High Level Conference – One year after the Draghi report: what has been achieved, what has changed

One year ago, we met here to discuss three challenges set out in the report: Europe's growth model had long been under strain; dependencies threatened its resilience; and without faster growth, Europe would be unable to deliver on its climate, digital and security ambitions—not to mention finance its ageing societies.

Over the past year, each of these challenges has grown more acute.

The foundations of Europe's growth—expanding world trade and high-value exports—have weakened further.

The US has imposed its highest tariffs since the Smoot-Hawley era. China has become an even stronger competitor, both in third markets and, as US tariffs divert flows, inside Europe itself. Since December last year, China's trade surplus with the EU has risen by almost 20%.

We have also seen how Europe's ability to respond is limited by its dependencies—even when our economic weight is considerable.

Reliance on the US for defence was quoted as one of the reasons we had to accept a trade deal largely on American terms. Dependence on Chinese critical materials has curtailed our ability to prevent China's overcapacity from flooding Europe, or to counter its support for Russia.

Europe has begun to respond. Since the US absorbs around three-quarters of the global current account deficit, diversifying away from its market is unrealistic in the short term. But the Mercosur deal with Latin America can offer some relief for exporters. The Commission has launched strategic projects for critical raw materials. And defence spending is rising sharply.

These defence commitments, however, add to already vast financing needs. The ECB now puts annual investment requirements for 2025–31 at nearly €1,200 billion, up from €800 billion a year ago. The public share has almost doubled, from 24% to 43%—an extra €510 billion a year, as defence is mainly publicly funded.[1]

[1] Bouabdallah, O., Dorrucci, E., Hoendervangers, L. and Nerlich, C. (2025), "Time to be strategic: how public money could power Europe's green, digital and defence transitions", The ECB Blog, 25 July 2025.

Fiscal space is scarce. Even without this new spending, EU public debt is set to rise by 10 percentage points over the next decade, reaching 93% of GDP—on growth assumptions more optimistic than today's reality.[2]

One year on, Europe is therefore in a harder place.

Our growth model is fading. Vulnerabilities are mounting. And there is no clear path to finance the investments we need.

And we have been reminded, painfully, that inaction threatens not only our competitiveness but our sovereignty itself.

The report set out three priorities for Europe: closing the innovation gap in advanced technologies; charting a decarbonisation path that supports growth; and strengthening economic security.

As President von der Leyen has underlined, these are also at the heart of the Commission's agenda. I welcome her decision to place competitiveness at the centre, and the programme is ambitious.

Europe's citizens and companies value the diagnosis, the clear priorities and the action plans.

But they also express growing frustration.

They are disappointed by how slowly the EU moves. They see us failing to match the speed of change elsewhere. They are ready to act—but fear governments have not grasped the gravity of the moment.

Too often, excuses are made for this slowness. We say it is simply how the EU is built. That a complex process with many actors must be respected. Sometimes inertia is even presented as respect for the rule of law.

That is complacency. Competitors in the US and China are far less constrained, even when acting within the law. To carry on as usual is to resign ourselves to falling behind.

A different path demands new speed, scale and intensity.

It means acting together, not fragmenting our efforts. It means focusing resources where impact is greatest. And it means delivering results within months, not years.

Start with technology.

[2] European Commission (2025), "Debt Sustainability Monitor 2024", European Economy Institutional Paper 306, March 2025.

AI is often called a “transformational” technology, like electricity 140 years ago. But it depends on the orchestration of at least four other technologies: cloud to store vast data, supercomputing to process that data, cybersecurity to protect sensitive sectors, and advanced networks—5G, fibre and satellites—for transmission.

In some areas, Europe shows progress.

Plans are underway for at least five AI gigafactories, each with more than 100,000 advanced GPUs. Data-centre capacity is set to triple over the next seven years. A major telecoms reform is expected by year end. ASML’s recent investment in Mistral is a promising signal for the domestic AI ecosystem.

Adoption is rising too: the EIB finds European firms are taking up advanced technologies at a pace close to US peers, though from a lower base.[3]

But the gaps are stark. On the AI frontier, the US produced 40 large foundation models last year, China 15 and the EU just 3.[4] Among SMEs, AI adoption is still low—ranging from 13-21%.[5] And in the most strategic field—AI built on European intellectual property to anchor our core industries—progress is minimal.

There are three areas where more ambition is needed.

First, removing barriers to scaling up new technologies.

A true “28th regime” must become reality—allowing innovative firms to operate, trade and raise financing seamlessly across all 27 member states, just as competitors can in other large economies. This is especially important to give young Europeans a chance in their continent.

The Commission is moving in this direction. But with uncertain backing from the Member States, the first step will likely be limited to a digital business identity.

Early-stage funding also needs stronger backing. The Scaleup Europe Fund can help startups grow—if its size matches their financial needs.

The planned increase of Horizon Europe to €175 billion is welcome. But for breakthrough research, this will fall short unless the additional resources are concentrated into sizeable priority programmes.

Resources must flow into centres of excellence. They must focus on high-risk, high-reward projects chosen through a DARPA-style process. They must be reinforced by strong industry linkages to academic institutions to turn research into real applications.

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[3] EIB (2025), “Investment Report 2024/2025: Innovation, integration and simplification in Europe”, Luxembourg: European Investment Bank.
[4] Zhang, N., Mishra, S., Doss, D., et al. (2024), “2024 AI Index Report”, Stanford Institute for Human-Centered Artificial Intelligence, April 2024.
[5] Eurostat (2025), “Use of artificial intelligence in enterprises”, Statistics Explained.

Implementation must rest with expert project managers—not bureaucrats. And Europe should be capable of making direct investments in a few, large strategic deep tech initiatives.

The second area is regulation.

Across European companies, one of the clearest demands is for a radical simplification of GDPR—not just the primary law but the heavy gold-plating by Member States. Training AI models requires vast amounts of public web data. Yet legal uncertainty over its use creates costly delays, slowing deployment in Europe.

Research backs this up: GDPR has raised the cost of data by about 20% for EU firms compared with US peers.[6] Yet the only change on the table so far is an easing of record keeping and extending SME derogations to mid-caps. Broader reform toward simpler, harmonised rules is still vague.

The AI Act is another source of uncertainty. The first rules—which included the ban on "unacceptable-risk" systems—landed without major complications. Codes of practice signed by most major developers, together with the Commission's August guidelines, have clarified responsibilities.

But the next stage—covering high-risk AI systems in areas like critical infrastructure and health—must be proportionate and support innovation and development. In my view, implementation of this stage should be paused until we better understand the drawbacks.

More broadly, enforcement should rest on ex post assessment, judging models by their real-world capabilities and demonstrated risks.

The third area is the vertical integration of AI into industry.

Sectoral AI applications are even more critical than raw supercomputing power. Here, Europe has a real advantage: its firms hold more than half the global market in industrial automation solutions, a cornerstone of industrial AI. Yet only around 10% of manufacturing firms used AI last year.[7]

Industry and governments must work together to turn this head start into proprietary European solutions. The Commission's "Apply AI" strategy this autumn will be a key test.

[6] Demirer, M., Jiménez Hernández, D. J., Li, D. and Peng, S. (2024), "Data, Privacy Laws and Firm Production: Evidence from the GDPR", NBER Working Paper No. 32146.
[7] Eurostat (2025), op. cit.

Natural gas prices in the EU are still nearly four times higher than in the US. Industrial power prices are on average more than double. Unless this gap narrows, the transition to a high-tech economy will stall.

Energy is as fundamental as technology in driving AI. Electricity demand by data centres in Europe will rise by 70% by 2030.[8] Power already accounts for up to 40% of their operating costs.

The IEA warns that without action, one in five planned projects globally could be delayed by grid bottlenecks.[9] Only countries that align energy strategy with digital policy will capture the largest gains in the AI race.

The Commission has launched its Clean Industrial Deal and the Action Plan for Affordable Energy, both consistent with the report's agenda. But the main step so far has been to relax state aid rules so member states can subsidise prices.

That may offer temporary relief. It does not fix the structural reasons why energy in Europe is so expensive.

These include gas prices that, following Russia's invasion of Ukraine, are still about double their pre-Covid levels; a pricing system in which gas still sets the market price for electricity most of the time, even as renewables expand; and high charges and taxes.

Decarbonisation is the best long-term path for Europe to achieve energy independence despite its lack of natural resources. But it requires much faster investment to make a renewables-heavy system work: in grids, interconnectors and clean baseload generation such as nuclear.

Today, half of the cross-border capacity needed by 2030 has no investment plan. Even approved projects take more than ten years, with half that time lost to permitting.[10]

The Grid Package due at the end of this year and the proposed budget increase for cross-border links are steps forward. But the current system—national coordination of permits and financing—is not fit for a European energy market. Cross-border projects need EU-level planning and execution.

At the same time, we must be realistic: these measures will not cut energy prices quickly. That is why we must act on the levers that can deliver faster relief.

Two stand out: improving the functioning of gas markets and loosening the grip of gas on electricity prices.

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[8] IEA (2025), "Energy and AI: World Energy Outlook Special Report", International Energy Agency, Paris.
[9] Ibid.
[10] ACER (2024), "Electricity infrastructure development to support a competitive and sustainable energy system", ACER Monitoring Report, 2024.

Europe is already the world's largest buyer of US LNG, and has committed to purchase up to $750 billion in US energy products. Whatever the conditions of that deal, it should be treated as a chance to reorganise how we purchase gas.

Since March, LNG landed in Europe has cost 60–90% more than the same gas would cost in the US—even after accounting for logistics and regasification. Collective EU purchasing, as first proposed by the Commission after Russia's invasion, could certainly narrow this gap by strengthening our bargaining power, reducing intermediaries' margins and shielding us from volatile spot markets.

In parallel, Europe must deliver on the work of the Gas Market Task Force and bring more transparency to energy trading. Profits for the four largest global traders quadrupled between 2020 and 2022. Joint supervision and a stronger rulebook are overdue.

We must then decouple the remuneration of renewables and nuclear from fossil generation by expanding contracted energy—meaning Purchasing Power Agreements (PPAs) and two-way Contracts for Difference (CfDs).

Some useful initiatives are under way, such as the EIB's pilot PPA guarantee. But far more decisive action is needed: long-term contracts must be extended to all renewables and nuclear assets—new and existing alike. The current mechanism for setting prices awards rents to many vested interests.

As we press ahead with decarbonisation, the transition must also be flexible and pragmatic. The Commission has eased some of the most onerous reporting requirements through its Omnibus on sustainability. But in some sectors, such as automotives, targets rest on assumptions that no longer hold.

The 2035 deadline for zero tailpipe emissions was meant to trigger a virtuous circle: firm targets would drive investment in charging infrastructure, grow the home market, spur innovation in Europe and make EV models cheaper. Adjacent industries—batteries, chips—were expected to develop alongside, supported by targeted industrial policy.

But this has not happened. Charging point installation must accelerate three- to fourfold in the next five years to reach adequate coverage.[11] The EV market has grown more slowly than expected. European innovation has lagged, models remain expensive and supply-chain policy is fragmented.

In fact, the European car fleet of 250 million vehicles is aging and CO_2 emissions have barely fallen in recent years.[12]

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[11] ACEA (2024), "Charging ahead: Accelerating the roll-out of EU electric vehicle charging infrastructure", ACEA Automotive Insights, April 2024.
[12] European Commission (2025), "EU transport in figures – Statistical pocketbook 2025", Luxembourg, September 2025.

As suggested in the report, the upcoming review of the CO_2 emissions regulation should follow a technologically neutral approach and take stock of market and technological developments.

We also need a joined-up approach to the ramp-up of EVs—covering supply chains, infrastructure needs and the potential of carbon-neutral fuels.

In the coming months, the automotive sector will test Europe's ability to align regulation, infrastructure and supply chain development into a coherent strategy for an industry that employs more than 13 million people across the value chain.

The report called for using industrial policy actively—to cut dependencies and guard against state-sponsored competition.

At the time, concerns were raised about economic nationalism, protectionism and the risk that Europe might abandon global rules.

But the past year has shown clearly that we are operating in a different world. The line between economy and security is increasingly blurred. States are using every tool at their disposal to advance their interests.

So far, Europe's response has fallen into two traps: uncoordinated national efforts, or blind faith that market forces will build new sectors.

The first can never deliver scale. The second is impossible when others distort markets and tilt the playing field.

Instead, we must build the capacity to defend ourselves and withstand pressure at key chokepoints—defence, heavy industry, and the technologies that will shape the future.

Three levers can give us the scale and intensity we need.

The first is a new approach to coordinating state aid.

In practice, state aid often acts as protectionism—locking activity within borders instead of building European industries that are globally competitive. IMF research shows that aid in one country often comes at the expense of growth in its neighbours.[13]

Europe does have coordination tools, such as Important Projects of Common European Interest (IPCEIs), which can focus support and reduce these spillovers. Yet in 2023, EU countries spent nearly €190 billion on state aid—five times more than has been allocated to IPCEIs since 2018.

[13] Le Goff, M. and Martin, P. (2024), "A Bitter Aftertaste: How State Aid Affects Recipient Firms and Their Competitors in Europe", IMF Working Paper No. 24/260, December 2024.

Used strategically, IPCEIs could help Europe achieve scale in sectors like innovative nuclear technologies (such as small modular reactors) or in the automotive supply chain for affordable zero- and low-emission vehicles. The Commission is taking measures to make such projects more attractive and accessible.

But the IPCEI model is still essentially national in design and funding. That creates an inherent ceiling compared to our competitors.

Take Europe's semiconductor IPCEI approved in 2023. It mobilises €8 billion of public funding, spread across 14 member states, 68 projects and 56 companies. The overarching target—reaching a 20% global share of semiconductor manufacturing by 2030—is one the European Court of Auditors already calls "very unlikely."[14]

Japan's Rapidus shows a different approach. Created in 2022, it channels $12 billion of public support—despite Japan's smaller economy—into a single large-scale leader in advanced chips. It is focused on a clear objective, backed by major firms as investors and anchor customers. And it moves far faster, aiming for mass production by 2027.

Europe should learn from this concentrated model, and extend it to other advanced technologies—combining public and private investment for disruptive innovation and large-scale industrial projects.

The second lever is public procurement.

State aid cannot build new supply in critical technologies without matching European demand. Regulation can help by removing barriers to adoption, but procurement is the more powerful tool to create markets.

It works in two ways. First, with total public procurement equal to 14% of EU GDP, directing even a small share to European industries would create stable demand for innovation and strengthen strategic sectors. Second, in industries where scale is decisive, harmonised rules can drive standardisation and sustain long, capital-intensive investment cycles.

The potential is clear across many sectors: reserving an EU share in defence chip procurement; supporting European cloud and vertical AI; or setting quotas for clean-tech products such as green steel and aluminium.

Work has begun on preferential EU procurement rules for the public sector, though details remain unclear. But success will depend on harmonisation across member states. Without it, procurement—like state aid—risks sliding into national protectionism and failing to deliver scale.

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[14] European Court of Auditors (2025), "Special report 12/2025: The EU's strategy for microchips – Reasonable progress in its implementation but the Chips Act is very unlikely to be sufficient to reach the overly ambitious Digital Decade target", Luxembourg, 28 August 2025.

The third lever is competition policy.

In defence and space—and the dual-use technologies that underpin them—market dynamics are very different from consumer markets. Here, consolidation is not necessarily a threat to consumers. It can be a way to cut duplicated R&D, lower costs, accelerate innovation and focus procurement budgets.

Competitors in the US and Asia benefit not only from state support and vast procurement markets, but also from consolidation in these sectors. Yet Europe remains split between multiple national champions and overlapping industrial bases.

Europe should be able to protect competition while still promoting consolidation and innovation. A review of merger guidelines is under way, but industry cannot wait until 2027—the deadline consistent with the procedure that was chosen. Resilience and innovation must be built into competition policy now. At a minimum, a fast-track process should be established immediately.

The next question is how we increase speed.

In some areas, the EU can do more with the powers it already has. Regulation is where the Union can act fastest and most decisively. Europe has long styled itself as a regulatory power—it must now prove it can adapt to a fast-changing technological landscape.

In other areas, deeper reform is needed: of competences, decision-making and financing. Ultimately, in some crucial areas, Europe must start acting less like a confederation and more like a federation. But such reform will take time—time we may not have.

In the meantime, progress may depend on coalitions of the willing, using mechanisms such as enhanced cooperation. Even without treaty change, Europe could already go much further by concentrating projects and pooling resources.

If we succeed in focusing our efforts in this way, the logical next step is to consider common debt for common projects—whether at the EU level or among a coalition of member states—to amplify the benefits of coordination.

Joint issuance would not magically expand fiscal space. But it would allow Europe to finance larger projects in areas that lift productivity—breakthrough innovation[15], scale

[15] Gazzani, A., Martinez, J., Natoli, F. and Surico, P. (2025), "The Public Origins of American Innovation", mimeo.

technologies[16], defence R&D[17] or energy grids—where fragmented national spending can no longer deliver.

By raising output faster than interest costs, such projects would gradually restore fiscal space and make broader investment needs easier to finance. The report estimated that even a modest 2% increase in total factor productivity over a decade could cut the public finance burden by one-third.

And if we lower barriers in the single market and let firms scale faster, we will also accelerate the growth of European capital markets. These can help finance the private share of investment needs.

The more we push reforms, the more private capital will step up—and the less public money we will need.

Of course, this path will break long-standing taboos. But the rest of the world has already broken theirs. For Europe's survival, we must do what has not been done before and refuse to be held back by self-imposed limits.

Most importantly, we must move beyond broad strategies and backloaded timelines. We need concrete dates and deliverables—and to be held accountable for them. Deadlines should be ambitious enough to demand real focus and collective effort.

This was the formula behind Europe's most successful projects—the Single Market and the euro. Both advanced through clear phases, firm milestones and sustained political commitment.

Europe's citizens are asking that their leaders raise their eyes from their daily concerns towards their common European destiny and grasp the scale of the challenge. Only unity of intent and urgency of response will show that they are ready to meet extraordinary times with extraordinary action.

[16] Fieldhouse, A. J. and Mertens, K. (2024), "The Social Returns to Public R&D", NBER Working Paper No. 33780, June 2024.
[17] Antolin-Diaz, J. and Surico, P. (2025), "The Long-Run Effects of Government Spending", American Economic Review, Vol. 115, No. 7, pp. 2376–2413.