

AEU Summary – *Much more than a market* report by Enrico Letta (April 2024)

Key Takeaways

- The Letta report is a comprehensive analysis of the European Single Market that proposes strategic enhancements to address contemporary challenges:
 - implementing a "fifth freedom" focused on research, innovation, and education to strengthen the Single Market's internal dynamics and global competitiveness;
 - the critical importance of reducing regulatory burdens, particularly on SMEs;
 - enhancing the EU's economic security through more effective mobilization of both private and public resources, for example through mobilising private capital through the formation of a Savings and Investments Union (building on the Capital Markets Union initiative); and
 - tailored strategies to balance the deepening of internal market integration with the necessity of reinforcing external economic relationships. This should include a re-evaluation of trade policies and an emphasis on fostering strategic partnerships, for example through deeper trade and investment ties, regulatory alignment, and mutual recognition of standards to create a Transatlantic Single Market.
- The Letta report is ultimately proposing ideas for how the Single Market could be strengthened and a supporting narrative for why action is necessary – but further concrete action will require political choices by other actors.
- Similarities to AEU's Agenda for Action:
 - Both documents highlight the importance of innovation and digital transformation as crucial for the future competitiveness of the European market. Both advocate for regulatory frameworks that promote rather than stifle innovation.
 - Both recognize the importance of transitioning to a greener economy and the role of the EU as a leader in this area through harmonized environmental policies and support for sustainable business practices.
 - Both call for a reduction in regulatory burdens to make Europe more attractive for investment and to facilitate easier business operations across the Single Market.
- Differences from AEU's Agenda for Action:
 - The Letta report focuses more broadly on the structural and strategic enhancement of the Single Market, including political, social, and economic dimensions. It introduces concepts like the "fifth freedom" for research and education, aiming to integrate these deeper into the market's framework.

- Compared to the actionable business-centric focus of A4A, the Letta report proposes specific new structures such as a Savings and Investments Union and emphasizes a comprehensive approach that includes social dimensions like education mobility and healthcare.
- Set out below are the key points from each of the report's topic areas.

5th Freedom

- Europe struggles to keep pace with rapid global technological advancements, lacking robust industries or ecosystems to capture innovation benefits. Dependency on external technologies is significant, compromising European industries' competitiveness on global markets.
- The EU needs long-term investments to develop technologies domestically rather than relying on fragmented digital regulations from individual Member States. Europe also possesses a vast, underutilized pool of data, expertise, and startups that, if not fully used, could benefit competitors outside the EU.
 - Harnessing R&D strengths would bolster EU's strategic autonomy and economic security.
- Suggests adding a fifth freedom to the existing four (goods, services, people, capital) to address modern challenges. This fifth freedom would focus on research, innovation, data, competences, knowledge, and education, embedding these drivers at the core of the Single Market.
 - The 5th Freedom would transform dispersed knowledge and fragmented systems into unified opportunities for growth and inclusivity.
- The 5th Freedom could be operationalised through policy initiatives, infrastructure improvements, and collaborative frameworks to support innovation and digital literacy.

Finance Strategic Goals

- The EU has set ambitious goals (green and digital transition, EU enlargement, and enhancement of defence capabilities) but a critical challenge remains unresolved: the funding of these aspirations.
- Addressing this funding dilemma lies in a strategic approach that leverages the Single Market's potential in mobilising both private and public resources.
- The initial focus must be on mobilising private capital through the formation of a Savings and Investments Union (building on the Capital Markets Union initiative).
- The next steps should strike a balance between state aid (national targeted public support) and prevention of competition distortions. The solution could be a new State aid contribution mechanism, requiring Member States to allocate a portion of their national funding to financing pan-European initiatives and investments.
- The EU is structurally unable to develop industrial strategy tools like the Inflation Reduction Act, which is based on tax credit schemes. In the long term, it is crucial to address the political divisions surrounding the EU's fiscal capacity.

- The EU must gradually establish a Circular Single Market and a better integrated European public procurement market.

Scale Matters

- The EU's demographic shifts and economic patterns are changing, posing challenges to its global influence. Strategic policy adjustments are recommended to reinforce the EU's global standing, utilizing its strengths like a skilled workforce and research excellence.
- Identified problems:
 - European companies lag behind counterparts in the US and China in terms of innovation and productivity.
 - Greater integration is needed in strategic sectors like finance, energy, defence, health, and transport to bolster the Single Market's effectiveness.
 - Market fragmentation in electronic communications inhibits the growth of pan-European operators and creates disparities in investments and regulatory environments across Member States.
- Identified solutions:
 - Convergence in policies, especially in 5G/6G spectrum allocation, to foster competition and market growth.
 - Investments are necessary to support Very High Capacity Network and 5G Networks, fostering digital innovation and reducing dependency on third countries.
 - A unified regulatory approach and cross-border consolidation are crucial for facilitating growth and enhancing the market's attractiveness for investment.
 - Administrative and regulatory barriers need dismantling to create a truly unified market, particularly in electronic communications and digital services.
 - The report includes a roadmap with key milestones to be achieved between 2024 to 2029, focusing on facilitating growth, dismantling administrative obstacles, harmonizing regulations, and supporting infrastructure development.

A Sustainable Single Market for All

- The Single Market has significantly boosted economic efficiency and consumer access to diverse, affordable products. However, the benefits of the Single Market are perceived as unevenly distributed, favouring wealthier individuals and large corporations, which could undermine support for the market.
- Historical measures like the EU's cohesion policy, aimed at reducing regional disparities, now face new challenges from global crises and transitions, necessitating updated approaches.
- The report suggests enhancing support for economically lagging regions, investing in digital infrastructure and skills, and ensuring broader access to essential services to promote social inclusion and justice.

- The report proposes establishing an EU Task Force on housing affordability and a dedicated Vice President in the EU Commission to oversee policies that support regional and social cohesion.

Go Fast and Go Far

- Over-regulation and bureaucratic complexities significantly impede the dynamism and efficiency of the Single Market.
 - Excessive regulatory burdens and red tape undermine business competitiveness, particularly harming SMEs by imposing unsustainable costs.
 - Over-Regulation creates barriers to effective rule implementation and favours non-European companies not subject to the same stringent rules.
 - ‘Gold Plating’ by member states increases regulatory burdens and fragmenting the Single Market
- There has been a risk-averse regulatory approach since the Financial Crisis, leading to a surplus of overlapping regulations, increasing legal uncertainty and compliance costs, which is especially detrimental to SMEs.
- Overhauling regulations on goods and services could unlock up to 700 billion euros in efficiency gains by 2030. Policies must be effective, efficient, and coherent, removing barriers and protecting rights related to the Single Market’s freedoms.
- On a positive note, there have been strides taken in recent years to simplify and reduce administrative burdens, particularly initiatives under President Von der Leyen.
- EU is at the forefront of good regulatory approaches according to OECD studies, but faces challenges in all stages of the regulatory process.
- Advocates for the Delors method of maximum harmonisation combined with mutual recognition, prioritizing the use of Regulations for harmonization across the Single Market.

Beyond its Borders

- The Single Market has significantly enhanced the EU's external influence, with EU rules becoming global standards in areas like data protection, AI, and cybersecurity. The EU has used trade negotiations and defence mechanisms to foster an international regulatory environment favourable to European businesses.
- However, the "Brussels effect" can no longer be taken for granted, as the EU's influence is being increasingly challenged by geopolitical tensions and the rise of state-led trade interventions (SOEs). The EU must now tailor the Single Market to align with global shifts, rather than just viewing global developments through the lens of the Single Market.
- This requires reviewing EU trade policy to strike a balance between competitiveness, strategic independence, and equitable global conditions. Fostering strategic partnerships based on well-founded policies is key.

- The relationship between the Single Market and EU enlargement also poses significant challenges that must be addressed through a strategy combining economic and political integration. Effectively addressing economic security, refining trade policy, managing enlargement, and governing relations with strategic partners are all pivotal for the future of the Single Market.
- The EU should intensify efforts to improve economic relations with the US, with the long-term goal of reigniting discussions on the foundational concepts for developing a **Transatlantic Single Market**. This idea seeks to more closely link the EU and US markets through the systematic and mutual reduction of market barriers (role for TTC to continue). By promoting deeper trade and investment ties, regulatory alignment, and mutual recognition of standards, a **Transatlantic Single Market could significantly bolster the relationship between two of the world's largest economies.**
- Trade policy:
 - The EU must reassess its approach to trade policy, considering the competitiveness of European companies, fair conditions, and the need to maintain an attractive destination for investment.
- Economic security:
 - The EU is facing multifaceted economic threats that demand a strategic and cohesive response, including issues like predatory investments, economic dependencies, technological theft, and cyber threats.
 - To enhance the EU's resilience, support its economic competitiveness, and safeguard its interests, a comprehensive approach to economic security is imperative.
 - A foundational step is the creation of an Economic Security Council within the Council of the European Union, which would encourage member states to appoint Economic Security Ministers to foster inter-ministerial cooperation on economic security issues.
 - This strategic move is deemed essential to offer an effective mechanism to secure the EU's interests, by delineating a 'perimeter' of cooperation with traditional allies and within existing multilateral frameworks.
 - Navigating the delicate balance between preserving the EU's open and dynamic economy and safeguarding national security and economic interests against aggressive international actors, is a key priority.