INNOVATION

Research and innovation (R&I) plays a central role in the report. Draghi sees this, rightly, as one of the key drivers to rekindle the EU's competitiveness. Flanders considers it essential for the EU to invest heavily (permanently) in research and innovation (R&I) and endorses the principle that Member States must also invest more of their own resources in the R&I system, namely 3% of GDP. Therefore, Flanders aims to increase joint investments

(public and private) in R&D to 5% of the gross domestic product. This term of office, Flanders is taking further steps towards the 1% for government. Moreover, the **excellence principle must be safeguarded** and accessibility must be improved with a simplified submission procedure.

As in the Draghi report, **research infrastructure** policy is high on the agenda in Flanders. Importantly, research infrastructures do not stand alone, but are always embedded in a research domain. Therefore, **more cooperation** between different Commissioners (such as for health, the environment, agronomy, etc.) is needed. Research infrastructures focus on scientific excellence, but spillover effects to those areas of strategic importance for the EU must also be further encouraged.

For Flanders, a stronger link between research and innovation infrastructures is needed **to bridge the gap between science and the market**. Moreover, we need a European strategy to encourage more pan-European cooperation and create cross-border infrastructure networks.

The Draghi report highlights Europe's strong tradition of global cooperation, but warns of risks due to the geopolitical situation, especially in research and innovation. For Flanders, a balance between global cooperation and **knowledge security** is essential.

4. SKILLS, EDUCATION AND LABOUR MARKET

European industry needs a strong **skills policy**. An ageing population reduces the available labour force, making it important to increase productivity through a strong skills policy that responds to the technological transformation of the industry. In addition, we are committed to increasing labour market participation and activation. Talent is also the most important raw material for Flanders.

The Draghi report also stresses that technological change and productivity growth must not come at the expense of the European social model and social fabric. The European economy will undergo a transition. It will be crucial to provide high performing public services during this transition and preserve our social welfare state with strong social protection, housing, childcare, etc. In the coming years, the EU must therefore continue its efforts to build the **European Pillar of Social Rights**.

For Flanders, however, it is essential that the **subsidiarity principle** be respected, with actions being discussed and taken at the right level and decision-making taking place as close to the citizen as possible. In areas such as education and training, this means that Member States must be able to define the objectives themselves.

On digitalisation, Draghi stressed the importance of developing digital skills to preserve quality jobs so that Europe can strengthen its competitiveness amid the rapid digital transition. Flanders supports this recommendation, and is taking the necessary actions and initiatives to scale up our digital skills and ensure digital inclusion for the wider population.

Flanders favours measures to remove administrative barriers to attracting highly educated knowledge migrants.

On education and training, Draghi refers to the need for a comprehensive strategy to close **the skills gap**, including developing EU-wide certifications, promoting cooperation between educational institutions and the business community, attracting talented labour migrants from outside the EU, and data-driven skills analysis. Flanders supports these principles in the Draghi report and wants to increase training participation and encourage lifelong learning based on competence forecasts. This is how we strengthen careers and increase the productivity and innovativeness of our companies. We also support recommendations around boosting STEM education and innovation to create new opportunities for highly educated professionals to stay in Europe. This would not only increase productivity but also help ease labour shortages in crucial sectors. Finally, the Draghi report calls for curricular reform in initial education in all Member States. It is unclear how that will be achieved, given education is purely a supporting competence of the Union.

Draghi thus wants to target skills through all possible channels, including cohesion funds like ESF+. Regarding previous recommendations, Flanders believes that European funds can play a central role here.

5. TRADE AND ECONOMIC SECURITY

New, ambitious, open, equitable and sustainable free trade agreements are essential to strengthen our strategic autonomy, create economic prosperity, and achieve the green and digital transitions. The EU must step up efforts to open up additional markets as well as supply lines for our companies. We watch over respect for human rights in free trade agreements and the inclusion of social and environmental standards as applied today by the European Commission. In doing so, we are always mindful of the level playing field and non-trade concerns. That is, all products imported into the EU must meet the same EU standards for food safety, product norms, animal welfare and working conditions as those for EU producers. Flanders supports the four key principles put forward by the Draghi report to arrive at an ambitious trade policy in line with our social, industrial and economic needs:

- I. **Countering crumbling multilateral legal order:** Flanders advocates continuing to strive to reform and strengthen the rules-based order (WTO, UNCITRAL, etc.) and not simply let it fade out. 'Outreach' to developing countries and to key players such as China and the US is important. However, the rules-based order must continue to evolve along with it and ensure a level playing field. It is also essential to continue to invest in a wide network of bilateral trade and sectoral agreements, as well as plurilateral initiatives. Flanders is concerned about the impact of a specific tailor-made approach on the EU's capacity to still conclude comprehensive trade agreements, which are also important for Flemish trade actors, e.g. to remove trade barriers.
- II. **Coherence with industrial policy:** According to Draghi, trade policy must be based on a case-by-case analysis linked to the needs from an industry and innovation perspective, the situation in the domain in question, and the relationship with the third country in question. Some coordination and coherence between trade policy and industrial policy are obviously necessary, but trade policy is broader than just industry and therefore must not be completely subordinate to industrial policy. Indeed, this poses risks to Flanders's interests as an open economy. A too-narrow interpretation of trade policy as a tool to shield its own industry will give rise to trade wars and countermeasures in sectors where Europe faces high dependencies.
- III. **Clear principles to avoid protectionism:**
 - i) The use of trade measures must be pragmatic and aligned with the overarching goal of productivity growth.
 - ii) Trade policies must be consistent and address non-trade concerns and reciprocity in terms of norms for third countries.
 - iii) Trade measures must be balanced against consumer interests. Distortions of the level playing field from third countries through demand suppression or subsidised competition must be assertively addressed. When deploying our trade instruments, the specific impact on European value chains must be weighed on a case-by-case basis. However, it must always be distinguished from legitimate third-country measures that focus on innovation and productivity improvements that can also benefit Europe.
- IV. **Coordination between Member States and EU FDI policies:** Flanders can agree to better coordination between Member States and COM when it comes to FDI screening decisions, but as national security and public order are national powers, it is also important that Member States can set their own emphases and decide. As with the use of trade defence instruments, a clear distinction must be made between potentially damaging investments in strategically important sectors and those that help European companies grow and generate employment.

The **foreign economic policy** proposed by Draghi must mainly focus on securing critical raw materials, supporting industry decarbonisation, and securing supply chains. These are also important objectives for Flanders. Flanders advocates for a balanced approach, while not losing sight of the 'promote' side through partnering

with third countries. A too-narrow interpretation of diversification through clubs of like-minded countries is not an approach Flanders favours.

Flanders supports a **European reference framework for efficient export control**. However, we do not support parallel systems or specific export control systems for specific sectors (as proposed by Draghi for semiconductors) in addition to the already existing current European frameworks. In addition, the principle of subsidiarity also remains undiminished here.

6. THE ENVIRONMENT AND PERMITS

The Government's commitment to a healthy and climate-robust environment remains undiminished. Nevertheless, we often notice that the implementation of the current European framework leads to permit problems, including the permits for infrastructure to help make our industry and mobility climate-neutral. Here, it is important that the problem is well defined: Flanders has a relatively short lead time in terms of permit processes, but a very high annulment rate of delivered permit decisions by the Flemish permit-granting authorities. We are therefore pushing at a European level for coherence between European sector-specific legislations affecting the permit process in Member States and strive for a balance between different economic sectors. This includes elements like the Habitats Directive and the Water Framework Directive, for example. This prevents sector-specific rules from disrupting the coherence of the permit process and causing legal fragmentation.

Flanders therefore welcomes Mario Draghi's suggestion to introduce a strategic environmental assessment for renewables instead of project-based environmental assessments, as well as the suggestion to monitor substantive European environmental legislation according to feasibility and prioritisation of renewables and defence investments. Flanders advocates for examining whether these suggestions cannot be extended to other sectors with a view to the strategic autonomy and competitiveness of the European Union, its Member States and its regions.

Here, it is important that the notion of 'public interest' is more broadly defined by European regulators and can have stronger weight in the permitting procedure of projects. Ideally, European legislation facilitates an integrated societal approach to ensure that conflicting objectives and standards do not cause stagnation. We further urge the EU to take into account the unique characteristics of each Member State in terms of population density and degree of industrialisation when developing environmental regulations.

Finally, the Draghi report rightly emphasises the need to promote digitisation of permitting processes across the EU. By continuing to invest in modern and simplified procedures, we reduce the administrative burden and accelerate important developments.

7. ENERGY

Flanders supports the outline in the Draghi report regarding the **roll-out of generation, storage, and interconnection capacity** to ensure **affordable and competitive energy** within the EU. Affordable energy prices for consumers and businesses are essential here. In the context of affordability and security of supply, it is important to advocate a balanced energy mix, where nuclear power is part of European policy alongside renewables.

Flexibility will play an increasing role in the future and can be deployed in various ways (such as storage and demand-response). A **strong grid value chain** can contribute to European competitiveness and strategic autonomy, including through the scaling-up of the European CEF budget.

Flanders, like Draghi, favours extending the system of **joint hydrogen procurement**. In addition, Flanders advocates for **adjusting the target (RFNBO)** so that we can use more than just green hydrogen to make our industry more sustainable.

8. CLIMATE

Draghi pays close attention to the competitive position of European industry within the global market, especially taking into account energy and climate targets. Flanders therefore wants a quick decision made at the European level on **an ambitious and pragmatic 2040 target**, while also focusing in the coming years on the **implementation of the Fit for 55 files that have already been decided**.

Evaluating and monitoring the **feasibility of EU targets** and, in particular, sub-targets are important here. If it turns out that those sub-targets do not contribute sufficiently to the EU climate objectives or that there are better alternatives, Flanders will advocate for adjusting those objectives/obligations.

In this context, we remain committed to **robust protection against the carbon leakage risk**. The Draghi report rightly states that the effectiveness and success of the CBAM mechanism are currently uncertain. The CBAM mechanism must therefore certainly be closely monitored, with a particular focus on sectors exporting their production outside Europe, as well as how to adequately protect the entire value chain of industrial production.

To ensure a level playing field between European Member States, **European funding** must also be considered, through the Innovation Fund, among others. Flanders believes that the greening of industry must be **technology-neutral and cost-effective**.

9. CIRCULAR ECONOMY

The circular economy offers significant opportunities to secure the supply of critical raw materials and become more self-sufficient in them. Flanders stresses that **recycling of critical materials** must be further developed to support the green economy and the production of clean and digital technologies. Besides more recycling capacity, it is essential for Flanders to also encourage **the use of secondary raw materials**. Existing **barriers** must be eliminated. Draghi points to some key obstacles, including the higher cost of secondary compared to primary raw materials, a failure to invest in infrastructure for circularity, and an uneven playing field in waste criteria leading to higher charges and lower recycling rates in the single market.

While the importance of circular economy is stressed in the report, it pays insufficient attention to **sustainable responses to materials demand** and to the **production and use of sustainable primary raw materials** from the EU.

Attention to, and coherence with, the environmental and climate objectives remain a priority, and Flanders therefore asks the European Commission to work on a Clean Industrial Deal, which pays sufficient attention to the demand for materials and for the production and use of sustainable primary raw materials from the EU.

10. DIGITALISATION

Flanders supports Draghi's proposal to create more regulatory coherence, reduce the administrative burden on companies, and make it easier for European companies to scale up. The proposal to aggregate Member States' resources to strengthen our strategic autonomy on digital infrastructure is strongly supported.

High-speed and high-capacity broadband networks

Flanders supports **the further development of a truly European digital market** that makes it easier for ambitious companies to scale up. We encourage better cooperation between EU telecom players to develop joint standards for edge technologies, network APIs, and IoT technologies. In addition, cooperation with each other and with knowledge institutions for pioneering R&D is essential.

Computing and AI

More attention must be paid to **simplifying access to HPC infrastructure** for businesses, especially startups and

SMEs. A stronger link with implementation actions at the regional level and closer industry involvement in the EU's digital services deployment can address this issue. The EU needs to invest in scaling up digital technologies, including cloud computing, high-performance computing, quantum technology and industrial applications of AI.

Semiconductors

Semiconductors are a strategically important component of Europe's economy and security structure. Flanders advocates **strengthening the semiconductor ecosystem** to reduce dependencies on external suppliers. Flanders supports Draghi's recommendations on the new '**EU Semicon Strategy**'. Importantly, this strategy should be complementary to the existing EU Chips Act and commit to **stronger EU valorisation** of EU Research and Technology Organisations (RTOs), including IMEC.

11. DEFENCE AND SPACE

The Draghi report outlines the main work tracks for the EU to further support and strengthen the defence and space sectors. Flanders supports the emphasis on **increased investment in defence research and development**, which will enhance our technological capacity. Facilitating technological **spillover between civilian and defence innovation cycles** also deserves due attention. Furthermore, Flanders stresses the importance of investing in the defence and space industries and calls for specific attention to SMEs as key drivers of innovation in the sector.

12. PHARMA

The alarming plight of the pharmaceutical sector in the Draghi report must provide the impetus to further deepen proposals around a **Critical Medicines Act** and a **Biotech Act**. While health must be an important component of the Biotech Act, it is essential for Flanders that this legislative proposal goes beyond just the health sector.

Among other things, Draghi advocates for more cooperation and tighter concentration of innovation hubs around specific themes, such as (parts of) life sciences. Thus, we need to **achieve critical mass and revitalisation of the whole sector in the EU**, instead of continuing the counterproductive model of rivalry and fragmentation through national protectionism. Flanders wishes to strengthen its position within this integrated ecosystem.

13. MOBILITY AND TRANSPORT

Digital and green transformations, as well as **automation** in the transport sector, will be necessary in the coming years. This is an opportunity for EU (and Flemish) industry to take a global leadership role here.

A central focus for Flanders is the need for **improved infrastructure planning** to remove infrastructure barriers in the single market and further address interoperability issues to safeguard EU competitiveness. Here, **efficient coordination** with other sectors and **accelerated permitting procedures** are crucial. **Maintenance**, named in the Draghi report as a major future cost with ageing infrastructure, and the modal shift towards rail and inland navigation, are also important for Flanders.

In addition, **strategic investment in infrastructure and more decisive mobilisation of alternative public and private funding resources** are necessary for the further implementation of the TEN-T policy. In this sense, the report provides some guidance for advocating a strong future Connecting Europe Facility (CEF) in the next MFF with an allocated transport envelope and central management. Budgetary reinforcement for building and maintaining cross-border and strategic transport infrastructure is a priority for Flanders, as **is securing the TEN-T network against external factors** (climate, geopolitics, etc.).

14. GOVERNANCE

Flanders agrees with Mr Draghi that the EU must focus on where it can add the most value. Internal EU reforms are needed before any EU enlargement can take place.

Flanders advocates that the EU must identify well-considered strategic policy choices and priorities in line with its broader goals, and to make these a central thread throughout its policies. It is crucial how these strategic priorities are identified and selected, preferably based on objective evidence. Action plans can be a useful tool to achieve this coordination.

Furthermore, Flanders supports the analysis in the Draghi report that some existing processes, such as the European Semester, have so far proved largely bureaucratic. With the Draghi proposals around coordination, however, Flanders does note that developing completely new governance structures could potentially be very time-consuming. Flanders therefore advocates that the New Economic Governance must be the lever to make the European Semester more dynamic and more functional with, among other things, stronger political ownership, more region specificity and a much stronger focus on competitiveness. Flanders suggests **exploring smart links with the European Semester (ES)** to give the theme of competitiveness a much stronger substantive place within the ES and to make this theme, for example, a regular operational and recurrent component of more effective Fact-Finding Missions, Country Reports, and political-level meetings between the European Commission and the Member States. Importantly, this process would then be made more efficient and much less bureaucratic. Flanders notes that the 'political dimension' of the ES, including political bilateral meetings between the European Commission and Member States, has greatly diminished in recent years. However, the growing importance of competitiveness could provide a new impetus for political deliberation. There must also be a stronger focus on the **region specificity** of the ES with region-specific recommendations and analysis.

15. MEDIA

The drafting of a 'new EU telecoms law', as Draghi proposes, implies amending the European Electronic Communications Code (EECC). Flanders will monitor this closely, given its potentially significant impact on media policy, and **spectrum policy** in particular. Regarding spectrum policy, we question to what extent the further harmonisation of the spectrum can be practically achieved, as technical conditions are already harmonised and a coordinated schedule of allocations already exists. Further harmonisation seems particularly feasible for satellite services.

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