

## POSITION PAPER

# “Draghi Report” on Competitiveness: A first response from the construction industry

Brussels, 09/12/2024

### Key messages

Mario Draghi's *Report on European Competitiveness* highlights challenges such as innovation gaps, high energy costs, and geopolitical instability. Key proposals impacting construction include promoting green products, enhancing circularity, and improving transport infrastructure. The report also emphasises addressing skills shortages through targeted training and a unified EU certification system. FIEC supports increased investment in infrastructure, especially the TEN-T network, and reducing regulatory burdens on SMEs. We also advocate for public procurement reforms to foster innovation and calls for policies to ensure affordable housing and support sustainable construction practices across Europe.

### Introduction

On 9 September, former Italian Prime Minister, Mario Draghi, presented his *Report on the Future of European Competitiveness* at the request of European Commission President, Ursula von der Leyen.

The report examines the challenges facing industry and business in Europe and its findings will contribute to the Commission's work on a new plan for Europe's sustainable prosperity and competitiveness. It consists of two parts:

- The future of European competitiveness - A competitiveness strategy for Europe;
- The future of European competitiveness - In-depth analysis and recommendations.

The report identifies three key challenges for the Union. (1) The need to accelerate innovation and find new drivers of growth to close the gap with China and the US. (2) Europe must reduce high energy prices while continuing to decarbonise and move towards a circular economy. (3) Europe must respond to a less geopolitically stable world, where dependencies turn into vulnerabilities, and it can no longer rely on others for its security.

In his report, Mario Draghi therefore proposes a new industrial strategy for Europe based on recommendations in several areas. Several of these proposed measures will have a direct impact on the European construction sector. These range from housing policies to infrastructure, measures aimed at sustaining investment, and labour and skills issues.

Given the wide range of issues addressed in the report, FIEC would like to highlight and comment specifically on the following proposals:

## Sectoral Policies

### Energy-intensive industries

The report highlights the importance of energy-intensive industries (EIIs) in the European economy and their dual role in both emitting greenhouse gases (GHG) and contributing to the EU's decarbonisation goals. It recommends promoting demand for green products through transparency measures, such as setting EU standards and supporting digital tools like the *Digital Product Passport*. It suggests introducing (European) building codes and harmonising standards across the EU to boost green demand in construction. The report also advocates for standardised low-carbon criteria in public procurement and outlines steps to enhance the circularity of raw materials by expanding EU-wide end-of-waste criteria and green-listing non-hazardous waste streams, alongside evaluating the pricing of externalities.

Our comments:

- The *Digital Product Passport* will make product information available electronically. It must be user-friendly for SMEs. Reliable information flows are crucial to make it work as a single system, open to include information in addition to those related to regulatory requirements, and interoperable with other digital systems (e.g. connection to the digital twin).
- While proposals to move away from price-only decisions in procurement procedures have merit, the introduction of social and environmental criteria in contracts poses challenges due to difficulties in clearly defining them, which may disadvantage SMEs and distort competition. FIEC calls for a careful assessment of procurement using green criteria, emphasising the need for a direct link between the award conditions and the objectives of the contract, as well as clear guidance on how to define these criteria.
- The establishment of a true Single Market for the circularity of secondary raw materials and end-of-waste is of particular importance to the built environment. Construction and Demolition Waste accounts for more than one-third of all waste generated in the EU. The development of robust, credible, and general union-wide criteria and rules for the use of secondary materials will be a cornerstone of a competitive circular economy.

### Transport sector

The report highlights that transport is a priority sector for the EU's transition to a net-zero economy, undergoing significant green and digital transformations. It emphasises the need for a resilient transport network, noting that extreme weather events, like the closure of the Fréjus tunnel, disrupt connectivity. The EU's transport sector has untapped potential, with improved infrastructure necessary to alleviate congestion and meet rising demand, particularly through the



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completion of the Trans-European Transport (TEN-T) network, which is estimated to require €845 billion by 2040. Key challenges include substantial funding gaps, low maintenance investment, and complex administrative hurdles that hinder project realisation. To address these issues, the report proposes improving infrastructure planning, mobilising public and private financing, removing barriers to integration, and accelerating digitalisation to enhance efficiency.

Our comments:

- FIEC supports proposals to mobilise public and private investment for completing transport network gaps and modernising infrastructure, emphasising that this should be a priority for national and EU decision-makers to enhance competitiveness and meet environmental goals.
- Following on from this last point, increased funding from the EU budget is essential for infrastructure investment, with a strong post-2027 budget necessary to meet core network completion deadlines. In April, FIEC and other organisations joined forces to call for more investment in clean and modern transport in the EU budget for 2021-2027.<sup>1</sup>
- According to the report, public funding will only cover a small part of the €845 billion needed for the TEN-T network by 2040, and private investment remains a challenge. FIEC believes that the TEN-T and Connecting Europe Facility (CEF) regulations should incentivise low-carbon construction projects through higher EU grants or lower loan interest rates.
- FIEC welcomes the comments highlighting the need for more investment in infrastructure maintenance, noting that costs will rise as Europe's infrastructure ages and traffic increases. Regular infrastructure maintenance pays dividends, not only financially by avoiding the need for replacement, but also environmentally by extending the life of the infrastructure and avoiding emissions, and it also ensures the proper functioning of the Single Market.
- FIEC agrees on the importance of enhancing transport network resilience against extreme weather, noting that this requires targeted and increasing investment in climate change mitigation.
- The report correctly identifies complex administrative and environmental regulations, particularly permit processes, as significant barriers to transport infrastructure development. Rather than supporting the rapid implementation of infrastructure projects, FIEC has repeatedly warned that they often lead to counterproductive project delays.<sup>2</sup>
- An impact assessment of the environmental and global warming potential of competing transport modes, based on traffic and use patterns, should be carried out to identify priority areas. For this, a science-based, robust, harmonised method at EU level is needed.

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<sup>1</sup> See [#MoreEUBudget4transport](#) campaign eLeaflet.

<sup>2</sup> For example, see FIEC's position on the EU Directive on the protection of the environment through criminal law. Available [here](#).



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## Horizontal Policies

### Sustaining investment

The report highlights that low productive investment and high private sector savings in the EU contribute to a significant current account surplus and an investment gap with the US. This, along with decreased public investment and an ageing population, leads to low growth, risking Europe's environmental and digital transitions. To meet an annual investment need of €750-800 billion (4.4%-4.7% of GDP in 2023), proposals include reducing Single Market fragmentation, easing bank finance regulations, effectively using the EU budget, and issuing common safe assets for joint investments while ensuring sustainable debt management.

Our comments:

- Investment, especially in infrastructure, requires sustained and increased funding from the EU budget or other sources. FIEC generally supports proposals to use the EU budget more effectively, reduce administrative burdens, and enhance the overall financial framework to boost investment. The post-2027 EU budget should be as ambitious as possible to meet investment needs.
- FIEC supports proposals to reduce Single Market fragmentation, which would remove barriers to innovation and business growth, and boost demand for risk capital and financing from capital markets.
- Banks' ability to finance the EU economy must be preserved. This includes reviewing the risk weighting for the construction sector and allowing a more risk-sensitive approach to project finance.
- The EU is at the forefront of the circular economy and green transition, and the answer requires new financing models with longer payback periods and higher long-term returns to replace traditional ones that do not work in a circular model.
- Perceived risk is key to attracting low-cost finance and could be achieved by raising awareness and managing the expectations of potential investors in terms of investment return and EU institutional risk.

### Strengthening governance

The report calls for reforms in EU governance to improve coordination and reduce the regulatory burden that hampers the EU's business environment compared to the US. It highlights issues in sustainability reporting and due diligence that make compliance difficult due to excessive bureaucracy and unclear legislation. The report highlights the cumulative burden of EU legislation on SMEs and argues that small mid-caps are key to designing appropriate remedies and mitigation measures. It argues that while treaty change is necessary for significant reform, targeted adjustments can also make a difference. Key proposals include limiting the European Commission's legislative activity and establishing a 'Competitiveness Coordination Framework'. This framework would focus EU resources on strategic priorities, ensure better governance, and finance public goods.



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Our comments:

- FIEC supports the simplification of EU rules and the reduction of administrative burdens for companies. Too much red tape, which disproportionately affects SMEs, is created by an increased “regulatory flow”. Moreover, the additional burdens created by new legislation are often at odds with the EU's better regulation agenda.
- The report rightly identifies the EU framework for sustainability reporting and due diligence as a major source of regulatory burden and problems related to the interaction between different complex pieces of legislation. It also rightly points to sustainability reporting and due diligence as examples of regulations that do not adequately take into account the size of the companies it affects, particularly due to value chain effects.
- The position of SMEs in the overall supply chain needs to be properly addressed. Individual SMEs often cover only a part of the supply or value chain and may have difficulties in identifying their business partners. The CSRD, with its many references to EU legislation, as well as the interpretation of the reporting requirements, is not easy to understand given the situation of SMEs and the lack of resources (costs) associated with carrying out reporting. Large companies and financial intermediaries are encouraged to apply the principle of proportionality when dealing with SMEs.
- FIEC opposes the new Corporate Sustainability Due Diligence Directive (CS3D), which will place a significant burden on EU companies and expose them to significant liability risks given the construction sector’s complex and changing supply chains. In addition, the CS3D could also lead to gold-plating and an unlevel playing field in the Single Market.<sup>3</sup>
- Existing legislation shifts administrative and other burdens to SMEs in business transactions. There should therefore be a compensation scheme for SMEs to cover any disproportionate compliance costs.

## Closing the skills gap

The report highlights the EU's growing skills shortages across various sectors, which will worsen due to demographic decline and the green and digital transitions. It notes that 54% of companies see skills shortages, particularly in digital skills, as a major challenge. The report stresses the need for basic, digital, and green skills, along with upskilling and reskilling to address mismatched skills. It attributes the gap to issues like declining education, a shrinking labour force, and low adult learning. Key recommendations include adopting a skills-based approach, creating a unified EU skills certification system, collecting data on skills needs, and increasing investment in adult learning.

Our comments:

- FIEC supports the objective of accelerating the quantity and quality of adult and vocational training undertaken. VET should be further promoted in the Member States.

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<sup>3</sup> FIEC-EIC Joint [Press Release](#) on “Corporate Sustainability Due Diligence” (26/03/2024)



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- The report emphasises the need for designing new skills policies and revising curricula depending on the skills needs. FIEC believes that it is essential to involve companies and social partners in this process as they have a better understanding of the skills needed. Through the Pact for Skills and various EU-funded projects, FIEC is already supporting initiatives to identify the skills needed and adapt trainings in light of the twin transition.
- FIEC calls on the European Union to promote and support tools and initiatives to strengthen the mutual recognition of qualifications, without lowering national standards, in order to facilitate the cross-border mobility of services, students, and workers within the Single Market.

## Other topics of relevance to the construction sector

### Public procurement

The report views public procurement as a strategic tool to achieve EU goals, proposing minimum environmental and low-carbon criteria in line with the most economically advantageous tender (MEAT) principle. It suggests setting quotas for locally sourced innovative and sustainable products to support EU production targets. The report highlights the limited use of non-cost factors in procurement, urging revisions to prioritise innovation and establishing a national innovation procurement policy across Member States. It calls for leveraging public procurement to create a level playing field for EU industries and emphasises its strategic role in fostering innovation.

Our comments:

- Please see comment in section on “*Energy-intensive industries*” (2<sup>nd</sup> bullet point, page 2)
- FIEC supports using public procurement to create a level playing field for EU industries, advocating for harmonised methods to identify abnormally low tenders and verification procedures. It calls for unified inclusion/exclusion criteria for third-country bidders. We note that the Commission’s guidance clarifies that operators from countries without relevant agreements do not have guaranteed access to EU procurement and may be excluded.
- FIEC considers that public authorities should be encouraged to make better use of the possibility of submitting variants as provided for in the public procurement directives. This would encourage the use of new techniques and innovative solutions.
- In line with FIEC's comments in the section “*Strengthening governance*” (pages 4-5), a proliferation of public procurement provisions in sectoral legislation, such as the Corporate Sustainability Due Diligence Directive, should be avoided.
- Financial selection criteria should be long term / life cycle based and include expected end of life costs where possible, even if they are not considered as part of the procurement process.

### Housing

The report considers that the European welfare state will be critical to providing robust public housing during the green and digital transition. This involves refocusing the EU’s cohesion policies on housing and other areas. The report highlights that a lack of affordable housing can prevent



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workers from taking up jobs in certain areas, which has become a problem in expensive urban areas. Housing assistance is also an element in keeping skills in Europe as it can be seen as an incentive to be used in the early stage of researchers' careers.

Our comments:

- Low investment in new housing, driven by high costs, is affecting demand across the EU and is linked to job losses in our sector. There is a clear need for urgent action to ensure access to affordable housing, both on the supply side (promoting productivity through digitalisation, research and development, innovation, modular construction, etc.) and on the demand side (financial incentives, attracting private investment, support for loans and mortgages, administrative simplification, etc.).
- FIEC advocates for a 'housing-friendly' approach to future EU legislation, particularly in energy and environmental regulations, to reduce construction costs and permit burdens in Member States with varying codes.
- FIEC believes that it is essential to mitigate the negative impact on the availability of building land, particularly in densely populated areas and regions where significant demographic growth and severe land shortages are expected.
- FIEC calls for integrating housing support instruments into key EU construction legislation, like the Energy Performance of Buildings Directive, to enhance efficiency and cost-effectiveness through digital solutions, and to overcome barriers to data exchange and industrialisation.
- FIEC emphasises the need for a balanced mix of financial support policies, exploring the creation of an "*EU Housing Fund*," and encouraging Member States to efficiently utilize EU funding at the national level.
- The financing of housing projects and the associated risks should be assessed over much longer terms and financing mechanisms should be developed to address artificially created unviable housing loans. Many regulatory and environmental requirements increase upfront costs in favour of reduced maintenance, operation and end-of-life costs, which in turn leads to longer payback periods, often longer than the borrower is expected to remain economically active.
- Appropriate modelling and valuation of these future savings can result in increased asset value which, when combined with long-term risk mitigation, can have a significant impact on the perception of financial institutions in this sector.



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