

# Political introduction - Draft

## The Single Market was born in a smaller world

The Single Market is a product of an era when both the EU and the world were "smaller", simpler, and less integrated, and many of today's key players had not yet entered the scene. When Jacques Delors conceived and presented the European Single Market to the world in 1985, the EU was known as the European Communities. The number of Member States was less than half of what it is today. Germany was divided into two, and the Soviet Union still existed. China and India together constituted less than 5% of the global economy, and the acronym BRICS was unheard of. At that time, Europe, on par with the US, was at the centre of the world economy, leading in terms of economic weight and innovation capacity, representing a fertile ground for development and growth.

The Single Market was established to strengthen European integration by eliminating trade barriers, ensuring fair **competition**, and promoting **cooperation** and **solidarity** among Member States. It facilitated the free movement of goods, services, people, and capital through harmonisation and mutual recognition, thereby enhancing competition and fostering innovation. Furthermore, to guarantee that all regions could equally benefit from market opportunities, cohesion funds were introduced. This comprehensive approach has been pivotal in driving economic integration and development across the EU.

Tailored for the world of that time, the Single Market proved from the beginning to be a formidable boost for the European economy, as well as a powerful factor of attractiveness. Today, more than thirty years after its inception, **the Single Market continues to be a cornerstone of European integration and values**, serving as a powerful catalyst for growth, prosperity and solidarity. However, the international scenario has profoundly changed, highlighting the **need to develop a new Single Market**.

The Single Market has always been intrinsically linked to the EU's strategic objectives. Often perceived as a project of a technical nature, on the contrary it is inherently political. Its future is tied to the EU's strategic objectives and thus to the context in which the EU acts. Therefore, it should never be considered a completed endeavour, but rather an **ongoing project**. Still, an immediate boost is needed to bring the Single Market at a par with the current context and to prepare it for continuous evolution in line with the dynamics of our time.

It is precisely because of its constantly evolving nature that the Single Market has always been called to adapt to the evolving European and global context. Since the elaboration of the Single European Act, a constant and gradual work of conceptual reflection, involving the elaboration of Reports and Action Plans, was carried on, specifically by the European Commission and its Commissioners. Along these lines, in 2010 the Monti Report provided critical reassessments and set forth recommendations for its reinvigoration. My report is positioned within this continuum, with the objective of conducting a thorough examination of the Single Market's future following a succession of crises and external challenges that have fundamentally tested its resilience.

## **The new Single Market for a larger world**

**Europe has changed fundamentally since the Single Market was launched, to a large extent thanks to its own success.** Integration has reached high levels in many, though not all, sectors of the economy and society, and 80% of national legislation results from decisions adopted in Brussels. However, with 27 Member States the diversity and complexity of the legal system in force in Europe significantly increased, as also the potential benefits from economies of scale. These developments no longer allow us to rely on mere convergence of national legislation and mutual recognition, which have become too slow and complex or just insufficient to benefit from economies of scale.

**Several factors call for updating the cardinal points of the Single Market,** aligning them with the European Union's new vision for its role in a world that has grown "larger" and undergone significant structural transformations.

**The global demographic and economic landscape has dramatically shifted.** Over the past three decades, the EU's share of the global economy has diminished, with its representation among the world's largest economies sharply decreasing in favour of rising Asian economies. This trend is partially driven by demographic changes, with the **EU facing a shrinking and ageing population.** In contrast to the growth observed in other regions, the birth rate within the European Union is alarmingly declining, with 3.8 million babies born in 2022, a decrease from the 4.7 million births recorded in 2008. Furthermore, even without considering Asian economies, **the EU Single Market is lagging behind the US market.** In 1993, the two economic areas had a comparable size. However, while GDP per capita in the US increased by almost 60% from 1993 to 2022, in Europe the increase was less than 30%.

**The rules-based international order faces serious challenges, entering a phase marked by the resurgence of power politics.** The European Union has traditionally committed to multilateralism, free trade, and international cooperation, principles that have formed the bedrock of its global governance and economic strategies. These values have steered the EU's interactions on the international stage, fostering a rule-based order that has been central to its foundational ethos and operational framework. However, **wars and trade conflicts are increasingly undermining the principles of a rules-based international system,** posing significant threats to the very foundation upon which the EU has constructed its external relations and policies. Vladimir Putin's war on Ukraine represents a rupture after which nothing can remain the same. The new European posture materialised with the Versailles Declaration of March 2022, later followed by the Granada Declaration of October 2023 and the recently updated European Commission Economic Security Strategy.

**The European Union's success rests upon the pillars of free trade and openness.** Compromising these ideals threatens the very foundation upon which the EU is built. Therefore, we must address the complex international framework with the goal of preserving peace and upholding the rule-based international order, while also guaranteeing the Union's economic security. In this complex endeavour, it is essential to continue investing in the enhancement and promotion of European standards, reinforcing the Single Market's role as a robust platform that supports innovation, safeguards consumer interests, and promotes sustainable development.

Another crucial dimension to address concerns **the perimeter of the Single Market**. At the inception three sectors were deliberately kept outside the integration process, considered too strategic for their operation and regulation to extend beyond national borders: **finance, electronic communications and energy**. The exclusion at the time was motivated by the belief that prioritising domestic control over these areas would better serve strategic interests. However, national markets, initially designed to protect domestic industries, now represent a major brake to growth and innovation in sectors where global competition and strategic considerations call for swiftly moving to a European scale. Even within the original perimeter, the Single Market is in need of an overhaul: particularly, the intra-EU **provision of services** continues to encounter significant barriers that need to be addressed and removed to unlock the full potential of the Single Market.

For this larger world, we need a strong political commitment to empower a new Single Market. **This new framework must be able to protect the fundamental freedoms, based on a level playing field, while supporting the objective of establishing a dynamic and effective European industrial policy.** To achieve these ambitious objectives, we need speed, we need scale, and above all we need sufficient financial resources.

## **A collective effort for a new Single Market: 400 meetings, 65 European cities**

During the journey across Europe that accompanied the elaboration of the Report from September 2023 to April 2024, I visited 65 European cities and I took part in more than 400 meetings where I had the opportunity to interact, following a method of active listening and open discussion, with thousands of people across the entire continent. The dialogue involved **all national governments and the main European institutions**, in addition to **all political groups within the European Parliament**. Similarly, outside the EU, discussions took place with **countries that share the Single Market without being EU members** and with **all candidate countries for accession**. Social partners – **trade unions and business associations**, - as well as **third sector**, employers of **services of general interest** and **civil society groups** were consulted, often several times, both in Brussels and in various national capitals. Furthermore, there were numerous meetings with citizens and debates held in **universities** or within **think tanks**, not only in major European cities but also in **inland and rural areas**.

This journey has contributed to the development of a **dynamic collective reflection on the future of the Single Market**. As the author of the Report, I naturally take full responsibility for the analyses and proposals contained within it. However, in order to formulate them, itinerant listening and interaction throughout Europe proved to be crucial.

During this journey, I also experienced firsthand **the most glaring paradox of EU infrastructure: the impossibility of travelling by high-speed train between European capitals**. In a continent as small and densely populated as ours, which has also embarked on the path of environmental sustainability, it would have been natural to travel by train, the quintessential green mode of transportation. However, this is currently impossible and seems unlikely to change in the near future, as concrete operational plans remain merely theoretical. This is a profound contradiction, emblematic of the problems of the Single Market. Indeed, our continent quickly and effectively developed the high-speed rail system, but except for the Paris-Brussels-Amsterdam axis, it

remained within national borders. We have not even managed to connect the three main European capitals of Brussels, Strasbourg, and Luxembourg. Despite high-speed rail transforming the internal economic and social landscapes of many European countries, enhancing mobility and development opportunities, these benefits have not extended across the Single Market. This is due to tax incentives, which are mostly national and disadvantage international operators. The industry is prepared and has launched several successful initiatives, however a European approach to regulation and tax incentives, rather than a national one, is necessary. The coming years must prioritise the **planning, funding, and implementation of a major plan to connect the European capitals with high-speed rail**. This project must become one of the pillars of the fair, green, and digital transition. It can mobilise energies and resources and, above all, can deliver gradual results benefiting not only future generations but also the current ones.

The inspirations from my journey across Europe have been numerous and motivating. However, among the many topics addressed in European and national debates, one has emerged as predominant everywhere. This is **the issue of supporting and financing the goals that all together, we have identified as central for the coming years and which the EU seems to have now irreversibly embraced**. These are bold and positive choices that will accompany European life for at least a decade and will be vital for us and for future European citizens. These choices, while also offering considerable opportunities, will also inevitably come with significant costs.

Firstly, **the commitment to a fair green, and digital transition**. This choice reflects a long-term commitment to transforming European society and economy in a sustainable and equitable manner. The upcoming legislative term is identified as crucial for ensuring the implementation and success of this comprehensive transition.

Secondly, **the decision to pursue enlargement**. The focus here lies not merely on the goal itself but on the careful execution of its implementation. Setting a clear direction for the integration of new members into the EU represents one of the main challenges for the next years.

Thirdly, **the need to enhance the EU's security**. In the new world disorder, characterised by profound and systemic instability, the future of the EU cannot ignore the need to ensure the security of European citizens. This will imply more demanding positions and decisions in the field of defence.

It now appears certain that these three main strategic directions will guide the EU in the coming years. **It is no longer a question of whether Europe will pursue them but how it will do so**. This will certainly be a heated debate. I have had a clear perception of this in the many meetings during the journey, where discussions were everywhere constructive but quite lively. Similarly, I also came away with another distinct impression: for European citizens, it is clear that pursuing this path will entail high collective costs. Therefore, as long as there is no clarity and transparency on how those funds will be identified and who will pay for them, the concern among citizens themselves and among the vital forces of our societies will be increasing. In order to avoid political backlash, the issue of financial support and cost allocation for the transition, enlargement, and new security frontiers must find clear, straightforward and transparent answers.

Building the Single Market of the future will be one of the key conditions for meeting these financing needs. **My analysis intentionally does not exceed the scope of the mandate received**

**from the EU Council and the Commission - developed under the present Belgian, Spanish, and Hungarian trio Presidency of the Council of the EU** - and aims to provide the most concrete and operational contribution possible to the work programmes of those institutions and to Mario Draghi's Report on the future of European competitiveness.

## **The Single Market is all of us: everyone must play its own role.**

The Single Market is not merely an abstract concept, it is the cornerstone of the process of EU integration. To develop an efficient one, that is capable of creating the conditions to make Europe prosper, **we need everyone - EU institutions, Member states, business, citizens, workers and civil society - to play its own role.** Failure of any one to play their part is equivalent to failure of the whole chain.

The **forthcoming Multiannual Financial Framework** represents a critical juncture for the ambitious proposals detailed in this report, challenging all actors to reaffirm their dedication to developing a new Single Market. The next legislative period, from 2024 to 2029, provides a strategic opportunity to advance this vision. By considering new economic trends and global competition, this period could catalyse **a significant transformation of the Single Market into a truly 'European Market'**, setting the stage for a comprehensive leap forward in our integrated economic framework.

## **A fifth freedom for a new Single Market**

**The Single Market framework, rooted in the definition of the four freedoms, - the free movement of people, goods, services and capital - is fundamentally based on 20th-century theoretical principles.** This becomes evident when considering how this categorization now seems outdated, failing to reflect the evolving dynamics of a market increasingly shaped by digitalization, innovation and uncertainties related to climate change and its impact on society. The distinction between goods and services has become increasingly blurred, with services often integrated into goods, and fails to capture the intangible aspects of the digital economy and the opportunities and threats related to the trends towards circular economy. **Circular economy is the only possibility of saving the planet and changing the paradigm of present manufacturing,** and will require a robust set of competencies, safeguarded intellectual property and the ability to convert these assets into innovation and a thriving industry. The four freedoms also fall short in addressing the shift from an economy based on ownership to a new one, based on access and sharing.

Towards the end of his term, Jacques Delors hinted at the necessity of exploring a new dimension for the Single Market. One potential avenue for this exploration lies in **the addition of a fifth freedom to the existing four, to enhance research, innovation and education in the single market.** The fifth freedom entails embedding research and innovation drivers at the core of the Single Market, thereby fostering an ecosystem where knowledge diffusion propels both economic vitality, societal advancement and cultural enlightenment.

Significant progress was achieved in the past legislature in this realm with the approval of the Digital Market Act, the Digital Services Act, the AI Act, the Data Act and the Data Governance Act, crucial steps towards the development of a modern and effective digital strategy and technological autonomy. The fifth freedom could come to complement this framework to catalyse

advancements in areas such as R&D, data utilisation, competences, AI, Quantum Computing, Biotech, Biorobotics, and Space, among others. Such fields could greatly benefit from the inclusion of the fifth freedom within the Single Market framework, **the freedom of investigating, exploring and creating for the benefit of humankind without disciplinary or artificial borders and limitations**. This is related to the freedom of contributing to address societal challenges, such as climate change and biodiversity losses and their impact on the planet, humans and cultural heritage.

Among various sectors poised to benefit from the implementation of a fifth freedom, **the healthcare sector stands out prominently**. Its critical importance, underscored by the recent pandemic, positions it to greatly leverage this new framework which promises to enhance cooperation and drive innovation. This initiative is particularly vital as European healthcare urgently requires significant revitalization. The EU's increasing reliance on external suppliers for chemically synthesised active ingredients, components, and finished products has led to a steep decline in European production - from 53% in the early 2000s to less than 25% today. Moreover, the migration of European talent in search of opportunities outside the EU is severely undermining the Union's capacity for innovation. In light of these issues, along with demographic shifts and potential future crises, it is imperative that the EU takes decisive action to foster integration within its healthcare sector and ensure sustainable access to healthcare for all its citizens.

## **A Single Market to Play Big**

Demographic shifts and the restructuring of the global economy risk compromising the overall role of the European Union in the world. However, it is by no means certain that this decline in influence is irreversible. With strategic adaptations, we have the potential to confront it. The EU can still benefit from highly impactful assets, but relying solely on existing capabilities will not suffice. Europe's future influence will depend on the performance and scalability of its businesses. Today, European companies suffer from a stunning **size deficit** compared to their global competitors, primarily from the United States and China. This disparity penalises us in numerous areas: innovation, productivity, job creation, and ultimately, the security of the EU itself. Therefore, it is crucial to support large EU companies in becoming bigger and competing on the global stage. This can enable diversification of supply chains, attract foreign investment, support innovation ecosystems, and project a strong EU image. Ultimately, a thriving economy supported by robust companies puts the entire Union in a position to negotiate more favourable trade agreements, shape international standards, and successfully tackle unprecedented crises and global challenges.

**Allowing EU companies to scale up within the Single Market is not just an economic imperative but also a strategic one.** However, not all EU companies and markets are in need of a bigger size. We must not mimic models that are consistently different from our own and that do not fit with the European reality. **Our model, which thrives on the essential link between large and small enterprises, actively safeguarding a level playing field, must be preserved.** This model is a fundamental strength and the bedrock of our social market economy. No company can be allowed to grow undermining fair competition, which underpins consumer protection and economic progress. At the same time, the implementation of the principle of fair competition should not result in European markets being dominated by large foreign companies benefitting from favourable rules in their domestic markets.

The lack of integration in the financial, energy, and electronic communications sectors is a primary reason for Europe's declining competitiveness. As previously noted, we are now facing the consequences of decisions made when the world was "smaller" to retain a predominantly national focus in these sectors. **There is an urgent need to catch up and strengthen the Single Market dimension for financial services, energy, and electronic communications.** This entails establishing an integrated framework between the European and the national level. This model comprises a two layer approach with a EU centralised authority responsible to guarantee the coherence of rules having a Single Market dimension, while issues, which for size or relevance remain national, should be dealt by independent national authorities within a common framework. In this framework, each entity must have a defined role, as robust collaboration between the European and national levels ensures the system's effectiveness. **The markets in question must evolve towards a European dimension,** surpassing the national confines that currently hinder any substantial competition with American, Chinese, or Indian conglomerates. **By identifying the European one as the relevant market, we can finally enable market forces to drive consolidation and growth in scale,** in full respect of the European principles, objectives and rules.

Several key decisions recently outlined in official documents - among which the Statement by the ECB Governing Council on advancing the Capital Markets Union, the Statement of the Eurogroup in inclusive format on the future of Capital Markets Union and the Commission White Paper 'How to master Europe's digital infrastructure needs?' - are moving in a favourable direction, signalling a growing consensus. This trend is also evident in the critical choices made by European Institutions concerning energy independence and the restructuring of the electricity and gas market design.

Leveraging the full benefits of the Single Market in the energy sector requires in the coming years a further leap in **interconnectivity** and a massive investment in Europe's infrastructure networks, from upgrading the electricity transport and distribution grids to building a backbone hydrogen infrastructure. This will allow to maximise Europe's renewable potential, ensure secure and more affordable energy and expand energy supply choices for industry.

In this context, while the EU will become significantly more able to produce domestically the energy to power its growth as it advances towards a net zero future, the European economy will need to continue to import some of its energy from the rest of the world, and thus must develop strategically an **infrastructure network** connecting it to reliable partners, in the Neighbourhood East and South and beyond.

In the Report, **concrete Road Maps to speed up integration in finance, energy and electronic communications are identified,** with a focus on the need to achieve progress within the next European legislature (2024-2029). Without these essential results, the goal of European economic security and the aim of establishing an effective European industrial policy are out of reach. The lessons drawn from recent crises underscore the pressing need to move from deliberation to decisive action.

There are many examples of how decisions and policies set at EU level have determined policies in other parts of the world. **Technical standards which were able to satisfy different needs across 27 member states have proven valuable also for the needs of other countries across the globe.** A stronger Single Market will determine standards which will become global reference, making it

easier for European companies to provide goods and services to the rest of the world. A big, European market will therefore help make the global market more European.

## **A Single Market that supports job creation and makes doing business easier**

The Single Market, as originally conceived, was deeply anchored in a conventional understanding of the production process, reflecting the period during which the integration effort was formulated. This model of development possessed a critical, distinguished characteristic that has diminished over recent decades: **the Single Market was once the only available option for European enterprises, both as a production base or headquarters and as a primary marketplace.** Considering the global context of that era, while exporting was a viable strategy, the idea of moving operations to a location outside the Single Market was nearly inconceivable. In the current day, not only does this alternative exist, but it has also become increasingly common and embraced. A multitude of countries worldwide now offer themselves as appealing options for European companies seeking to relocate their operations, whether in part or entirely.

Streamlined regulations across various sectors critical to a company's lifecycle play a pivotal role in where companies choose to do business. Notably, many locations outside the European Union have devised dedicated pathways to expedite responses to bureaucratic and administrative needs, enhancing their appeal to businesses. Many entrepreneurs I spoke with during my journey raised concerns about this issue, pointing out that alternatives are becoming increasingly attractive in comparison to the **significant bureaucratic burdens faced by companies across various European countries.** Much of this bureaucratic burden has arisen due to the overlapping regulations and administrative complexities generated by the EU's complex multilevel governance system. Too often, **fragmentation of the Single Market, gold plating, and ring-fencing at the national and regional implementation level,** not to mention the asymmetry between territories and legal and tax systems, end up increasing difficulties and multiplying obstacles to productive activity.

There is growing dissatisfaction within the business community regarding the lack of a culture of support and facilitation for economic activities. Too often, this dissatisfaction leads to the temptation to relocate activities to countries outside the EU Single Market, which now present a credible alternative. This emerging challenge requires robust responses. The Commission has made significant progress in the area of corporate taxation, simplification and the reduction of red tape. The proposals presented by President Von der Leyen signify a major commitment that must be pursued as an absolute priority in the coming years. The compass of the new Single Market must emphasise the crucial importance of **proportionality and subsidiarity,** especially in the context of its regulatory framework.

This Report identifies the challenge of simplifying the regulatory framework as a principal hurdle for the future Single Market. A pivotal proposition emerges: to reaffirm and embrace the Delors method of maximum harmonisation coupled with mutual recognition, fully enshrined by the European Court of Justice's rulings. This method underscores the paramount importance of Regulations as the cornerstone for achieving such harmonisation across the Single Market. It posits that **EU Institutions should unequivocally prioritise the use of Regulations in the formulation**

**of Single Market binding rules.** When the use of directives remains unavoidable or preferable, it is imperative to make two key choices to ensure their effective implementation. Firstly, Member States must demonstrate greater discipline by avoiding the inclusion of measures that exceed what is strictly necessary under the directive. Secondly, there should be a systematic preference for utilizing the legal basis of the Single Market framework, specifically relying on Article 114 of the Treaty. This provision supports exhaustive harmonisation, crucial for maintaining consistency across the Member States, whereas other Treaty provisions permit minimum harmonisation, allowing Member States to adopt stricter measures that may lead to fragmentation and adversely affect the Single Market.

Moreover, a **European Code of Business Law** - detailed in the second part of this Report - would be a transformative step towards a more unified Single Market, providing businesses with a 28th regime to operate within the Single Market. It would directly address and overcome the current patchwork of national regulations, acting as a key tool to unlock the full potential of free movement within the EU.

At the same time, the importance of **consistent enforcement of Single Market rules** cannot be overstated. Effective enforcement ensures that regulations benefit all Member States equitably, preventing the fragmentation of the market and maintaining a level playing field, crucial for the competitiveness of our businesses and the economic dynamism of the EU.

Certainly, if these issues are not addressed, the risk of deindustrialization on the continent - which, as noted, is not irreversible - becomes a real threat. The Report, underscored by a distinctly proactive framework, thus seeks to issue a broader call to action on this matter. In today's global context, **Europe cannot, and should not, cede its role as a manufacturing leader to others.** At the turn of the century and for much of the subsequent decade, the shift was widely regarded as a feasible and even beneficial option. However, it is now evident that this is no longer the case.

## **The fair, green and digital transition as a catalyst for a new Single Market: towards a “Savings and Investments Union”**

The last legislative term has laid the groundwork for the fair, green, and digital transition by introducing key legislative proposals. Now that almost all the rules are in place, the emphasis must shift to **implementation**. It is essential to move from policy design to practical application, ensuring that these measures are seamlessly integrated and operationalized to deliver tangible environmental benefits.

Therefore, one of the main objectives of the new Single Market must be to make European industrial capacity compatible with the goals of the fair, green, and digital transition. To this end, in the next legislative term, it will be necessary to **direct all energy towards the financial support of the transition, channelling all necessary public and private resources towards this goal** to make the transformation of the European production system possible. In this endeavour, the Single Market can and must play a pivotal role.

**The initial priority should be to mobilise private capital**, a crucial step that lays the groundwork for a more inclusive and efficient financing framework, as it is the area where the EU is most lagging behind. The European Union is home to a staggering 33 trillion euros in private savings,

predominantly held in currency and deposits. This wealth, however, is not being fully leveraged to meet the EU's strategic needs. A concerning trend is the annual diversion of around €300 billion of European families' savings from EU markets abroad, primarily to the American economy, due to the fragmentation of our financial markets. This phenomenon underscores a significant inefficiency in the use of the EU's economic assets, which, if redirected effectively within its own economies, could substantially aid in achieving its strategic objectives. In this context, **this Report calls for a significant transformation: the creation of a Savings and Investments Union**, developed from the incomplete Capital Markets Union. By fully integrating financial services within the Single Market, the Savings and Investments Union aims to not only keep European private savings within the EU but also attract additional resources from abroad.

**The next step involves tackling the debate on State aid.** We should develop bold and innovative solutions that strike a balance between, on the one hand, the need to quickly mobilise national targeted public support for industry, in so far as it addresses in a proportionate way market failures, and, on the other hand, the need to prevent the fragmentation the Single Market. Whilst the progressive relaxation of State aid in response to the recent crises has contributed to limiting the negative effects on the real economy and successive temporary frameworks have introduced innovative concepts to capture the changing international context, it has also produced distortions of competition. There is a risk that over time such an approach amplifies distortions of the level playing field within the Single Market due to the difference in fiscal space available to Member States. **A way to overcome this dilemma could be to balance a stricter enforcement of State aid at national level and the progressive expansion of EU level funding support.** Specifically, we could envision a State aid contribution mechanism, requiring Member States to allocate a portion of their national funding to financing pan-European initiatives and investments.

Unlocking private investments and refining our approach to State aid will facilitate the creation of the necessary political conditions to unleash another critical dimension: European public investments. To alleviate the tension between new industrial approaches and the Single Market framework, **the EU's industrial strategy must adopt a more European approach**, building on and further developing the IPCEI model, while ensuring that the level playing field is not jeopardised by harmful subsidies. Faced with strong global competition, the EU must step up its efforts to develop a competitive industrial strategy capable of counteracting instruments recently adopted by other global powers, such as the US Inflation Reduction Act.

**Establishing a robust connection between the fair, green, and digital transition and financial integration within the Single Markets is crucial.** This link is essential for making the transition feasible in the first place. **Without adequate resources, there is a risk of progress stalling.** The costs of the transition are systemic and must be shared collectively. Placing the burden solely on specific sectors will ultimately impede rather than facilitate the process. Failure to achieve this collective effort could lead to resistance from various groups - today it might be farmers, tomorrow automotive workers - who feel they are disproportionately bearing the costs of transformation without sufficient support. The second part of the Report contains an illustration of the key proposal to fulfil these objectives.

This connection also operates in reverse, as financing the fair, green, and digital transition can drive further integration within the Single Market. The attempt to create the Capital Markets Union over

the past decade has not been successful, among other causes, because it has been perceived as an end in itself. **True integration of financial markets in Europe will not be realised until European citizens and policymakers recognize that such integration is not merely beneficial for finance itself, but is crucial for achieving overarching goals that are otherwise unattainable**, such as the fair, green, and digital transition.

Supporting the transition structurally is a fundamental objective within the European Union's strategic framework. However, discussions must not only focus on the costs associated with this transition. **It is crucial to recognize the extensive benefits that this transition offers to citizens, businesses, and workers alike**. Investing in and financing this transition is not just a financial decision; it is arguably the most strategic choice the EU can make to secure a significant competitive advantage on the global stage, while preserving and developing the social standards that Europe proudly enjoys. This advantage becomes particularly relevant given the increasing importance of sustainability in the emerging global order. By structurally supporting the transition, the EU enhances its commitment to both long-term economic prosperity and achieving its sustainability goals. The European Investment Bank is pivotal in this respect, as it provides crucial funding and expertise for projects that align with these sustainable and transformative goals across Member States. Furthermore, fostering greater integration within the **public procurement market** is crucial for realising the strategic goals of the European Union; innovation procurement, especially in green and digital technologies, could be one of the most important levers to support startups, scale-ups and SMEs in developing new products and services.

**In summary, there is a need for mobilizers of European financial integration who are external to the finance sector, focusing on objectives that concern the future of citizens rather than finance itself**. Structurally supporting the transition is, in this sense, a systemic duty. This is crucial, especially as without the private resources that will emerge from the establishment of a strong and authentic Savings and Investments Union, it will be extremely challenging to resolve the internal divisions within Member States concerning the allocation of national and European public resources needed to cover the costs of the transition. Ultimately, this would enable all to benefit from the relative advantages.

## **Enlargement: advantages and responsibilities**

A similar strategic vision must also be applied to the other two major processes that will shape the EU in the coming decade, specifically, enlargement and the challenge of security.

For the first, it is essential to immediately identify the conceptual pillars of the issue. The enlargements of the past have been successful choices for the EU. In particular, they have allowed Europe to offset the loss of relative weight caused by the transformation of the geopolitical and geo-economic framework after the Cold War, with the accession of new actors. Thanks to the enlargements, the Single Market and its benefits have been extended, and this has been true for both old and new Member States. **A larger EU, today as yesterday, is the best instrument to protect European interests and prosperity, uphold the principles of the rule of law, and defend EU citizens from external threats**.

The upcoming enlargement should be approached with the same spirit and vision. **The focus of the debate should not only be on the goal of enlargement itself, but more specifically on the**

**methods and timing of such expansions.** The interplay between the Single Market and enlargement raises complex questions requiring meticulous consideration. A nuanced approach must be found, facilitating the gradual but significant extension of Single Market benefits to candidate countries while simultaneously safeguarding the stability of both their economies and the Single Market.

One condition remains crucial: given that the Single Market is the core and driving force of European integration, the instrument must remain at least partially under the control of Brussels negotiators during the pre-enlargement process to prevent current Member States from losing their most powerful bargaining tool. In particular, it is essential to unequivocally reaffirm that any country seeking to benefit from any substantial pre-accession participation in the Single Market must **fully adhere to all the aspects of the first Copenhagen criterion**, demonstrating clear and unwavering respect for the non-negotiable principles of “**democracy, the rule of law, human rights and respect for and protection of minorities**” from the outset. In an era where these same principles are contested and the European democratic model is increasingly weakened by external threats and internal challenges, no ambiguity on this point can be admitted: it is within the Union and within each Member State that these fundamental values must be fully practised and actively defended. Any candidate country willing to commit to its gradual integration into the Single Market - or into any other dimension of the EU - must fully align with them.

Most importantly, this enlargement should not be perceived, neither by Governments nor by citizens, as a termination of growth and convergence support - particularly for the more recently joined countries - provided by cohesion policy and the Common Agricultural Policy. **Accompanying policies for the current Member States and a reform of cohesion policy appear to be decisive.** An effective cohesion policy - implemented in a balanced way across the EU - has always been, and will continue to be, a key condition for the success of the Single Market. In this regard, the creation of an **Enlargement Solidarity Facility**, equipped with the financial resources to manage externalities and facilitate a smooth enlargement process, could be a vital tool to support the process.

## **Promoting Peace and Upholding the Rule of Law: A Common Market for the Security and Defence industry**

The third major strategic direction for the next decade, alongside the transition and enlargement, relates to the **challenge of security**. Vladimir Putin’s war of aggression against Ukraine altered the course of history and reshaped the destiny of Europe, shaking its very foundations. The EU immediately reached a collective decision that the security and defence component, which had historically carried less weight compared to other EU policies and has largely been rooted at the national level, should now gain prominence.

The unified and decisive response must now be sustained through consistency and continuity, leveraging the EU’s untapped potential in this domain. The logic is straightforward: **security must be addressed in a comprehensive dimension** and must influence energy policies as well as financial policies, cyber threats, choices regarding infrastructure, connectivity, space, health and technology. This was also reflected in the Versailles and Granada Declarations and in the European Economic Security Strategy presented by the European Commission. This extended and

unprecedented definition of security will inevitably have repercussions on all aspects of the economy and citizens' lives. Therefore, it is essential to strike a balance with individual fundamental rights, positioning Europe once again as a leader in regulating new technological advancements.

**Our industrial capacity in the fields of security and defence must undergo a radical transformation** to avoid repeating the dynamics observed during 2022-2024. In that period, while supporting the Ukrainian resistance, Europeans spent substantial amounts, yet around 80% of these funds were spent on non-European materials. Conversely, the US sourced around 80% of the military equipment used to support the war in Ukraine directly from American suppliers, a stark difference that highlights the weakness of our approach. **Supporting jobs and industries in Europe**, rather than financing our partners or rivals' industrial development, must be a primary objective when spending public money. In addition, never before has there been such an urgency to develop our own industrial capabilities in order to be autonomous in the strategic domain. As applying the Single Market framework is not feasible today due to the inherent nature of this sector, advancing towards the development of a '**Common Market for the Security and Defence Industry**' is crucial to entrust the EU with the necessary means to tackle current and future security challenges.

At the same time, security must be the subject of coherent choices regarding financing. Continuity with past policies and expenditures is not even imaginable. New and far more serious threats must be countered with unprecedented and proportionate responses. The European Union is considering several innovative financing options to support a unified defence market. To modernise EU defence capabilities, **we must develop innovative measures and instruments that effectively integrate private and public financial resources**. These efforts, of course, must be aligned with the membership and corresponding commitments of nearly all EU Member States to **the Atlantic Alliance**.

## **Freedom to move and freedom to stay: a new Single Market for all European Citizens**

The success of the Single Market not only hinges on its competitiveness and security, but also on its ability to benefit all European citizens and garner their support. Since its foundation, the European Single Market has been a cornerstone of unprecedented economic growth, convergence, social progress, and enhancement of living standards across the continent. Yet, amidst these successes, there is an emerging discussion on the distribution of these benefits. In particular, a perception is gaining ground that the advantages of the Single Market go to individuals who are already equipped with the means and skills to take advantage of intra-EU opportunities, or to large enterprises that can easily expand their operations across Member States.

If left unaddressed, this perception could erode the public support that is vital to the continued success of the Single Market. From the outset, the European Single Market was designed with an awareness of its potential differential effects on workers, companies and regions and with a clear goal to address them. This is why **the cohesion policy was put in place as a fundamental element of the Single Market, not outside of this framework**.

However, today the EU operates in a radically transformed global environment, generating new distributional challenges that demand innovative solutions. Collectively, about **135 million people**, nearly one third of the EU population, live in places which, in the last two decades, have slowly fallen behind. **Residents of regions in decline often feel having no opportunities, but to relocate** due to the lack of jobs, access to quality education, and adequate services necessary for cultivating a self-sustaining and dignified lifestyle within their own communities. Similarly, SMEs based in these areas feel the weight of EU regulations but experience limited benefits from the Single Market, often due to business models or capabilities ill-suited to intra-EU expansion.

To succeed, the Single Market must fulfil its promises of shared prosperity. We must strive to continue securing the free movement of people but also ensure a “freedom to stay”. **Freedom to move and freedom to stay are two sides of the same coin, two mutually reinforcing pillars of European integration, and must be developed together.** The Single Market should empower citizens rather than create circumstances where they feel compelled to relocate in order to thrive. High quality jobs must be available for individuals who wish to contribute to the development of their local communities. Free movement is a valuable asset, but it should be a choice, not a necessity. As expressed by Jacques Delors ‘each citizen should be able to control their destiny’. The objectives of the Single Market should align with the freedom of movement as well as the freedom to stay in the community of one’s choice. Accessible, affordable, and adaptable Services of General Interest (SGI) across all EU regions are crucial for ensuring the freedom to stay, necessitating an Action Plan for high-quality SGIs in Europe. In addition, social economy businesses are pivotal in fostering proximity and the sustainable development of territories.

Accordingly, we must ensure that any development of the Single Market includes a **genuine social dimension that guarantees social justice and cohesion.** A strong social dimension in the EU Single Market promotes inclusive prosperity, ensuring fair opportunities, **workers’ rights** and social protection for all, while contributing to growth and competitiveness. It reinforces the European Union's commitment to solidarity, **reducing inequalities and promoting the well-being of all citizens**, in line with the values of the European Pillar of Social Rights for a cohesive, people-centred Union.

Moreover, we need to facilitate **greater participation of small and medium-sized enterprises in the Single Market.** Otherwise, it is inevitable that those businesses and entrepreneurs representing the backbone of the EU economy will see the Single Market as an obstacle rather than an opportunity. The aforementioned 28th regime would be a real game-changer for SMEs, allowing them to finally tap into the full potential of the Single Market.

Emphasising the crucial role of citizen involvement, the establishment of a **permanent Citizens’ Conference - in line with the aspirations of the Conference on the Future of Europe** - could significantly enhance the effectiveness and inclusiveness of the Single Market's governance. Such a platform would not only serve as a vital tool for regular and structured dialogue but also ensure that citizen feedback and insights directly influence policy-making. In turn, this could lead to policies that are more finely attuned to the diverse realities of European citizens, enhancing their ownership of the Single Market and strengthening its foundation on the principles of participatory democracy.

Europe's unique growth model has been a powerful engine for economic convergence over the last decades. The Single Market is arguably the most far-reaching accomplishment of the European integration process, our most valuable asset. However, it holds the potential to deliver even wider benefits that have a profound impact on the lives of all Europeans. A **timely, smart and bold strategy for the future of the Single Market for the coming legislative term (2024-2029)** - paving the way for transforming the Single Market in a truly 'European Market' - could further solidify its pivotal role as a driver of sustainable development and widespread prosperity on the continent. It could give a united Europe the leverage it needs to compete effectively and thrive in a world of constant and radical change.