EU Competitiveness Ambitions: A Poor Report Card

27 NOVEMBER 2025

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3 Main Points

Main Question: Does the new MFF proposal provide sufficient resources to meet the EU's strategic competitiveness ambitionsArgument: The Competitiveness Fund is insufficient compared to the Draghi report's €800bn annual target. Essentially, it relies on shuffling existing funds rather than "new money," leaving key sectors like semiconductors and green tech underfunded.Conclusion: The current proposal lacks the necessary investment. The outlined objectives require a significantly larger budget

About the Authors

The continent stands at a critical juncture. Europe faces a widening productivity gap, compounded by demographic decline, an expected loss of 2 million workers per year by 2040, significantly lower to its American and Chinese counterparts. Innovation is slacking with merely 4 of the top 500 companies being European and reaching a relatively low threshold of 100 million market capitalisation. On top of that, a lack of spending from member states, puts the old continent at a significant dis-advantage compared to China's voluptuous 270 Billion in R&D. Furthermore, energy prices put industries at significant disadvantages, and dependence on critical resources put domestic supply chains at risk. The Draghi report tackles these issues by sponsoring ambitions to bolster European competitiveness in this escalating geopolitical environment. In response to these demands, the Commission has presented its new "ambitious" proposal to boost Europe's position globally with the new MFF package, increasing the budget to unprecedented levels.

This fall, the European Commission assembled one year after the release of the report. Most importantly, however, is that since then very little progress has been made, and the Union clearly "has no clear path to finance the investments" that are required in light of recent international paradigm shifts.

The European Union's new Multiannual Financial Framework (MFF) for 2028-2034 is intended to, as described by the European Commission, 'fundamentally redesign' EU investment in its strategic independence and competitiveness ambitions, which are focused on the following pillars:

A crucial addition to the budget is the "European Competitiveness Fund" (ECF), which provides €409 billion for industrial investment across the EU in strategic technologies and more integrated financial programs, making funding more accessible to firms. However, to fund these transitions, the initial proposal by Mario Draghi, who inspired the EU's new budget, was of €800 billion annually, which is equivalent to 5% of the EU's GDP.

The Commission's €409 billion fund evidently falls short from Draghi's expectations. Moreover, it does not constitute "new money" added to the budget but a shuffling of pre-existing programs, as there is no real growth compared to the current budget. The 2028 proposal could end up being smaller in real terms than the previous MFF (under 1.1% of GNI), after debt servicing costs and inflation.

This constitutes a clear "Ambition Gap", as the proposed budget is widely considered insufficient given Europe's significant spending gaps, and even the EU Parliament's Committee on Budgets (BUDG) finds it lacks ambition. The parliamentary groups' concerns mainly apply to the shrinking funds of the Common Agricultural Policy (CAP) to fund the competitiveness budget, and the decreasing importance of environmental standards in EU regulations. Similarly, as we argue, the 'digital transition' and 'clean transition'

pillars of the ECF are left with insufficient funds to meaningfully address the investment needs of strategic industrial sectors, as the following analysis will detail.

3.1 Semiconductors: Dead before it started

The semiconductor industry is the primary battleground in the Commission's efforts for digital transition and sovereignty under the new budget. However, the MFF's funding is insufficient and thus critical in the failure of AI ambitions.

In fact, the EU's semiconductor policy under the Chips Act is already projected to fail on its 2030 goals. A report published by the European Court of Auditors (ECA) delivered a gloomy verdict on its outcomes. The new semiconductor funding is largely insufficient in the aim to achieve 20% of the global market share. The ECA reports that the EU's global market share will only increase from 9.8% in 2022 to 11.7% by 2030. This failure stems from the repeating patterns of the MFF: the relocation of funding. The Commission allocated €4.2 billion into research under the Chips Act. However, this only constitutes relocated funding: €2.7 billion from Horizon Europe (The EU's research and innovation program) and €1.4 billion from the Digital Europe Program. As CSIS reports, an MEP lamented the funding, as investment in chips comes at the cost of removing funding from other priorities like cybersecurity.

The MFF's failure on semiconductors pointed out by the ECA has triggered uncertainty in the Union's institutions and member states, leading to all member states to sign a "Semicon Declaration", expressing the urgent need for a revised EU Chips Act that prioritizes the semiconductor sector as a strategic industry, even leveling it with the defence sector on importance. This demand makes the Commission's MFF proposal for semiconductors already obsolete, and reflects the political uncertainty on EU investment on strategic technologies and AI.

3.2 Critical Raw Materials (CRM) and Geopolitical Vulnerability

The CRM sector in the EU faces the largest foreign dependencies, which poses a great threat to the prosperity of the entire green and digital industrial sectors. China currently supplies 98% of the demand for Rare Earth Minerals to the EU. This has been achieved through weaponizing its dominance on the market by tightening export licenses this year, causing major disruptions in industrial supply chains.

The EU's response is framed in the Critical Raw Materials Act (CRMA). Although this constitutes an overarching regulatory framework, it suffers from the lack of defined funding from the MFF. While the CRMA designs a series of Strategic Projects, including 47 internal and 13 external ones, it does not design the funding for these, only specifying that they have 'preferential access to finance'. This leads to an unfunded mandate of the CRMA, as key strategic projects can only rely on 'expected' funding from the ECF's funding plans.

This contrasts with the US's and China's approach to Critical Raw Materials, where more aggressive government strategies and targeted capital investments are set to ramp-up private-public coordination.

3.3 Green Technology: A political shift that spillovers to investment

The main issue regarding the 'clean transition' pillar of the new MFF fundamentally lies on the political shift that the budget represents. The Green Deal is no longer the chief principle, but it has been demoted to a sub-category under "competitiveness". An analysis by the Institute for European Environmental Policy showcases that references to environmental sustainability appear to have a lesser priority compared to the current MFF. According to The European Council on Foreign Relations, the EU averaged €764 billion in investment per year between 2011 and 2020 on lowering greenhouse gas emissions. The EU Commission estimates that an additional €477 billion a year is needed to reach the 2030 climate targets, meaning that national governments must collectively provide an additional €130-260bn per year to bridge this gap. Thus, not even the 403 billion 7-year ECF budget would cover for the needed investment.

Finally, in 2024 the EU approved its Net-Zero Industry Act (NZIA), which aims to scale up manufacturing in order for the EU to produce at least 40% of its annual clean tech by 2030, thus protecting its own domestic market. NZIA focuses on "non-price criteria" to protect the EU green tech market, which are a non-tariff tool to favor EU-made tech over, for instance, cheaper subsidized Chinese imports. Nevertheless, the NZIA suffers the same pitfalls as the CRMA. The act similarly designs "Strategic Projects", but the MFF fails to provide the targeted funding to match the increased demand that will result from NZIA. Again the funding is only expected to be facilitated from the ECF "clean transition" pillar or national governments.

4: Expert Recommendations Pathing the Way Forward

The issues outlined in the sectoral analysis reflect only a fraction of the missteps made by the European Union in response to the calls within the Draghi report.

Firstly, there are evident critiques regarding the inadequacy of the MFF's size, where the ambition of the plan does not remotely align with the modest increases announced by the Commission. For it to be justifiable, these modest increases would need to be accompanied by significant reform. With respect to the CAP and National Reform Programmes (NRPs), restructuring these policy frameworks must grant greater discretion to member states (and administrations at regional and local levels), while simultaneously involving the European Parliament to more closely monitor implementation and ensure that member-state priorities align with collective policy goals. However, the idea that the plan could deliver simply by applying budget cuts to programmes is inconsistent.

Secondly, given the limited scale of the Commission's proposal, it must be accompanied by targeted spending on European public goods aimed at stimulating innovation and generating spillovers across most member

states. The spillover element should be imperative during MFF negotiations, especially considering opposition from less affluent member states to cuts in cohesion policy programmes. The Competitiveness Fund, centred on clean tech and digitalisation, does indicate political willingness from the bureaucratic arm of Brussels, but lacks critical operationalisation strategies. Another proposal for early-stage stimulus could be the introduction of EU-wide Public Procurement Schemes (PPS). A single EU regulation requiring public procurement to prioritise European suppliers would overturn the "upside-down" paradigm in current collective procurement strategies. Crucially, regulation would be the only effective path forward, as less politically costly solutions based on directives or EU soft law would delay implementation. Legally, such a proposal is also defensible, as it could fall under the "essential security interests" exemption within the WTO framework. Public investment in emerging EU technologies would provide an initial boost for European companies, establishing a critical countermeasure to the already well-developed PPS in the United States and Chinese reforms that offer increased price advantages for domestically produced services, pushing public procurement spending beyond €400 billion. Nevertheless, such a proposal falls short of meeting the intricate and highly varied preferences of each member state. Ultimately, this could provoke political interference in any meaningful procurement reform.

In terms of reforms already underway, it is crucial to increase competitiveness by implementing the 28th regime, harmonising investment law across the European Union to support and scale innovative business operations. While the Commission's plan is bold, sentiment within the Parliament is more reserved, limiting the plan's overall ambition.

Ultimately, two key issues are evident. The MFF, as currently designed, along with related EU policies, is not meeting established expectations. Budget cuts to key programmes will dilute political support for the proposal, further weakening an already underambitious framework. Increasing the budget and setting binding regulations on public procurement would create the necessary momentum for the plan, fundamentally strengthening competitiveness. Last September, Mr Mario Draghi was indeed correct: "the path now demands speed, scale, and intensity", none of which we observe in either the size of the framework or the initial negotiations in the Council and Parliament, which remain governed by political frictions.