EUROPEAN
COMMISSION

Brussels, 29.1.2025
COM(2025) 26 final

# COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

## The 2025 Annual Single Market and Competitiveness Report

{SWD(2025) 11 final} - {SWD(2025) 12 final}

# Introduction

**The European Union's ability to compete and thrive in the global economy amidst current geopolitical challenges is essential for Europe's prosperity.** It hinges on a clear identification of its strengths and weaknesses to underpin a forward-looking strategy addressing its shortcomings, bolstering its strengths and unlocking new opportunities.

**At the heart of the EU's long-term competitiveness lies the Single Market, home to nearly 450 million people, 23 million companies and a GDP of EUR 17 trillion.** It positions the EU as one of the three largest economies in the world and accounts for about one-sixth of the global economy. However, persistent barriers in the Single Market and administrative burden hold it back from reaching its full potential. Progress in Single Market integration has slowed, while barriers remain, in particular for services. Companies, especially SMEs, relay their struggles in facing administrative burden and complying with government regulation. This makes it harder to do business and reduces opportunities for businesses to scale up.

**The competitiveness of the EU economy faces mounting pressure from several angles.** It suffers from structurally high energy and electricity prices. The latter are currently 2-3 times higher than in the US[1]. European companies face challenges on their investment journeys with difficulties in commercialising their research results, hindered by insufficient public and private investments into the most promising technologies and sectors. As a result, the development and uptake of digital and other advanced technologies are trailing competing economies. Skilled labour is also in short supply. The increasingly unstable geopolitical situation calls for close attention to strategic dependencies.

**Productivity in Europe is persistently lagging behind the US but has great potential to catch up.** EU labour productivity, measured by purchasing power adjusted GDP per hour worked, stands at 77.8% of US levels in 2023 (see Figure 1). On the upside, it is ahead of the UK and Japan, both in levels and dynamic over the past years. Within the EU, this average masks some differences, with Member States that joined more recently catching up with US levels.

**The attractiveness of Europe as a business destination is in decline.** Since 2008, a third of so-called 'unicorn companies' decided to relocate abroad[2]. Only 4 out of the 50 largest tech companies are based in the EU and none of the EU's most valued companies have been created from the ground up[3] in the last 50 years[4], signaling a lack of market dynamism, insufficient innovation climate and high barriers to market entry and scale-up. As a result, confidence in the EU as a business location has waned, with foreign direct investment dropping and significant amounts of households' savings being invested elsewhere. At the same time, there is a vast potential to increase investment in sectors and technologies key for EU competitiveness, drawing from the EU's strengths, if the right framework conditions are created.

**The Annual Single Market and Competitiveness Report provides the analytical context for the Competitiveness Compass**, presented at the same time as the first major initiative of the new Commission. The report aims to provide a diagnostic to underpin the Clean Industrial

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1 Eurostat; US Energy Information Administration (EIA). See Section 3.3.

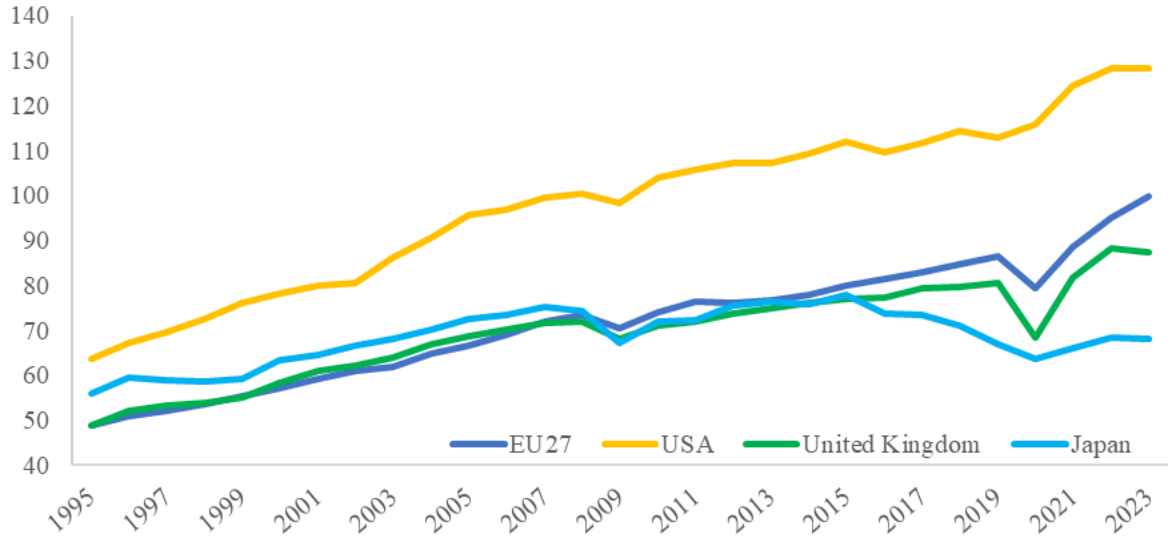
2 Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe". Part A, p. 2.

3 Rather than through mergers, acquisitions or spinoffs from established firms.

4 Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe". Part A, p. 10.

Deal and the Single Market Strategy. It builds on the reports by former Prime Minister Letta on the Single Market[5], former Prime Minister Draghi on competitiveness[6], and former President Niinistö on preparedness[7]. It responds to calls from businesses to put competitiveness at the core of the EU's agenda[8].

**Figure 1:** Evolution of labour productivity in the EU and other advanced economies




**Source:** AMECO database. GDP per capita in purchasing power parities (PPP) per hour worked. Values indexed with EU at 100 in 2023.

**With its 22 Key Performance Indicators (KPIs)[9], the report provides an analysis of the key drivers of the EU's long-term competitiveness and productivity, as well as the state of the Single Market.** It provides a basis for discussion with Member States and the European Parliament, allowing to take stock of the Single Market and the EU's competitiveness as part of an annual progress review[10], following up on a request of the European Council[11] building on the 2023 Communication on Long-term competitiveness of the EU[12]. It is supported by two Staff Working Documents providing additional data coverage and analysis related to the KPIs, an overview of resilience measures by selected global players, and a monitor of industrial ecosystems. These elements are complemented by the Single Market and Competitiveness Scoreboard featuring an additional 150 indicators[13].

**The report identifies strengths to build on and weaknesses to address.** It starts from an assessment of the functioning of the Single Market and moves on to take stock of the EU's competitiveness along the three axes of the Competitiveness Compass. It examines the EU's progress in closing the innovation gap. The report then presents the state of play of drivers advancing the decarbonisation of industry and investment. Finally, the report looks at progress in strengthening economic security and reducing dependencies.

5 Former Prime Minister Letta, "Much more than a Market".
6 Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe".
7 Former President Niinistö, "Enhancing the European Union's Resilience for Future Uncertainties".
8 Calls from the business community include, for example, the Antwerp Declaration for a European Industrial Deal.
9 This year's edition of the report departs from the 17+2 KPIs from the 2024 ASCMR, complementing with alimited number of additions to deepen the analysis in areas of crucial interest.
10 Communication 'The Single Market at 30' (COM(2023)162).
11 The European Council (EUCO) Conclusions of December 2022 asked the Commission to present a strategy at EU level to boost competitiveness and productivity.
12 Communication 'Long-term competitiveness of the EU: looking beyond 2030'(COM(2023) 168).
13 European Commission, Single Market Scoreboard.

## SECTION 1 – A functioning Single Market

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 1: Labour productivity | GDP per hour worked in PPP terms | | 77.8% of US level (2023)<br>74.2% of US level (2022) |
| KPI 2: Integration in the Single Market | Share of EU GDP represented by trade between EU Member States | | 23.8% for goods (2023)<br>26.0% for goods (2022)<br><br>7.6% for services (2023)<br>7.8% for services (2022) |
| KPI 3: Conformity deficit | Share of EU Single Market Directives transposed by Member States for which infringement proceedings for incorrect transposition have been launched by the Commission | <0.5% | 0.9% (2024)<br>1.1% (2023) |
| KPI 4: Ease of regulatory compliance | Ease of regulatory compliance, based on survey data with companies responding to the question: "In your country, how easy is it for companies to comply with government regulation and administrative requirements (e.g. permits, reporting, legislation)? (1 = Extremely complex; 7 = Extremely easy)" in the survey for the Global Competitiveness Index of the World Economic Forum. | | 3.87 (2023)<br>3.80 (2022) |

| Legend | Improved | Stable | Worsened |
|---|---|---|---|

**A well-functioning Single Market is the key amplifier for productivity growth as it provides a large demand pool and diversified supply sources.** It provides scale for companies to innovate and grow. One of its core assets is a stable environment based on the rule of law. Respect for the rule of law is central for the functioning of the Single Market, providing a stable operating environment that gives the EU and its Member States a global competitive edge. The rule of law ensures a business environment in which laws apply effectively and uniformly, where businesses can work in another Member State on an equal footing with local companies, and budgets are spent on a transparent and objective basis.

**The integration of the Single Market is progressing with intra-EU trade increasing trend-wise over the last decades.** Cross-border trade in goods within the EU increased from just over 20% of EU GDP in 2018 to 23.8% today (KPI 2). The situation with respect to the integration of services is more mixed – increasing much slower and from much lower levels – from around 7% of GDP to 7.8% over the same period. In 2023, there was a sizeable drop for goods and a small drop for services[14], but it continues to be significantly above pre-pandemic levels. An important part of the recent drop in the value of trade in goods can be attributed to the fall in energy prices, reducing the prices of traded goods, although there was also a drop in actual volumes. It may be too early for a firm conclusion on these trends, future data will provide further evidence.

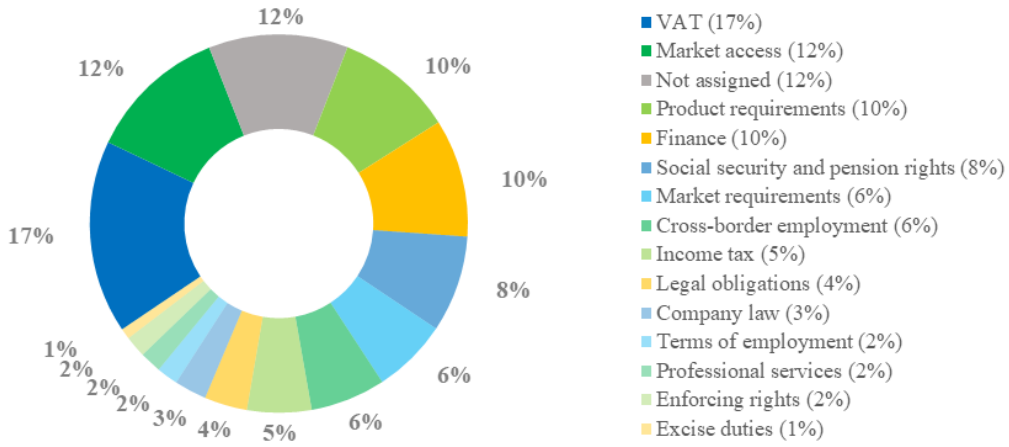
[14] Apart from the clear price effect, there are several reasons that may have hindered intra-EU trade, including the growing relevance of global value chains, geopolitical tensions, structural changes in the EU economy such as the decline of manufacturing and rise of services, the United Kingdom's decision to leave the EU, and persistent barriers to trade and investment such as non-tariff barriers and regulatory differences.

### 1.1 Barriers in the Single Market

**Over the years, the EU has removed many barriers to trade in the Single Market, but at the same time new barriers and sources of fragmentation continue to appear.** The Single Market Barriers Tracker[15], as well as analysis by the European Round Table for Industry[16], EuroChambres[17], and other stakeholders reveal a pattern of increased barriers. Monitoring from different perspectives is necessary in order to identify the adequate policy response to reduce these barriers.

**As regards services, the Single Market remains fragmented by a combination of regulatory and administrative barriers.** The most important regulatory barriers include legal requirements on access to regulated professions and on the companies that may perform services, along with diverging employment and tax laws. Administrative barriers include complex declaration requirements for the posting of workers and certifying social security coverage. The complexity of company law and the divergencies between rules in different Member States that apply when setting up a new business or registering a subsidiary remains a barrier for services that depend on proximity to their customers.

**Figure 2:** Reported barriers by categories, split among top 15.




**Source:** Single Market Barriers Tracker dashboard, using Your Europe, SME feedback survey, SOLVIT and Your Europe Advice (YEA) data, between 2022 and October 2024.

**Intra-EU cross-border circulation of goods often faces various types of barriers, as illustrated by data from the Single Market Barriers Tracker.** For instance, national requirements on packaging and labelling force producers to make products tailored for specific Member States – instead of servicing the whole Single Market. Market access for goods is also under pressure through legal and administrative barriers to entry, including obtaining authorisations and permits. Non-regulatory barriers, such as territorial supply constraints[18], are regularly reported by stakeholders (see Section 1.4 below on the free movement of goods). One of the obstacles for goods is how market access is reduced by requirements of extended producers' responsibility schemes. Market requirements set by Member States for the mutual recognition of non-harmonised goods, and the export, transport and use of secondary materials

[15] The Single Market Barriers Tracker is a tool created under the Single Digital Gateway Regulation to collect data on Single Market obstacles from citizens and businesses: Single Market Barriers Tracker.

[16] Single Market - Compendium of obstacles - 13 Feb. 2024.

[17] Eurochambres Single Market Survey: Overcoming obstacles, developing solutions.

[18] Territorial Supply Constraints are barriers imposed by private suppliers in the supply chain, which can affect retailers or wholesalers. These may impede or limit the retailers' or wholesalers' ability to source goods in other EU countries than the one they are based in, and/or prevent them from distributing (i.e. reselling) goods to other EU countries than the one in which they are based.

have also further fragmented the Single Market. Figure 2 provides an overview of the 15 main barriers, as reported in the Single Market Barriers Tracker.

### 1.2 Implementation and enforcement in the Single Market

**The EU Member States and the Commission share the responsibility for enforcing EU law, including ensuring that Single Market rules are complied with, and that people's rights are enforced.** The Commission's work on ensuring compliance combines three main aspects: strengthening barrier prevention, collaboration with Member States, and corrective enforcement actions.

**As for the preventive aspect of enforcement, the Commission works in close cooperation with the Member States to ensure effective implementation of the existing notification mechanisms and their transparency.** In response to Member States' request, the Commission has launched and is further developing the Single Notification Window, an online platform providing an overview of and simple access to different notification procedures stemming from sectoral legislation with relevance for the Single Market.

**The Single Market Enforcement Taskforce (SMET) fosters a sense of common responsibility between the Commission and Member States, to properly implement EU rules and work together to tackle specific barriers in the Single Market.** The SMET report[19] provides a comprehensive overview. Examples of the results achieved over the past couple of years are the removal of more than 90 administrative barriers to permitting for wind and solar energy and the support for introducing five good permitting practices which help increase the investments in renewable energy. Cooperation within SMET also reduced IBAN discrimination in five areas (taxes, welfare payments, pensions, health care payments and telecommunications). The identification of new SMET projects in other areas, such as digital services, packaging and labelling requirements, and mutual recognition is ongoing[20].

**As to the corrective aspect of Single Market enforcement, there is a steady improvement of the situation.** According to the Single Market Scoreboard[21], there is a further decrease in the number of Single Market infringement cases (-6% within the last year) that the Commission has launched against EU Member States for having failed to properly implement EU legislation[22]. The number of infringements per Member State varies considerably and the sectors concerned with the most Single Market infringement cases are the environment (35%), transport (17%), and energy (12%). The Commission also continues its enforcement of EU competition law against anticompetitive company behaviour that creates barriers to a proper functioning of the Single Market. According to the Court of Justice, individuals can claim financial compensation if a Member State seriously breaches the EU law.

**The conformity deficit is slowly receding from previous highs but still falls short of the EU target value[23].** This is measured as the share of EU Single Market Directives transposed by Member States for which infringement proceedings for incorrect transposition have been launched by the Commission (KPI 3). After the conformity deficit increased markedly from 0.8% in 2018 to a peak of 1.4% in 2020, it is now slowly receding to 0.9% in 2023. It however remains well above the EU goal of 0.5%.

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19 European Commission, SMET report.
20 SMET report.
21 Single Market Scoreboard.
22 Single Market Scoreboard. A reduction in pending infringement cases has been achieved despite the fact that 25% more new cases were launched compared to the previous reporting period (172, up from 138).
23 European Commission – Single Market Scoreboard.

**The Internal Market Emergency and Resilience Act[24] strengthens crisis preparedness and response by addressing disruptions in supply chains and improving coordination across Member States.** The Commission is implementing contingency plans, including crisis simulations and enhanced communication tools, to safeguard the seamless operation of the Single Market for citizens, businesses, and governments.

### 1.3 Cross-border provision of services in the Single Market

**The services sector accounts for around 70% of EU GDP and employment[25], yet the Single Market for services continues to perform below potential.** Trade in cross-border services is less than a third of that in goods[26] and, contrary to goods, not higher than services trade with non-EU countries. Labour productivity growth in services also remains low[27] and negatively impacts competitiveness of both the services sector itself and EU manufacturing industries, as services provide almost 40% of the value added in manufacturing[28].

**Under the Services Directive, which aims to remove barriers to investment and trade in cross-border services, Member States enjoy significant freedom to set their own rules.** This leads to a great diversity of national rules. While specific national requirements may be justified and proportionate to meet legitimate public interest objectives, they impose barriers on professionals and companies wanting to offer services in other EU Member States. The Commission estimates that despite an initial reduction of regulatory barriers following the transposition of the Services Directive, around 60% of these barriers are of the same type as 20 years ago[29], with limited mutual recognition in place.

**Services sectors such as construction and retail are economically important but perform below potential[30].** The supply of new housing and the renovation of Europe's building stock is slowed down by a complex regulatory and administrative environment with major divergencies not only between Member States, but also within Member States, which restricts the provision of construction services cross-border. Other examples include restrictions on retail establishment and on day-to-day retail operations that act as significant impediments to a better performing retail sector with spill-over effects along the supply chain and on consumers.

**Member States are restricting access to more than 5 700 regulated professions in the EU[31], representing approximatively 22% of the labour force[32].** The proportion of the workforce in regulated professions varies significantly between Member States, ranging from 14% in Denmark to 33% in Germany[33]. The regulation of professions can protect general interest objectives but come at the cost of preventing domestic and other EU citizens from exercising these professions unless they meet requirements in national law. Looking at a set of professions

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24 Internal Market Emergency and Resilience Act.

25 Single Market Scoreboard, "Access to Services and Services Markets".

26 This is principally due to barriers mentioned in Section 1.1 above such as the regulation of professions and companies that may perform services, diverging employment and tax laws, complex declaration requirements for the posting of workers and certifying social security coverage.

27 ECB, Eurostat, EU labour productivity growth in services is lower than in manufacturing (0.96% vs 1.55% over the period 2010-2019). EU hourly labour productivity growth in services also lags behind the US (growth of 3.8% vs 12.4% over the period 2019-2024).

28 ECSIP Consortium, Study on the relation between industry and services in terms of productivity and value creation.

29 30 years of single market – taking stock and looking ahead; Business Europe, Examples of Single Market barriers for businesses - 2023.

30 For example, construction represents 11% of EU GDP, but accounts only for 1% of intra-EU services trade. Hourly labour productivity in construction amounts to some EUR 35 per hour, 30% less than in manufacturing.

31 Regulated Profession Database.

32 Measuring Prevalence and Labour Market Impacts of Occupational Regulation in the EU.

33 Idem.

commonly hired by companies as external service providers, such as accountants, architects, civil engineers and lawyers, the degree of restrictiveness varies greatly, with some Member States imposing no restrictions while others heavily restrict the possibility for foreign nationals to exercise the profession[34].

**Where a Member State regulates a profession, citizens from other Member States are required to undergo a procedure to have their professional qualification recognised.** Thanks to the processes established under the Professional Qualifications Directive[35], over 90% of the almost 1 million recognition requests obtained a positive result[36]. Yet, citizens face practical problems when attempting to get their professional qualifications recognised[37]. A persistent challenge is also the slow and inefficient recognition of qualifications of third country nationals, which blocks mobility, contributes to overqualification and limits integration in the EU labour market. The Commission is working on possible solutions to speed up and simplify the system of recognition of professional qualifications.

**While declarations of the posting of workers can be justified to protect their rights, they constitute a significant administrative barrier to the temporary cross-border provision of services.** The Commission is working with Member State authorities in the Single Market Enforcement Taskforce to ensure justified and proportionate declaration obligations. The Commission has further proposed a Regulation to establish a common voluntary digital portal to simplify the declaration of the posting of workers, connected to the Internal Market Information System (IMI)[38]. This would allow companies to make posting declarations in one place for all EU countries using the public interface and reduce administrative burdens for companies and national authorities while also protecting workers' rights.

**The postal sector faces challenges due to the structural decline in letter mail activity and rising unit costs putting pressure on the cost of the universal service.** The postal services sector is vital to the economy and to the Single Market, contributing to 0.8% of the EU's GDP and employing 1.65 million people. New market entrants, especially e-commerce giants, are disrupting competition in the parcel delivery space. According to a recent study[39], the sector faces challenges like increasing regulatory fragmentation and diverging quality levels.

### 1.4 Cross-border movement of goods on the Single Market

**The New Legislative Framework (NLF) has improved consistency in the EU product legislation but faces challenges.** Covering products such as batteries, machinery and personal protective equipment[40], the NLF underpins approximately 80% of industrial production and 74% of intra-EU manufacturing. However, the 2022 evaluation of the NLF revealed pressing issues, including potential foreign influence, illegal practices and gaps in addressing digitalisation and circular economy. Addressing these challenges is essential to ensure coherence and reduce costs for economic operators and authorities.

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34 European Commission, Single Market Scoreboard, "Barriers to accessing professional services markets"; EU restrictiveness indicator (EURI) database.

35 Professional Qualifications Directive.

36 Regulated Profession Database.

37 Although automatic recognition procedures based on harmonised minimum training requirements or on professional experience apply for specific professions and sectors, their scope in practice is too limited and procedures too often remain complex and slow.

38 Commission Proposal of 13 November 2024 establishing a single digital declaration portal.

39 Internal Market, Industry, Entrepreneurship and SMEs - Postal Services.

40 Batteries: Regulation (EU) 2023/1542; machinery: Regulation (EU) 2023/1230; personal protective equipment: Regulation (EU) 2016/425.

**The free movement of goods is undermined when products fail to meet requirements for health, safety and sustainability.** The EU framework for market surveillance aims to counter this and concerns all non-food products covered by harmonisation legislation. Those products represent about two thirds of intra-EU trade in goods. The Commission supports and coordinates the activities of national authorities that check the compliance of products placed on the EU market and finances 36 ongoing joint enforcement actions in different product sectors covered by Union harmonisation legislation. In 2024, enforcement authorities registered more than 36 916 investigations on non-food products and took measures in more than 23 389 cases to protect consumers and ensure a level-playing field for businesses.

**New trends in international e-commerce and supply chain re-configurations put pressure on customs controls, market surveillance, and consumer protection authorities.** The number of e-commerce parcels imported into the EU rose from 1.1 billion in 2022 to 2.2 billion in 2023 and is expected to reach 4 billion in 2024. In 2023, approximately 152 million fake items were detained at the EU border and in the Single Market, representing a significant increase from 86 million in 2022[41]. Significant steps have been taken to address the challenge of non-compliant goods reaching the Single Market, including through online sales. This includes the implementation of the Market Surveillance Regulation[42] supported by the EU Product Compliance Network, adoption of the General Product Safety Regulation[43] to strengthen the rules on product safety and proposals for a reform of the EU Customs Union to control product imports more effectively. In addition, the Commission is taking action under the Digital Services Act.

**Territorial Supply Constraints in retail and wholesale fragment the Single Market, limit consumer choice and contribute to significant price differences across the EU[44].** These constraints are imposed by large brand manufacturers to make it very difficult or impossible for retailers to buy products in one Member State and resell them in another. While competition law is an effective tool to penalise such practices[45], many, however, fall outside its scope[46]. To identify solutions to this issue, the Commission launched a fact-finding exercise with Member States in SMET and will initiate a dialogue with the relevant industry stakeholders (retailers and wholesalers, manufacturers, consumers).

**Harmonised technical standards promote the free movement of goods by ensuring products meet safety, quality, and performance requirements across Member States.** The CE marking identifies products comply with EU harmonised product legislation, allowing them to be sold throughout Europe. Standards reduce barriers to trade, ensure interoperability of products and enhance the competitiveness of European businesses. The standardisation framework sometimes lacks speed and agility, in particular for new value chains for the green and digital transitions. It is of utmost importance to encourage fast delivery of standards and participation of EU industry in work on standardisation requests in areas key for the EU´s

41 This poses particular challenges for product safety and market surveillance as among identified dangerous products in the EU around ¾ are coming from outside the EU and not all consumer products are subject to a requirement to have a responsible person in the EU that can be reached to take corrective action. This has a negative effect on the level-playing field in the EU.

42 Regulation (EU) 2019/1020.

43 Regulation (EU) 2023/988.

44 An independent study carried out for the European Commission in 2020 estimated that if TSCs were removed, consumers could save up to EUR 14.1 billion per year on their purchases of certain products.

45 On 23 May 2024 the Commission fined Mondelez EUR 337.5 million for hindering the cross-border trade of chocolate, biscuits and coffee products. Previously, in 2019, the Commission had fined AB InBev EUR 200 million for restricting cross-border sales of beer.

46 EU competition law applies only when the territorial supply constraints are included in anti-competitive agreements or carried out unilaterally by a dominant operator.

competitiveness. Such priority areas are set yearly, via Annual Union Work Programme for European Standardisation[47]. The Commission is currently assessing the legal framework on European standardisation to determine further action.

**The evaluation of the Textile Labelling Regulation shows a proliferation of labelling requirements.** This increases the complexity of information provided to customers and partitions the Single Market. It also concludes[48] that the existing regulatory framework at the European level does not cover recycling related information and non-physical labels, i.e. digital labelling.

### 1.5 Regulatory burden in the Single Market

**Businesses perceive the regulatory burden in Europe as too heavy, with 32% of EU firms identifying regulations as a "major obstacle" to their investment activity.** An additional 34% of EU companies see regulation as a minor obstacle, meaning that in total two thirds of companies consider being hindered from investing by excessive regulation[49]. In comparison, only 21% of companies in the US flag "business regulations" as a major impediment to investment. Compared to last year, perceptions of EU businesses about the burden of government regulation have been broadly stable, with a small improvement from 3.4 in 2019 to 3.9 in 2023[50], albeit still too burdensome (see KPI 4).

**41% of companies consider increased regulatory burden to be the main risk factor negatively impacting the EU's attractiveness as a location for foreign direct investment (FDI)[51].** This can partly explain the significant drop in the EU's share of annual global FDI flows from 36% (2019) to 4% (2023)[52]. The regulatory burden is particularly cumbersome for SMEs. 28% of EU SMEs report that more than 10% of their staff are employed to assess and comply with regulatory requirements and standards[53]. For instance, permitting procedures for new or modernised manufacturing facilities, can be time-consuming, costly and entail the interaction with a multitude of public administrations. Further areas repeatedly brought up by companies as particularly burdensome are posting of workers, corporate sustainability reporting and chemicals legislation.

### 1.6 Digital tools for the Single Market

**Economic operators report difficulties related to accessing information and accomplishing administrative formalities online.** According to recent surveys[54], key problems include difficulty to access information on rules and requirements and overly complex administrative procedures. To address this issue, digital tools can facilitate access and reduce administrative burden. For example, the Single Digital Gateway is an EU eGovernment initiative that already serves as a one-stop-shop for citizens and businesses who want to work, study or do business in another EU country. Its scope has gradually expanded to include

47 Annual Union Work Programme for European Standardisation for 2024.
48 Review of Regulation (EU) No 1007/2011. E.g. "Furthermore, new fibres are being developed, with growing complexity and speeds, and new recycling technologies are fast becoming available, requiring better fibre identification", "digital labelling technologies are now readily available and affordable".
49 EIB, Investment Barriers in the EU.
50 On a scale from 1 to 7 where 1=extremely complex, and 7=extremely easy.
51 Ernst & Young, Europe Attractiveness Survey 2024.
52 European Commission – Single Market Scoreboard; UNCTAD.
53 European Investment Bank, EIB Investment Survey 2024.
54 See for example 2024 Eurochambres Single Market Survey, Overcoming obstacles, developing solutions.

additional areas and legislative initiatives[55]. Yet, significant progress is still needed, notably for making procedures accessible to cross-border users.

**Fragmented cooperation among Member State authorities and the European Commission can undermine the effective implementation of EU law.** The Internal Market Information System (IMI) plays an important role in facilitating cooperation and fast exchanges between over 12 000 public authorities across Europe. Last year, IMI incorporated the Database of Regulated Professions. Additional uses of IMI, such as the proposed establishment of a single digital declaration portal for the posting of workers, could further reduce administrative burden.

**Inconsistent adoption of electronic invoicing further complicates administrative processes for businesses, particularly in public procurement processes.** The eInvoicing Directive for public procurement[56] mandates all contracting authorities in Europe to receive and process eInvoices compliant with the standard. The percentage of European enterprises sending eInvoices increased from 10.3% in 2013 to 32.2% in 2020.

**The lack of comprehensive and accessible product lifecycle information hampers transparency and sustainability efforts**. The Digital Product Passport (DPP), established under the Ecodesign for Sustainable Products Regulation, in force since July 2024, will, once created and operational, provide comprehensive information about a product's lifecycle, including compliance documentation, safety instructions, and guidance on product disposal.

**Finally, public sector interoperability enables administrations to cooperate and deliver public services across borders, sectoral and organisational boundaries**. Cross-border interoperability can save businesses between EUR 5.7 and EUR 19.2 billion[57] annually.

### 1.7 SMEs

**The EU's SMEs (99.8% of enterprises) are at the core of the EU's economic fabric, yet the economic environment remains challenging for them.** As the 2024 GROW SME performance review shows, SME value added in real terms declined by 1.6% in 2023 and a further decline of 1.0% is estimated for 2024. Compared to large companies, SME productivity has shown a trend in the wrong direction: in 2008, SMEs were about 68% as productive as large enterprises, but in 2024 this figure had fallen to 60%[58].

**SMEs remain the engine of growth and innovation in Europe**. Most EU scale-ups with fast growth and high productivity are SMEs[59]. Micro-SMEs with less than 10 employees have created nearly 4 million jobs in the last three years, and in 11 out of 14 industrial ecosystems, job growth in SMEs has outpaced growth in large enterprises in 2023[60].

**Four main challenges are holding SME back: regulatory obstacles or administrative burden, payment delays, access to finance, and skills[61].** 35% of SMEs see complex

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55 The scope has been recently expanded to cover the Regulation on European data governance, the Regulation on short-term accommodation rentals, the Net Zero Industry Act, and the Critical Raw Materials Act. There are ongoing proposals to include the Directive for a European Cross-Border Associations framework, the Directive on driving licences and the Directive on substantiation and communication of explicit environmental claim.

56 Directive 2014/55/EU.

57 Impact Assessmentregarding the Interoperable Europe Act.

58 SME performance review.

59 OECD, Helping SMEs scale up.

60 European Commission, SME Performance Review 2024.

61 SMEs reported the following as their most pressing issues (the survey allowed them to mention several): regulatory obstacles or administrative burden (55%), payment delays (35%), lack of liquidity and access to finance (21%), and skills including managerial skills (17%). Source: Eurobarometer 486, SME Relief Package.

administrative or legal procedures as a key obstacle to implementing resource-efficiency measures[62], while access to skills is seen as the most important problem for 29% of SMEs[63]. In addition, the payment situation in Europe keeps worsening: actual payment times in B2B transactions have risen from 52 days in 2022 to 62 days in 2024. Lack of dynamism in the SME segment is a result of slower overall growth in the economy, but also an indication that upscaling has become more challenging and that economies of scale from the Single Market can be further unlocked.

### 1.8 Possible enlargement and integration of candidate countries in the Single Market

**Economic integration of candidate countries into the EU Single Market is a key priority for the Commission[64].** It facilitates trade and investment flows, ultimately driving economic growth both in the EU and in the candidate countries. The Commission continues to support this integration by monitoring candidates' progress in aligning their legislation with EU laws and assisting their political and economic reforms. Integration of further economies into the Single Market is expected to positively affect key sectors such as raw materials, machinery, and tourism.

**Initiatives to strengthen ties with Ukraine and Moldova include regulatory integration of selected industrial sectors.** The EU's role as a key trading partner for both countries has grown steadily since 2022, now accounting for more than 50% of their overall trade. A yearly dialogue on industrial cooperation is organised with Ukraine; in March 2024 the Ukrainian government presented the Ukraine Plan[65], a list of reforms and investments that would bring the country closer to the EU and the Single Market. Under possible Agreements on Conformity Assessment and Acceptance of Industrial Products ("ACAA"), the Commission strengthens the administrative capacities of candidate countries to help them implement EU law on industrial goods. The aim is to ensure the gradual integration of the candidate countries into the EU Single Market and economic value chains.

**Fostering economic development in the EU's neighbourhood can also benefit the EU itself, by offering trading opportunities.** The Western Balkans Growth Plan[66] offers a gradual integration into the EU's Single Market for goods and services and deeper connections to EU supply chains. The creation of a common regional market for the Western Balkans aligned with EU rules, could cause the region's economies to double over the next decade.

62 Flash Eurobarometer 549 on SMEs, resource efficiency, and green markets.
63 2023 Survey on Access to Finance for Enterprises (SAFE).
64 European Commission, Pre-enlargement reforms and policy reviews.
65 Council of the European Union, Ukraine Plan.
66 European Commission, Growth Plan for the Western Balkans, adopted on 8 November 2023.

# SECTION 2 – Closing the innovation gap

## 2.1 Research and innovation

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 5: R&D expenditure | Total private and public expenditure in research and development as share of GDP. | >3% by 2030 | 2.22% (2023)<br>2.21% (2022) |
| KPI 6: Patent applications | Patent applications per million inhabitants | | 152.8 (2023)<br>151.8 (2022) |
| KPI 7: Venture capital investment | Venture capital investment (share of GDP) | | 0.05% (2023)<br>0.09% (2022) |

**Research and Development (R&D) expenditure and the generation of Intellectual Property (IP) are important metrics for the innovation capacity of the EU economy.** In today's knowledge economy, IP is critical to commercial success and is a signal of firms' innovativeness. Start-ups are ten times more likely to obtain early-stage venture capital if they have registered patents or trademarks. Also, IP rights are associated with a 200% higher likelihood of successful exit[67]. Moreover, intangible assets make up 90% of S&P 500 companies' market value[68].

**R&D spending has grown only very slowly over the past years** to 2.2% of GDP in 2023 compared to 2.1% in 2015[69]. This value remains below the EU's target of devoting 3% of GDP to R&D. Moreover, R&D spending remains below peers, with South Korea (5.2%), the US (3.6%), Japan (3.4%), and China (2.6%) staying ahead of the EU[70] (KPI 5).

**Europe's share of global patent applications declined from 30% to 17% between 2000 and 2021**, although remaining stable in absolute terms[71] (KPI 6). EU companies, especially SMEs, underutilise the possibility of formally protecting their IP, such as patents, trademarks, and designs. Only 9% of SMEs own registered IP, compared to more than 55% of large companies.

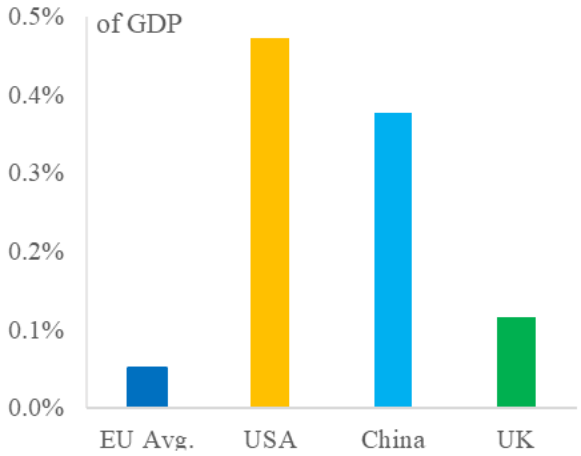
**While the EU's technological base is more diversified than that of other major economies, it is disproportionally more specialised in less complex technologies than its counterparts**. This hints to a certain mid-tech trap that hinders the EU's ability to enter and grow new technology intensive sectors, undermining future growth potential. Looking at the global top 50 R&D investors per sectors in 2023 presented in the 2024 Industrial R&D Scoreboard, EU companies were leading in the automotive sector (61% share of total, US 18%, China 5%, Japan 15%) while in other tech intensive sectors EU investors were lagging behind: health sector (EU 14% versus US 51%, Japan 4%); ICT hardware (EU 8% versus US 55%, China 15%); ICT software (EU 4% versus US 82%, China 10%, Japan 4%)[72]. EU innovation output has improved slightly (8%) over the last ten years, but remains lower than the US, UK and Japan, with China catching up quickly with a 28% increase in the same period[73].

67 European Union Intellectual Property Office, "Patents, trade marks and startup finance".
68 Sun, Review of the Importance of Technology Company Valuation and Commonly Used Methods, volume 189, p. 30.
69 Eurostat, R&D expenditure.
70 Note: Values from global peers are from 2021: World Bank, Research and development expenditure (% of GDP) | Data.
71 European Commission – DG RTD, Science, Research and Innovation Performance of the EU 2024, p. 83.
72 European Commission – DGs RTD & JRC, The EU Industrial R&D Investment Scoreboard.
73 European Commission, Tracking country innovation performance: The Innovation Output Indicator 2023.

**Companies and universities face difficulties in initial deployment and commercialisation of their research.** For example, only about one third of patented inventions registered by European universities are commercially exploited[74]. This is generally attributed to weak business-academia collaboration links, inconsistent IP management rules, and siloed academic careers without sufficient incentives for commercialisation and entrepreneurship. On the business side, companies face numerous challenges when seeking to commercialise their IP protected innovation, such as a fragmented IP governance landscape and lack of private capital.

**Venture capital investment has declined from already low levels: from 0.09% of GDP in 2022 to 0.05% in 2023** (see KPI 7 and Figure 3). Many innovative, fast-growing companies depend on risk capital in the form of venture investments for their expansion. The EU venture capital market (measured as share of venture capital investment of GDP) is still estimated to remain 10 times smaller than that of the US and 7 times smaller than that of China. Therefore, many highly innovative European companies are constrained by limited access to capital, often leading them to seek funding abroad or even relocate to more favourable funding environments like the US. For instance, in advanced manufacturing industries, from 2017-2023 almost 90% of the venture capital value went into either US or Chinese firms (47% and 39%, respectively), while only 4% of venture capital raised in that industry globally went to firms located in the EU[75].

**Figure 3:** Venture capital investment as a share of GDP in 2023




**Sources:** Invest Europe; Eurostat; OECD; Statista

**The EU budget has an array of programmes that function as important levers for public and private investments and research efforts.** For instance, InvestEU has already unlocked EUR 218 billion in investment for a more innovative and competitive EU. Horizon Europe is providing EUR 93.5 billion of funding for research and innovation during in 2021-2027 and the Innovation Fund supports innovative low-carbon technologies (see Section 3.2). While sizeable funding opportunities are available in the EU budget, EU spending is spread over too many programmes, adding complexity and rigidity that hampers counteracts the strength through size sought by pooling resources to fund important projects at EU level[76].

**The Strategic Technologies for Europe Platform (STEP) was set up in 2024 to steer EU funding priority projects, technologies and sectors**. It boosts investment and increases support for the development and manufacturing in Europe of innovative and strategic technologies. STEP raises and steers funding across 11 EU programmes for digital technologies and deep-tech innovation, clean and resource-efficient technologies and biotechnologies. The Commission has already published some 30 STEP calls for proposals totalling more than EUR 8.5 billion and Member States have redirected more than EUR 6 billion towards STEP projects.

[74] Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe", Part B, p. 244.
[75] European Commission, Strategic Insights into the EU's Advanced Manufacturing Industry, Report (2024).
[76] Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe".

## 2.2 Digitalisation

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 8: Digital intensity in SMEs[77] | Share of EU companies with at least a basic level of digital intensity. This means using at least four of twelve selected digital technologies (such as AI technology; having e-commerce sales account for at least 1% of total turnover; etc.) as defined in the Digital Decade policy programme. | 90% by 2030 | 57.7% (2023)<br>54.8% (2021) |
| KPI 9: Digital technologies adoption by companies | Share of European companies that have taken up cloud computing services, data analytics and/or Artificial Intelligence. Target set in the Digital Decade policy programme. | 75% by 2030 | Cloud computing services:<br>38.9% (2023)<br>34.0% (2021)<br>Data analytics: 33.2% (2023)<br>Big data: 14.2% (2020)[78]<br>Artificial intelligence:<br>8.0% (2023)<br>7.6% (2021) |

**The EU is lagging behind its competitors in the digital domains**. For instance, it is home to only 263 unicorn companies, compared to 1539 in the USA and 387 in China. The EU remains in a competitive position in fields such as advanced manufacturing and mobile network equipment but has failed to keep up with the overall pace of global competitors in both the hardware and the software segments of the information and communication technology (ICT) sector. While the EU share of the global ICT market has halved over the past decade (to 10.8%), the US share has increased by a third (to 38%)[79]. Moreover, the EU knowledge base for the development of digital technologies is largely located outside of the Union, with extra-EU patent citations accounting for about nearly 70% of digital patent applications[80].

**The digital intensity of SMEs and the adoption of digital technologies by companies is not yet increasing fast enough.** In 2023, 57.7% of EU SMEs had at least a basic level of digital intensity, which represents an increase as compared to 2 years ago, albeit not sufficiently rapid to stay on track towards the target of a 90% basic digital intensity by 2030. (KPI 8). The share of EU companies with more than ten employees that have adopted key digital technologies has also grown, with 33.2% of companies using data analytics, 38.9% using cloud and 8% having implemented AI in their business[81], but also these numbers fall short of following the trajectory needed to reach the target of a 75% uptake in 2030 (KPI 9).

**The roll-out of advanced manufacturing in traditional industries, such as additive manufacturing and robotics, is still too slow.** Robot density in the EU stands at 22 units per 1000 employees, which is below the US (29), and significantly behind South Korea (101), China (47) and Japan (42)[82].

**The most disruptive and promising tech advancements will revolve around artificial intelligence (AI), where Europe is currently lagging behind.** The EU has so far failed to leverage the power that the Single Market can bring to enable large-scale access to free-flowing

77 European Commission, Digital Decade reports.
78 Due to a change in definition, the part of KPI 16 measuring data analytics in 2023 and big data in 2020 are not fully comparable.
79 Statista, ICT global market share worldwide 2023.
80 European Commission, DG JRC, The geography of EU green and digital inventions and their knowledge sources, 2023.
81 Eurostat, Digitalisation in Europe – 2024 edition.
82 International Federation of Robotics, Global Robot Density in Factories Doubled in Seven Years.

data and strong scaleup prospects, both of which are prerequisites for a successful tech industry. Businesses are launching major investments into AI, with the lion's share being in US companies. The sector's value is expected to grow more than tenfold until 2030[83]. To improve conditions for tech development, the EU is expanding its world-leading high-performance computing infrastructure to create "AI Factories" serving as one-stop-shops for companies to train and develop AI models.

**A greater deployment of digital technologies in manufacturing can substantially increase productivity across the economy**. Deploying technology is just as important as developing it and represents a low-hanging fruit compared to the more challenging endeavour of rapidly catching up on AI development with US and China who are already way ahead. Incentivising the rollout of advanced digital technologies in industry, services and the public sector will be key to boosting the economy at large.

### 2.3 Skills and education

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 10: Employment rate | The share of working-age people in employment. | 78% by 2030 | 75.3% (2023)<br>74.6% (2022) |
| KPI 11: Adult participation in education and training | Share of adult population participating in education and/or training at least once a year. | 60% by 2030 | 39.5% (2022)<br>37.4% (2016) |
| KPI 12: ICT specialists | ICT specialists as a share of total employment | 20 million ICT specialists, ca 10% of total employment | 9.8 million, 4.8% of employment (2023)<br><br>9.4 million, 4.6% of employment (2022) |
| KPI 13: PISA score | 15-year-olds' performance in the OECD's PISA tests covering maths, reading and science. High scores indicate better performance. | | Maths: 474 (2022)<br>Maths: 492 (2018)<br><br>Reading: 475 (2022)<br>Reading: 488 (2018)<br><br>Science: 484 (2022)<br>Science: 488 (2018) |

**While the EU employment rate is steadily moving towards the target of 78% in 2030[84] (KPI 10), educational outcomes in secondary education are falling behind.** The EU employment rate exceeded 75% in 2023, up from 72% in 2018[85]. This performance is broadly in line with the US, but below trends in Japan and the UK[86]. At the same time, Europe is facing a problem in equipping young people with basic skills. The average PISA scores tracking 15-year olds' performance in mathematics, reading and science have fallen in all disciplines, continuing the downward trend noted in previous surveys. EU students underperform compared to their peers in the UK, the US, Japan and China[87] (KPI 13). Increased female work force participation helps address skill shortages but the gender employment gap has only marginally narrowed in recent years.

83 European Parliament Research Service, AI investment: EU and global indicators.
84 Target laid down in the European Pillar of Social Rights Action Plan.
85 Eurostat, Employment and activity by sex and age - annual data.
86 OECD, Labour force participation rate.
87 OECD, PISA 2022 Results.

**The rapidly evolving character of the labour market, coupled with demographic change, highlights the need to equip Europeans with new skills.** Yet, over 70% of businesses report that the lack of right skills hampers their investments and nearly four out of five SMEs report difficulties in finding workers with the right skills[88]. The problem is amplified by Europe's working-age population being projected to decline on average by about one million people every year, from today until 2050[89], in the absence of offsetting shifts. While ICT skills are in high and increasing demand, only 56% of the population is estimated to have basic or above basic digital skills[90], pointing to the need for up- and re-skilling of the workforce. 45% of SMEs report that skills shortages hinder their ability to adopt or effectively use digital technologies[91]. The number of ICT specialists has reached 10 million in 2023, representing 4.8% of total employment[92] and is progressing towards the goal of having ICT specialists make up 10% of the workforce by 2030 (KPI 12). Still, only 39.5% of the adult population take part in education or training (KPI 11), indicating the need to promote lifelong learning. The European Social Fund contributes to the reskilling and upskilling of the workforce with a budget of EUR 142.7 billion for the period 2021-2027. In response to skills gaps in critically important sectors, such as in net-zero technologies, cybersecurity and construction, tailor-made industry academies have been launched in collaboration with the business community.

# SECTION 3 – Decarbonisation of industry and investment

## 3.1 Access to private capital and investment

| KPI | What it measures | Latest EU value |
|---|---|---|
| KPI 14: Private investment | Private investment (share of GDP) | 18.5% (2023)<br>19.3% (2022) |
| KPI 15: Private savings invested in bonds, shares, investment funds and similar | Volumes of households' savings in bonds; listed shares; and investment, insurance and pension funds, relative to the volumes of households' cash holdings and bank deposits. It gives an idea of the share of savings directly feeding into investment in the real economy, easing companies' access to finance. | 43% (2023)<br>42% (2022) |

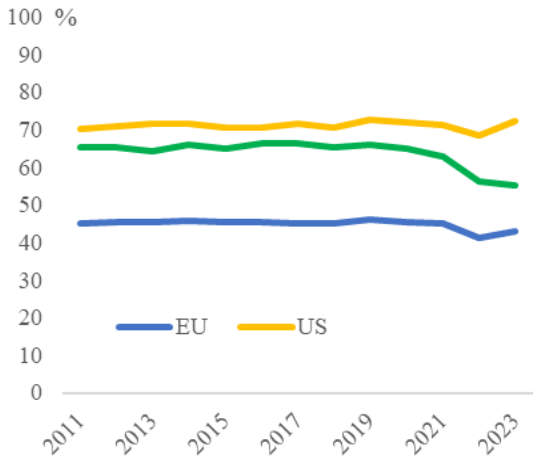
**There are vast investment needs for businesses to master the green and digital transitions.** They require investments in the generation, transmission, and storage of electricity, electrification of industrial processes, energy efficiency, computing capacity, automation and many other areas. They similarly require investment in the semiconductor industry and in the extraction, processing, and recycling of many critical raw materials.

**Private investment has, at around 19% of GDP, been broadly stable in recent years (KPI 14).** Overall levels are slightly ahead of those in the US and well ahead of those in the UK[93]. The specific analysis on the evolution of venture capital and the related KPI, have been presented under Section 2.

88 European Commission, Digital skills and jobs.
89 Employment and social developments in Europe 2023 - Publications Office of the EU.
90 Eurostat, Digitalisation in Europe 2024 edition.
91 European Year of Skills - Skills shortages, recruitment and retention strategies in small and medium-sized enterprises. Report (September 2023) | European Commission (europa.eu).
92 Eurostat, ICT specialists in employment.
93 European Commission, AMECO database.

**Compared to other advanced economies, a much smaller share of EU private savings goes directly into investment in companies and riskier forms of investment.** Productive investment is low and private saving is high[94]. The share of EU household savings going towards company bonds, listed shares, investment funds and similar is relatively low, corresponding to 43% of the levels of savings in traditional bank accounts (KPI 15)[95]. The corresponding level in the UK is 55% and in the US 72% (see Figure 4)[96]. High participation rates in financial markets help companies to diversify their funding. Strong capital markets are important to ease companies access to finance and unlock finance for scale-ups[97].

**Figure 4:** Household savings invested in bonds, shares, investment funds and similar.




**Note:** Volumes of household savings in company bonds; listed shares; and investment, insurance and pension funds, relative to the volumes of households' cash holdings and bank deposits.

**Source:** European Commission, DG FISMA

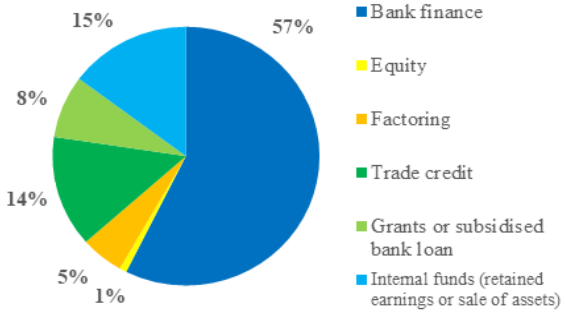
**Significant amounts of EU savers' money are either tied up in bank accounts or invested abroad.** Although the volume of private savings in the EU was nearly 65% greater than in the US in 2022, EU households have considerably lower total wealth than their US peers[98], largely because of the lower returns they generally receive from financial markets. While the net wealth of US households grew by around 150% over the past 15 years, the corresponding growth was only 55% in the Euro area[99]. This is largely due to a lack of capacity in the EU financial system to stimulate high-yielding investments, which can be explained by a combination of lack of fiscal incentives and cumbersome tax reporting requirements in many Member States, along with a public perception of the overall business climate not being sufficiently promising, lowering the confidence in the prospects of return on investment. Of the EU household savings invested in company bonds, listed shares and investment funds, a significant share, approximately EUR 300 billion annually, is invested not in the EU, but abroad[100], and mainly in the US. EU foreign direct investment into the US simultaneously amounted to EUR 3.27 trillion in 2023[101].

**New bank loans to SMEs have decreased since the COVID-19 pandemic, putting new investments at risk**. Although a higher share of financing to companies channelled through corporate bonds, listed shares, venture capital and investment funds would be desirable, bank financing remains crucial to fostering growth and competitiveness of the bulk of European SMEs who use traditional bank loans to finance investments (counting for 57% of their total finance, see Figure 5). However, SME lending, which spiked following the on-set of the

94 Productive investment is here defined as gross fixed capital formation minus residential investment.
95 Note: Part of these savings will contribute to corporate investment activity via the portfolio allocation made by banks and other financial intermediaries.
96 Note: The Commission's set of indicators on the Capital Markets Union provide detailed indicators that help track capital markets' developments. List of indicators to monitor progress towards the CMU objectives.
97 European Investment Bank (EIB), The scale-up gap.
98 Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe", part B, page 1.
99 ECB Distributional Wealth Accounts; US Federal Reserve Economic Data.
100 Former Prime Minister Letta, "Much more than a Market", page 11.
101 Statista, Foreign direct investment from Europe into the United States from 2000 to 2023.

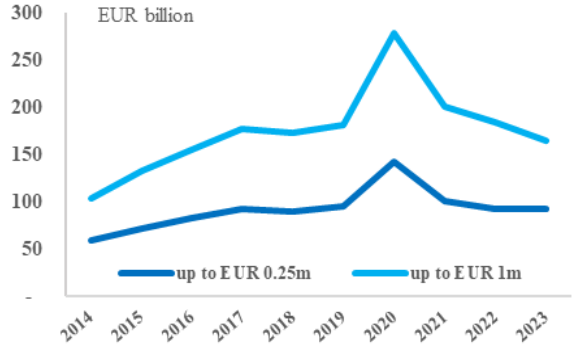
COVID pandemic due to the massive public intervention schemes, is contracting significantly, as the public support is withdrawn. Current levels of new bank finance have fallen below pre-pandemic levels (Figure 6), which can partly also be attributed to the increase in interest rates seen up until 2024.

**Figure 5:** Type of finance used in 2023 by SMEs (share of total)




**Source**: The Survey on the Access to Finance of Enterprises (SAFE), December 2023[1]

**Figure 6:** New bank lending to non-financial corporations




**Source**: European Central Bank, MFI Interest Rate Statistics[2]

### 3.2 Public investment and infrastructure

| KPI | What it measures | Latest EU value |
|---|---|---|
| KPI 16: Public investment | Public investment (share of GDP) | 3.49% (2023)<br>3.24% (2022) |

**Public investment has slowly trended up over the past years reaching 3.5% of GDP in 2024,** up from 3.1% of GDP in 2018 (KPI 16)**.** While the EU level equals the US public spending that also stands at 3.5% of GDP, the funding landscape in the EU is fragmented and complex, with most funding carried out at national level. For example, in the case of R&D, 93% of public funds invested annually are provided through national programmes[102].

**At the EU level, the cohesion policy funds, the Recovery and Resilience Facility (RRF) and other instruments help finance the green and digital transition[103].** Since 2021, the RRF has paid out EUR 306 billion[104], thorough implementation of national plans is needed to ensure timely and comprehensive disbursement of remaining amounts. The Cohesion Policy funds have disbursed EUR 249 billion in the period 2021 - 2024. The Innovation Fund will provide an estimated EUR 40 billion in the current decade for development and deployment of low-carbon technologies, notably in energy intensive industries, power generation and energy storage.

**Despite relevant sources of public financing, such as InvestEU and STEP, a funding gap remains for scaling up manufacturing capacities**, as less than 5% of the EU clean tech funding supports net-zero manufacturing at the highest technology readiness levels (8-9)[105].

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102 Former Prime Minister Draghi, "The future of European competitiveness – A competitiveness strategy for Europe", Part B, p.236.

103 Overall, in 2023, the EU budget and NextGenerationEU dedicated 38% of their resources to climate-relevant measures, and 19% of their resources to the EU's digital priorities.

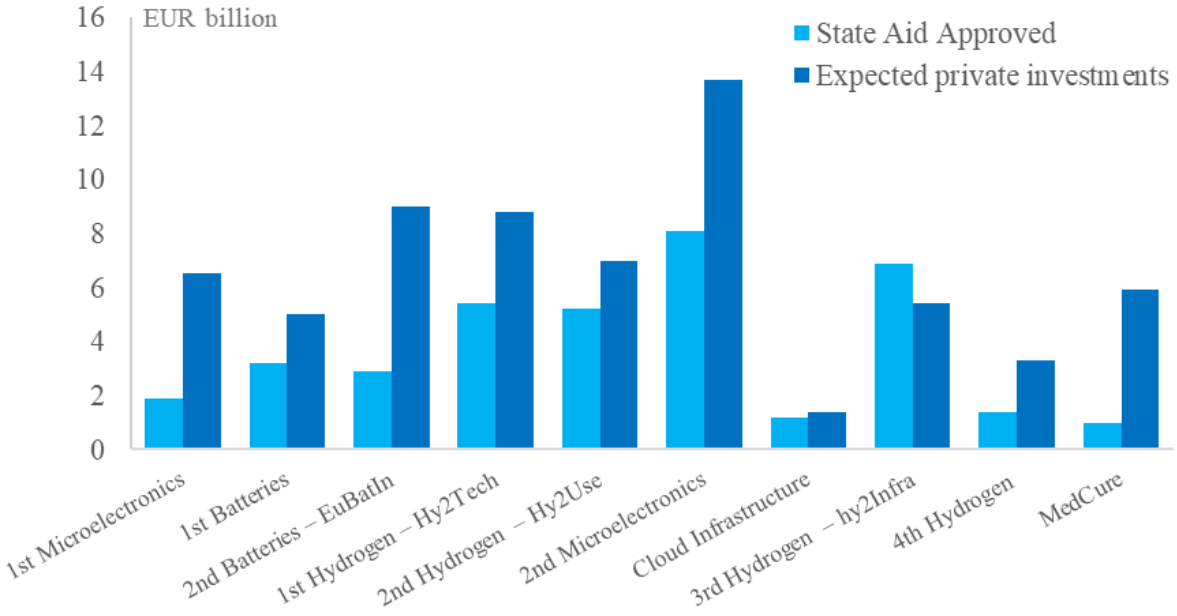
104 European Commission, Recovery and Resilience Scoreboard.

105 Technology readiness levels are a measurement of the maturity of a technology, with 1 being the least mature (basic research) and 9 being the most mature (ready for launch/operations).

**The EU State aid framework has enabled targeted public investment by Member States while preventing undue distortions of competition and maintaining a level playing field.** In 2022, Member States spent almost EUR 228 billion, corresponding to 1.4% of their GDP, on State aid (including crisis measures). This year's Single Market and Competitiveness Scoreboard – published alongside this report – includes a new indicator that compares the concentration of State aid with the concentration of GDP in the EU. It finds State aid has become more unevenly allocated across the Member States over the past 10 years[106].

**Important Projects of Common European Interest (IPCEIs) are a key tool for coordinated public and private investments in the EU to support breakthrough innovation and infrastructure projects in critical technologies areas.** IPCEIs are a step towards increased cross-country coordination in industrial policies within the EU, an evolution that needs to go further. To date, ten integrated IPCEIs have been approved, for a value of more than EUR 37 billion in national public support, unlocking EUR 66 billion of private investments (see Figure 7). There is a need to make the IPCEI design and review process simpler and faster to get strategic projects off the ground quickly. The Joint European Forum on IPCEI, launched in October 2023, helps to address these issues by identifying strategic areas for future IPCEIs and improving their design and implementation.

**Figure 7:** Overview of IPCEIs and the unlocked investment volumes (by autumn 2024)




**Source:** Approved IPCEIs - European Commission

**Public procurement can serve as a strategic tool to channel public investment towards shaping the future of the European economy in support of objectives, such as green transition and resilience of the EU economy, but its implementation can be challenging.** The public procurement directives ensure common rules across the Single Market and each year over 250 000 public authorities in the EU spend around 14% of GDP (EUR 2 000 billion in 2022) on services, works and supplies. While existing rules allow for social, sustainability and resilience criteria, their uptake has been limited, including due to implementation challenges.

[106] European Commission, Single Market Scoreboard.

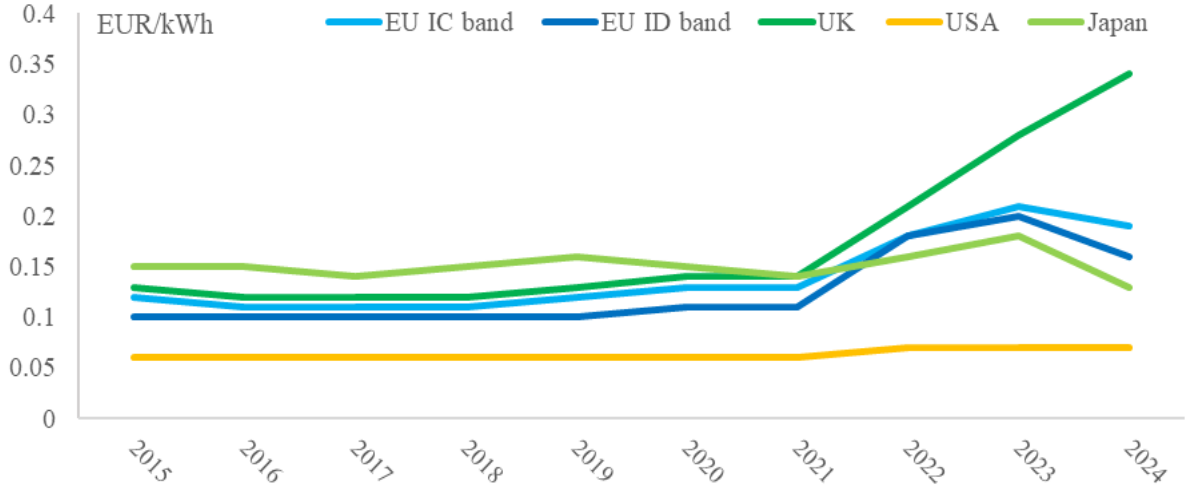
### 3.3 Energy

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 17: Electricity prices for non-household consumers | Electricity prices for non-household consumers (EU ID price band, large commercial consumers) with recoverable taxes and levies excluded. | | EUR 0.16 per kWh (2024)<br>EUR 0.20 per kWh (2023) |
| KPI 18: Electrification | Electricity as a share of the total energy consumption.[107] | | 21.3% (2022)<br>20.8% (2021) |
| KPI 19: Share of energy from renewable sources | Renewable energy generation as a share of the overall energy consumption. | 45% in 2030 | 24.5% (2023)<br>23% (2022) |

**Recent years' energy price spikes have taken a toll on European energy-intensive industries,** such as steel, cement, glass, paper and chemicals manufacturers. Production has declined steeply – in some segments by more than 10% compared to before 2021[108]. For instance, in aluminium manufacturing, energy costs typically amount to half of the total production costs[109]. Energy costs significantly affect the ability of EU businesses to compete on international markets.

**EU electricity prices have fallen from their peak but are still near twice as high as the historical levels and significantly higher than in competing regions (see KPI 17).** EU companies face electricity prices that are on average 3 times those in the US and natural gas prices 4-5 times higher[110]. There are also substantial price differences within the EU[111]. The price hikes have had direct negative impact on investor confidence and resulted in withdrawn foreign direct investments and halted expansion projects. 33% of businesses say that volatile and too high energy prices are the main factors negatively affecting EU attractiveness as a business location[112].

**Figure 8:** Electricity prices for companies in the EU and other advanced economies.




**Source:** Eurostat, US Energy Information Administration (EIA), the UK Department for Energy Security and Net Zero (DESNZ) and the International Energy Agency (IEA)[113].

[107] Electricity as a share of gross final energy consumption.
[108] Eurostat; European Commission –DG GROW.
[109] International Aluminium Institute.
[110] Eurostat; US Energy Information Administration (EIA); the UK Department for Energy Security and Net Zero (DESNZ); and the International Energy Agency (IEA).
[111] See the national numbers on KPI 17 in Annex 1 of this report.
[112] Ernst & Young, EY Europe Attractiveness Survey June 2024.
[113] EU IC band = medium-sized industrial consumers with annual consumption of between 500 MWh and 2 000 MWh. EU ID band = large-sized industrial consumers with annual consumption of between 2 000 MWh and 20 000 MWh.

**Current price levels also hamper the electrification of the EU economy.** Electricity as a share of the energy mix has been stable at around 20% since 2000, and has not yet taken off at large scale (KPI 18)[114]. This can be partly explained by a persistently small price differential between gas and electricity, which is not providing sufficient economic incentives to switch to electricity, despite the higher energy efficiency of electric systems. This has discouraged transition by industry and households. It is however expected that the electricity share will successively increase given increasingly strict emission rules, heavier carbon pricing[115], and revised energy taxation rules[116], which will drive the electrification of industry, incentivise the use of heat pumps for heating and accelerate the uptake of electric vehicles.

**The EU economy still relies extensively on fossil fuels, making up around two thirds of the energy mix. The share of renewables is increasing and makes up 24.5% (KPI 19) and nuclear energy provides 12% of the EU energy mix[117].** The impact assessment of the Communication on Europe's 2040 climate target shows that these clean energy sources could meet 75% of the energy needs in the EU by 2040[118]. The current reliance on imported fossil fuels exposes industry to risks of supply disruption and price volatility, while a stronger future reliance on decarbonised energy sources can increase affordability and limit industry's vulnerability.

**Europe has a strong track record in clean tech and energy innovation[119], but does not yet provide sufficient framework conditions for bringing to the market innovative products and allowing companies to scale up**, which in turn can help increase energy efficiency and boost electricity supply**.** The global market for key mass-manufactured clean technologies is set to triple by 2035 to an annual value of around EUR 1.9 trillion[120], offering vast opportunities for EU companies to tap into. The fast implementation of the Net-Zero Industry Act (NZIA) will help the EU to build a strong domestic manufacturing capacity for those technologies, crucial for meeting society's needs for cheaper and cleaner energy.

### 3.4 Circular Economy

| KPI | What it measures | Target | Latest EU value |
|---|---|---|---|
| KPI 20: Circular material use rate | Material recovered and fed back into the economy, as a share of the overall use of material. | 23.4% by 2030 | 11.8% (2023)<br>11.5% (2022) |

**Europe is slowly progressing towards a more circular economy[121].** Since 2000, the EU economy's circularity, measured as the circular material use rate, increased from 8.2% to 11.8% in 2023[122] (KPI 20), entailing lower consumption of primary materials, less waste and

114 Energy statistical datasheets for the EU countries.
115 EU Emissions Trading System.
116 The revised EU Energy Taxation Directive currently under negotiation.
117 Eurostat, Energy statistics.
118 European Commission, Commission Staff Working Document accompanying the Communication on Europe's 2040 climate target.
119 European Commission – DG RTD, Patent statistics show that EU companies generate 29% of patents in clean energy and 24% of patents in energy efficiency.
120 International Energy Agency, Energy Technology Perspectives (2024). Report mentioned USD 2 trillion, converted end of 2024.
121 European Court of Auditors, Special report: Circular economy – Slow transition by member states despite EU action.
122 Eurostat, Material flows and resource productivity.

reduced foreign dependency. The EU's material footprint, measuring raw materials extraction for EU consumption, amounted to 14.8 tonnes per capita in 2022[123].

**Several factors are impeding the transition to a circular economy.** Economic constraints can discourage the adoption of circular business models since they often entail higher upfront costs and given that secondary raw materials typically are more expensive than virgin materials. Paired with innovation risks and uncertainty about returns on investment, along with the difficulty of scaling up and replicating solutions in a fragmented market, the business case for circularity is not obvious. For example, divergencies between the regulatory frameworks in EU Member States, notably on end-of-waste criteria, make it difficult to freely move waste inside the Single Market. This prevents development of enhanced supply chains and discourages upscaling innovative recycling facilities. The degree of valorisation of industrial waste or by-products (industrial symbiosis) varies among Member States and between industries, with cheap landfilling and lack of predictability of supply of waste/by-products representing obstacles for circular models. There is also further scope to improve repairability of goods so as to prolong their life span and limit resource and energy consumption associated with production of new goods. Additionally, there is a great untapped potential in expanding the use of bio-based materials, notably wood-based construction material and consumer goods, from homegrown European forests. This would limit the use of finite resources and allow more buildings and goods to act as carbon sinks.

**The Critical Raw Materials Act (CRMA) and the Ecodesign for Sustainable Products Regulation (ESPR) enhance conditions for circular business models.** The CRMA requires EU recycling to cover 25% of the EU's annual consumption of strategic raw materials by 2030 and streamlines investments in recycling facilities. At product level, the ESPR will design specific dedicated circularity criteria for specific product categories. This will help address market fragmentation deriving from diverging national rules on product sustainability. The Raw Materials Information System[124] supports well-informed policy design and business decisions, with life cycle data on key materials.

# SECTION 4 – Increasing security and reducing dependencies

## 4.1 Trade and strategic dependencies

| KPI | What it measures | Latest EU value |
|---|---|---|
| KPI 21: Trade with the rest of the world as share of GDP | The EU's degree of economic integration with the rest of the world. | 14.8% for goods (2023)<br>17.4% for goods (2022)<br>7.4% for services (2023)<br>7.8% for services (2022) |
| KPI 22: Exports of goods and services as a share of worldwide imports | The EU economy's global weight and market share. | 20.4% for goods (2023)<br>16.1% for goods (2022)<br>31.9% for services (2023)<br>33.5% for services (2022) |

**International trade is key for the EU's prosperity.** It gives companies the opportunity to expand their business at the global stage, creating jobs and revenue, fostering efficiency and promoting innovation. It also contributes to European economic security by securing and

123 European Environment Agency, Europe's Material Footprint.
127 European Commission, Raw Materials Information System.

diversifying supply chains, also to import critical inputs for European companies. The openness of the EU economy and the economic importance of trade with the rest of the world has doubled over the past 30 years, with extra-EU trade in goods growing from 8% of GDP in 1995 to 14.8% in 2023 and extra-EU trade in services growing from 3% of GDP in 1995 to 7.4% in 2023 (KPI 21)[125]. Compared to 2022, trade as share of GDP dropped, in particular for goods. Mirroring trends for intra-EU trade described in Section 1.1., extra-EU trade remains above 2021 and pre-pandemic levels, an important part of the 2022 hike relates to (energy) price effects. Figure 9 illustrates.

**The EU draws economic and political strength from its position as a global trading power – being number one in the world for exports of services, and number two in the world for exports of goods**. Over time, the EU has consistently been the economy with the greatest volume of exports of services, steadily growing to a peak at 36% of the rest of the world's service imports in 2021, dropping to just below 32% in 2023. Goods exports as share of the rest of the world's imports has seen an inversed trend over the last decade with slowly declining EU numbers apart from a jump upwards from 16% in 2022 to 20% in 2023 (Figure 10, KPI 22)[126].

**Figure 9:** EU trade with the rest of the world as share of EU GDP.

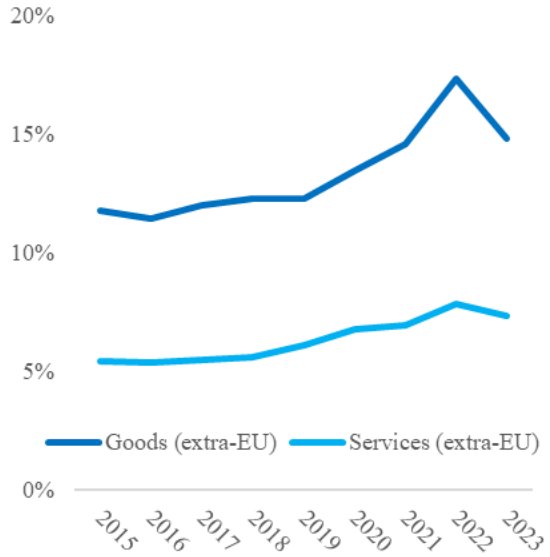
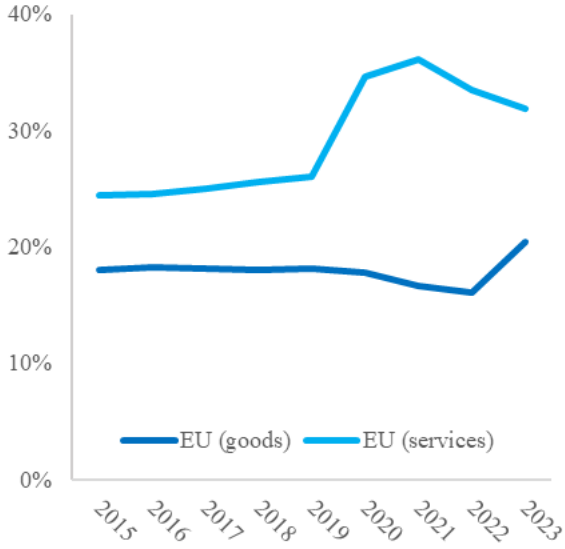



**Figure 10:** Exports of goods and services as a share of the rest of the world's imports.




**Sources:** UN Industrial Development Organisation, Competitive Industrial Performance database; World Bank databases; Eurostat; European Commission estimates.

**These trends are emerging as part of broader changes in the global trade landscape.** While there is no evidence of a structural deglobalisation, the importance of global trade relative to GDP has stayed broadly flat since 2013. This has been attributed partly to various shocks such as the COVID-19 pandemic and trade tensions between the US and China. Over recent years, economic actors worldwide have put in place policies to improve their economic security and resilience (see Annex 2 on resilience measures of selected global players), leading to a global reconfiguration of supply chains. The EU's supply chains are dynamic networks with a significant capacity for adaptation to this new global landscape. Recent analysis suggests that there is evidence of an ongoing reallocation of EU imports away from non-agreement

[125] Eurostat, International trade in goods (ext_go); International trade in services (ext_ser).

[126] UN Industrial Development Organisation, Competitive Industrial Performance database; World Bank databases; Eurostat; European Commission estimates.

partners[127] towards the EU ("reshoring"), neighbouring agreement partners ("nearshoring") and non-neighbouring agreement partners ("partnershoring"), with varying intensities[128]. This has led overall to a higher diversification in EU imports.

**Trade agreements and strategic partnerships foster access to markets abroad and generate new investment opportunities.** This is crucial in view of both the limitations in domestic production of certain goods, and the potential for EU companies to break new ground abroad. The Commission has removed 140 barriers to EU exports in more than 40 countries over the past five years, unlocking an additional EUR 6.2 billion of EU exports in 2023 alone[129].

**At the same time, there are significant risks arising from increased geopolitical tensions, unfair trade practices and strategic dependencies, to which an open economy like the EU's is exposed.** Evidence of increased Chinese exports at very competitive prices, in many cases facilitated by state subsidies, might cause serious damage to segments of EU manufacturing. That is why the EU adopted tariffs for electric vehicles from China[130]. In addition, the EU has put in place a new Foreign Subsidies Regulation and bolstered the framework for screening FDI in strategic areas. Annex 2 provides insights into resilience measures of selected global players[131].

**Analysis of the EU economy's external vulnerability reveals that the EU is more exposed to external trade vulnerabilities than China, but less exposed than the US.** For all industrial products, the external vulnerability (EXVI) index[132] puts the EU at 0.22, China at 0.13 and US at 0.28. In strategic supply chains such as semiconductors, net-zero technologies and critical raw materials, the EU faces the greatest vulnerability in raw materials (0.28), when compared to semiconductors (0.22) and net-zero technologies (0.18). Comparing to its main trading partners, the EU appears more vulnerable to external factors across all three specific supply chains relative to China. However, when compared to the US, the EU is more vulnerable only in the semiconductor supply chain. Over the past decade, the EU has seen a slight decline in the vulnerability of critical raw materials, while vulnerabilities in the semiconductor and net-zero technology supply chains remained relatively stable, as detailed in Part II of Annex 1.

**EU firms have reported difficulties in accessing certain commodities** with access to raw materials such as steel, copper, fossil fuels, lithium, etc being reported as major obstacles by 37% of companies[133]. Other major obstacles include access to semiconductors and microchips (23%), and other components, semi-finished products and equipment (27%)[134]. To increase access to critical raw materials, the EU has signed 14 raw material partnerships, with further

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127 "Agreement partners" include third countries with whom the EU shares trade agreements (whether in place or provisionally applied), raw material partnerships, or that are signatories of the 2022 Joint Statement of Cooperation on Global Supply Chains. The remaining third countries are considered "non-agreement partners" (including e.g. Russia and China).

128 R. Arjona, W. Connell, C. Herghelegiu (2024): "Supply Chain Tectonics: Empirics on how the EU is plotting its path through global trade fragmentation", European Commission, Single Market Economics Papers 28.

129 European Commission, Implementation and Enforcement of EU Trade Policy.

130 EU tariffs on imports of battery electric vehicles from China.

131 This annex provides a global context in the areas of trade and supply chains, outlining resilience measures taken by the US, the UK, China, Japan, India, Canada, Australia, South Korea, Singapore and Taiwan.

132 Analysis carried out through the European Commission's new External Vulnerability Index (EXVI), a composite indicator designed to assess external vulnerability across products, sectors, supply chains, and the overall economy. It quantifies the economy's vulnerability to external shocks with scores ranging from 0 (low vulnerability) to 1 (high vulnerability). The index is built on two pillars: the first focuses on risks from foreign dependencies, examining the concentration of trade flows and reliance on foreign markets, while the second addresses risks from a weak global market position, evaluating competitive strengths and weaknesses through price differences and relative comparative advantages.

133 European Investment Bank, EIB Investment Survey.

134 European Investment Bank, https://www.eib.org/en/publications/20240179-navigating-supply-chain-disruptions.

ones in preparation[135]. With the Global Gateway[136], the EU continues to strengthen trade links with growth centres and securing supply chains in critical areas.

## Conclusion

**This report illustrates the strengths and weaknesses of the EU economy and its competitiveness.** It shows that the progress of integration in the Single Market continues but has slowed down. While the conformity deficit has improved, too much fragmentation remains for goods and services, and the administrative burden is too high. Europe risks falling behind in the area of innovation. Private and public R&D spending remains below peers. Businesses struggle to scale up, the role of venture capital remains far smaller than in competing economies. Employment rates are increasing, but there remains a lack of skilled labour. Digitalisation is progressing, as shown by the adoption of digital technologies, but not yet at sufficient pace. Similarly, the decarbonisation of industry and energy systems as well as circularity advances but should accelerate. High energy prices weigh on Europe's competitiveness. Public and private investments are not always finding their ways into the most promising technologies and sectors. Europe benefits from being a highly open economy, but strategic dependencies merit careful monitoring.

**There is much potential to strengthen Europe's long-term competitiveness and to fully unlock the strength and potential of the EU's Single Market, by decisively addressing the outlined challenges and barriers.** The difficulties companies face to scale up, innovate, and increase productivity must be tackled. As many of the competitiveness drivers are closely interlinked, fostering Europe's competitiveness and prosperity will require a coherent and strategic approach, especially in the challenging geopolitical context.

**The Annual Single Market and Competitiveness Report will inform the political discussion on competitiveness and prosperity, and feed into the next steps for policy action.** This report provides a shared diagnostic and points towards policy priorities for industrial policies, in particular for the forthcoming Clean Industrial Deal, and for the Single Market, in particular for the forthcoming Single Market Strategy. In conjunction, the Competitiveness Compass outlines the framework of upcoming policy action to strengthen European competitiveness and growth. Moreover, the present report will inform discussions in the European Council, the Competitiveness Council and the European Parliament, as well as with Member States. Similarly, it can serve as basis for close collaboration and dialogue with stakeholders, including businesses. The report will feed the discussions in the European Semester and towards the Competitiveness Coordination Tool as well as towards the Competitiveness Fund and the next Multiannual Financial Framework. In sum, this report enables a close monitoring of Europe's competitiveness, such that the different European actors can track progress and identify policy priorities on an annual basis.

[135] European Commission, Raw materials diplomacy.
[136] European Commission, Global Gateway.