

Leaders for European Growth and Competitiveness First Edition

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Message from the Co-Chairs

The European Union (EU) holds a rare combination of strengths: industrial know-how built over centuries, a consumer market of 450 million people, abundant household savings, a science, technology, engineering and mathematics (STEM) talent base that outpaces many competitors and a stable, transparent and predictable institutional environment. At a moment when foundational infrastructure networks, from renewable energy to AI systems, need rapid buildout, the EU offers access to all these at once.

The chapters in this report focus on four issues central to European competitiveness: finance, strategic partnerships, clean energy and industry, and technology and innovation. Different as these fields are, the analysis converges on a shared finding: the instruments needed to transform Europe's economic future already exist. They have been tested and refined by individual member states in contexts ranging from permitting reforms to pension reform initiatives. Moreover, they work. Certainly, sustaining these successes will require ongoing investment into innovation and research and development (R&D), but the early signs are very encouraging.

The number of new unicorns created in Europe has nearly quadrupled in recent years. Permitting timelines for priority energy infrastructure have been cut from seven to 10 years to roughly three and a half years where EU frameworks apply. The share of renewable electricity in the EU has doubled over the last decade, and electrification of transport, buildings and industry, coupled with further growth of homegrown, clean energy, can serve as the central plank for its energy security and affordability. Growth capital is increasingly reaching high-

potential firms that choose to scale within Europe, and household savings are moving from idle bank deposits to investment vehicles that can generate long-term wealth for citizens and financial growth for companies. New partnerships are opening access to the resources Europe's industrial base will need in the decade ahead.

While numerous challenges remain in tackling the thematic priorities in this report, the central question is: how can fragmented success stories be scaled into region-wide gains?

This annual report gathers evidence, case studies and lessons learned to show that the EU has the elements it needs to move in the right direction. What emerges is less a finished strategy than a set of blueprints for how companies, governments and civil society alike can transform isolated success into region-wide gains. The opportunities for Europeans are multiplying and extend beyond any single institution or sector. The need for action is pressing, but the main determinant of success is whether the public and private actors – who each hold part of the solution – choose to act together, consistently and at the pace the moment requires.

We are grateful to the leaders across government, business and academia who contributed the evidence behind this report, and we look forward to continuing this work together.

The findings and recommendations presented in this report are based on extensive consultation across the members of the Leaders for European Growth and Competitiveness (LGC) and do not necessarily reflect the views of the Co-Chairs or their organizations.

Maria Luísa Albuquerque

Commissioner, Financial Services
and the Savings and Investments Union,
European Commission

Fatih Birol

Executive Director,
International Energy Agency (IEA)

Anna Borg

President and Chief Executive Officer,
Vattenfall

Arancha González

Dean, Paris School of International Affairs (PSIA)

Wopke Hoekstra

Commissioner for Climate, Net Zero
and Clean Growth, European Commission

Christian Klein

Chief Executive Officer, SAP

Annette Mosman

Chief Executive Officer, APG Group

Bart Sap

Chief Executive Officer, Umicore

Christian Sewing

Chief Executive Officer, Deutsche Bank

Jozef Síkela

Commissioner, International Partnerships,
European Commission

Henna Virkkunen

Executive Vice-President, Tech Sovereignty,
Security and Democracy, European Commission

Executive summary

The tools and models exist. What Europe needs is the scale of execution to unlock region-wide, long-term prosperity.

A closer look across Europe's competitiveness agenda reveals a recurring pattern. Europe is not short of clean-energy technology to deliver its energy and industrial transition. Neither is it short of capital or of entrepreneurial capacity, as it hosts more early-stage companies than any other region globally. Nor does it lack the diplomatic and economic tools needed to manage external risk. What Europe consistently struggles to do is to deploy these strengths at the speed its competitors already do.

A broad consensus has emerged around the structural reforms needed to strengthen growth, innovation and resilience, following two foundational reports by Mario Draghi, former President of the European Central Bank, and Enrico Letta, former Italian Prime Minister. Since then, the priority has been to translate that consensus into coordinated action. Europe must do so at the speed and scale of an increasingly competitive global economy, sustain the effort across multiple budget cycles and coordinate public- and private-sector action.

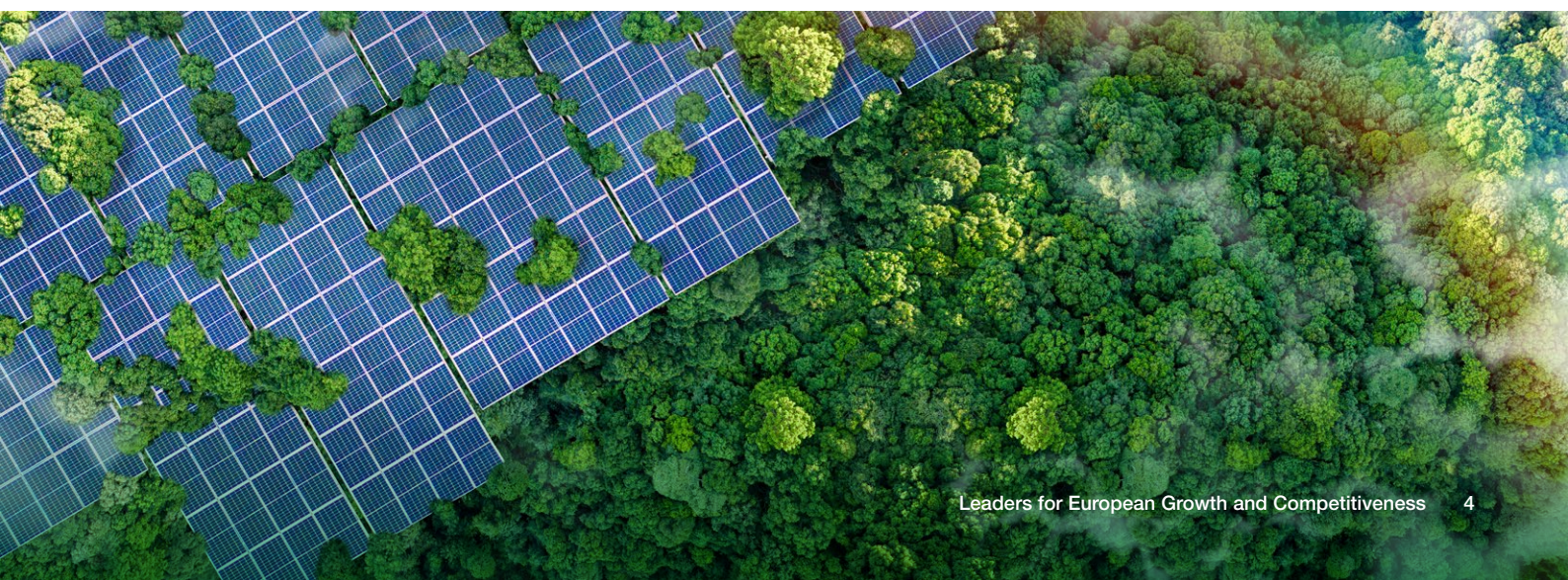
Drawing on consultations with leaders from government, business, finance and academia, this report examines four interconnected dimensions of Europe's competitiveness agenda. It argues that sector-specific agendas should not be pursued independently but as mutually reinforcing components of a coherent growth strategy focused on:

- **Clean and competitive energy and industry:** Europe can deploy already-mature clean-energy technologies at scale and accelerate electrification of end-uses, with clean fuels as a complementary measure, through faster permitting, stronger grid investment and credible long-term investment signals.

- **Technology and innovation:** European leaders can help scale the region's nearly 40,000 early-stage companies by improving access to capital, reducing market fragmentation and accelerating technology adoption.
- **Financial markets:** Europe can convert its abundant private savings into productive investment by deepening capital markets, strengthening pension systems and increasing retail participation.
- **External partnerships:** By strategically deploying trade agreements, the Global Gateway and economic security tools in a more coordinated way, Europe can strengthen partnerships, mobilize investment and reduce critical dependencies.

Europe's competitiveness depends on the decisions of leaders across its member states. Across all four themes, the evidence points to a consistent conclusion: proven models and available resources already exist and offer a basis for replication at scale. The constraint is the pace at which Europe can extend them. With its policy direction clarified, Europe's priority now is to accelerate delivery and strengthen coordination between institutions and markets.

Europe has the market size, industrial capabilities, talent, capital and institutional foundations required to prosper in the decades ahead. Converting these strengths into faster productivity growth, greater resilience and global competitiveness will depend on coordinated leadership for sustained and speedy implementation, strategic partnerships and the willingness to act at the scale today's challenges require.



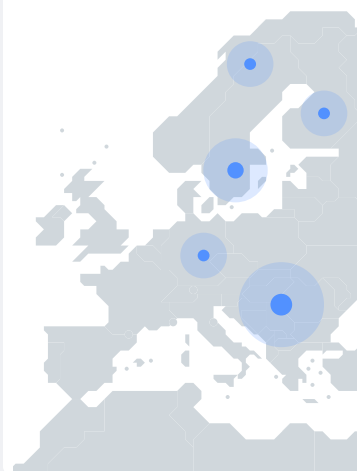
The Leaders for European Growth and Competitiveness (LGC) is a multistakeholder platform created to help accelerate the structural reforms needed to deliver growth, productivity and employment across Europe. It brings together EU and national policy-makers, business and civil society leaders, and subject-matter experts to drive progress across its four thematic pillars: Clean and Competitive Energy and Industry; Shaping the Intelligent Age; Enabling Strategic Alliances; and Leveraging Financial Markets.

Since its launch in 2025 and through subsequent engagements held in European capitals, the LGC has evolved into a trusted platform representing nearly 100 leaders.

Its membership
employs

1.2M

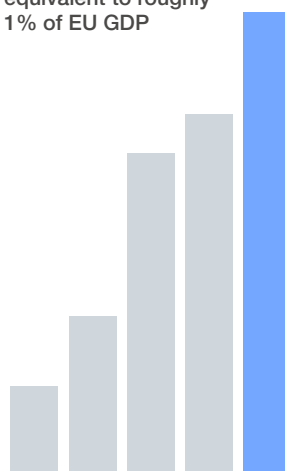
people across Europe



Generates combined annual
earnings before interest,
taxes, depreciation and
amortization (EBITDA) of

€166B

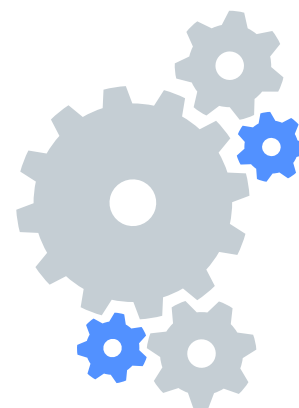
equivalent to roughly
1% of EU GDP



Invested

€19B

in research and
development (R&D)
in 2025 alone



This report draws directly on that collective experience – the consultations, case studies and solutions referenced throughout are grounded in what LGC members and partners are already doing, and in what they see as the most credible paths to scale.

Note: Employment figures (1.2M) are based on a sample of 83 LGC companies; EBITDA (€166B) based on 56 LGC companies; R&D investment (€19B) based on 28 LGC companies.

Source: Accenture analysis.

Introduction

Diagnosis is complete. Based on early successes, this report shows what delivery of needed reforms could look like in practice.

“ Public policy alone cannot deliver Europe’s ambitions. Durable progress requires sustained partnership between the public and private sectors.

Europe stands at a defining moment. The continent enters a new era of global competition shaped by rapid technological change, geopolitical fragmentation, the transition to clean energy and an accelerating race for investment, talent and innovation. Its foundations remain strong. The European Union (EU) has a world-leading industrial base, globally competitive companies, an internal market of 450 million people, scientific excellence and one of the world’s deepest pools of private savings. But these strengths alone will not guarantee future competitiveness. The task now is to convert them into sustained productivity growth, investment and long-term prosperity.

Reports by Mario Draghi, Enrico Letta and others have built a broad consensus around Europe’s principal structural challenges and the reforms needed to address them. The prescriptions are familiar: a less fragmented single market, cheaper energy, deeper capital markets, a coherent trade and investment policy and a smaller gap between innovation and scale-up. The question is no longer what Europe should do, but how quickly and effectively it can do it. Success will depend not just on the ambitions of policies, but on the execution, coordination and sustained collaboration between governments, businesses, investors and civil society.

The LGC was established against this backdrop. Rather than revisiting well-established diagnoses, it focuses on implementation. It seeks to identify collaborative approaches that can translate strategic ambition into measurable outcomes. This report brings together the principal findings from its first year of work.

Across the four chapters that follow, a common conclusion emerges: Europe’s competitiveness agenda is fundamentally interconnected. Technological leadership depends on access to capital, talent, energy and markets. Industrial competitiveness increasingly relies on affordable clean energy, resilient supply chains and strategic partnerships. External economic resilience requires stronger domestic capabilities alongside deeper international cooperation. Financing Europe’s transformation depends on mobilizing already-existing savings more effectively towards productive investment.

Several themes recur throughout. Public policy alone cannot deliver Europe’s ambitions. Durable progress requires sustained partnership between

the public and private sectors. After all, many of the key measures to improve competitiveness span markets, sectors and borders; achieving scale requires deeper integration across markets, infrastructure networks and financial systems. Europe already possesses many of the assets required to succeed; the priority is to execute more effectively, remove barriers to investment and innovation and replicate what already works across sectors and member states.

The chapters that follow show what that looks like in practice.

Clean and Competitive Energy and Industry (Chapter 1) argues that Europe’s clean energy transition and industrial transformation are no longer issues of technology, but issues of deployment. It identifies solutions already being deployed. Accelerating electrification of industry, buildings and transport with homegrown clean energy, from 23% today to 46% by 2040, could cut the EU’s fossil-fuel import bill by €260 billion annually, while building on European strengths. For instance, 40% of global innovative wind and heat-pump firms are European, as well as 30% of electrolyzers, and European companies are global leaders in grid equipment. One example is a buyers’ coalition where companies pool purchase commitments for clean products into a single market signal. Another such coalition has aggregated roughly €16 billion a year in demand and closed over 160 deals since 2021. The initiative turns uncertain future markets into bankable ones that governments can de-risk with confidence. Scaled across the continent, the chapter estimates such mechanisms could unlock roughly €100 billion a year in savings.

Shaping the Intelligent Age (Chapter 2) examines how Europe can fully harness the potential of frontier technologies as well as help its early-stage companies scale into global leaders. While Europe hosts more early-stage companies than any other region, nearly 30% of its unicorns relocate, in part because scaling across 27 jurisdictions is slower and costlier than in a single jurisdiction. The chapter highlights a range of practical interventions – e.g. coordinating procurement. European authorities spend some €2 trillion a year – roughly 14% of EU gross domestic product (GDP), which dwarfs the continent’s entire venture-capital base. A joint European public procurement effort is now deploying the continent’s first quantum computers, creating a market no single member state could anchor alone.

Leveraging Financial Markets (Chapter 3)

assesses how Europe can shift its financial markets to turn its deep pool of household savings into long-term investment through stronger pension systems, revived securitization and broader retail participation. Pension design shows how much a single reform can move – when the UK made workplace pensions opt-out rather than opt-in in 2012, roughly 90% of workers stayed enrolled. The shift helped millions begin saving for the first time, and annual contributions now stand at £150 billion. Ireland launches its own version this year and is expected to create some 750,000 new pension savers. The move highlights how one country's initiative can become another's blueprint.

Enabling Strategic Alliances (Chapter 4)

examines how Europe can reduce its strategic dependencies on any single supplier, market or

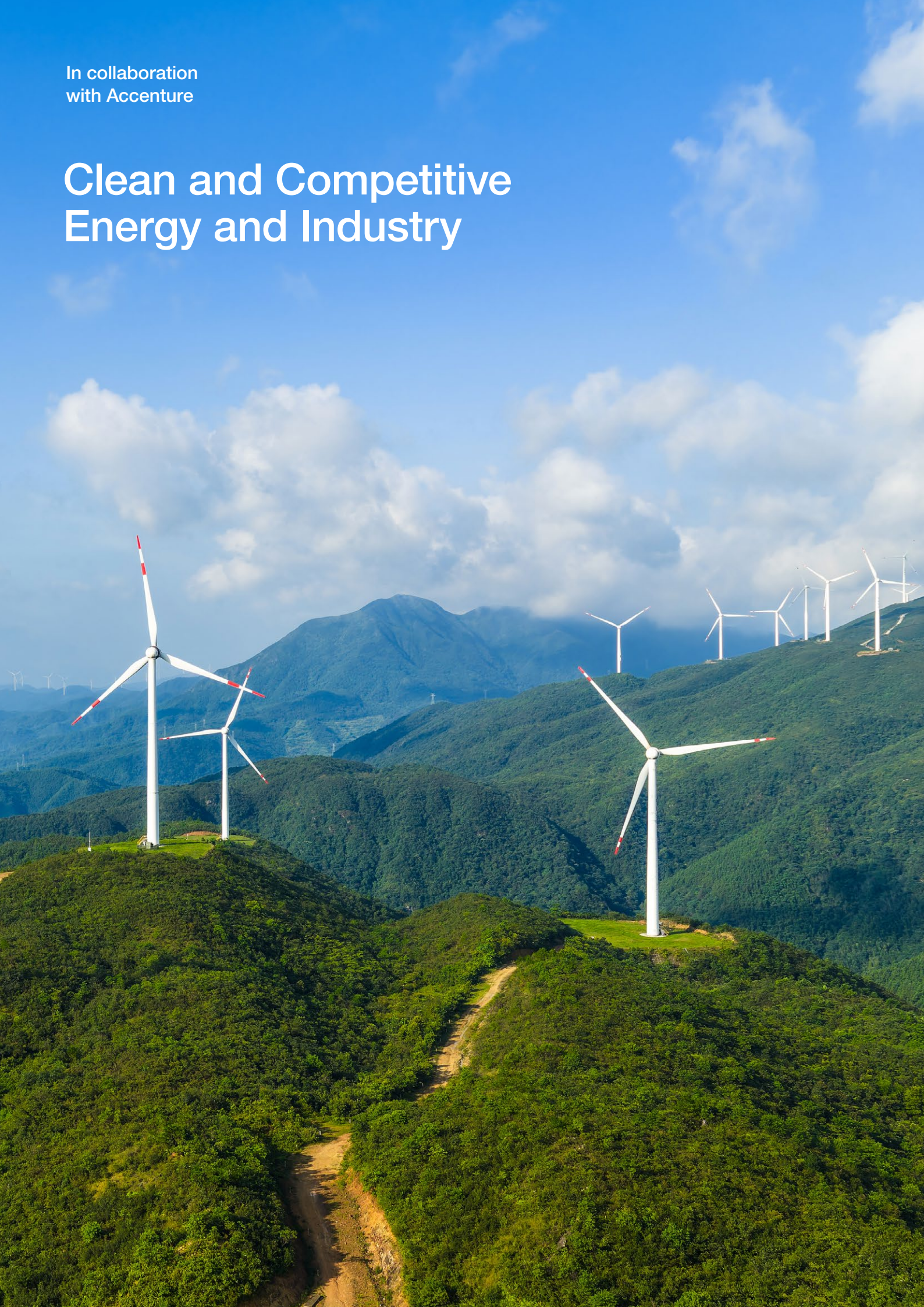
chokepoint without retreating from the open trade on which its prosperity is built. The tools already exist; what's missing is coordinated use. One example is the EU's flagship outbound investment programme, the Global Gateway, which mobilized over €300 billion in its first five years. The initiative reached its original target two years ahead of schedule and now aims to exceed €400 billion by 2027. The critical raw material sector can benefit from the same pooling logic: a joint reserve among partner countries is already proving cheaper than each stockpiling alone.

Europe's future competitiveness will ultimately be determined not by any single reform, but by its collective ability to mobilize its existing strengths with greater speed, coordination and ambition. This report sets out practical recommendations towards that shared objective.



In collaboration
with Accenture

Clean and Competitive Energy and Industry



Overview

Europe's answer to its energy and industrial competitiveness challenges lies in accelerating, not delaying, the energy and industrial transitions.

“ Europe houses the components to deliver resilient and competitive energy and industrial systems of the future: leading businesses, research labs, innovators and public support.

Europe's energy and industrial systems are at a pivotal moment. Geopolitical instability, ongoing concerns about energy security, jobs, the rapidly evolving technological landscape and the need to decarbonize are reshaping Europe's industrial and energy landscapes. While Europe has responded effectively to successive crises in the past, long-term competitiveness will depend on translating emergency, near-term measures into a coordinated strategy. This chapter identifies practical actions to enable Europe to move from crisis response to sustained implementation that can shape the next phase of energy and industrial transition and deliver on Europe's ambitions.

Drawing on evidence from recent policy developments, industry experience and multistakeholder consultations, the chapter argues that Europe's answer to its energy and industrial competitiveness challenges lies in accelerating, not delaying, its energy transition and industrial transformation. The speed of implementation of key reforms, a renewed push towards innovation and increased investments in infrastructure are essential enablers.

Europe already houses the key components to deliver resilient and competitive energy and industrial systems of the future: leading businesses, research labs, innovators and vast public support. Accelerating the European clean energy and industrial transitions now requires overcoming systemic barriers through predictable policy frameworks, faster permitting, credible investment and lead market signals, and market designs that reward flexibility, innovation and decarbonization.

These findings draw on the work of the **Clean and Competitive Energy and Industry** pillar of the Leaders for European Growth and Competitiveness (LGC), which brings together 43 organizations from the private, public and non-profit sectors, and voices from EU member states. It serves as a public-private platform to accelerate the deployment and adoption of affordable, reliable and clean solutions that strengthen Europe's competitiveness, energy security and industrial transformation.

Through consultations with business leaders, policy-makers and experts, the pillar has identified several priority areas for collaborative action: boosting demand for clean industrial technologies, streamlining and accelerating permitting,

addressing energy market hurdles, incentivizing end-to-end value chain localization and financing grids and infrastructure buildout. From these priorities, six solutions emerged as areas for immediate action for the Clean and Competitive Energy and Industry pillar, due to their readiness for implementation, their impact potential, and the need for coordinated public-private action.

1. Accelerate industrial electrification
2. Scale clean fuels adoption
3. Prioritize cross-border clean-energy corridors, including between industrial clusters
4. Streamline and harmonize permitting by implementing EU baselines and mutual recognition
5. De-risk financing and reduce the cost of capital
6. Harness tripartite platforms to align demand, supply and enabling policy, and accelerate cleantech deployment

Electrification across various end uses reduces fossil fuel imports and accelerates industrial decarbonization; notably, industrial electrification is one of Europe's highest-impact opportunities to strengthen competitiveness.¹ While direct electrification offers the most efficient pathway for many applications, certain industrial processes, heavy transport modes and long-distance energy uses will continue to require energy carriers with higher energy density, storage capability or operational flexibility. Clean fuels can thus be complementary to electrification across multiple pathways where direct electrification may not be technologically or economically viable yet. Other priority solutions, including those that address permitting, clean energy corridors, financing and tripartite platforms, provide the enabling mechanisms to deploy accelerated electrification and adoption of clean fuels at scale and speed.

A recurring theme across all these solutions is that they have already been partly implemented in Europe, including: energy tax reforms in Finland, permitting procedures in Germany and a buyers' coalition aggregating billions in clean-product demand. Taken separately, these initiatives are encouraging demonstrations. Coordinated and replicated across the continent, they amount to an energy and industrial system that is more secure, more competitive and built at the speed the moment requires.

Context: How crisis serves as a catalyst

Europe has weathered many crises. Coordinated strategy and implementation deliver structural reforms to accelerate clean energy transition and industrial transformation.

“ Crises create political urgency, but lasting resilience depends on translating that urgency into structural change.

Energy crises have repeatedly acted as catalysts for structural transformation. The 1970s oil shock exposed the vulnerability of an economy heavily dependent on imported oil, which at the time accounted for 56.3% of the Organisation for Economic Co-operation and Development's (OECD) final energy consumption.² It prompted a fundamental shift in energy policy, including the creation of the International Energy Agency, while countries pursued different strategies to strengthen energy security and reduce import dependence. Brazil's 1975 Proálcool programme accelerated domestic biofuel production, reducing oil-import exposure and helping develop new industry,³ while the US introduced fuel-efficiency standards that reshaped vehicle design and manufacturing globally.⁴

In Europe, diverse paths emerged to reduce dependence on imported oil, demonstrating that long-term competitiveness depends not only on the technologies adopted but also on the institutional capacity to deploy them at scale. France's 1974 Messmer Plan illustrates how coordinated public policy, financing and industrial strategy can rapidly transform an energy system.⁵ Within a decade, nuclear power had become the dominant source of French electricity, while the programme also established a globally competitive domestic nuclear industry. A coordinated approach that combined accelerated licensing, public financing, loan guarantees and – quite importantly – standardized and replicable nuclear reactor designs, enabled this rapid transition.⁶ In 2014, nuclear energy was the third largest industrial sector in the French economy, generating €50 billion in revenue, including €7.2 billion from exports.⁷

Denmark pursued a different pathway, combining energy efficiency, North Sea resources and sustained investment in wind power. The Ministry of Energy, established in 1979, reached the 100 MW

Agreement with utilities to develop 100 megawatts (MW) of wind power between 1986 and 1990. Although slower to mature, this strategy laid the foundations for a world-leading wind industry and a significant clean energy export sector,⁸ facilitated approximately €8.6 billion in exported green energy technology in 2023⁹ and decreased the share of primary energy consumption from oil from over 90% in 1972 to 53% in 1990.¹⁰

More recently, Europe's response to Russia's invasion of Ukraine demonstrated that the EU remains capable of acting with similar speed and coordination. REPowerEU accelerated supplier diversification, energy savings and domestic clean energy deployment, reducing the share of Russian gas imports from 45% in 2022 to 13% by 2025.¹¹ At the same time, the crisis accelerated electricity market integration, including the rapid synchronization of Ukraine and Moldova with the continental grid in March 2022,¹² restoration of the Ukraine–Poland line¹³ and additional Baltic grid reinforcements.¹⁴ Within the same timeframe, Germany's 2022 Easter Package significantly streamlined renewable energy permitting by classifying new generation as an overriding public interest and streamlining planning and permitting processes.¹⁵

Disruptions triggered by conflicts in the Middle East in 2026 and renewed pressure on global energy markets reinforce these historical lessons. Crises create political urgency, but lasting resilience depends on translating that urgency into structural change. Europe now possesses many of the technologies, regulatory frameworks and industrial capabilities required to accelerate its clean energy transition and industrial transformation. As in the 1970s, today's crisis can become the foundation for a more secure, competitive and resilient European energy system.

Challenges

Homegrown, clean energy is Europe's most durable pathway to affordability, resilience and long-term industrial competitiveness

3.1 Energy security and addressing fossil fuel import dependency are key to Europe's competitiveness

“ Europe's energy prices remain structurally higher than those of major competitors, weighing on industrial competitiveness.

Successive geopolitical shocks, from Russia's invasion of Ukraine to the conflicts in the Middle East, have exposed the economic costs of dependence on imported fossil fuels. As tensions continue in the Middle East, restoration of energy flows to pre-2026 levels remains uncertain, and energy policy must decisively factor in risks emanating from future geopolitical crises.

Between the start of the war in the Middle East in February 2026 and May 2026, benchmark crude oil and gas prices increased nearly 49% and 42%¹⁶ respectively, increasing Europe's energy import bill by more than €24 billion during the same period.¹⁷ Commodity prices, led by energy, fertilizers and key metals, are also expected to increase.¹⁸ The European Central Bank says the shock has already tightened financial conditions and pushed up short-term inflation.¹⁹

The latest disruption follows a period of unprecedentedly high energy prices in Europe

after the Russian invasion of Ukraine. In 2022, wholesale gas prices averaged 13 times their 2020 level, far above the increase in the US or Asia.²⁰ At that time, European governments spent heavily on cushioning households and firms. Euro area discretionary measures, including price caps and direct subsidies, linked to the energy and inflation shock reached 1.8% of gross domestic product (GDP) in 2022.²¹

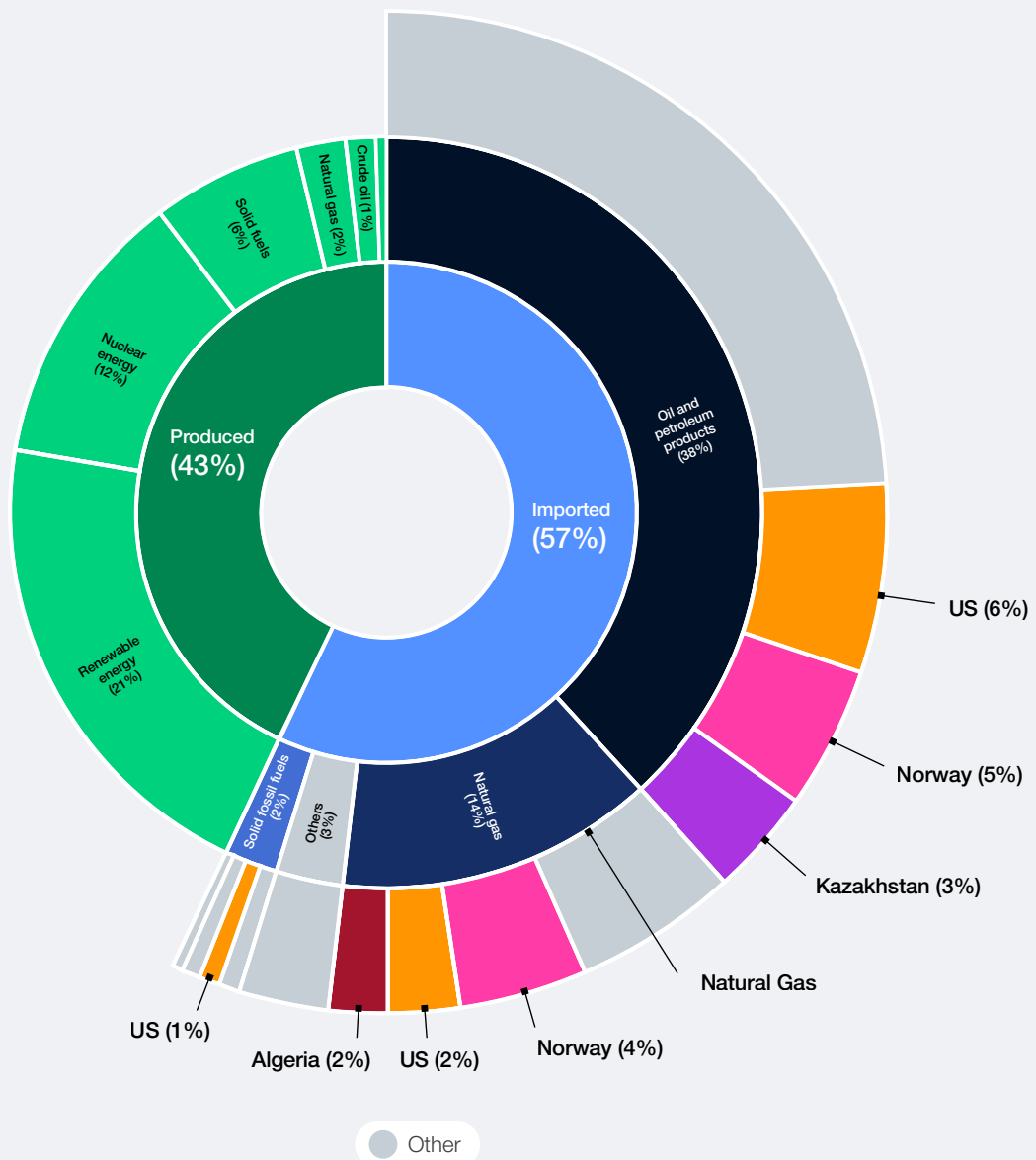
This dependence also carries a high fiscal cost. EU member states spent an estimated €111 billion on fossil fuel subsidies in 2023 alone, almost double pre-crisis levels, and higher in absolute terms than at any point between 2015 and 2021. Nearly half of that spending, approximately €53 billion, carried no defined phase-out date.²² The current composition of public energy support risks entrenching fossil fuel dependency. Progressive reorientation of that support towards clean technologies is thus a key condition for a cost-competitive clean energy transition and a fiscal imperative.²³



3.2 Europe's energy system remains structurally exposed to international market volatility

Since the invasion of Ukraine, Europe has taken concerted steps to diversify its oil and gas supplier base. Still, in 2024, the EU imported 57% of its energy. Currently, the US is the largest source of oil and petroleum imports, while Norway remains the leading gas supplier.

FIGURE 1 European Union energy imports in 2024 by energy source and trade partner



Source: Accenture analysis based on Eurostat. (2026). *Energy in Europe – 2026 edition*.

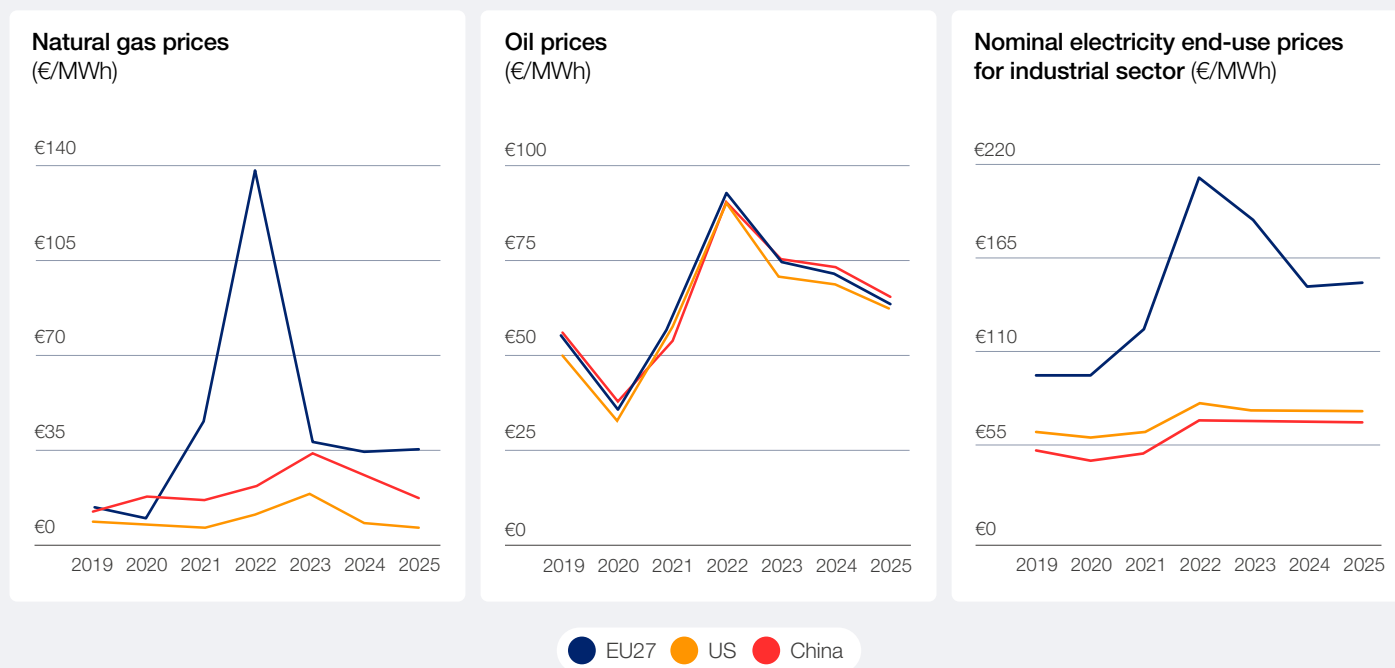
Europe's energy prices remain structurally higher than those of major competitors, weighing on industrial competitiveness. Continued dependence on fossil fuel imports raises exposure to structurally high and volatile prices. Global oil prices differ only modestly across regions, with the European benchmark Brent Crude trading on average at

around 4–6% higher than WTI in the US in 2025.²⁴ However, European gas prices between 2023 and 2026 have remained four times higher than in the US and roughly twice as high as those in China. Additionally, fuel shortages and supply disruptions present threats to European energy security.

High gas prices have a marked knock-on impact on Europe's wholesale electricity prices as well. Even though renewables accounted for 50% of EU gross electricity generation in 2025 and have helped reduce overall system costs, gas still sets the marginal electricity price in wholesale power markets for much of the continent. This translates into electricity prices that remain two to three times higher than those of competing economies, despite rapid growth in renewable generation.²⁵ Importantly, countries with diversified low-carbon electricity

systems, including Finland, Sweden and France,²⁶ consistently experience lower wholesale electricity prices because gas sets the marginal price less frequently. Lower prices in these countries also depend on stronger market integration, expanded transmission and interconnection networks, and, importantly, flexible supply and demand enabled by energy storage, demand response and other forms of flexibility beyond conventional thermal generation.

FIGURE 2 Annual average natural gas, oil and electricity prices across EU27, US and China (2019–2025)



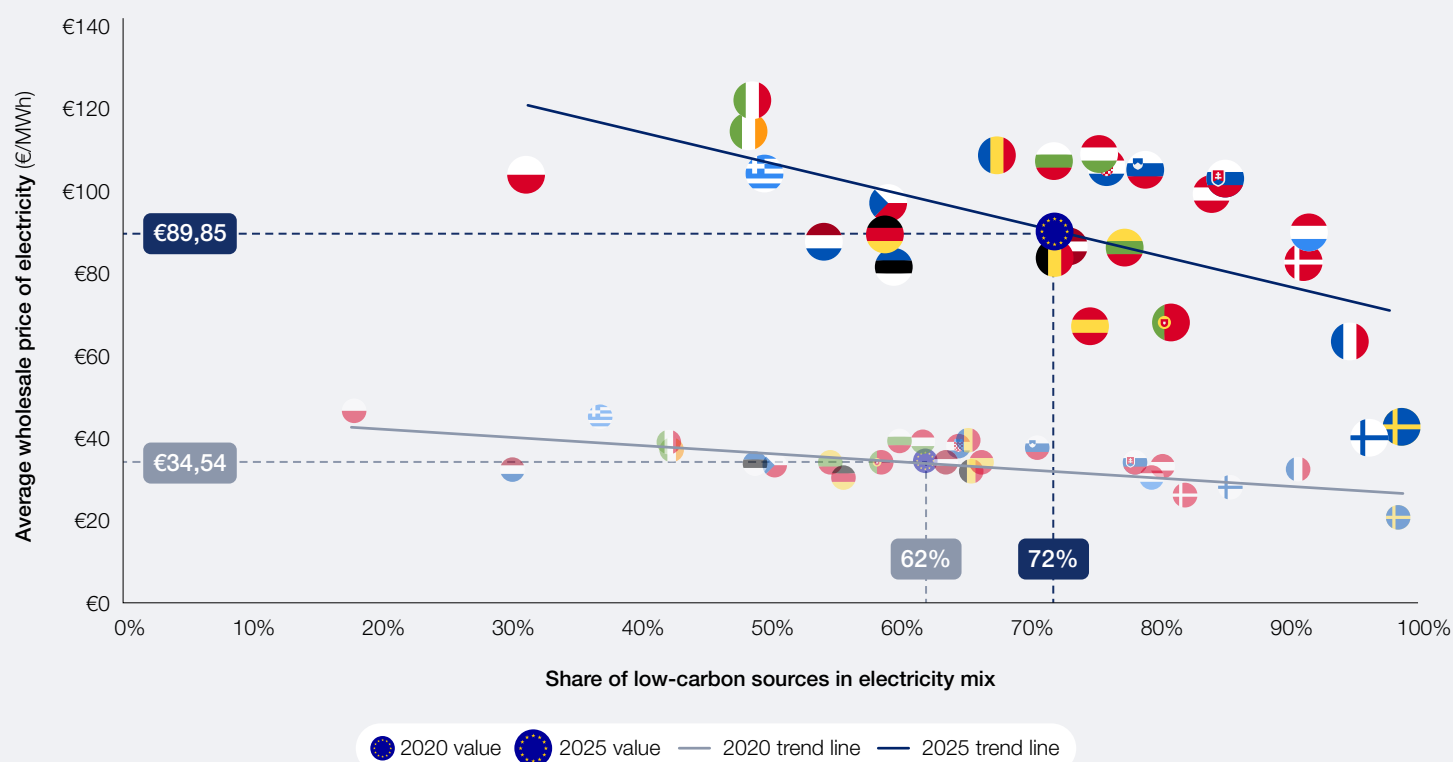
Notes: Chinese gas prices based on US LNG export price per Environmental Impact Agency; Chinese 2021 gas value calculated as average of 2020 and 2022 due to missing data.

Source: NRG Energy; Yahoo Finance; Environmental Impact Agency; INE; ACER.

Across the EU, industrial electricity is generally taxed more heavily than industrial gas, slowing electrification and reducing the competitiveness of electric technologies. Taxes on industrial electricity are more than double those on gas. On average, taxes on industrial electricity are at €56.77 per

megawatt hour (MWh) compared to €22.02/MWh on industrial gas prices.²⁷ Aligning energy taxation with Europe's long-term electrification strategy, as envisioned in the proposed Electrification Action Plan, would improve both industrial competitiveness and energy security.

FIGURE 3 | Correlation between share of clean electricity in member states and average price of electricity in 2020 and 2025



Source: Accenture; Our World in Data; Ember.

Taken together, fossil-fuel import dependence has become one of Europe's most significant economic vulnerabilities. It exposes industry to repeated external shocks, weakens investment confidence and puts persistent pressure on inflation and public finances.

Fossil-fuel import dependence is not only an energy problem. It is a competitiveness, fiscal and macro-stability problem. Energy supply can be weaponized and each unit of imported fossil fuel carries geopolitical and price risks.²⁸

Homegrown, clean energy is not only a climate objective but Europe's most durable pathway to affordability, resilience and long-term industrial competitiveness.²⁹

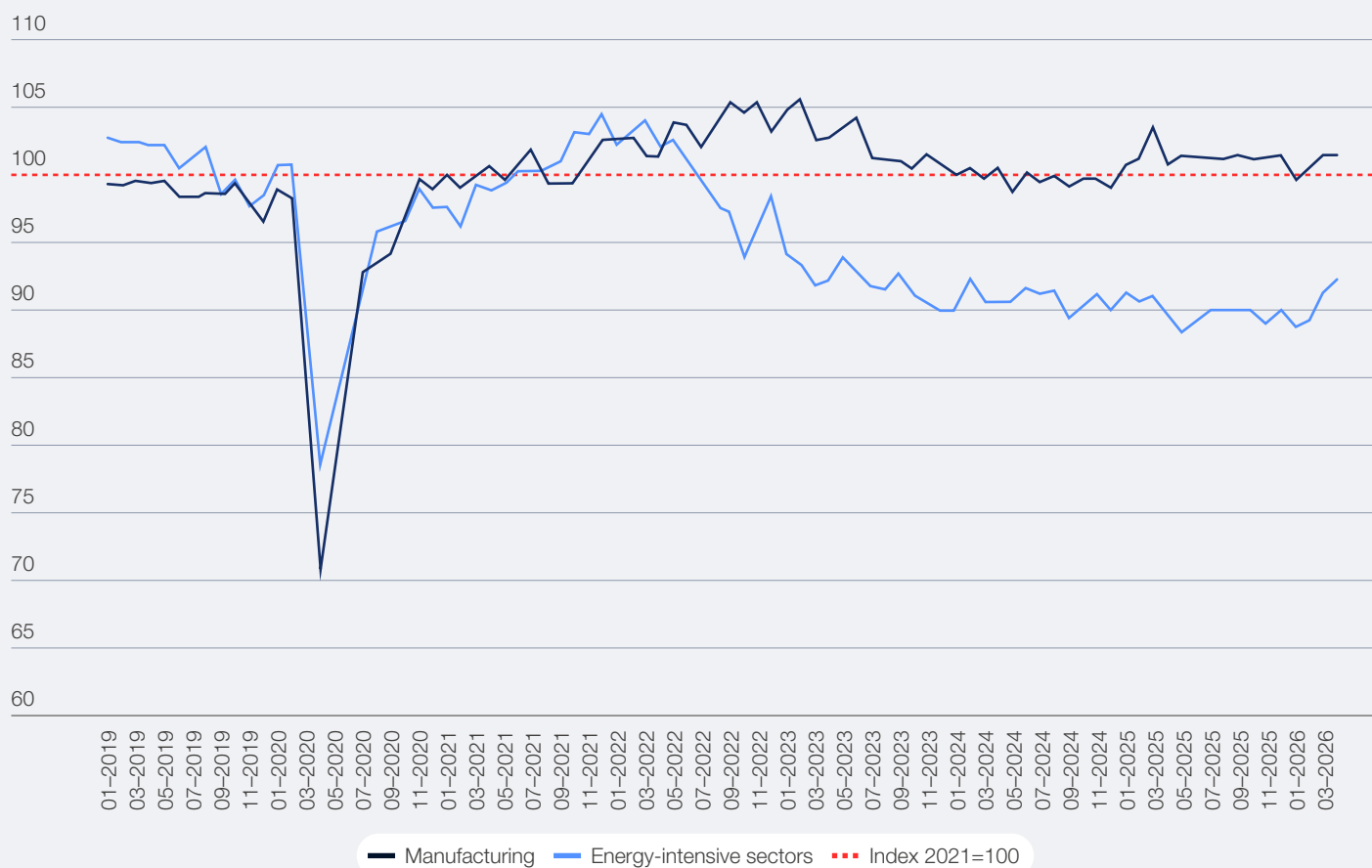
European economic competitiveness can only be achieved through an accelerated clean energy transition and industrial transformation strategy

The clean energy transition and industrial transformation are inseparable. Energy is both a major cost input for Europe's existing industrial base and the foundation for its future industrial growth. In 2023, industry accounted for 24.6% of EU final energy consumption, with electricity

and natural gas together making up nearly two-thirds of industrial energy use.³⁰ At the same time, the transition is creating new growth markets in batteries, wind, electrolyzers, heat pumps and other clean technologies. The IEA estimates that the global market for these technologies reached \$1.2 trillion in 2025 and could rise to almost \$3 trillion by 2035.³¹ These industries, and potential second-wave spin-off innovations and industries, could unlock new growth opportunities and sources of competitiveness.

Industrial production, notably in energy-intensive industries, is on the decline, with the deviation particularly exaggerated since late 2021, when Russian gas supplies to Europe were disrupted.³² Higher energy prices contributed to falling output in euro-area energy-intensive manufacturing and rising imports of energy-intensive goods.³³ Energy-intensive sectors continue to face the greatest pressure. EU chemical production in 2024 was 15% below its 2014 level, while EU steel production fell by 20% between 2018 and 2024.³⁴ By contrast, higher-value sectors remained resilient. In 2024, production of pharmaceuticals rose 12.7%, extra-EU exports of medicinal and pharmaceutical products reached €313.4 billion, and high-tech products accounted for 19.5% of total extra-EU trade, up from 15.1% in 2014.³⁵ This demonstrates that Europe's competitiveness challenge is concentrated in energy-intensive industries rather than manufacturing as a whole.

FIGURE 4 | Industrial production in EU27 (2021=100, seasonally adjusted series)



Note: Energy-intensive sectors proxied by the simple average of manufacture of coke and refined petroleum products, manufacture of chemicals and chemical products, manufacture of other non-metallic mineral products and Manufacture of basic metals.

Source: Eurostat. (2026). *Production in industry – monthly data*.

3.3 Maintaining a predictable policy framework remains essential

The EU Emissions Trading System (ETS), which remains a central tenet of European energy and climate policy, has successfully accelerated clean energy investments and decarbonization in the EU. Without the ETS, the EU would now consume 100 billion cubic metres (m³) more gas.³⁶ Since the ETS was introduced in 2005, emissions from the sectors it covers have fallen by 50%, while the EU economy has grown by around 29% in real terms.³⁷ Although the ETS adds to the prices paid by industrial customers, underlying fossil fuel prices remain a far larger driver of inflation and industrial energy costs. The ETS' estimated average contribution to industrial electricity in the EU is about 10%, which is smaller compared to underlying fuel supply costs. This contribution varies significantly across member states, from

around 2% in France to over 26% in Malta. The impact is generally lower in countries with diversified low-carbon power systems.³⁸

International Monetary Fund (IMF) working paper estimates suggest that even a substantial increase in carbon prices, aligned with EU climate targets, would raise euro-area inflation by 0.2–0.4 percentage points,³⁹ with effects largely confined to energy prices and limited pass-through to core inflation. By comparison, the European Central Bank (ECB) analysis shows that a 10% increase in gas prices can raise headline inflation by around 0.6 percentage points after one year,⁴⁰ highlighting the greater inflation risk associated with fossil-fuel price volatility.



“ Companies investing early in industrial decarbonization need confidence that low-carbon investments will continue to be rewarded over time.

The credibility and predictability of the signal are equally important. Companies investing early in industrial decarbonization need confidence that low-carbon investments will continue to be rewarded over time. This principle is visible in the ETS allocation framework, under which free allowances are benchmarked against the emissions performance of the most efficient installations within each sector, creating incentives for innovation and early adoption rather than penalizing first movers.

The July 2026 ETS reform proposal aimed to mobilize investments and innovation, rewarding frontrunners while offering support to companies that need to catch up in this transition in exchange for investments in decarbonization. Continued flexibility for sectors facing transition challenges is increasingly tied to verified decarbonization investments, while greater recycling of ETS revenues into industrial transformation aims to strengthen the scheme as a long-term investment signal rather than only a compliance mechanism.

The Carbon Border Adjustment Mechanism (CBAM) helps mitigate competitiveness pressures in trade-exposed sectors by reducing the risk of carbon leakage while preserving incentives for industrial decarbonization. The OECD modelling finds that removing free ETS allowances and tightening the cap would reduce value added in covered sectors by 1.06%, while CBAM lowers that loss to 0.85% by improving EU producers' position in the domestic market.⁴¹ The effect is targeted rather than economy-wide: an ECB working paper estimates CBAM adds only 0.1% to EU import values on average, but is materially more relevant for exposed sectors such as iron, steel and aluminium, where it helps prevent high-carbon imports from undercutting cleaner European production.⁴²

Europe's industrial competitiveness is increasingly shaped by whether firms can count on secure, affordable energy at the scale needed to invest, produce and remain globally competitive. Europe's short-term response to the 2026 energy shock must be aligned with a long-term strategy to reduce fossil-fuel dependence.

Accelerating electrification across multiple end uses remains one of the most economically and thermodynamically efficient levers for achieving this objective. The Energy Transition Commission estimates that raising electricity's share of energy demand from approximately 20% today to over 60% by mid-century would reduce fossil fuels' share from approximately 70% to below 20% of the system while still doubling global GDP. Electric systems use far less energy to deliver the same service, supporting affordable energy use. The efficiency advantage of electric vehicles (EVs) and heat pumps can help avoid the kind of fossil-price exposure that lifted the EU fossil-import bill from €313 billion in 2021 to €693 billion in 2022.⁴³

At the same time, electrification remains too slow for a continent that wants strategic autonomy from imported fuels. Electricity accounted for about 23% of final energy consumption in the EU in 2024, below Canada's approximate 24%, China's approximate 29%, Japan's approximate 31% or Norway's 49%, despite a strong strategic incentive to substitute away from imported hydrocarbons.⁴⁴ Sectoral data show the headroom. Electricity accounted for just 32.6% of industry's energy use, while natural gas still represented 31.3%. Expanding electrification across industry, buildings and transport would strengthen energy security while improving long-term industrial competitiveness.⁴⁵

“ Growing industrial capability by investing in innovative cleantech businesses, and diversifying imports through stronger partnerships and alliances, can boost European economic resilience.

The rapid deployment of AI-enabled data centres, transport electrification and the need for space heating and cooling are only expected to accelerate power demand further. The IEA projects that global electricity demand from data centres will roughly double by 2030. Data centres in advanced economies are expected to account for more than 20% of electricity demand growth over the same period,⁴⁶ reinforcing the need for anticipatory investment in clean generation, grids, flexibility and system integration.

Reliance on imported oil and gas creates recurring exposure to volatile global fuel markets. Clean energy systems shift the risk profile from recurrent fuel costs towards the availability of equipment, materials,⁴⁷ grids and industrial capabilities. As Europe accelerates electrification, it must also avoid replacing one dependency with another. Growing industrial capability through continued investments in productive and innovative businesses to meet the needs of future energy systems, and diversifying imports through stronger partnerships and alliances, can help boost European economic resilience. IEA analysis further underlines that sustained innovation support remains essential alongside deployment policy, particularly for grid resilience and flexibility, industrial decarbonization technologies and other strategic clean-energy value chains such as batteries.⁴⁸

Clean fuels, including hydrogen, biomethane and e-sustainable aviation fuels, can have a significant role in diversifying fuel sources, reducing dependence and complementing electrification – particularly in hard-to-abate sectors such as shipping. The European Commission continues to target 35 billion m³ of biomethane by 2030, and EU rules expect renewable hydrogen to supply at least 42% of hydrogen used in industry by 2030, rising to 60% by 2035.⁴⁹

On minerals and materials, the Joint Research Centre of the European Commission warns that the transition requires uninterrupted access to critical raw materials and components.⁵⁰ The Critical Raw Materials Act sets 2030 benchmarks for 10% extraction, 40% processing and 25% recycling to meet the EU's annual needs, with no more than 65% of a strategic raw material coming from a single third country at a relevant

stage.⁵¹ The Net-Zero Industry Act aims for EU manufacturing capacity to approach or reach 40% of annual deployment needs for strategic net-zero technologies by 2030.⁵² Together, these form an integral part of Europe's competitiveness agenda by strengthening domestic industrial capabilities and reducing strategic dependence across clean-energy value chains.

Other initiatives, including AccelerateEU, link immediate support for households and industry with strategic goals to expand clean energy deployment, accelerate electrification and reduce fossil fuel import dependence. The January 2026 Hamburg commitments at the North Sea Summit similarly connected offshore wind, hydrogen, cross-border grids and industrial competitiveness. In March 2026, the EU Commission unveiled its Small Modular Reactor (SMR) Strategy, aiming to bring Europe's first SMRs online by the early 2030s. The proposed Industrial Accelerator Act further signals the direction of travel on lead markets, faster permitting and demand creation for low-carbon, European-made products.

The Electrification Action Plan aims to double the electrification rate by 2040, targeting demand-side barriers across industry, buildings and transport while improving the economics of electrification through a proposal on network charges to reward flexibility and lower electricity taxation compared to gas.

The proposed Industry Decarbonization Bank signals a shift from supporting innovation alone towards scaling deployment, covering both capital and operating expenditure and bringing solutions closer to market. It also highlights the continued role of the Innovation Fund and the European Investment Bank.

EU policy-making is increasingly converging on the need to ensure that short-term crisis response reinforces Europe's long-term clean energy and industrial transition.

Meeting Europe's challenge requires maintaining policy stability – aligning demand, lead markets, infrastructure, permitting, financing and market design at the speed and scale needed to translate strategic ambition into industrial competitiveness.

Solutions

Europe can scale cleantech deployment, increase clean fuel adoption and accelerate electrification through streamlined permitting, credible policy and investment signals, and grid buildout.

Over the past year, the Clean and Competitive Energy and Industry pillar of the LGC has focused on enabling Europe's energy and industrial transition. Five areas for collaborative multistakeholder action were identified:

1. Boost demand for clean industrial technologies
2. Streamline and accelerate permitting
3. Address energy-market hurdles

4. Incentivize end-to-end value chain localization
5. Finance grids and infrastructure buildout

Building on these priorities, 19 solutions were identified. The solutions are intended to translate the pillar's objectives into tangible public-private actions that can both unlock short-term enablers and build towards required long-term changes to support a more competitive and resilient European industrial base.

FIGURE 5 Solutions for EU clean and competitive energy and industry identified by LGC

	Solution	Complexity	Timeline			Actors		
			Short	Mid	Long	EU	MS	Private
Priority 1: Boosting demand for clean industrial technologies	Aggregate corporate demand to scale clean-tech solutions	Low						
	Leverage public procurement to accelerate demand creation	High						
	Drive sectoral transformation through regulatory mandates	Medium						
Priority 2: Streamlined and faster permitting	Accelerate permitting through single-window digital and AI-enabled systems	Low						
	Streamline industrial permitting through pre-approved zones	Medium						
	Streamline and harmonize permitting by implementing EU baselines and mutual recognition*	High						
Priority 3: Addressing energy market hurdles	Enable cost-competitive electricity through tariff and tax reforms	High						
	Integrate European energy market	High						
Priority 4: Incentivizing end-to-end value chain localization	Develop industrial clusters to de-risk and scale investment	Low						
	Enable value chain financing	Medium						
	Adopt circular value chains as an industrial strategy	Medium						
Priority 5: Financing grids and infrastructure buildout	De-risk financing and reduce cost of capital*	Medium						
	Reallocate ETS revenues and fossil subsidies to clean transition	High						
Cross-cutting solutions	Harness tripartite platforms to align demand, supply and enabling policy and accelerate cleantech deployment*	Medium						
	Accelerate industrial electrification*	High						
	Institutionalize crisis speed delivery for priority corridors	Medium						
	Scale clean fuels adoption*	Medium						
	Prioritize cross-border clean energy corridors, including between industrial clusters*	High						
	Align EU grid planning with anticipatory investment needs	High						

EU – EU Institutions MS – Member state Private – Private actor Lead Enabling Support

* Prioritized solutions

Priority 1

Boost demand for clean industrial technologies

Predictable demand for clean energy and technology is a prerequisite for scaling investments. The solutions “Aggregate corporate demand to scale clean-tech solutions”, “Leverage public procurement to accelerate demand creation” and “Drive sectoral transformation through regulatory mandates” provide the long-term demand signals needed to unlock investment in clean technologies, fuels and materials. Near-term actions by businesses include joining buyer coalitions and providing indications of interest covering target volumes, geographies and an acceptable green premium. Coordinated demand can generate credible market signals, reduce investment risk and support commercial-scale development of clean technologies.⁵³ For example, members of the First Movers Coalition have collectively made more than 125 commitments across seven hard-to-abate sectors (representing around €16 billion in annual demand for highly decarbonized solutions by 2030) and entered into over 160 deals since 2021.⁵⁴

Priority 2

Streamline and accelerate permitting

Demand signals alone are insufficient if project deployment stalls due to regulatory approval delays. The solutions “Accelerate permitting through single-window digital and AI-enabled systems”, “Streamline industrial permitting through pre-approved zones” and “Streamline and harmonize permitting through implementing EU baselines and mutual recognition” reduce development risk and shorten project timelines. Involvement of multiple authorities during permit approvals can lengthen project timelines by several months or more. Integrated one-stop shops and AI assistance, over and above appropriate permitting governance, administrative capacity and clear allocation of responsibilities, can deliver material gains, with Denmark reporting approximately 50% shorter processing times⁵⁵ and the Netherlands cutting permitting from 26 to eight weeks for key renewable energy projects.⁵⁶

Priority 3

Address energy market hurdles

The third priority addresses the economics of the transition. The solutions “enable cost-competitive electricity through tariff and tax reforms” and “integrate European energy market and seek to improve competitiveness” reduce energy costs and create stronger incentives for electrification and investment. Greater integration of Europe’s energy markets is estimated to generate around €40 billion in annual cost savings.⁵⁷

Priority 4

Incentivize end-to-end value chain localization

As deployment accelerates, Europe must strengthen its industrial foundations. As such, the fourth priority covers solutions such as “Develop industrial clusters to de-risk and scale investment”, “Enable value chain financing” and “Adopt circular value chains as an industrial strategy”. Industrial clusters can protect or create jobs while accelerating decarbonization: 4.6 million jobs and up to 877 megatons of carbon dioxide equivalent (Mt CO₂e) in annual reduction potential may be associated with the World Economic Forum’s Transitioning Industrial Clusters initiative.⁵⁸ Value-chain financing aims to localize end-to-end clean industrial value chains rather than isolated assets by combining public funding, development-bank participation and private offtake. For example, hydrogen IPCEIs are expected to unlock €27.1 billion in private investment, compared with €18.9 billion in state aid – or about €1.4 of private capital per €1 of public funding.⁵⁹

Priority 5

Finance grids and infrastructure buildout

The fifth priority, with the solutions “De-risk financing and reduce cost of capital” and “Reallocate ETS revenues and fossil subsidies to clean transition”, aims to improve bankability and expand capital for strategic investment in grids and infrastructure buildout – as addressed, for example, by the World Economic Forum’s Future of Power Systems initiative, which surfaces solutions to unlock investment in power system transformation. Between 2022 and 2024, ETS revenues totalled €121.2 billion,⁶⁰ and fossil-fuel subsidies were €386 billion.⁶¹ Together, those flows averaged about €169 billion per year. Redirecting them can create a substantial clean-transition funding pool.

Cross-cutting solutions

Several cross-cutting solutions support all five priorities. The solution “Harness tripartite agreements to accelerate cleantech deployment” aligns regulators, suppliers and buyers around common deployment objectives. Meanwhile, the solutions “Accelerate industrial electrification” and “Scale clean fuels adoption” provide complementary pathways for industrial decarbonization. “Institutionalize crisis speed delivery for priority corridors”, “Prioritize cross-border clean-energy corridors” and “Align EU grid planning with anticipatory investment needs” strengthen the infrastructure backbone required to connect supply, demand and industrial activity across Europe.

4.1 Priority solutions for European energy and industry competitiveness

Drawing on input from private- and public-sector leaders participating in the Clean and Competitive Energy and Industry pillar, six priority solutions for multistakeholder action were identified that together form a coherent package capable of amplifying the individual impact of each on the energy system. These solutions were prioritized based on their relevance to Europe's current challenges,

their ability to deliver impact over different implementation horizons and the LGC community's ability to deliver coordinated action across public and private actors on these priorities. The solutions were assessed against their impact potential on the three dimensions of the energy trilemma: security, affordability and sustainability, which are summarized below.

FIGURE 6 Six priority solutions for European energy and industry competitiveness

Impact potential							
#	Solutions	LGC priority	Complexity	Timeline	Carbon savings	Cost savings	Fossil imports avoided
01	Accelerate industrial electrification	Cross-cutting	High	Mid	up to 241–282 MtCO ₂ /y CO ₂ avoidance from replacement of fossil-based process heat with RES electricity achievable in 2030–2040	up to €36–70B/y Fossil fuel import cost avoidance by replacement of fossil-based process heat with renewable-energy source (RES) electricity by 2030–2040	up to 1191–1396 TWh/y Heat from fossil fuel combustion avoided through direct electrification using renewable energy sources throughout 2030–2040
02	Scale clean fuels adoption	Cross-cutting	Medium	Mid	up to 227–271 MtCO ₂ /y CO ₂ avoidance from implementation of clean fuels mandates and policy targets by 2030–2040, through domestic EU clean fuel production	up to €34–63B/y Potential fossil fuel import cost to be avoided through implementation of clean fuels mandates and policy targets across hydrogen, SAF, biomethane and maritime fuels by 2030–2040	up to 1081–1250 TWh/y (637–736 thousand barrels of oil or equivalent/y) Fossil fuel imports displacement with implementation of clean fuels mandates and policies by 2030–2040
03	Prioritize cross-border clean energy corridors, including between industrial clusters	Cross-cutting	High	Long	up to 124–209 MtCO ₂ /y CO ₂ avoidance through optimized cross-border clean energy dispatch and captured through dedicated CO ₂ transport corridors by 2030–2040	up to €11–25B/y Cost savings from additional electric cross-border capacity and storage investments and gas network repurposing for H ₂ by 2040, excluding broader economic benefits	up to 57–254 TWh/y Clean energy enabled through cross-border electricity and hydrogen corridor investments in 2030–2040
04	Streamline and harmonize permitting by implementing EU baselines and mutual recognition	Priority 2 Streamlined and faster permitting	High	Long	–	up to €4.4–11B/y Cost savings from reducing permitting-related project costs across the EU power sector pipeline through 2040	–
05	De-risk financing and reduce cost of capital	Priority 5 Financing grids and infrastructure buildout	Medium	Short	–	up to €12.4B/y Estimate of financial benefits achievable through lower financing costs – impact of weighted average cost of capital (WACC) reduction on RES project economics	–
06	Harness tripartite platforms to align demand, supply and enabling policy, and accelerate cleantech deployment	Cross-cutting	Medium	Mid	–	up to €12–28B/y Savings from 30% reduction in offshore wind levelized cost of electricity (LCOE) by 2040, enabled through tripartite agreements	–

4.2 Accelerate industrial electrification

“Commercially available technologies could electrify more than 60% of industrial process heat demand today, rising to 79% by 2040.

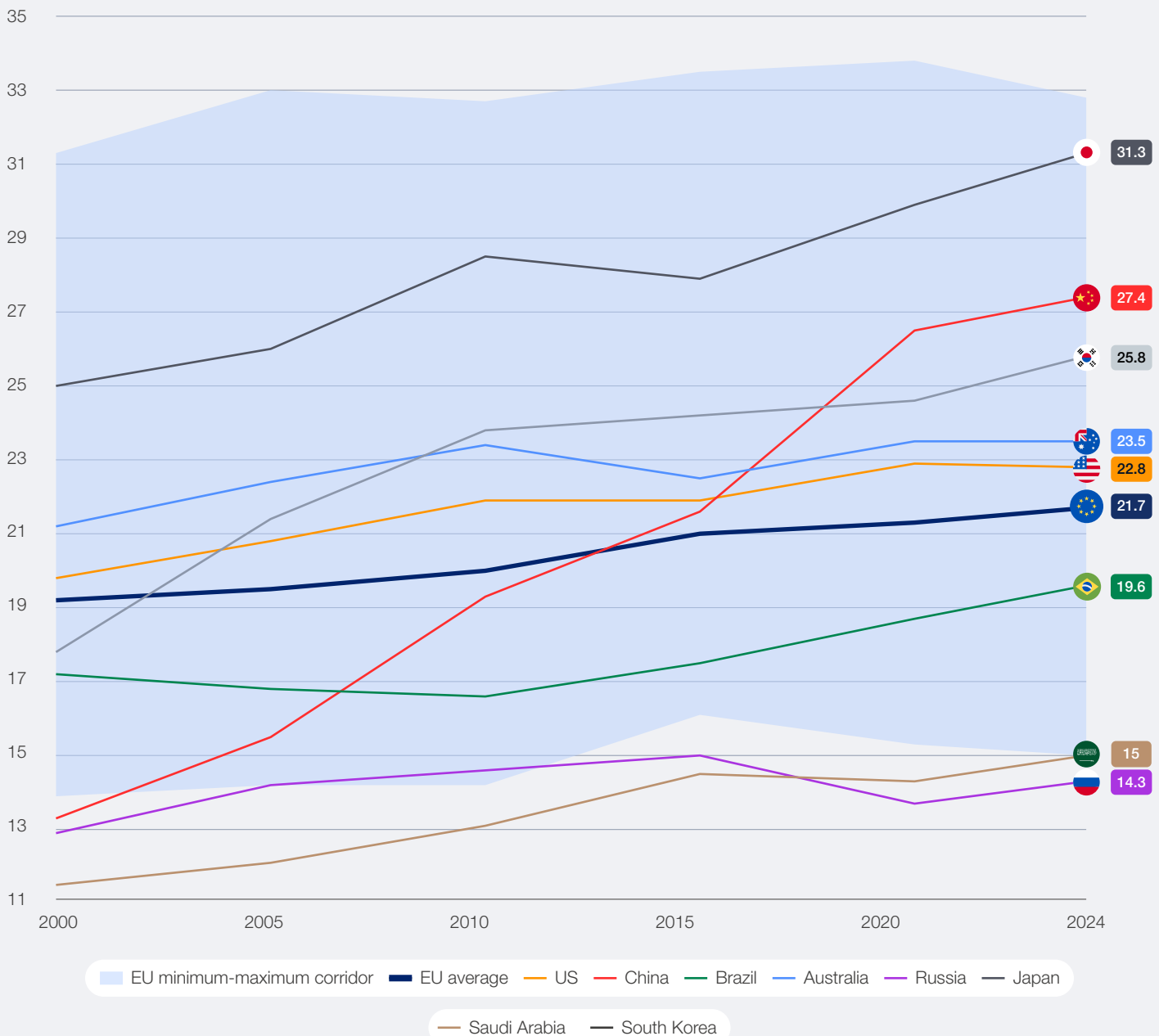
Scale of potential impact

Industry accounts for almost one-quarter of EU final energy consumption, making industrial electrification one of Europe's highest-impact opportunities to strengthen competitiveness, reduce fossil fuel imports and accelerate industrial decarbonization. Commercially available technologies could electrify

more than 60% of industrial process heat demand today, rising to 68% by 2030 and 79% by 2040,⁶² representing approximately €36–70 billion of potential annual fossil fuel import cost avoidance. Beyond reducing exposure to fossil fuel price volatility, industrial electrification can strengthen demand for clean electricity, improving the investment case for renewable generation, grids and system flexibility across Europe.

FIGURE 7

Share of electricity in final energy consumption: EU and selected major global economies (2000–2024)



Note: EU minimum-maximum corridor represents the range between the minimum and maximum values of electricity share in final energy consumption across selected EU member states included in the analysis: Belgium, Denmark, France, Germany, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom, Czech Republic, Poland and Romania; EU average is calculated as a simple average across the same set of EU member states as defined above.

Source: Accenture analysis based on Enerdata. (n.d.). *Share of Electricity in Final Energy Consumption*.

Pathway to action

Reducing electricity prices by expanding low-emissions electricity generation, reinforcing grids and making power systems more flexible, and closing the electricity-to-gas (“spark”) gap are essential levers to accelerate electrification.⁶³ The immediate priority is to replace fossil-fueled low- and medium-temperature industrial heat with commercially available electric technologies,

including heat pumps and electric boilers. These applications account for around half of industrial carbon emissions,⁶⁴ and are already cost-competitive in many parts of Europe. Targeted support for high-temperature technologies, including electric arc furnaces, e-crackers and plasma heaters, can progressively expand electrification into harder-to-abate industrial processes. The economics of electrification are expected to strengthen, with heat pump investment costs projected to decrease by 20–40% by 2030.⁶⁵



Public actor's role

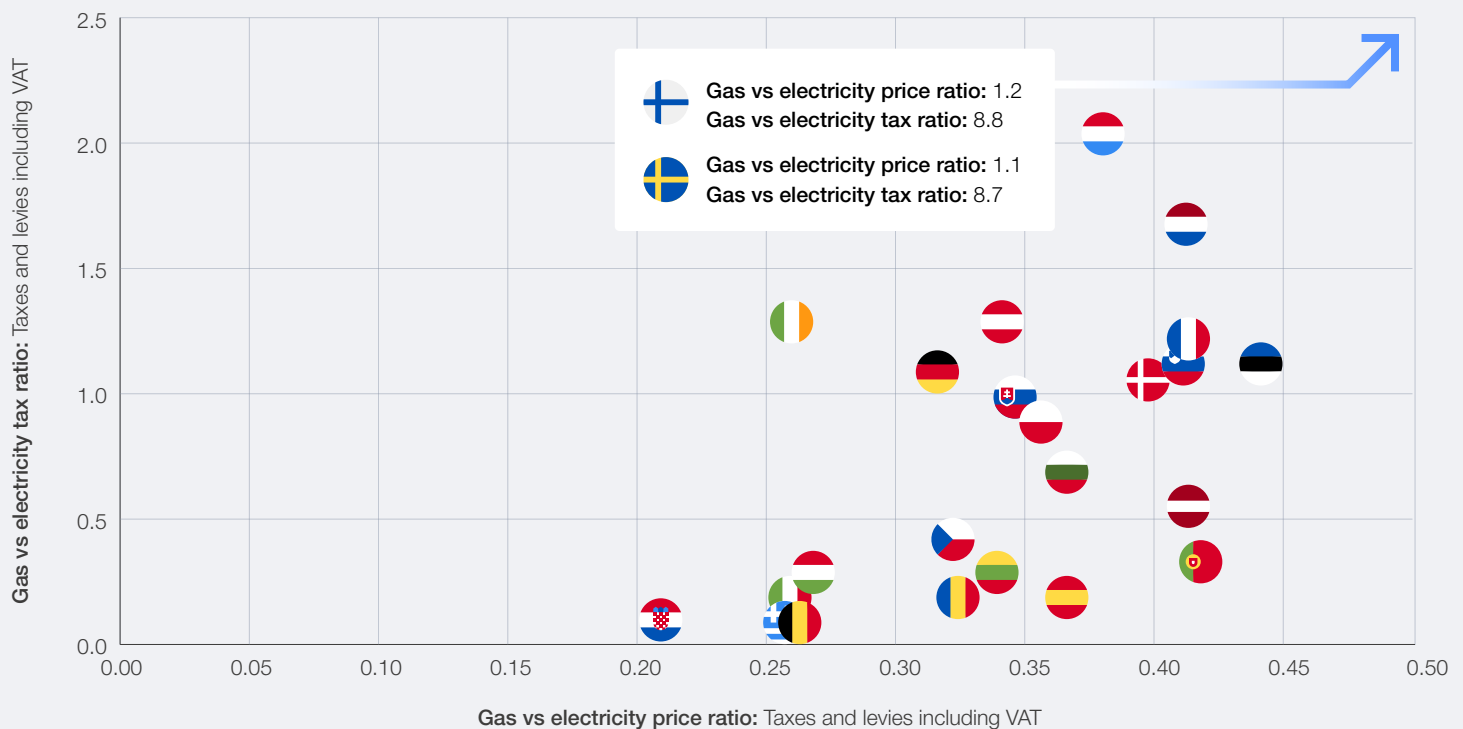
- EU and member states:** Further align electricity taxation, network charges and market incentives to strengthen the business case for industrial electrification.
- EU:** Expand and simplify access to EU financing instruments, including the Innovation Fund and the Industrial Decarbonization Bank, to accelerate industrial electrification.
- Member states:** Integrate projected industrial electrification demand into national grid planning and network investment.
- Member states:** Accelerate grid connection and permitting for industrial electrification projects.
- EU and member states:** Strengthen market incentives for industrial demand flexibility.



Private actor's role

- Deploy commercially available electrification technologies in low- and medium-temperature industrial processes.
- Invest in demand flexibility to optimize electricity consumption and support power system balancing.
- Adopt innovative delivery models, including energy-as-a-service, to accelerate investment.

FIGURE 8 | Gas to electricity price and tax ratio for EU non-household consumers



Note: Eurostat publishes three tax-treatment variants: excluding all taxes, excluding VAT/recoverable taxes only and including all taxes and levies. This analysis uses the “all taxes and levies including VAT” variant for non-household consumers.

Source: Accenture analysis based on Eurostat. (2025). *Natural gas price statistics – H1 2025*; Eurostat. (2025). *Electricity price statistics – H1 2025*.

Solutions in practice

In Finland, public authorities have strengthened the business case for electrification through reduced electricity taxation for industrial heat pumps and electric boilers,⁶⁶ combined with a 20% tax credit for eligible large industrial investments.⁶⁷ At the industrial level, Heidelberg Materials is piloting plasma heating in clinker production above 1,000°C, demonstrating a pathway towards

cement electrification in Sweden.⁶⁸ In Portugal, Heineken is deploying a solar-powered refractory-brick heat battery to replace gas boilers in brewing processes, illustrating how commercially available solutions can already be adopted in lower-temperature applications.⁶⁹ First Movers Coalition member Volvo Group's long-term procurement agreement with H₂ Green Steel illustrates how buyer commitments can directly anchor investment in high-temperature electrification technologies at scale.⁷⁰

4.3 Scale clean fuels adoption

“Scaling clean fuels depends on regulatory stability, aligned sustainability standards and long-term offtake certainty.”

Scale of potential impact

While direct electrification offers the most efficient pathway for many applications, certain industrial processes, heavy transport modes and long-distance energy uses will require energy carriers with higher energy density, ease of storage or operational flexibility. Clean fuels can thus be complementary to electrification across multiple pathways, where direct electrification may not be technologically or economically viable yet. Scaling clean fuels, including sustainable aviation fuel (SAF), e-fuels, biomethane, green hydrogen and clean shipping fuels, depends on creating coherent market conditions that support their deployment in sectors, such as aviation, shipping and industries requiring high temperatures and hydrogen feedstocks.

Europe has built the world's strongest clean-fuels policy framework, but risks being import-dependent to meet much of its potential demand. A balanced sourcing strategy that prioritizes domestic production but also accounts for its structural feedstock constraints will be needed. This requires deliberate trade partnerships for clean fuels, regulatory frameworks and imports that complement domestic capacity rather than substitute it.

Implementation of regulatory mandates and policy targets across hydrogen, SAF, biomethane and maritime fuels could avoid up to €34–63 billion

in annual fossil fuel import costs by 2030–2040, equivalent to approximately 637–736 million barrels of oil equivalent (MBOE) per year of displaced fossil fuel imports by 2030–2040.⁷¹ This can reduce import dependence, diversify energy supply and create demand for European clean fuel technologies and industrial capabilities. As an early mover in areas such as electrolyser manufacturing and e-fuel production technology, European industry can still look to capture a meaningful share of technology and export value in the near term. Meanwhile, China has established a significant lead in standardized, high-volume manufacturing technologies.

Pathway to action

Scaling clean fuels depends on regulatory stability, aligned sustainability standards and long-term offtake certainty – the conditions that give producers the confidence to reach a final investment decision. Binding mandates under ReFuelEU provide the regulatory floor. The priority now is supporting the supply-side buildout needed to meet these targets, through production incentives, demand aggregation and progressively harmonized sustainability criteria across frameworks. Feedstock availability is a constraint as waste oils and lipids approach supply limits, requiring continued safeguards to ensure scale-up remains sustainable and does not compete with food systems.





Public actor's role

- EU and member states:** Build on existing legislation through long-term, stable mandates and technology-neutral sustainability guardrails aligned across RED and certification frameworks (including through the recognition of book and claim).
- EU:** Expand blended finance and double-sided auctions to de-risk first-of-a-kind production projects and early offtake.
- Member states:** Support development of shared logistics, storage and transport infrastructure for clean fuels.



Private actor's role

- Aggregate demand through long-term purchasing commitments, e.g. The First Movers Coalition has aggregated €8.8 billion in annual demand for SAF85 and zero-emission shipping fuels in 2030.
- Build shared logistics infrastructure across clean-fuel value chains.
- Deploy book-and-claim mechanisms where physical co-location of supply and demand is impractical.
- Use mass-balance mechanisms to track clean fuels within shared production and logistics systems.

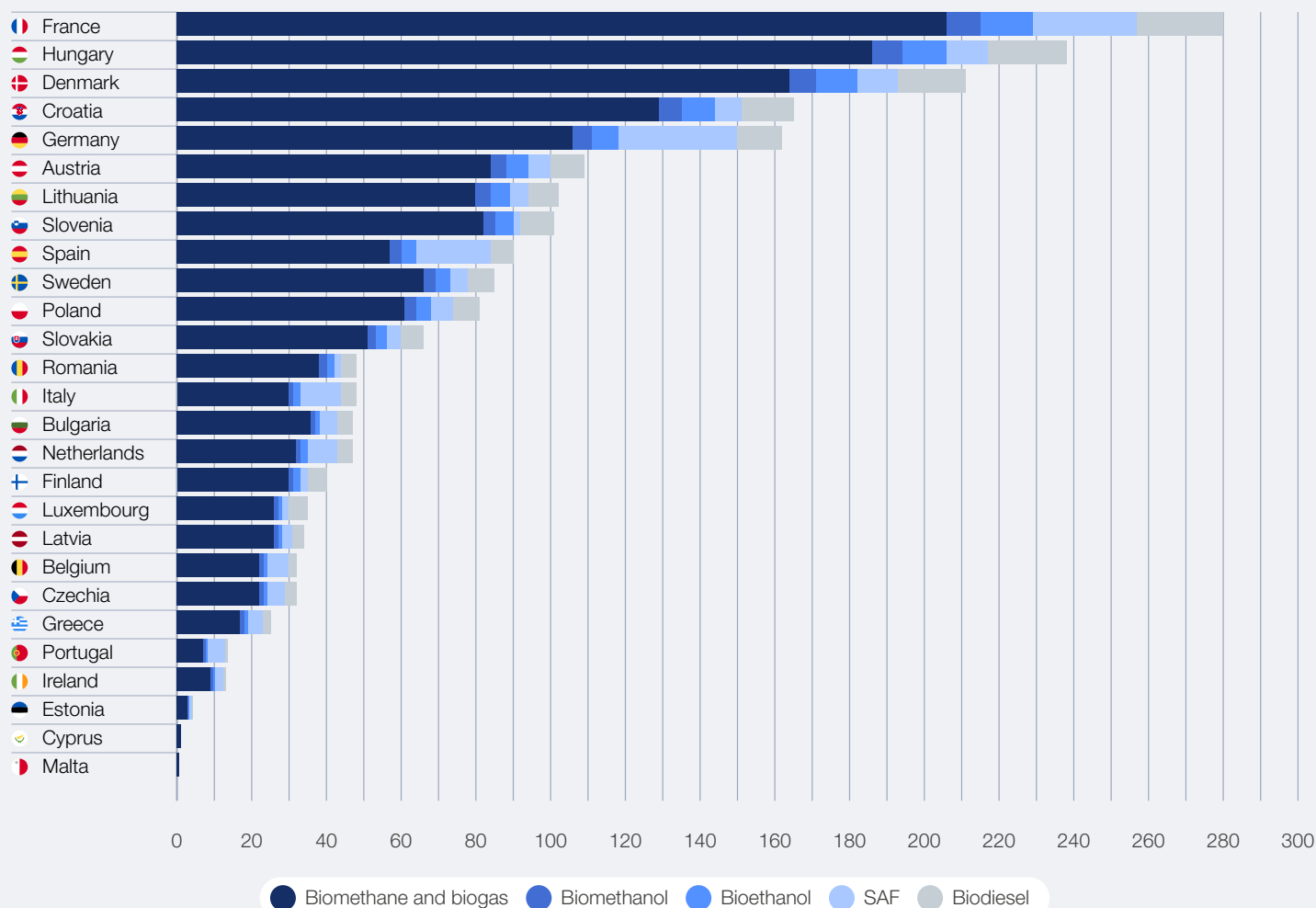
Solutions in practice

EU binding mandates under ReFuelEU Aviation and ReFuelEU Maritime lock in clean fuel demand from 2025 across aviation and shipping, demonstrating how regulatory floors anchor investment.⁷² Avelia, a blockchain-powered

book-and-claim platform co-developed by Shell, illustrates how verified environmental attributes can be decoupled from physical delivery to extend market reach. The platform already connects 57 corporates and airlines across 17 airports globally, enabling buyers to claim verified SAF environmental attributes regardless of physical fuel delivery location.⁷³

FIGURE 9

Biomass-based fuel potential by type and country – EU27 projections to 2050 (TWh)



Source: Accenture analysis based on Concawe & FuelsEurope. (n.d.). *Sustainable Bio-feedstock Availability in the EU: A Look into Different Scenarios towards 2050*.

4.4 Prioritize cross-border clean-energy corridors, including between industrial clusters

“ Financing remains decisive for corridor development. The scale of corridor projects requires crowding in private capital alongside public instruments.

Scale of potential impact

As demand for clean electricity and clean fuels grows, infrastructure becomes the next critical constraint. Industrial electrification and clean fuel adoption can only scale if energy can move efficiently between areas of production, storage and consumption.

Cross-border clean-energy corridors, which connect major demand and supply nodes for clean electricity, clean fuels and CO₂, can unlock more efficient use of Europe's energy infrastructure by reducing system costs, avoiding duplication of investment and connecting industrial demand with clean electricity, hydrogen and CO₂ transport networks. Additional electric cross-border capacity, storage and gas network repurposing for hydrogen investments can generate up to €11–25 billion in annual system and infrastructure savings by 2040, supported by enhanced cross-border integration and the repurposing of existing assets. Coordinated electricity, hydrogen and CO₂ corridors can strengthen energy security, support industrial decarbonization and create larger, more attractive markets for investment across multiple regions and industrial clusters.

Pathway to action

Cross-border clean-energy corridors are essential for linking industrial demand with clean electricity supply, clean fuels and CO₂ infrastructure across Europe. By prioritizing shared backbones, including

through the reuse of existing infrastructure, Europe strengthens security of supply and aggregation of demand in key hubs. A more integrated planning model could move beyond fragmented national approaches and connect industrial clusters to clean power, clean fuels and CO₂ infrastructure through interconnectors, shared backbones and, where possible and appropriate, co-location of generation and demand. The importance of integrated infrastructure planning is increasing as industrial electrification and data centre development drive growing electricity demand. This reinforces the need for timely expansion and modernization of transmission and distribution grids alongside cross-border infrastructure to prevent grid congestion from becoming a constraint on electrification.

Addressing this constraint requires not only new interconnectors but also faster optimization and modernization of existing transmission and distribution networks. The World Economic Forum's Future of Power Systems initiative supports this agenda by working to unlock and help facilitate coordinated investment in grid infrastructure, storage, flexibility and digital technologies.

Financing remains decisive for corridor development. The scale of corridor projects requires crowding in private capital alongside public instruments, making de-risking mechanisms – including long-term capacity commitments, anchor offtake and public guarantees under frameworks such as the Connecting Europe Facility (CEF) – key to corridor delivery.



Public actor's role

- EU:** Prioritize strategic cross-border infrastructure through the Projects of Common Interest (PCI) framework and CEF.
- Member states:** Accelerate permitting and implementation of strategic corridor projects.
- EU and member states:** Strengthen coordinated planning and delivery of cross-border electricity, hydrogen and CO₂ infrastructure.
- EU and member states:** Further harmonize open-access rules, tariff frameworks and cross-border cost-allocation mechanisms.



Private actor's role

- Develop and operate shared cross-border infrastructure through coordinated partnerships.
- Commit long-term capacity bookings and anchor demand to improve project bankability.
- Reuse and repurpose existing infrastructure where technically and economically viable.



Solutions in practice

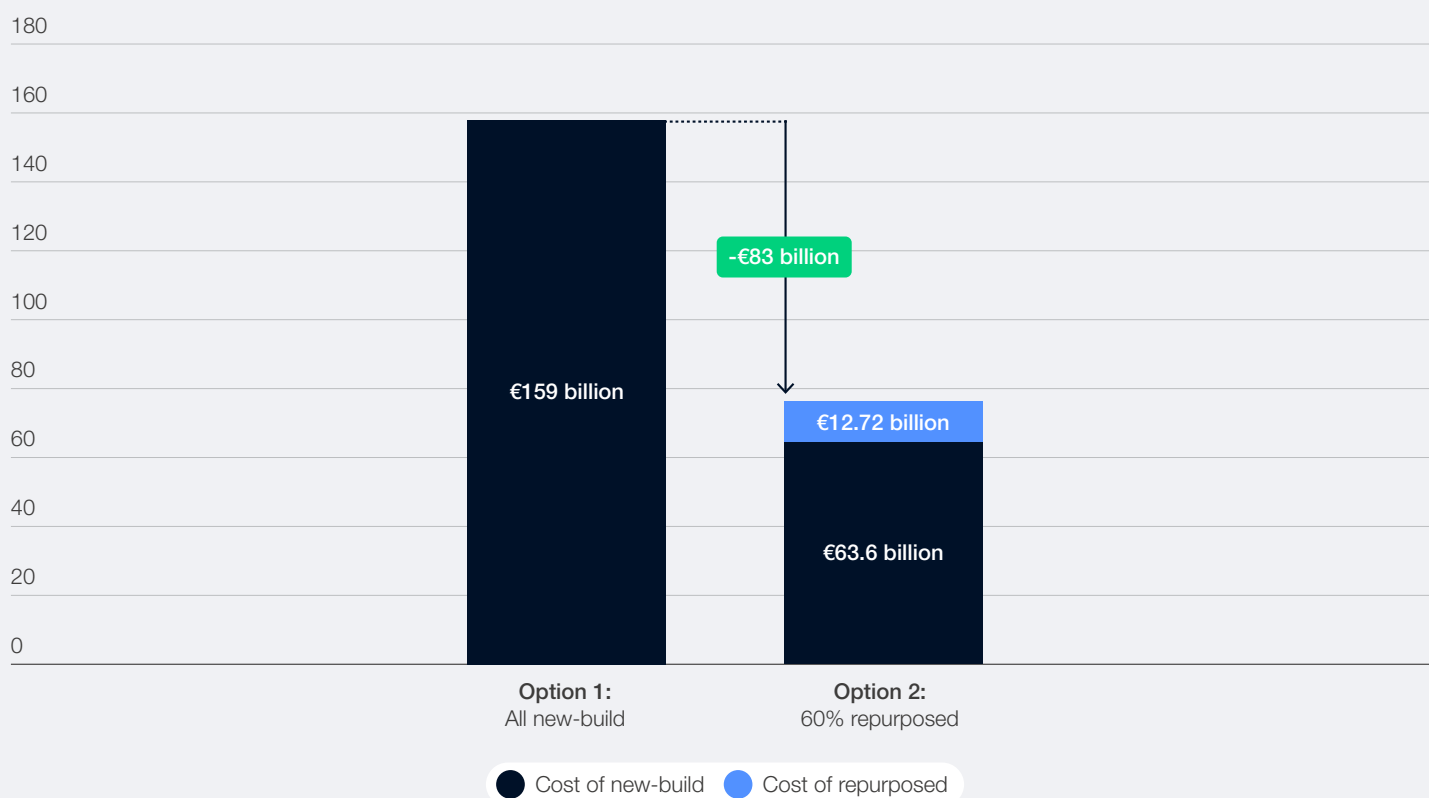
Examples of European clean-energy corridors include the Delta Rhine Corridor,⁷⁴ connecting industrial demand centres in the Netherlands and Germany with CO₂ transport infrastructure, storage sites and low-carbon hydrogen supply. Another example is the European Hydrogen Backbone, bringing together 33 energy infrastructure operators to plan for a future European hydrogen transport network, including pipelines, import terminals and storage infrastructure.⁷⁵

Cross-border energy infrastructure can also be delivered rapidly when a clear economic need

meets political commitment. The Rotterdam–Antwerp crude oil pipeline, conceived and built between 1969 and 1971, connected two industrial clusters across the Netherlands and Belgium within roughly three years. Governments enabled the cross-border route and the associated land acquisition, then handed delivery and operation to a consortium of industries that benefitted from it. More than fifty years later, the pipeline remains a critical piece of cross-border energy infrastructure, illustrating a durable model of public enablement combined with private ownership that could be adapted for today’s electricity, hydrogen and CO₂ corridors connecting industrial clusters.

FIGURE 10

From gas to hydrogen: cost savings through pipeline repurposing in the European hydrogen backbone (EHB) network



Source: Cost savings based on an estimated 31,800km of repurposed natural gas pipeline and new-build hydrogen pipelines 21,200km for the European Hydrogen Backbone. Accenture analysis based on European Hydrogen Backbone. (2022). *European Hydrogen Backbone (EHB) Report*.

4.5 Streamline and harmonize permitting through implementing EU baselines and mutual recognition

“Permitting process improvements can reduce project development costs by up to 2–5%, equivalent to approximately €4.4–11 billion in annual savings.

Scale of potential impact

When permitting processes extend over several years, uncertainty increases, financing costs rise, and investment decisions are delayed, constraining the pace at which critical infrastructure can be deployed. More aligned permitting approaches, primarily achieved through targeted EU-wide baselines and mutual recognition for strategic infrastructure (combined with implementation of recently agreed rules across member states), provide an opportunity to accelerate infrastructure and industrial project delivery while improving investment certainty. The EU response to the energy crisis following Russia's invasion of Ukraine demonstrated that permitting timelines can be significantly shortened when supported by clear political mandates and coordinated implementation. Building on recent reforms, greater alignment across jurisdictions remains necessary to accelerate deployment across Europe's energy system.

Permitting process improvements can reduce project development costs by up to 2–5%,⁷⁶ equivalent to approximately €4.4–11 billion in annual savings across Europe's power sector pipeline by 2040.⁷⁷ Greater permitting certainty can strengthen investor confidence, shorten project timelines and lower financing costs by reducing development risk and improving the predictability of project delivery, further reinforcing a positive, virtuous investment and project development cycle.

Pathway to action

Minimum EU permitting baselines combined with mutual recognition frameworks covering grids, hydrogen networks, SMRs, carbon capture and

storage (CCS) and industrial decarbonization facilities could enable parallel rather than sequential assessments, reducing administrative duplication and accelerating final investment decisions. Digitalization should support, rather than substitute, permitting reform, as digital workflows alone do not simplify permitting where fragmented governance, administrative bottlenecks and slow implementation of existing legislation remain unchanged.⁷⁸ The greatest opportunity now lies in accelerating implementation of existing EU permitting reforms through political commitment and fast-tracking action at the member state level. Local acceptance and benefit-sharing with communities, as demonstrated by Ireland's community fund model,⁷⁹ should be treated as practical conditions for faster deployment of strategic energy and industrial infrastructure.

Additionally, concentrating litigation in a single specialized court, for example, can prevent similar objections from being relitigated across several jurisdictions and delaying delivery. While streamlining litigation could improve project delivery times on average, such measures should preserve robust citizen participation and environmental scrutiny.

Permitting reform, grid expansion and grid modernization at the required pace also depend on shifting from a project-by-project approach to programme-level planning. With unprecedented levels of renewable capacity awaiting grid connection across Europe, anticipatory planning by member states and system operators can help reduce connection bottlenecks and prioritize projects that are ready to proceed. The objective is not simply to accelerate deployment, but to ensure that investment decisions are guided by long-term system needs and supported by transparent connection queue management as well as a more resilient, competitive and integrated energy system.



Public actor's role

- EU:** Build on existing permitting legislation by establishing common permitting baselines and expanding mutual recognition across strategic infrastructure.
- EU and member states:** Enable parallel rather than sequential permitting processes through coordinated implementation.
- Member states:** Streamline governance, clarify institutional responsibilities and accelerate permitting implementation across national, regional and local authorities.



Private actor's role

- Advocate for system-level permitting approaches that reduce dependence on lengthy TSO queue processes for strategically important and pre-approved projects.
- Identify and communicate practical cross-border permitting barriers to support continuous improvement of permitting frameworks.
- Share implementation experience and best practices to accelerate harmonization and more efficient permitting across member states.

Solutions in practice

Several European frameworks illustrate how coordination and procedural standardization can accelerate infrastructure delivery. The TEN-E framework has created legal and coordination architectures, supporting delivery of major projects within shorter timelines. Projects granted Projects of Common Interest (PCI) status can obtain permits in approximately 3.5 years, compared with the 7–10 years often required under national procedures.⁸⁰ Similarly, the UK's planning framework for Nationally Significant Infrastructure Projects has reduced approval timelines for major

energy infrastructure projects from around 7 years to approximately 2.5 years.⁸¹ At the national level, and in direct response to the EU Emergency Regulation (2022/2577), Germany classified renewables as being of overriding public interest and eased species protection rules for projects in pre-assessed low-risk areas — more than doubling its annual permitted onshore wind capacity, reaching 7.6 gigawatts (GW) in 2023, the highest level since 2016, and permitting a further 6.5 GW in the first eight months of 2024 alone.⁸² Experiences in France and the UK illustrate how limiting legal challenges to a single specialized judicial layer can shorten timelines for strategic energy projects without removing access to judicial review.

4.6 De-risk financing and reduce cost of capital

Scale of potential impact

As renewable energy and nuclear power projects move towards implementation, access to affordable capital becomes a decisive factor in reaching financial close. Even commercially viable projects may struggle to reach final investment decisions when risks are concentrated on individual actors or when revenue streams remain uncertain. The availability of capital is often not the primary constraint. Instead, the main barriers are 1) the availability of bankable projects with predictable long-term revenue streams capable of attracting institutional investment, and 2) the inability to assess or fully mitigate the risks of anticipated changes to the policy environment during the project's entire lifetime. Policy reversals, such as the feed-in-tariff withdrawal for solar PV, can have significant, long-term impacts on investor confidence and the cost of capital.

Reducing financing costs through a set of derisking measures could unlock approximately €12.4 billion of annual cost savings in renewable power generation projects, supporting additional clean power deployment and lowering fossil fuel dependence. By

improving risk-return profiles and project bankability, de-risking and blended financing mechanisms can mobilize private capital at scale, accelerate project delivery and strengthen Europe's long-term energy security.

Pathway to action

Predictable policy environments, stable regulatory frameworks, streamlined permitting and targeted financial instruments such as guarantees, credit guarantees for power purchase agreements (PPAs) and firstloss mechanisms address project risks and their concentration. This is essential for helping projects reach financial close and improving bankability. Long-term price signals and revenue certainty supported by mechanisms such as carbon prices, PPAs, contracts for difference (CfDs), demand aggregation and lead-market policies create investable business cases capable of mobilizing private capital at scale. Meanwhile, portfolio approaches and standardized contracting further improve financing efficiency by reducing transaction costs and expanding the range of projects able to attract long-term institutional capital.



Public actor's role

- EU and member states:** Maintain stable regulatory frameworks and avoid retroactive policy changes.
- EU:** Expand public financial instruments, including guarantees and blended finance mechanisms, to mobilize private capital.
- EU and member states:** Strengthen long-term price signals and revenue certainty through stable market frameworks and bankable mechanisms such as PPAs and CfDs.



Private actor's role

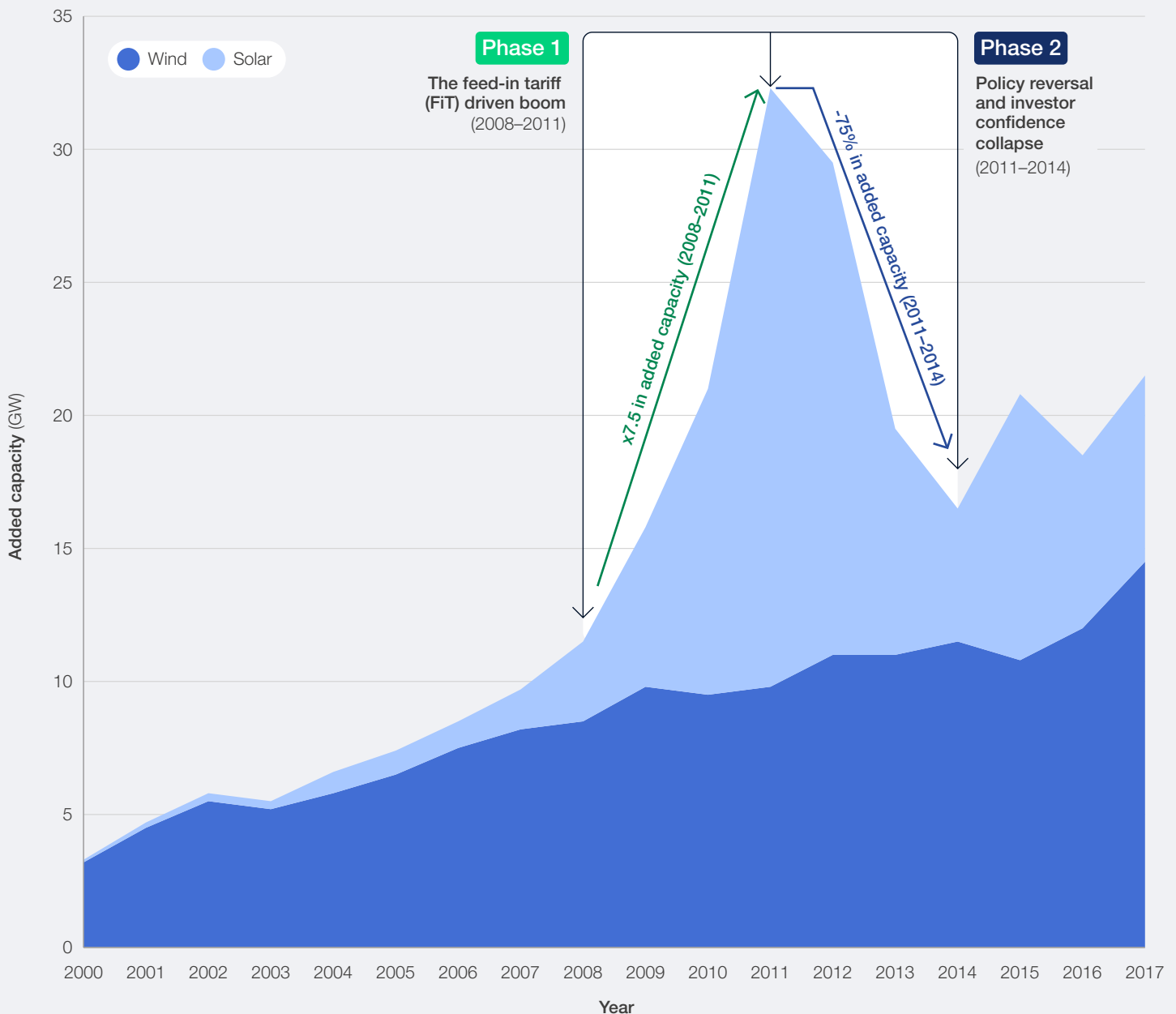
- Structure bankable projects through long-term PPAs and CfDs.
- Aggregate demand and adopt portfolio approaches to strengthen project bankability and improve financing efficiency.
- Standardize and templatize contracting, where appropriate, to improve transparency, reduce transaction costs and improve access to capital.

Solutions in practice

A growing set of instruments, spanning de-risking tools and broader financing efficiency measures, already exists and can be expanded immediately. Broader adoption and standardization are expected to progress over the medium term. EU risk sharing guarantee facilities for flexibility and distribution portfolios demonstrate how public instruments absorb risks that prevent private investment.⁸³ The UK's National Energy System Operator provides long-term contracts for storage, demand response and grid services, creating the revenue certainty needed to anchor project financing.⁸⁴ Germany's H₂Global double-sided

auction structure eliminates merchant risk for producers and buyers simultaneously across green hydrogen, ammonia and e-SAF, with a second tender of €2.5 billion launched in 2025.⁸⁵ Germany's Hydrogen Amortization Account (H₂AMK) further illustrates how public financing can be used to de-risk hydrogen infrastructure. Backed by a €24 billion KfW credit line, it caps network fees for early hydrogen users and covers the shortfall between infrastructure costs and fee revenues during the ramp-up phase, removing a key barrier to first-mover demand.⁸⁶ The European Investment Bank's (EIB) €500 million corporate PPA guarantee pilot provides an early example of how public guarantees can support clean energy offtake, and could be expanded further.⁸⁷

FIGURE 11 Impact of introduction and phase-out of de-risking mechanisms on added solar capacity for the EU27 in comparison to wind capacity (2000–2017)



Source: IRENA. (n.d.). *Renewable Capacity Statistics (2000–2017)*; WindEurope. (n.d.). *Wind Energy in Europe: Annual Statistics*.

4.7 Harness tripartite platforms to align demand, supply and enabling policy, and accelerate cleantech deployment

Existing offshore wind ambitions suggest the potential for €12–28 billion in annual cost savings through a 30% offshore wind LCOE reduction by 2040.

Scale of potential impact

Europe's clean energy transition requires electrification, clean fuels, infrastructure, permitting and financing to advance together. Tripartite platforms provide coordination architecture to make this possible, aligning demand creation, supply capacity and enabling policy into a coherent and self-reinforcing delivery model, ultimately enabling investment decisions based on bankable contracts, credible revenue frameworks and siting.

By aligning demand creation, supply-chain investment and enabling policy, tripartite platforms can unlock deployment pathways at a scale capable of reshaping Europe's energy system. Existing offshore wind ambitions suggest the potential for €12–28 billion in annual cost savings through a 30% offshore wind levelized cost of energy (LCOE) reduction by 2040 committed under the Hamburg 2026 Declaration. Tripartite agreements can accelerate this by providing pipeline visibility, investment certainty and supply-chain economies of scale.⁸⁸

Beyond these direct benefits, tripartite platforms can strengthen investment certainty, accelerate supply-chain scaling and improve coordination across infrastructure, industry and policy, helping reduce the time, risk and capital required to bring strategic projects to market. Such platforms can also help deploy a long-term portfolio of projects rather than incentives that only target singular, project-level investments.

Pathway to action

Tripartite coordination platforms can help overcome sequencing deadlock between policy-makers, regulators, technology suppliers, infrastructure providers and buyers by aligning demand creation (for example through lead markets), manufacturing capacity, financing, permitting and regulatory readiness. While already applied in offshore wind and increasingly in energy storage, the model can be extended to grid infrastructure, industrial electrification technologies and other clean-energy value chains.





Public actor's role

- EU and member states:** Establish enabling policy frameworks through targeted incentives, standards and risk-sharing mechanisms.
- EU and member states:** Coordinate permitting, spatial planning and infrastructure development across strategic value chains and industrial ecosystems.
- EU:** Support stable project pipelines and bankable revenue frameworks, including CfDs and PPAs.



Private actor's role

- Align capacity expansion with long-term offtake commitments.
- Coordinate investment across supply chains to improve deployment readiness.
- Consider long-term, programmatic approaches to project development.

Solutions in practice

The model is already being applied in selected sectors and can be expanded in the near term to additional technologies and geographies. The Hamburg Investment Pact targets 15 GW of offshore wind deployment per year through the 2030s and is expected to mobilize approximately

€1 trillion in investment and support around 91,000 additional jobs.⁸⁹ The EU Tripartite Agreement for Energy Storage demonstrates the model's replicability — bringing together member states, industry and financial institutions to boost annual storage deployment by at least 20% in 2026–2028 and targeting approximately 45 GW of new storage capacity.⁹⁰

FIGURE 12

North sea offshore wind investment pact (2026): Key targets and commitments

Signatories (10 countries)	€1T economic activity mobilized by the industry		
	 Capacity and infrastructure	 Investment and costs	 Jobs and workforce
 Belgium	300GW total offshore capacity by 2050	€9.5billion supply chain investment by 2030	91,000 new jobs by 2031
 Denmark			
 France	100GW through cross-border cooperation projects	-30% LCOE reduction by 2040 vs 2025 levels	187,000 total workforce target by 2031
 Germany			
 Ireland	20GW flagship projects identified by 2027	10 countries signed the pact	75% share serving the North Seas region
 Luxembourg			
 Netherlands	15GW/y annual build-out 2031–2040	26 Jan 2026 signed at North Sea Summit, Hamburg	140,000 jobs in the North Seas region
 Norway			
 Iceland			
 United Kingdom			

Source: Federal Ministry for Economic Affairs and Climate Action (BMKW). (2026). *Joint Offshore Wind Investment Plan for the North Seas*.

Summary

Political commitment, institutional coordination and long-term vision are essential as Europe advances on its clean energy transition and industrial transformation

Europe has repeatedly harnessed crises as a catalyst for structural transformation. The oil shocks of the 1970s accelerated new energy strategies and industrial capabilities, while the response to Russia's invasion of Ukraine showed that Europe can act with speed and coordination when faced with massive disruption. The energy shock linked to the 2026 conflict in the Middle East reinforces the urgency of reducing Europe's dependence on imported fossil fuels while accelerating the transition to a more secure, competitive and resilient clean energy and industry system. Moreover, the global technological and competitiveness landscape is evolving fast, and Europe must adapt to unlock the investments and industrial innovation required to stay at the forefront of aligning the clean energy transition with economic competitiveness. Addressing energy and industry challenges requires diversifying supplies and implementing structural changes in the mid- to long-term to reduce dependence on imports and accelerate homegrown clean energy.

Europe already has many of the technologies needed to accelerate clean energy and infrastructure deployment. Renewable energy, electrification, energy storage, clean fuels and emerging low-carbon technologies are increasingly commercially viable. The challenge requires overcoming systemic inertia.

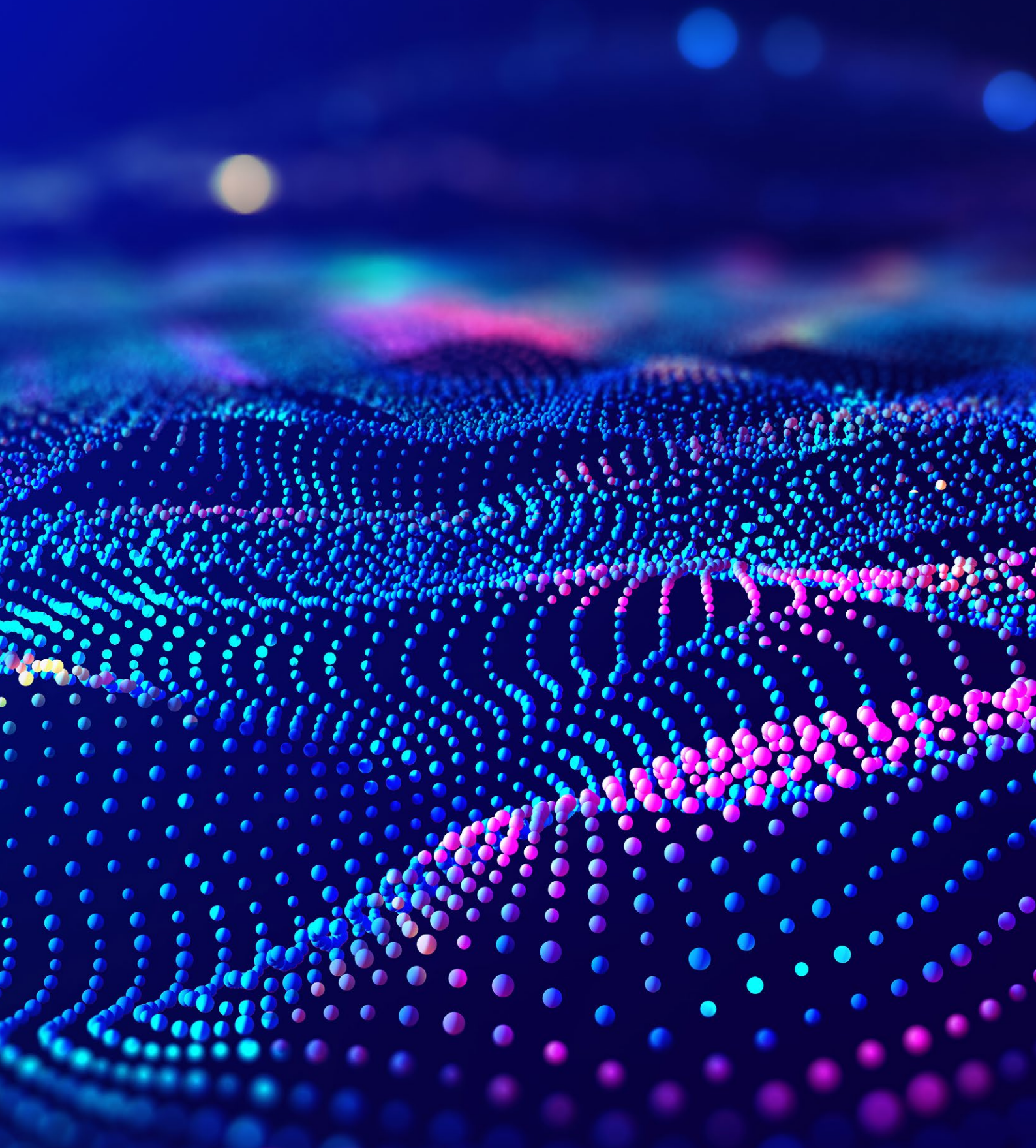
Progress, however, remains slow. According to the Draghi Observatory, only 15.7% (60) of the recommendations in the Draghi report have been implemented, including one on energy, seven on clean technologies and 11 relating to energy-intensive industries.⁹¹

Durable political commitment, institutional coordination and a clear long-term vision capable of mobilizing investment beyond political cycles are essential as Europe advances on its clean energy transition and industrial transformation. France's Messmer Plan, REPowerEU and other successful responses to past crises illustrate that credibility and predictability are as important as policy ambition.

The LGC provides a platform to support this effort by bringing together business leaders, European institutions and member states to translate strategic priorities into practical action. By strengthening coordination, generating evidence, supporting collaborative implementation and encouraging integrated policy-making, the Clean and Competitive Energy and Industry pillar can help accelerate Europe's transition while reinforcing the link between energy security, industrial competitiveness and economic growth.

In collaboration
with McKinsey

Shaping the Intelligent Age: How Europe Can Thrive



Overview

To harness its strengths in the intelligent age, Europe must focus on innovation and scale.

“ Europe needs the capital structures, legal frameworks, public-private partnerships and adoption incentives that allow strengths to compound.

Europe has been one of the winners of the industrial age, and its performance in sectors such as pharmaceuticals, machinery and luxury remains strong. However, the world has entered a new phase, which is defined by rapid technological disruption, geopolitical instability and intensifying geoeconomic competition. These structural changes raise questions for the future of European competitiveness. Its production costs typically exceed those of leading competitors such as China by more than 40%. As a result, the continent cannot win on cost alone and must instead win on innovation.

This chapter tackles two questions that follow from that reality. First, how can Europe's early-stage companies scale to become global leaders from within Europe, rather than relocating or selling abroad? Second, how can the continent accelerate the creation and adoption of AI and other frontier technologies across its economy? The chapter argues that Europe is poised to do both. It offers €1.4 trillion in new household savings each year, a science, technology, engineering and mathematics (STEM) talent base proportionally larger than the US' and, for the first time, a net inflow of US technology workers. What Europe lacks is not the resources, but the right enabling conditions and speedy action. It needs the capital structures, legal frameworks, public-private partnerships and adoption incentives that allow strengths to compound.

These findings draw on the work of the Shaping the Intelligent Age pillar of the Leaders for European Growth and Competitiveness (LGC). The pillar aims to help boost the adoption of, and investment in, key emerging technologies, and to empower start-ups to scale. Through consultations with leaders across government, business and academia, it identified two areas where Europe can build on emerging momentum: first, strengthening the scale-up and innovation ecosystem, and second, accelerating the creation and adoption of AI and other frontier technologies. The first section examines four solutions that are starting to improve European companies' ability to grow, scale and compete on a global stage, and it suggests how others can build and expand on that progress. The second section then examines four ways Europe is accelerating the creation and adoption of AI and other technologies. The third section suggests both public- and private-sector pathways to improve implementation.

A recurring theme is that each of the eight solutions highlighted in this chapter is already taking shape somewhere in Europe, such as a €5 billion scale-up fund launched in 2026 and a reporting-simplification package passed in Germany. Taken separately, they represent promising signals. Coordinated and scaled across the continent, these solutions show what Europe needs to compound its strengths.

Context

Europe must act now to turn its rich talent, capital and technology footholds into a competitive edge.

Europe is actively pursuing dual priorities: strengthening its position in the technologies that will define future growth while maintaining or restoring leadership in industrial domains where global competition is pressuring traditional European advantages.⁹²

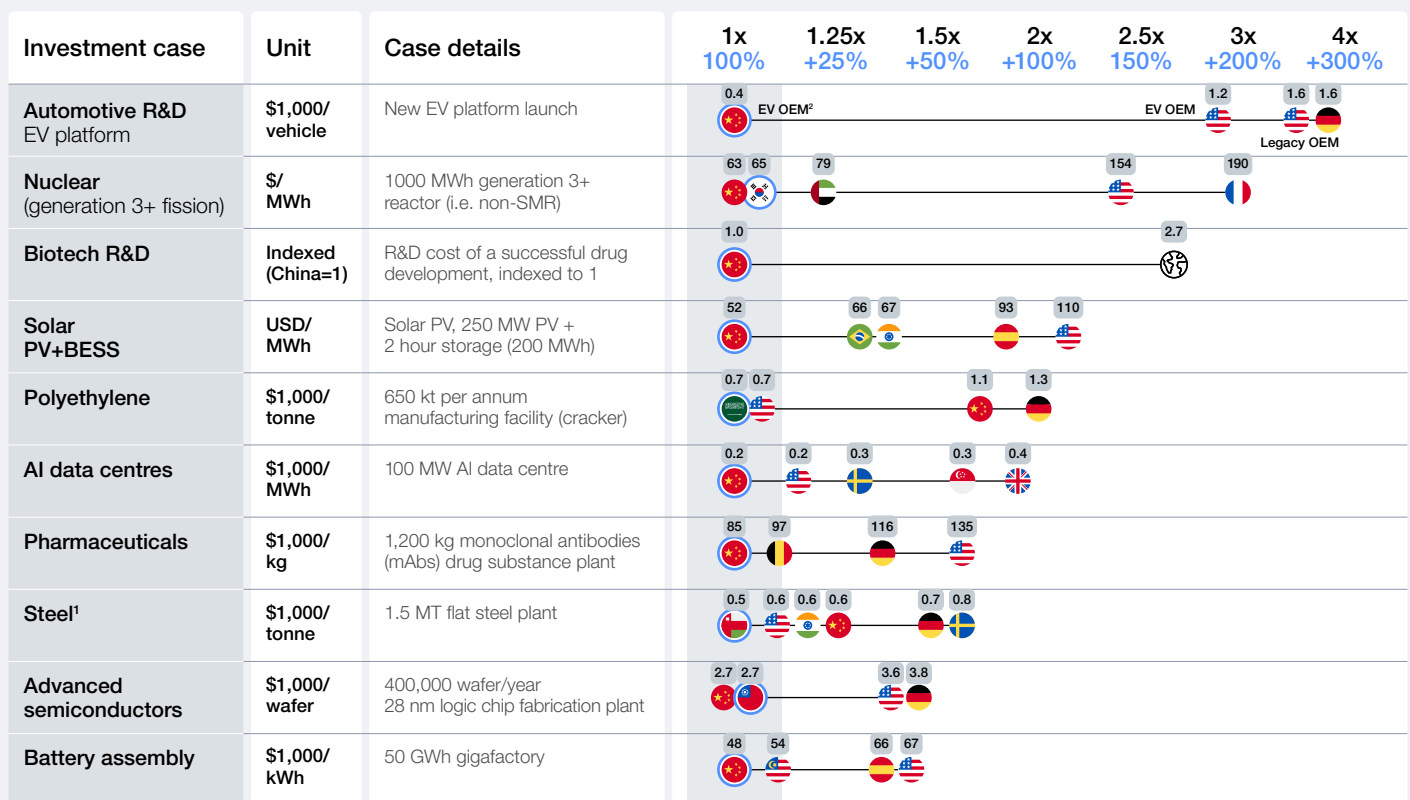
Though cost leadership will be hard to attain (Figure 1), the continent already has many of the resources needed to succeed in the intelligent age (Figure 2). European households save around four times the US saving rate as a share of income, yet they invest only about a third of their financial assets in capital markets. The rest stays parked as cash and deposits.⁹³ Its universities act as a factory for

technical talent, with 27% of all tertiary students in the EU now enrolled in STEM fields – a higher share than in the US.⁹⁴

Moreover, a historic opportunity is emerging to attract global talent: after recent research funding cuts and political uncertainty in the US, tech talent flows have reversed for the first time (1,426 workers per month now move from the US to Europe, versus 1,385 moving in the opposite direction).⁹⁵ The EU has launched initiatives such as the €500 million “Choose Europe for Science” programme to position itself as a destination for dislocated researchers.⁹⁶

FIGURE 1 Innovation will be critical for competitiveness where cost leadership is hard to attain

Levelized cost comparison across regions and investment cases



○ Base case country

Notes: 1. When the preferred technology per region is used; India and China are the most competitive with \$400 vs \$500/tonne respectively

2. original equipment manufacturer

Source: McKinsey Global Institute analysis.



Europe has also established a position in several of the main arenas of future competition. In new arenas of competition, such as GLP-1 drugs (used to reduce appetite and regulate blood sugar), offshore wind and advanced semiconductor equipment, European firms are not just participating in global markets but actively shaping them. The

share of global capital expenditure (capex) and research and development (R&D) that European firms committed in 2025 ranges from 2% in digitization to 51% in new bio frontiers (Figure 3). Taken together, these resources and industrial strengths give Europe a strong starting point as it enters the Intelligent Age.

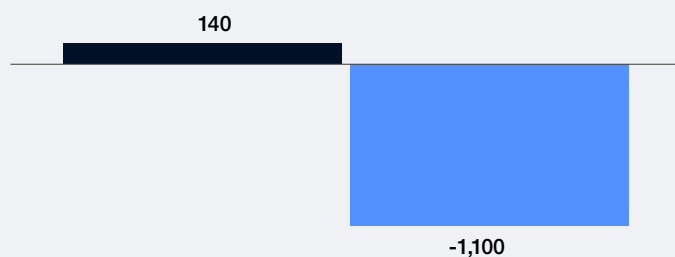
FIGURE 2 Europe's industrial leadership – and the ingredients to extend it

EU vs US extra-regional exports in key industrial sectors

Manufacturing gross value added (2024), €T

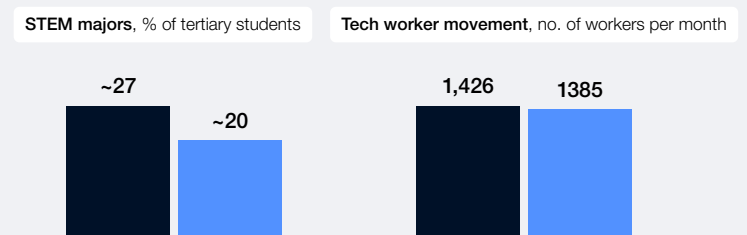


Trade balance in goods (2024), €B

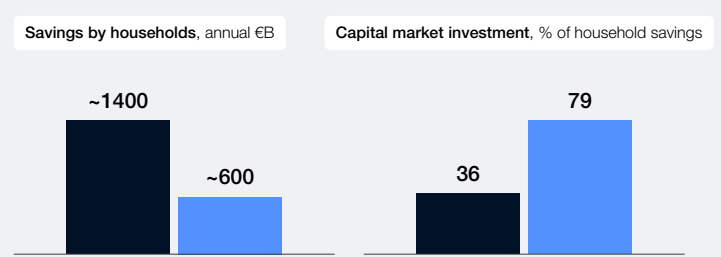


Europe's ingredients for future competitiveness (2025)

Talent and research to produce innovation



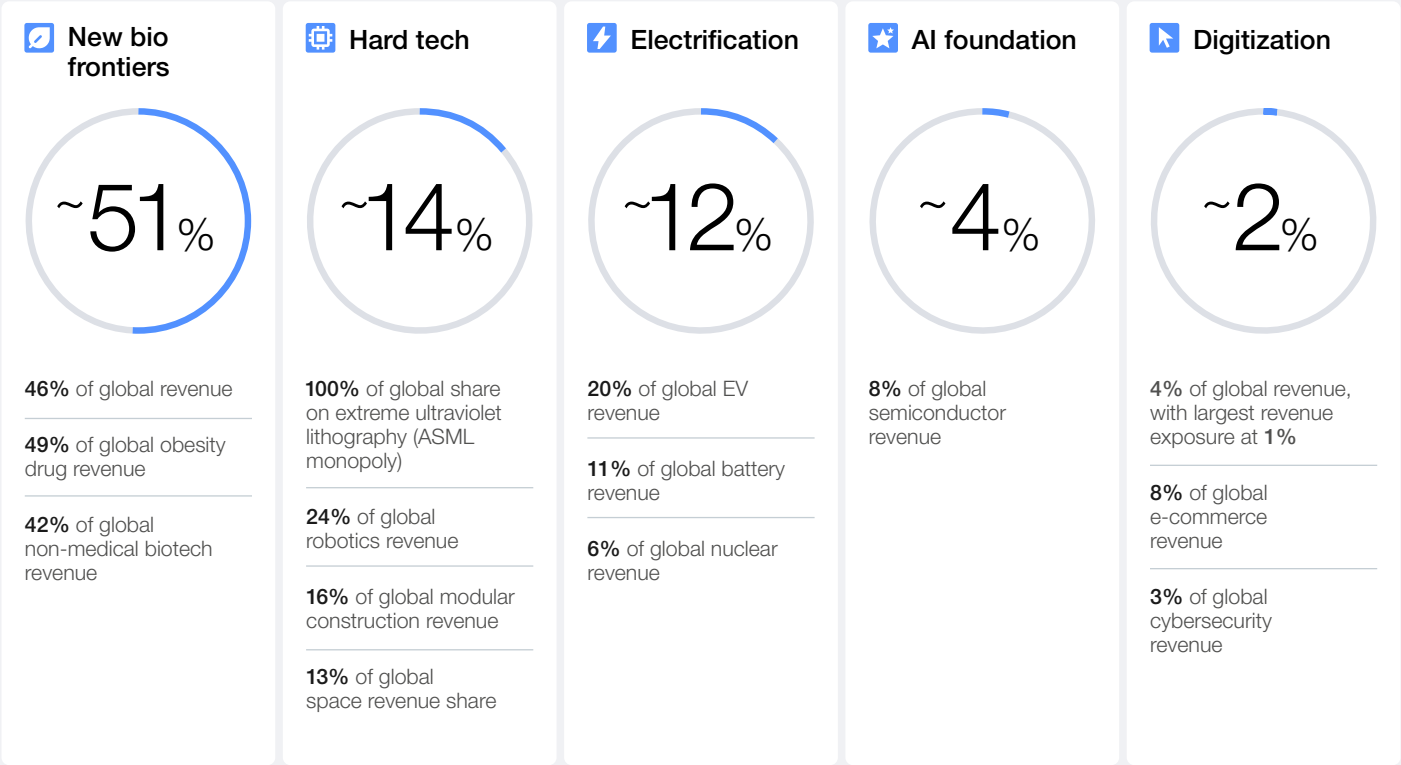
Savings that can be used to scale innovations



● EU ● US

Source: Eurostat, McKinsey Global Institute; National Science Foundation (NSF) Science and Engineering Indicators; European Central Bank (ECB); European Federation of Pharmaceutical Industries and Associations (EFPIA); ASML; Bruegel.

FIGURE 3 | Future arenas of competition (European share of global capex and R&D investment, 2025)



Source: McKinsey; World Economic Forum; MGI. (2024). *Next Big Arenas of Competition*; LGC. (2026). *Report Draft*; PitchBook.

European leaders have begun to mobilize. Reports by Mario Draghi,⁹⁷ Enrico Letta⁹⁸ and others have helped build consensus, and governments are advancing initiatives to strengthen innovation investment, technology adoption and economic competitiveness.

Europe has all the resources it needs to prosper and compete in the Intelligent Age – it is now up to public and private decision-makers to translate them into success.

3

Building the conditions for competitiveness

Europe needs growth capital, unified rules and faster approvals to build a scaling ecosystem. Rapid AI adoption and infrastructure rollout are just as vital.

Europe has made progress in many important areas for long-term economic competitiveness. For instance, the continent now produces four times as many start-ups as a decade ago.⁹⁹ Investment in the ecosystem is growing – beyond domestic private sources, it’s also coming from the public sector and international investors.

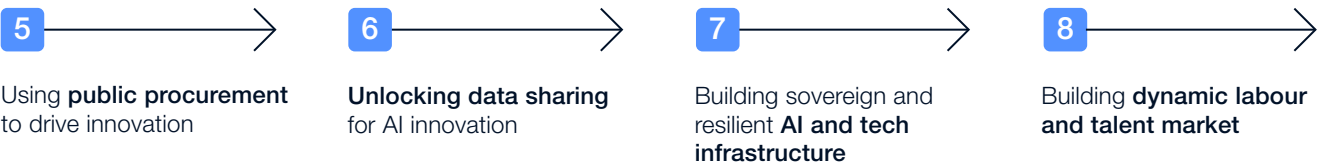
Through multistakeholder discussions and expert consultations with leaders across government, business and academia, the Forum’s Leaders for European Growth and Competitiveness initiative surfaced eight solutions across two broader themes to build on this momentum and strengthen Europe’s role in the intelligent age (Figure 4).

FIGURE 4 Europe can strengthen its competitiveness through action across eight key solutions

Building the scale-up and innovation ecosystem



Accelerating AI and technology development and deployment



Source: McKinsey & World Economic Forum. (2025). *Europe in the Intelligent Age: From Ideas to Action*.



3.1 Building the scale-up and innovation ecosystem

Scale-ups are crucial for growth. Across Organisation for Economic Co-operation and Development (OECD) countries, only 8–14% of SMEs qualify as scalers, yet they contribute between 41% and 62% of all jobs created by growing small and medium-sized enterprises (SMEs).¹⁰⁰

Across Europe, a new generation of companies and investors is demonstrating what becomes possible

when growth-stage capital, streamlined cross-border operations, strategic collaboration and faster regulatory pathways come together. The following four solutions – reducing growth-stage funding gaps, planning the 28th Regime, revisiting merger and collaboration rules and simplifying regulation – highlight progress made, what is working and how to collaborate to build on the momentum and learnings (Figure 5).

FIGURE 5 Europe can pursue four solutions to enable start-ups to grow

Solution	Progress made	Building on the momentum
1 Closing the growth-stage funding gap	– Savings and Investment Union reforms are advancing – New scale-up funds are being launched across Europe – Venture capital (VC) investment reached ~\$66 billion and private capital raised ~300 billion in 2025 – The European Industries Council Strategic Technologies for Europe Platform (EIC STEP), Scaleup Europe Fund and NATO Innovation Fund target late-stage funding gaps	– Public sector: Complete the Savings and Investment Union, remove cross-border funding frictions, and reform pension and insurance frameworks to unlock institutional capital for venture and growth investing – Private sector: Build larger scale-up funds with diversified portfolios, attract global investors, and expand access to \$100 million+ growth rounds
2 Implementing and expanding the 28th Regime to enable European scaling	– EU Inc. is developing the 28th Regime as a voluntary European company framework – Aims to replace the “27-rulebook” burden for incorporation, fundraising and employee equity – Backed by growing support from Europe’s start-up, scale-up and venture capital ecosystem	– Public sector: Expand the 28th Regime beyond company law into stock options, tax, labour and insolvency to create a single European framework for scaling companies – Private sector: Adopt the 28th Regime to simplify fundraising, employee equity, hiring and cross-border expansion under one rulebook
3 Reforming merger and collaboration rules to create and strengthen global champions	– The Commission has completed its review of EU merger guidelines – Recent deals such as Airbus-Leonardo-Thales signal growing recognition that the fragmented sectors need greater scale – Corporate joint ventures and industrial alliances are increasingly used to pool investment and capabilities	– Public sector: Implement the revised merger guidelines, clarify rules for joint ventures and industrial alliances, and better reflect innovation, investment and competitiveness in competition assessments – Private sector: Pursue cross-border consolidation, infrastructure sharing and strategic collaborations to achieve greater scale and investment capacity
4 Speeding up approvals and simplifying regulation	– Regulatory sandboxes are accelerating AI testing and deployment – Faster approval pathways are being introduced in sectors such as healthcare – The EU Omnibus agenda is simplifying reporting and compliance requirements – Governments are translating new regulation into	– Public sector: Introduce digital, time-bound approvals, expand EU-wide certification pathways, reduce gold-plating and better balance precaution with competitiveness – Private sector: Use sandboxes and fast-track pathways to accelerate investment, testing and deployment of strategic technologies

Solution 1

Closing the growth-stage funding gap

➤ The opportunity: scaling Europe's maturing start-up ecosystem into standout firms

Europe's maturing start-up ecosystem gives it a powerful platform for productivity growth. The opportunity is to help more companies move through the scaling funnel; if just another dozen European start-ups grow to standout firms, Europe could double its rate of productivity growth.¹⁰¹

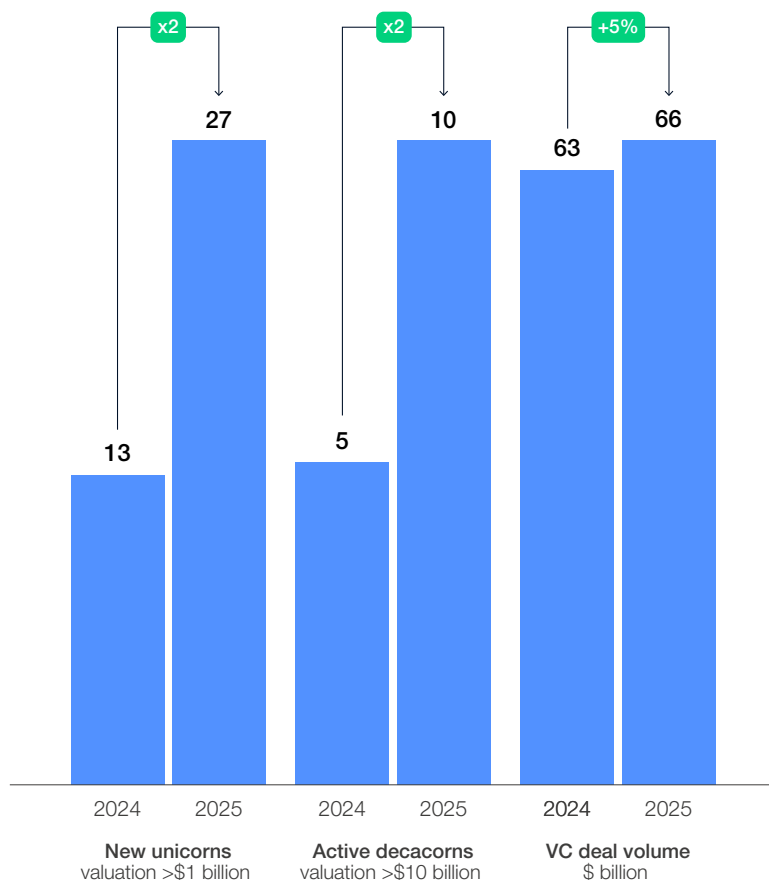
The starting point is increasingly strong. Europe now has nearly 40,000 funded tech companies, up from 13,000 in 2016.¹⁰² European venture capital has also outperformed its US counterpart on a 10-year net internal rate of return basis, generating returns of 20.8% compared with 18.2%.¹⁰³ These trends show that Europe is increasingly capable of creating, financing and supporting high-growth technology companies.

The recent momentum is visible in scale-up indicators (Figure 6). The number of new unicorns increased from seven in 2023 to 27 in 2025,¹⁰⁴ while active decacorns doubled from five to 10 in the past two years.¹⁰⁵ Total venture capital investment rose from €57 billion per year to €66 billion over the same period.¹⁰⁶ These metrics point to improving conditions for commercializing new technologies, attracting growth capital and scaling successful companies across Europe.

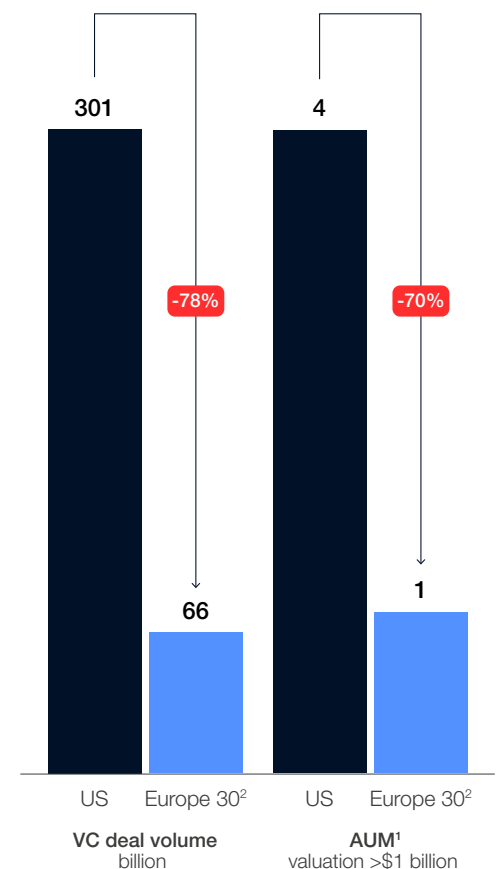
The next frontier is the growth stage. Recent exceptions show what is possible – for example, UK-based AI infrastructure company Nscale raised approximately €1.8 billion in 2026 – while many promising companies still look outside Europe to scale and go public.¹⁰⁷ European companies raise only about half as much growth capital as comparable US companies over their life cycle, and US venture capital investment is six to eight times higher than in the EU.¹⁰⁸ Building on Europe's start-up momentum with deeper growth-stage capital can help more innovators become globally leading firms.

FIGURE 6 Europe's scale-up ecosystem is gaining momentum, but capital gaps persist

European innovation indicator 2024–2025



Venture capital (VC), US vs EU 2025



Notes: 1. AUM = assets under management, domestic players. 2. Europe 30 = EU27 and Norway, Switzerland and the United Kingdom.

Source: PitchBook; Sifted; World Bank; Preqin; NVCA; Weforum; Dealroom; McKinsey Global Institute analysis.

✓ **What is working and progressing: savings and investment union, scale-up funds and private commitments**

Europe is already attracting growing levels of investment, with new funding mechanisms emerging to support companies through later stages of growth. Private capital investors allocated approximately €300 billion to Europe during the first nine months of 2025 (versus approximately €502 billion to North America),¹⁰⁹ representing 34% of global commitments compared with a historical share of roughly 25%.¹¹⁰

The private sector is making major long-term commitments to the region. KKR deployed approximately €18 billion in Europe between January and September 2025,¹¹¹ Blackstone announced plans to invest up to around €460 billion over the coming decade,¹¹² EQT intends to double its European investments to around €230 billion over the next five years,¹¹³ and Apollo identified Europe as a strategic priority, targeting investments of up to €92 billion in Germany alone.¹¹⁴

Public-private investment vehicles are also beginning to fill the growth-stage gap. The European Industries Council Strategic Technologies for Europe Platform (EIC STEP) Scale Up Fund (EU equity co-investments for deep-tech scaleups),¹¹⁵ the Scaleup Europe Fund (an EU-backed late-stage growth fund expected to start investing in fall 2026)¹¹⁶ and the NATO Innovation Fund (a multi-sovereign venture capital fund investing in dual-use deep tech)¹¹⁷ show how Europe can support companies beyond the traditional venture capital stage.

The Scaleup Europe Fund illustrates the emerging model: large pools of long-term capital, public catalytic participation and private investment management. Launched in 2026 as a €5 billion growth fund, it combines public capital from the European Innovation Council Fund with private-sector investment, and is managed by EQT.¹¹⁸ National initiatives, such as France 2030, show how targeted public and private funding can support strategic technologies and deep-tech scale-ups.¹¹⁹

The momentum matters because European capital outflows exceed inflows by almost 2:1, with much of Europe's household savings flowing into higher-returning foreign equity markets rather than domestic growth companies.¹²⁰

The Savings and Investment Union is thus an important effort to channel more of Europe's savings into innovation and growth investments.¹²¹ The commission published an action plan in March 2025, followed by legislative proposals in December 2025. In parallel, the European Parliament is discussing whether large European occupational pension funds should allocate a small share of assets to venture capital, for example through a proposed 2% requirement for funds with more than €1 billion in assets. Complementing these efforts, the Solvency II review should unlock approximately

€90 billion in additional insurer investment capacity, increasing the ability of long-term institutional investors to finance infrastructure, innovation and growth-stage companies.¹²²

Large European firms are further demonstrating how they use their own balance sheets to make bold technology investments. SAP is embedding its business AI offering across its cloud applications, Siemens has moved further into software and industrial AI through targeted acquisitions and a planned €1 billion investment over the next three years to scale its AI offerings, and several European utilities are repurposing former thermal generation sites into data centre locations, turning legacy infrastructure into AI-era assets.

➔ **Collaborating to build on the momentum: scale what is working and mobilize more long-term risk capital**

The lesson from the Scaleup Europe Fund is that Europe can move from pilot scale to institutional scale when public catalytic capital, private investment expertise and clear strategic priorities are combined. Further expanding this model within the current EU mandate, before 2030, would create larger pools of capital capable of supporting companies through successive growth stages and global expansion. Experts involved in developing the Scaleup Europe Fund have proposed significantly expanding the fund's assets under management while designing an EU agency to support the scaling of European start-ups in line with the recent European Institute of Innovation & Technology (EIT) 2.0 strategic vision paper.¹²³

A second lesson is that institutional capital can play a larger role in a self-sustaining scale-up ecosystem. Pension funds, insurers and foundations remain underrepresented in European growth investing, while public institutions still play a comparatively large role. Mobilizing both European and international institutional capital could deepen funding pools, strengthen market credibility and attract further private investment.

A third lesson comes from Sweden, which has built one of Europe's most dynamic innovation ecosystems through decades of pension restructuring, investor-friendly savings vehicles and capital-market reforms that channel long-term savings into productive investment and entrepreneurship.¹²⁴ As returns improve and additional capital is attracted, Europe can create a positive compounding effect for its most promising companies.

Further expanding the impact would mean raising pension fund allocation targets for private assets beyond current proposals, harmonizing initial public offering (IPO) rules so European growth companies list at home rather than in the US and expanding retail savings vehicles that direct household savings into European equities. The goal is to close the loop – not just to attract foreign capital, but to ensure Europe's own abundant savings can fund European champions.

“ Europe can move from pilot scale to institutional scale when public catalytic capital, private investment expertise and clear strategic priorities are combined.



Solution 2

Implementing and expanding the 28th Regime to enable European scaling

➤ The opportunity: a voluntary 28th Regime to make European scaling easier

European firms can access a market of more than 450 million consumers. The opportunity is to make that market feel genuinely seamless for companies and investors by reducing the need to navigate 27 different legal, tax, employment and administrative systems when scaling across borders. While completing the single market has long been a priority, harmonizing 27 regulatory systems without strong overarching governance has proven difficult. A greenfield set of common, investment-friendly rules that companies can opt into – a 28th Regime – offers a practical path to act at the scale and speed needed.¹²⁵

The potential impact is significant: research suggests that internal barriers to trade, including divergent product standards and regulatory approvals, are equivalent to a 45% tariff in manufacturing, around three times higher than comparable barriers between US states. Reducing these barriers to US levels could increase labour productivity by 7% within seven years.¹²⁶

✓ What is working and progressing: EU Inc. as a practical starting point

EU Inc. shows how Europe is beginning to translate the idea of a 28th Regime into a concrete tool. Designed as a voluntary, digital-first European company form, EU Inc. would allow firms to incorporate within 48 hours and operate under a more harmonized EU-wide rulebook. In practice, it would offer a single digital registration process, more standardized investment documents, clearer employee-equity treatment and fewer duplicative legal steps when entering additional EU markets.¹²⁷

➔ Collaborating to build on the momentum: start simple, prove value quickly, then broaden the regime

The lesson from EU Inc. is that a 28th Regime can gain traction by solving a focused set of founder and investor pain points first. The initial framework can remain simple and concentrated on areas

where harmonization can be delivered within one to two years in line with the European Commission ambition. Strong political leadership from member states and sustained momentum through future Council Presidencies can help move the initiative through negotiation and implementation.

Once EU Inc. is established, the same approach can be expanded into labour law, taxation, product-market regulation and insolvency. Over time, the 28th Regime can evolve from a start-up-focused framework into a broader operating environment that enables companies of all sizes to invest, grow and hire more seamlessly across Europe.

Solution 3

Reforming merger and collaboration rules to create and strengthen global champions

➤ The opportunity: consolidation and collaboration as engines of productivity and global competitiveness

Dynamic consolidation can be a major source of productivity growth. Research shows that in the US, productive firms scaling and underperformers exiting account for half of all productivity growth; in Europe, “sticky underperformers” dragged growth down.¹²⁸ Merger and collaboration rules can therefore help close Europe’s productivity gap when they enable productive companies to scale, invest and compete globally.¹²⁹

The opportunity extends beyond scale-ups. In several sectors, European markets remain more fragmented than other major economies: Europe has around 60 telecom operators covering 70% of its population, compared with four in the US and two in China. In banking, roughly 22 major European institutions serve the same share of people as about four banks in the US.¹³⁰ As technologies become more capital-intensive, greater scale can help companies spread fixed costs and invest at the level needed to compete globally.

Creating and strengthening European champions would also enhance Europe’s ability to attract talent, capital and strategic partnerships, shape global technology standards and project a confident European position in the intelligent age.

“ A greenfield set of common, investment-friendly rules that companies can opt into – a 28th Regime – offers a practical path to act at the scale and speed needed.

“ Companies are more likely to pursue productive consolidation, infrastructure sharing and industrial alliances when the strategic rationale is clear.

✓ **What is working and progressing:**
cross-border consolidation, partnerships and updated merger guidelines

Europe already has examples of firms using cross-border consolidation and collaboration to compete more effectively. In 2025, Airbus, Leonardo and Thales signed a memorandum of understanding to combine select space activities into a new European space company with €6.5 billion in revenue and about 25,000 employees.¹³¹ In Sweden, the Wallenberg ecosystem brings together companies, research institutions and investors; its joint venture Spherical AI, involving partners such as Nvidia, AstraZeneca, Ericsson, SAAB and Skandinaviska Enskilda Banken (SEB), shows how shared infrastructure, corporate demand and industry collaboration can reinforce one another. These efforts are underpinned by Wallenberg AI, Autonomous Systems and Software Program (WASP), one of Europe's largest AI research and talent initiatives, which aims to train 600 PhD students.¹³²

Sizeable mergers have taken place too. Danish biotech companies Novozymes and Chr. Hansen merged in 2024 to form Novonosis, bringing together over 10,000 people and leading expertise across more than 30 industries and creating a world-leading bio-solutions partner that neither company could have become alone.¹³³

Policy is also moving in this direction. The European Commission is revising its merger guidelines to give greater weight to innovation, investment, resilience and competitiveness in merger assessments. Draft guidelines published in April 2026 propose a more forward-leaning approach to assessing mergers in strategic and innovation-intensive sectors.¹³⁴

→ **Collaborating to build on the momentum:**
provide ex-ante clarity to encourage consolidation and collaboration

Companies are more likely to pursue productive consolidation, infrastructure sharing and industrial alliances when the strategic rationale is clear and the regulatory pathway is predictable. Building on the revised draft merger guidelines published in 2026, it's key to issue final guidance by the end of 2026 to clarify which joint ventures, infrastructure-sharing arrangements and industrial alliances are compatible with EU competition law, and thereby reduce the need for costly case-by-case assessments. Such ex-ante clarity would

give firms and investors more confidence to pursue transactions, partnerships and long-term investments, especially in sectors such as telecoms, banking, energy infrastructure and advanced technologies, where fragmentation most strongly limits global competitiveness. Further impact will depend on rebalancing European strategic autonomy relative to national interests.

Solution 4

Speeding up approvals and simplifying regulation

➔ **The opportunity: faster, simpler approvals to shorten the path from investment intent to deployment**

Alongside the legal fragmentation addressed by the 28th Regime, Europe has an opportunity to make deployment faster by simplifying procedural barriers: permitting, duplicative national approvals and overlapping requirements. Faster, more predictable processes would lower company costs and accelerate expansion across jurisdictions. Founder surveys consistently cite regulatory complexity and administrative burdens among the factors that make scaling across Europe difficult. Relocation rates among EU scale-ups range from around 10% overall to nearly 30% among unicorns, with the US being the dominant destination.¹³⁵

✓ **What is working and progressing:**
faster pathways, sandboxes and Omnibus simplification

Europe already has practical examples of regulatory sandboxes to encourage experimentation. Spain's Operational AI Regulatory Sandbox, launched in 2023 as the first regulatory sandbox linked to the EU AI Act, created a controlled environment in which companies, regulators and public authorities could jointly test high-risk AI systems and simulate compliance before the regulation entered into force.¹³⁶ Following the pilot, Spain translated lessons from twelve tested AI systems into practical implementation guidance covering areas such as risk management, transparency, data governance, cybersecurity and human oversight.¹³⁷ Denmark's regulatory sandbox for AI, in turn, allowed speech-recognition technology to be tested for healthcare documentation under relaxed rules before full market entry, and was selected for nationwide rollout.¹³⁸



“ AI will define the future, and Europe has a genuine opportunity – and critical obligation – to strengthen its position across the full AI value chain.

Germany has tested a time-bound approval logic. In 2026, Chancellor Merz’s government introduced a rule under which any application to a state body is considered approved after four months unless the authority actively requests further information. This reversal of the default – from “no answer means no” to “no answer means yes” – embeds the predictability businesses have long demanded and offers a model that EU-level frameworks can learn from and scale.¹³⁹

Collaboration between regulators and companies makes a demonstrable difference. The UK’s Innovative Licensing and Access Pathway (ILAP) brings regulators, health technology assessment bodies and healthcare providers together early in the development process to accelerate patient access to promising medicines.¹⁴⁰ Merck Sharp & Dohme (MSD) was the first company to receive an Innovation Passport under ILAP in 2021 (for belzutifan, a treatment for a rare genetic cancer condition).¹⁴¹ Since then, the pathway was substantially revised, with new Innovation Passports already awarded for treatments targeting rare pediatric conditions and Duchenne muscular dystrophy.

The EU is also taking steps to reduce regulatory complexity through its Omnibus simplification agenda. Omnibus I, formally adopted by the council in February 2026, significantly narrows the scope of sustainability reporting and due diligence requirements, and Omnibus II and III will streamline investment funding programmes and agricultural regulation. On the tech side, the Digital Omnibus on AI was formally adopted by the council in June 2026. The broader Digital Omnibus targeting the General Data Protection Regulation (GDPR), the Data Act and other initiatives is still in negotiation. These measures will be complemented by the Digital Fitness Check, which stress-tests the

coherence of the digital rulebook as a whole and identifies areas needing further alignment.¹⁴²

➔ **Collaborating to build on the momentum: apply time-bound approvals EU-wide, limit extra layers, and keep regulation innovation-friendly**

What works in the examples above is not deregulation for its own sake: it is making speed, simplicity, learning and practical implementation part of regulatory design. Further impact could come from four priorities.

- First, approvals work best when they are digital, time-bound and predictable. European and national processes can start with strategic projects and investment areas, with short deadlines for permits, environmental reviews, grid connections and other critical decisions. Procedures can allow improvements and alternative solutions to be incorporated without requiring a restart.
- Second, businesses benefit when directly applicable European rules can be followed without additional national layers of regulation, where possible.
- Third, regulation in fast-moving fields such as AI, data, biotechnology and health can pivot towards outcome-focused and innovation-friendly provisions, including in sandboxes.
- Fourth, legislators can weigh the cost of delay alongside the risk of unintended consequences, mandate cost-benefit analyses and introduce review or sunset mechanisms to keep frameworks fit for purpose. Independent economists and researchers can support the analytical part.

3.2 Accelerating AI and technology development and deployment

AI will define the future, and Europe has a genuine opportunity – and critical obligation – to strengthen its position across the full AI value chain and accelerate adoption. Today, European firms invest 3% of their total capital expenditure and R&D spending across this value chain, compared to 17% for US firms and 13% for Chinese firms (Figure 7).

Much economic value comes from AI adoption. Today, that differs substantially among European companies by sector (Figure 8). To close the gaps, the European Commission launched the Apply AI Strategy in October 2025. The €1 billion initiative aims to accelerate AI adoption across eleven sectors, including manufacturing, healthcare, energy, mobility, agrifood and public services.¹⁴³ However, sector-specific initiatives alone will not

be enough. Widespread AI adoption depends on a broader set of conditions, including high-quality data, compute infrastructure and talent. Without these foundations, even strong use cases often struggle to move beyond pilot projects.

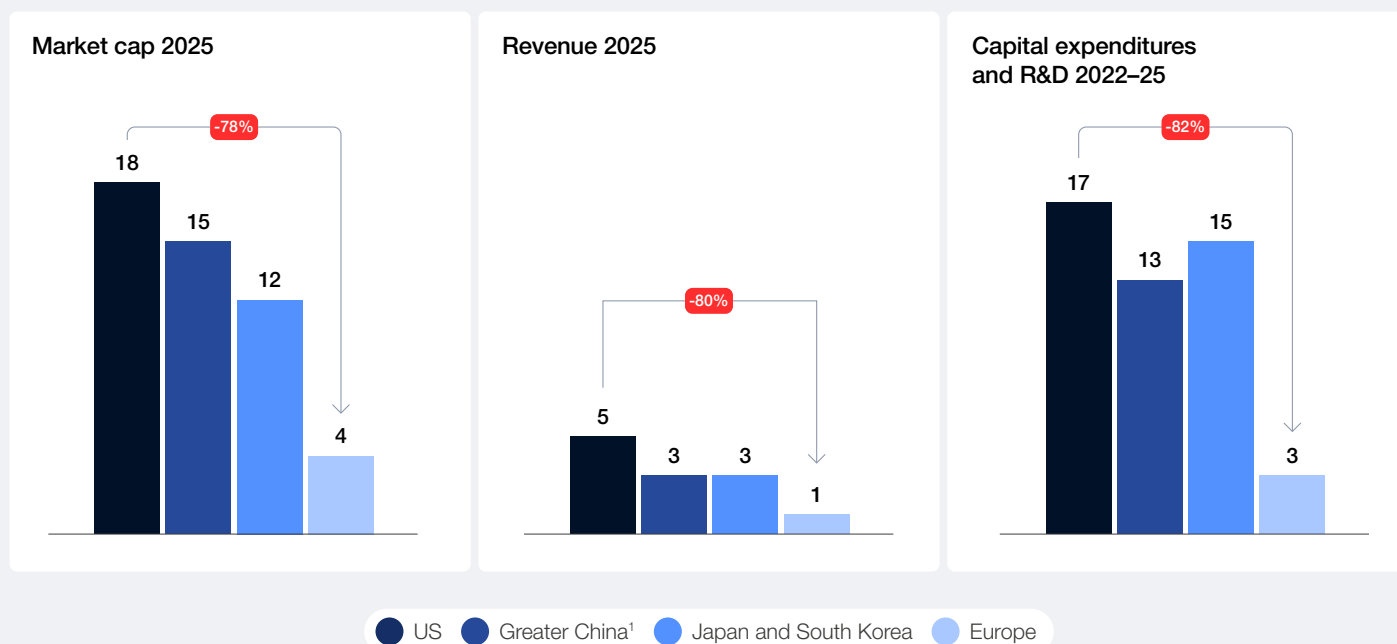
Yet, Europe cannot focus solely on adoption – it also has to develop its own capabilities. Recent debates around model access, export controls and data security illustrate how dependence on a small number of foreign providers can become a critical vulnerability. Specifically for large language models, the frontier has moved rapidly, and leading model development has shifted elsewhere. Yet, in the broader value chain – e.g. in semiconductors, compute infrastructure and applications – significant opportunity remains.

Europe's clearest opportunities in AI models lie in special-purpose models trained on domain-specific data (manufacturing processes, clinical records, legal frameworks, molecular structures) as well as in open-source and federated architecture. They

can reduce strategic dependency without requiring Europe to replicate what global leaders have already built. The next four solutions, therefore, focus on the capabilities needed to build, deploy and scale AI across Europe's economy (Figure 9).

FIGURE 7 Europe has an opportunity to raise AI investment five-fold

AI value chain² share out of total value for region, %

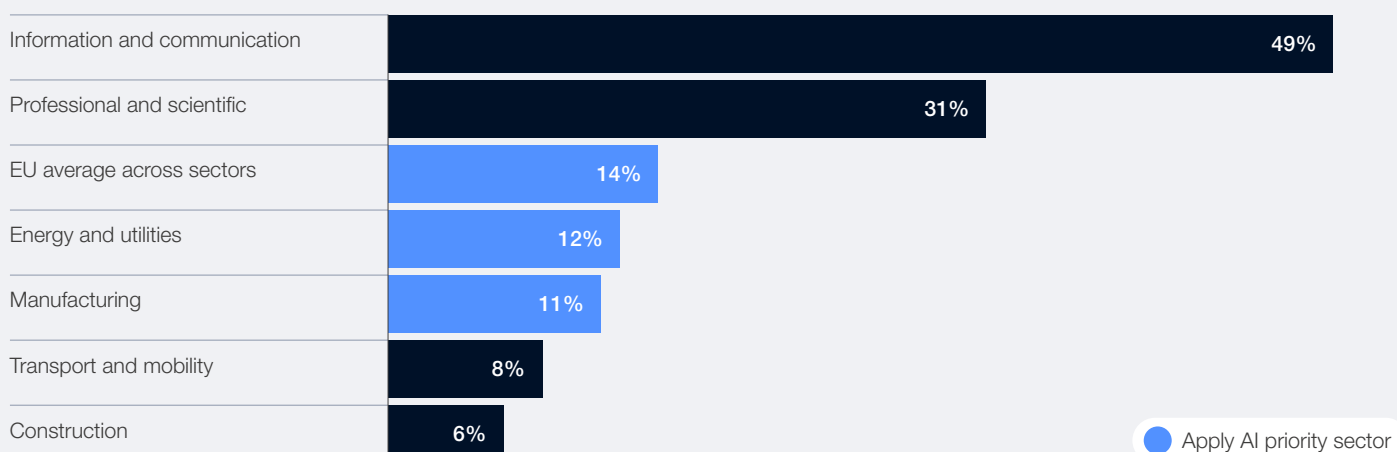


Notes: Region defined based on headquarters location. 1. Greater China includes Mainland China, Taiwan, Hong Kong and Macau; Return on invested capital (ROIC) of companies with 2024 revenue of more than \$1 billion (or ~€92 million); 2022–24 weighted-average net operating profit less adjusted taxes (NOPLAT) divided by invested capital (excluding goodwill and intangibles). Excludes companies without complete NOPLAT or invested capital time series in 2022–2024, ROIC may be higher than the regional average as the database skews towards large companies 2. Defined as semiconductors, cloud services and AI software and services, i.e. the companies driving artificial intelligence across industries.

Source: McKinsey Value Intelligence; McKinsey Global Institute analysis.

FIGURE 8 AI adoption by companies in Europe varies by sector, per Eurostat enterprise survey

Share of EU enterprises (10+ employees) using AI technologies, in % (2024)



Source: Eurostat. (2024). *Use of artificial intelligence in enterprises*; European Commission. (2025). *AI Continent Action Plan*; EU. (2025). *Apply AI Strategy*.

FIGURE 9 | Europe can pursue four priorities to accelerate AI development and adoption

Solution	Progress made	Building on the momentum
5 Using public procurement to drive innovation	– European High-Performance Computing (EuroHPC) is deploying Europe's first quantum computers across multiple member states – Governments are increasingly using procurement to support AI, quantum, semiconductor and defence technologies – Public procurement represents ~€2T annually, equivalent to ~14% of EU gross domestic product (GDP) – National programmes such as France 2030 are combining public investment and procurement to support strategic technologies – EIC STEP, Scaleup Europe Fund and NATO Innovation Fund target late-stage funding gaps	– Public sector: Use defence, healthcare and technology procurement more strategically through advance market commitments (AMCs), outcome-based contracts and multi-year innovation budgets – Private sector: Deploy demand-side signals strategically and partner with governments to develop scalable solutions, compete for public contracts, and use public demand to accelerate commercialization and growth
6 Unlocking data sharing for AI innovation	– The European Health Data Space entered into force in 2025, creating a common framework for health data sharing – Catena-X has built an automotive data ecosystem with more than 200 participating organizations – European data spaces are creating common standards and governance models across sectors, start-ups, scale-up and VC ecosystem – Policy-makers are laying the foundations for trusted cross-border data sharing	– Public sector: Unlock and govern public-sector data access, set interoperable rules and incentives, and work with standardization bodies and industry to support common standards; ensure GDPR and AI Act implementation is practical for business-to-business (B2B) and industrial use cases – Private sector: Participate in sector data ecosystems, share high-value industrial data, and develop AI applications on common European data infrastructures
7 Building sovereign and resilient AI and tech infrastructure	– InvestAI aims to mobilize up to €200B for AI infrastructure, including €20B for AI gigafactories – Planned foreign direct investment into Europe has increased by ~40% versus pre-COVID levels – Project Beethoven is strengthening the semiconductor ecosystem around ASML through public-private investment – European AI companies and infrastructure players are attracting record levels of funding	– Public sector: Accelerate implementation through pre-approved sites, faster permitting, grid connections and targeted support for strategic infrastructure – Private sector: Invest in data centres, compute capacity and energy infrastructure, while scaling adoption of European AI and technology capabilities
8 Building dynamic labor and talent markets	– The revised EU Blue Card has simplified pathways for highly skilled international talent – IMEC attracts 5,000+ researchers from more than 95 countries and collaborates with 600+ companies – Clusters such as Leuven, Grenoble, Munich and Zurich combine research, start-ups and industry at scale – Europe is strengthening talent ecosystems around semiconductors, AI and advanced technologies	– Public sector: Establish CERN-like technology hubs, strengthen technology transfer and create dedicated programmes to attract world-leading researchers and entrepreneurs – Private sector: Co-invest in talent ecosystems, partner with research institutions and expand large-scale reskilling and workforce development programmes



Solution 5

Using public procurement to drive innovation

➤ The opportunity: public procurement as a launch customer for innovation

Strategic and pooled public procurement is one of Europe's most powerful competitiveness solutions. Public authorities spend around €2 trillion annually on procurement, roughly 14% of EU gross domestic product (GDP), dwarfing Europe's entire venture capital base.¹⁴⁴ Reorienting a meaningful share of this spending towards innovation-rewarding, rapid-deployment approaches could help Europe scale technologies and build global leadership positions.

The opportunity is especially important for technologies that need early customers as much as they need technical capability. Predictable public demand can unlock private investment at scale in fields from AI to quantum computing to nuclear fusion.

✓ What is working and progressing: Euro High-Performance Computing and pooling demand across countries

Europe has already shown how pooled procurement can create markets for strategic technologies. The European High-Performance Computing (EuroHPC) Joint Undertaking is procuring and deploying a first generation of European quantum computers and integrating them with existing supercomputing infrastructure across France, Germany, Italy, Poland and Spain. Established in 2018, EuroHPC pools funding and coordinates investment across member states to build world-class computing infrastructure. By aggregating resources and demand at the European level, it enables capabilities that would be difficult for individual countries to develop on their own.¹⁴⁵ Similar approaches are being explored across AI, digital infrastructure, defence technology and other strategic technologies as policy-makers seek to strengthen Europe's innovation capacity and technological sovereignty.¹⁴⁶

➔ Collaborating to build on the momentum: create European-scale lead markets

What can be learned from EuroHPC and ARPA-style innovation models is that procurement has the greatest effect when ambitious technology development is paired with clear pathways to deployment and adoption. European governments can use procurement more systematically to facilitate the adoption and scaling of strategic technologies while preserving free-market mechanisms. In areas such as AI, quantum, defence, healthcare and advanced manufacturing, tools such as advance market commitments (AMCs) can create more predictable demand and give companies greater confidence to invest and scale.

“ Strategic and pooled public procurement is one of Europe's most powerful competitiveness solutions.

Further expanding the impact would mean aggregating demand across countries. Individual national markets are often too small to support globally competitive ecosystems in strategic technology fields such as AI or quantum computing. Pooling procurement and aligning demand for defence, healthcare, innovative energy and other public expenditure could create European-scale lead markets and help innovative firms reach commercial scale faster. Dedicated procurement capabilities and multi-year technology budgets will be essential for the public sector to act as an effective launch customer for innovation. In this context, and beyond public procurement, the potential of deploying corporate demand more strategically also warrants exploration.

Solution 6

Unlocking data sharing for AI innovation

➤ The opportunity: turning Europe's industrial and scientific data into differentiated AI strengths

AI capabilities increasingly depend on access to high-quality data, and Europe holds a large pool of industrial, manufacturing, healthcare, engineering and scientific data. This can be a major advantage in the age of AI because sector-specific data can help create models tailored to industrial applications. The opportunity is to make more of this data usable across companies, institutions and countries while preserving trust and control.

If European leaders can solve the fragmentation problem, sector-specific AI models could become a key European strength by bridging the gap between general-purpose foundation models and proprietary company solutions.¹⁴⁷ By embedding industry-specific knowledge, terminology, and workflows, these models could create differentiated AI capabilities in areas such as pharmaceuticals, manufacturing, and semiconductors, as well as other sectors where Europe already has deep expertise.

✓ What is working and progressing: legislative foundations for data sharing, and manufacturing and healthcare data spaces

Europe has built the legislative foundation for data sharing through two landmark instruments: the Data Governance Act, applicable since 2023 (which established trusted frameworks for data intermediaries and altruistic data sharing), and the Data Act, in force since September 2025 (which introduced mandatory data-sharing obligations across connected devices and cloud services). These acts create the regulatory conditions on which sector-specific initiatives can now build.¹⁴⁸

Promising sector initiatives are already emerging. Manufacturing-X, a cross-industry European data space initiative building on lessons from the

“ The EU’s InvestAI initiative aims to mobilize up to €200 billion for AI, including €20 billion for AI gigafactories.

automotive sector, aims to enable secure data sharing across manufacturing value chains and extend the model to sectors including chemicals, aerospace and machinery.¹⁴⁹ SAP, Siemens and numerous other European companies are involved. In healthcare, the European Health Data Space (EHDS), which entered into force in 2025, established a common European framework for the use and sharing of health data across member states.¹⁵⁰

➔ Collaborating to build on the momentum: build a European data stack and refine regulation through learning

One lesson is that data sharing becomes more powerful when it combines data access, common standards, trusted governance and interoperable digital infrastructure. The EU, member states and private-sector providers could collaborate to build a European data stack, moving from a handful of promising examples to sector-level ecosystems. Europe can also draw lessons from India’s experience with the India Stack, which combines digital identity, payments and consent-based data sharing through interoperable digital public infrastructure and common application programming interfaces (APIs). This case study shows how shared digital building blocks can accelerate innovation and adoption at scale while enabling data and services to move securely across organizations and sectors.¹⁵¹

A second lesson is that regulation should be reviewed as technologies and use cases evolve. European policy-makers are reviewing frameworks such as GDPR and the AI Act in the context of the Digital Omnibus and the Digital Fitness Check,¹⁵² and could revise and simplify them where needed to avoid unintended barriers to AI adoption. This could include assessing whether business-to-business (B2B) and industrial AI applications can benefit from simplified compliance requirements or lighter-touch regulatory treatment, given their different risk profiles compared with consumer-facing and high-risk AI systems.

Solution 7

Building sovereign and resilient AI and tech infrastructure

➔ The opportunity: resilient AI and tech infrastructure as a basis for industrial leadership

As AI generation and adoption accelerate, access to compute, digital infrastructure and energy is becoming a key competitive factor. Europe has historically relied on external providers in many of these areas, but it is now moving to build sovereign capabilities. Done well, this can turn a strategic vulnerability into an opportunity for industrial leadership.

The scale of the gap shows why action matters: Europe accounts for only 5–10% of global AI

compute capacity, whereas the US controls 60–75%. American tech giants also operate up to 40% of Europe’s own computing infrastructure.¹⁵³ Building resilient capacity in this layer of the AI stack is therefore among the most effective actions Europe can take.

✓ What is working and progressing: InvestAI, Project Beethoven, Stargate Norway and emerging AI champions

Europe is already seeing investment momentum. Planned foreign direct investment into Europe has increased by 40% compared with the pre-COVID average,¹⁵⁴ driven by growing international interest in European AI infrastructure projects, including manufacturing, energy generation and data centres. The EU’s InvestAI initiative aims to mobilize up to €200 billion for AI, including €20 billion for AI gigafactories.¹⁵⁵ Under this framework, the European Commission opened a €10 billion tender in July 2026 for up to seven AI gigafactories¹⁵⁶ – aiming to harness €20 billion in private co-investment to deploy facilities equipped with at least 100,000 advanced chips each. The initiative is complemented by the European Commission’s Tech Sovereignty Package, adopted in June 2026, which combines the proposed Chips Act 2.0, a Cloud and AI Development Act, an EU Open Source Strategy and a roadmap for digitalization and AI in energy. Together, these initiatives aim to strengthen Europe’s capabilities in semiconductors, AI, cloud infrastructure and other strategic technologies, thereby reducing critical dependencies on external providers.¹⁵⁷

Project Beethoven shows how public-private investment can strengthen an ecosystem around an existing European edge. The €2.5 billion programme supports talent, infrastructure, housing and mobility in the Brainport Eindhoven region around ASML (the world’s leading supplier of advanced semiconductor manufacturing equipment and Europe’s most valuable company) and its wider network of technology suppliers and research institutions.¹⁵⁸

Stargate Norway demonstrates another model: combining abundant renewable energy resources with next-generation data centre capacity to accelerate large-scale AI compute infrastructure buildout through private and public-private investment.¹⁵⁹ With regard to models, the EU- and Germany-backed Soofi consortium, which is developing open-source industrial AI models, is an example of public-private collaboration on critical future infrastructure.

Private capital flows and emerging champions also show that Europe can build globally relevant AI businesses. AI-related deals accounted for more than 35% of all European venture capital investment in 2025, worth €23.5 billion, up from €17.7 billion the previous year.¹⁶⁰ The growth includes large financings such as Nscale’s

approximately €1.8 billion funding round,¹⁶¹ and companies such as Mistral, Poolside and DeepL demonstrate that globally relevant AI businesses can be built and scaled in Europe. Other regions are moving quickly – for example, the approximately €460 billion Stargate initiative in the US is accelerating investment in AI infrastructure and compute capacity¹⁶² – but Europe's recent initiatives, funding commitments and emerging technology champions provide a base to strengthen compute capacity, technology ecosystems and sovereign AI capabilities.

➔ **Collaborating to build on the momentum: convert commitments into operating capacity through sites, grids and standards**

Progress on these initiatives so far shows that the speed of implementation matters as much as ambition. Further expanding the impact to meet demand means moving quickly from announcements to operating capacity; InvestAI gigafactories, with winning bids expected in early 2027, will need to advance swiftly to help close the compute gap within this decade. Faster grid permitting, pre-approved zones and accelerated approval of strategic projects can help. The EU and its member states can also take a pragmatic approach to technological sovereignty by maintaining control over critical capabilities while relying on trusted interoperability where appropriate. Governments and businesses could classify workloads and data according to sensitivity and resilience requirements, with the most critical applications running on trusted cloud and AI infrastructure under European or allied jurisdictions.

Public procurement and transparency requirements could reinforce this by requiring providers to disclose where data is stored, under which legal jurisdiction it operates and how continuity of service would be maintained during geopolitical disruptions. At

the same time, businesses can drive interoperable architecture and open standards. To maximize impact, compute infrastructure investments can be paired with incentives that encourage AI adoption at scale.

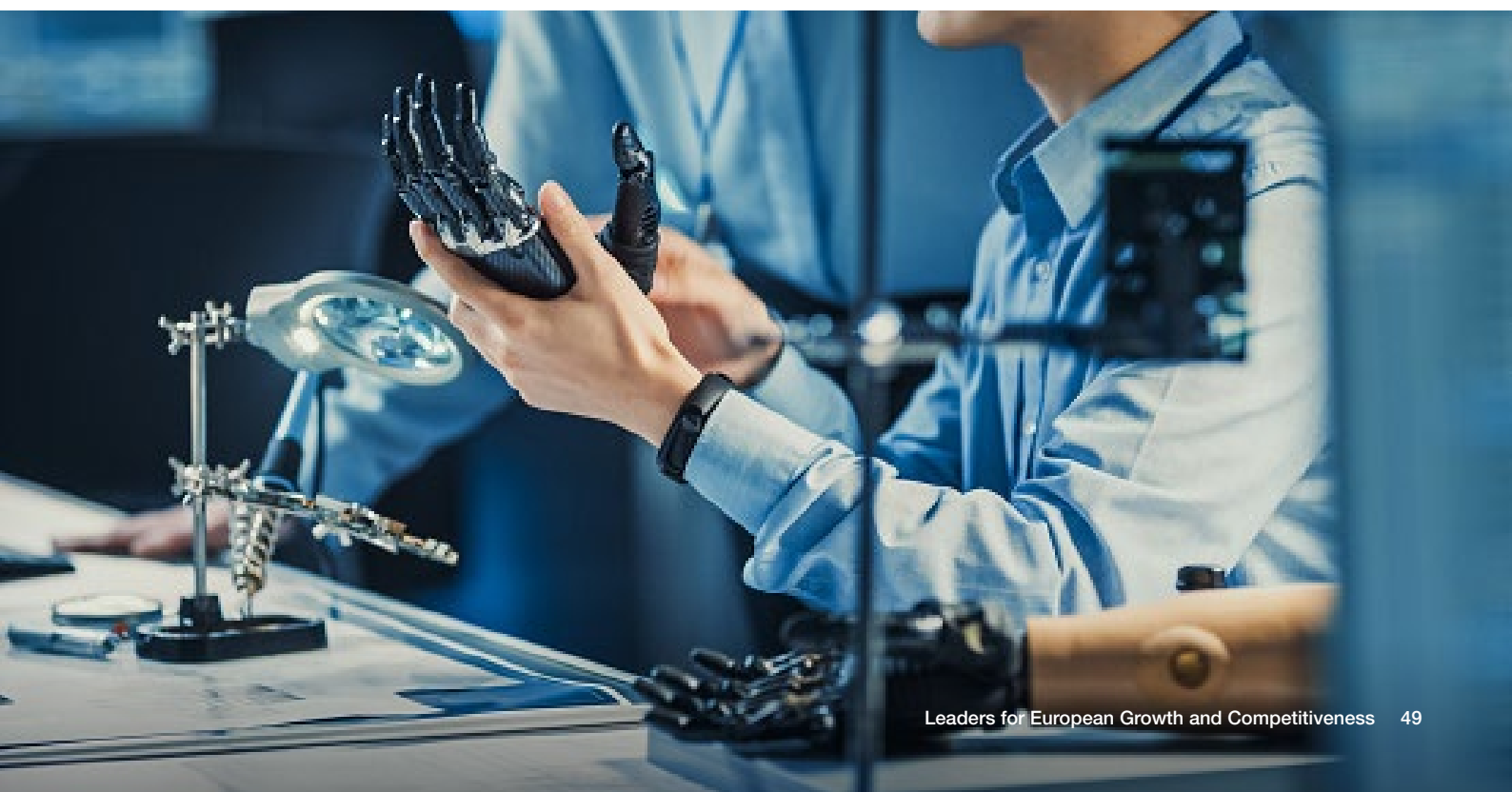
Solution 8

Building sovereign and resilient Building dynamic labour and talent markets

➔ **The opportunity: talent ecosystems that make Europe a magnet for the intelligent age**

As Europe seeks to strengthen its position in AI and other advanced technologies, talent is becoming a decisive competitive factor. The direction of transatlantic tech talent flows has reversed; more tech workers now move from the US to Europe than in the other direction, driven by the latest political dynamics in the US.¹⁶³ This creates an opening to meet growing demand for AI, digital, engineering and scientific talent across sectors. Challenges remain: some EU technology professionals earn less than half of what their US counterparts earn in similar roles,¹⁶⁴ and 40% of the broader workforce lack basic digital skills.¹⁶⁵

Investments in AI and industrial transformation also require labour markets that can support mobility and fast reskilling. Compared with the US and, in some respects, other major economies, European labour-market rules are often more restrictive.¹⁶⁶ A recent study finds that restructuring costs in Germany average 31 months of salary per employee, compared with seven in the US.¹⁶⁷ This cost burden is negatively correlated with innovation investment.¹⁶⁸ Improving labour-market dynamism can help Europe move talent towards high-growth technology fields faster.



“ Talent hubs work when research excellence, industrial demand, start-up ecosystems and career pathways reinforce one another.

✓ **What is working and progressing: talent immigration, deep-tech clusters and anchor-company ecosystems**

Europe is already strengthening its attractiveness to global talent. The revised EU Blue Card has simplified pathways for highly qualified workers from outside the EU and facilitated mobility across member states, helping firms and research institutions recruit international talent in critical fields.¹⁶⁹

Several European clusters show how talent magnets can be built by concentrating research infrastructure, industrial capabilities, start-ups and investment in the same location. In Leuven, Belgium, IMEC has become one of the world's leading semiconductor innovation hubs, combining a state-of-the-art semiconductor pilot line, more than 5,000 researchers from over 95 countries, partnerships with more than 600 companies, extensive university collaboration and a dedicated start-up accelerator.¹⁷⁰ Grenoble, France, provides a similar model in microelectronics and nanotechnology. Anchored by CEA-Leti and the MINATEC innovation campus, it brings together universities, start-ups and industrial leaders such as STMicroelectronics and Soitec in one of Europe's most concentrated semiconductor ecosystems.¹⁷¹ Similar dynamics can be observed in Munich and Zurich, where leading universities, research institutions, global technology companies and vibrant start-up ecosystems have created internationally recognized hubs for advanced technologies.

Talent ecosystems can also emerge around an anchor company. Nokia's decades of deep technology development built a generation of specialized engineers and international business experts in the region – talent that, as Nokia's mobile phone business evolved, flowed into start-ups, spinoffs and research institutions rather than leaving Europe. Today, the Helsinki-Espoo region hosts one of Europe's most dynamic innovation clusters, with hundreds of tech companies, Aalto University and a start-up community that has attracted over \$1 billion in funding.¹⁷² The lesson is that when world-class technical talent is developed at sufficient scale, it generates returns far beyond the anchor company.

These examples show that Europe can attract and retain scarce technology talent when world-class research infrastructure, entrepreneurial

opportunities, industrial demand and career pathways are combined.

➔ **Collaborating to build on the momentum: scale talent hubs, personalized attraction, reskilling and labour mobility**

The lesson from Leuven, Grenoble, Munich, Zurich and Helsinki-Espoo is that talent hubs work when research excellence, industrial demand, start-up ecosystems and career pathways reinforce one another. The EU can build on this model by establishing pan-European research hubs in priority technology areas that act as talent magnets, funded at the EU level and designed to attract global researchers. These hubs can strengthen intellectual property protection, accelerate technology transfer and connect frontier research more closely with leading technology companies, following models similar in concept to CERN. Partnerships with leading universities would be important.

Top talent often responds to specific opportunities rather than generic messaging. The EU and member state governments can build “key account management” for global top talent by systematically identifying the world's most influential researchers, founders, engineers and technology leaders in priority fields and asking what it would take for them to build their next company, lab or breakthrough in Europe. The European Commission could launch EU-wide AI fellowships and a fast-track AI talent visa while member states harmonize employee stock option rules to close the equity compensation gap that drives senior professionals to relocate.

Talent pools expand when learning is embedded in work. The public and private sectors can collaborate to expand on-the-job reskilling, diplomas, postgraduate courses, internships, job placement services and talent attraction programmes. In this way, Europe could reskill more than 1 million Europeans in priority technology fields by 2030.¹⁷³

Finally, disruptive innovation works best when labour is mobile and seeks new opportunities. European governments can facilitate the reallocation of talent towards high-growth technology fields by updating labour-market rules, reducing well-known rigidities and better supporting cross-sectoral mobility.

Leading by example: the power to drive change

Only strategic focus, strong public-private alignment and bold corporate action will unlock the continent's technological growth potential.

Europe's competitiveness will ultimately hinge on
1) whether Europe can identify in an evidence-based way its most strategic opportunities,
2) whether public-private mechanisms can reliably turn ambition into investment and deployment, and

3) whether firms and public institutions act boldly where they already have agency. Together, these factors can translate Europe's scientific strengths, industrial base and savings into productivity growth and new sources of value.

4.1 Taking the lead in future opportunities where Europe can win

“ European industrial companies are well-positioned to develop AI models that outperform generic alternatives in industrial and logistics applications.

Europe can take the lead in the Intelligent Age where the continent combines strong starting positions with large, growing global markets. Several illustrative examples are outlined below and cluster around enabling platforms, specialized application domains and deep-tech systems where Europe already has distinctive capabilities.

One set of opportunities lies in building the enabling platforms that future industries will depend on. It is essential for Europe to secure the digital infrastructure and access to strategic materials that provide the foundation for AI, semiconductors, advanced manufacturing and clean technologies. In telecommunications, Europe can create a next-generation connectivity platform by combining advanced fibre networks, cloud infrastructure, edge computing and AI-enabled digital services.¹⁷⁴ Europe can strengthen resilience in critical raw materials by expanding capabilities in extraction, refining, processing and recycling.¹⁷⁵

A second set of opportunities lies in specialized vertical AI domains. Rather than trying to catch up to US hyperscalers, Europe can aim to leapfrog and take the lead in high-potential technology domains where global leadership positions are still being defined. As an example of one of these pockets of opportunity, Europe can become a global leader in specialized vertical AI – building on its industrial base, scientific leadership and growing data assets.

Potential opportunities span sectors such as healthcare, defence, pharma, industry, transport and logistics, and engineering. For example, combining biological, clinical and population-level data with advanced AI models could accelerate drug discovery, diagnostics and personalized medicine,¹⁷⁶ while AI-enabled logistics networks could optimize routing, improve asset utilization and create more efficient freight systems.¹⁷⁷ European industrial companies such as Germany's ifm, with its vast proprietary sensor datasets from global manufacturing operations, are well-positioned to develop AI models that outperform generic alternatives in industrial and logistics applications.

Third, Europe can also improve its position in strategic technologies where it already possesses world-class research capabilities and industrial strengths. In the semiconductor value chain, Europe remains home to globally important capabilities, including advanced equipment manufacturing, specialized suppliers and leading research institutions. Building on these strengths, Europe can accelerate the development and deployment of next-generation technologies such as quantum sensing, communications and computing, as well as large-scale scientific infrastructure such as the Einstein Telescope. Potential applications range from healthcare and manufacturing to defence and scientific research, while also reinforcing Europe's long-term technological sovereignty.

4.2 Strengthening public-private mechanisms to turn ambition into investment and deployment

Many of the most important opportunities identified in this report will require close collaboration between the public and private sectors. Coordinated action is essential to manage large upfront investments, long development cycles and shared dependencies. Close collaboration between the public and private sectors can help pool resources, align

incentives, reduce risk and create the scale needed for European firms and ecosystems to compete globally. Box 1 outlines the typical success factors that stimulate these mechanisms (such as clear shared objectives, aligned incentives, effective governance and sustained leadership commitment) as well as relevant case examples to learn from.

BOX 2 Public-private collaboration success factors

While business leadership is essential, many of the most ambitious opportunities require collaboration between public and private actors – often a challenging proposition.



Success factors

1. **Align around a common objective:** Define a single, unambiguous goal so that participants work towards the same outcome
2. **Create a shared fact base:** Use shared data and common measures so decisions are based on evidence rather than opinion
3. **Set clear decision criteria and governance:** Agree on who has authority to make decisions and how issues will be addressed when parties disagree
4. **Agree on timelines:** Identify the critical path, address timeline uncertainties, and clarify which decisions must be made when
5. **Bridge cultural differences:** Create trust and a shared understanding between public- and private-sector partners
6. **Navigate stakeholder complexity:** Identify key stakeholders, understand their incentives, and actively manage relationships to maintain alignment and momentum

7. **Secure leadership commitment:** Ensure senior leaders across participating organizations remain visibly committed to the partnership's goals and outcomes



Examples

- **EU-Catalyst Partnership** (since 2022): The European Commission, EIB and Breakthrough Energy (Gates) pool €820M in public and philanthropic capital to co-invest with private partners in four hard-to-abate clean technology sectors: clean hydrogen, direct air capture, sustainable aviation fuel and long-duration energy storage
- **Singapore FAST-P** (since 2024): Singapore's MAS commits \$500 million in concessional capital — matched dollar-for-dollar by international partners — to crowd in up to \$5 billion in blended finance supporting Asia's clean energy transition
- **Made for Germany** (since 2025): 61 leading German companies jointly pledge €631 billion in investment by 2028 and establish a structured business-government dialogue with the Merz administration to advance Germany's competitiveness across digitalization, innovation and infrastructure.

Source: European Commission. (2022). *EU Catalyst Partnership: European Commission and Breakthrough Energy*; Monetary Authority of Singapore. (2024). *Singapore Commits US\$500 Million in Matching Concessional Funding to Support Decarbonisation in Asia*; Made for Germany Initiative. (2025). *Launch Statement and Investment Pledge*.

Public-private collaboration can, for instance, be applied to build a European data stack (see Solution 6). Success will depend on aligning public institutions, industry leaders and research communities around a clear objective from the outset, rather than allowing competing national or sectoral priorities to fragment the effort. Governance structures must be agreed upon early, with clear decision rights and mechanisms for

resolving disagreements. Senior leaders from both government and industry will need to remain visibly and durably committed, as the development cycles involved are long and momentum is easily lost when political or business attention shifts. If these conditions are met, a European data stack could do for industrial data what the single market did for goods: create a foundation on which European firms can build, compete and scale globally.



4.3 Encouraging and enabling more firms to act boldly where they already have agency – “the power of one”

Public-private collaboration is essential, but it is only part of the story. Competitiveness and growth will eventually depend on decisions made directly by firms, investors and other institutions. A meaningful share of Europe's competitiveness agenda does not require waiting for new legislation or perfect framework conditions. It depends on whether business leaders and institutions act boldly where they already have agency.

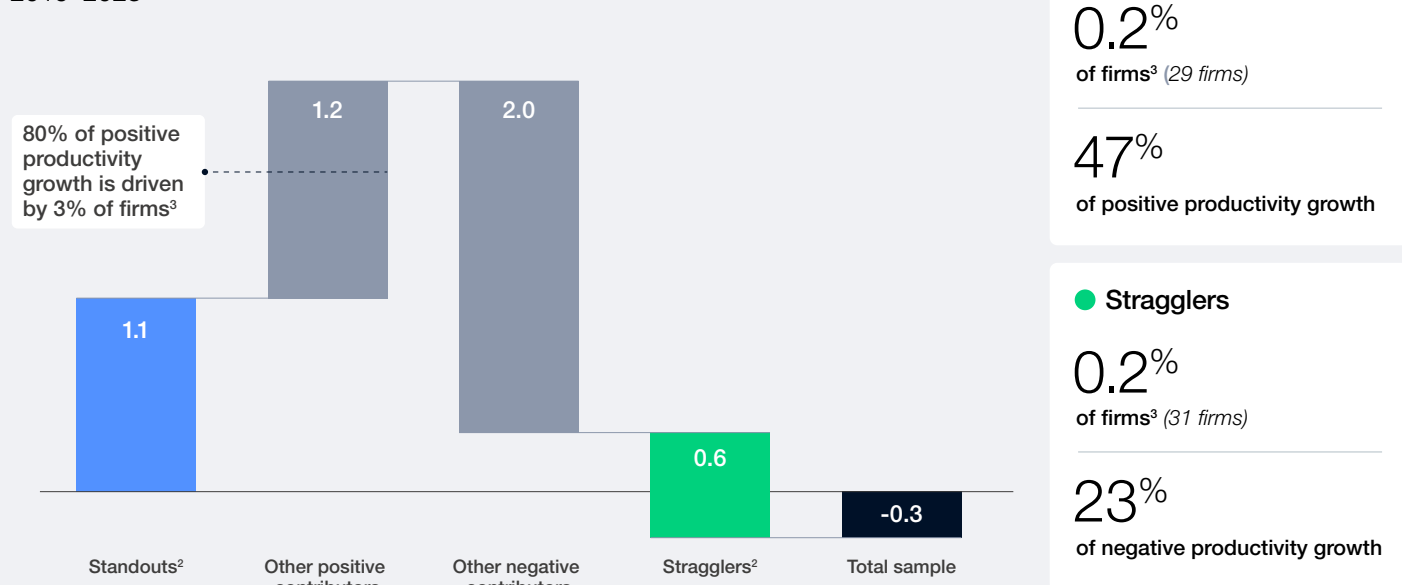
McKinsey Global Institute research shows that productivity growth is surprisingly concentrated among a few standout firms. In Germany, for instance, just 29 such firms (representing only 0.2% of companies in the sample) generated nearly half of all positive productivity growth between 2019 and 2023. This illustrates the “power of one”: a single (standout) firm can have an outsized impact on national economic performance (Figure 10). The implication is remarkable: if a few dozen firms can move the needle in one large European economy, then a few hundred additional standout companies across Europe could materially change the continent's productivity trajectory.

Standout companies increase productivity with a small number of bold strategic moves. One example is scaling highly productive business models or technologies where they already have a genuine edge. For example, Siemens built a global leadership position through a long-term research and development (R&D) commitment, a successful pivot from industrial hardware to software and digital services, and a deeply integrated manufacturing ecosystem.¹⁷⁸ More recently, Proxima Fusion, a Munich-based spin-out from the Max Planck Institute for Plasma Physics, has emerged as one of Europe's most promising deep-tech ventures, seeking to commercialize stellarator-based fusion energy and already attracting record levels of private investment.¹⁷⁹

Across all sectors identified earlier in this report, EU institutions and member state governments, together with European companies, investors, universities and research institutions, must identify where global-scale companies or consortia can be built in Europe, what capabilities need to grow and how each actor can help make those bets succeed.

FIGURE 10 In Germany, 0.2% of firms drive roughly half of positive productivity growth

Annual productivity growth contribution by firm cohort, German firms sample¹ 2019–2023



Notes: 1. Sample of approximately 16,200 German firms covers 36% of the gross value added of the economy. For global firms with reported data on German employment, the analysis considers domestic employment while keeping global productivity levels. 2. Standouts and stragglers are the firms contributing to more than 1bps (basic points) of the sample positive and negative growth. 3. Standouts represent 21% of total sample employment. Stragglers represent 5% of sample employment. The 3% of firms that drive 80% of total positive growth account for 51% of the sample's employment.

Source: Moody's Investors Service; EU KLEMS (capital, labour, energy, materials, services); US Bureau of Labor Statistics; Capital IQ; McKinsey Global Institute analysis.

Companies can also play their part in progressing the agenda proposed by Mario Draghi without waiting for policy change. Although many reforms require action by European and national policy-makers, companies can unilaterally invest in AI, strengthen innovation capabilities, develop talent, build partnerships and pursue new sources of growth. A review of the Draghi

report's recommendations suggests that roughly 20% hinge primarily on business or industry action, while around 15% require public-private collaboration. This shows that a significant share of Europe's competitiveness agenda can be advanced by businesses themselves and through collaboration, even as broader policy reforms continue (Figure 11).

FIGURE 11 **Roughly 20% of the *Future of European Competitiveness* report recommendations call for businesses to take the lead**

Primary actor	Share of recommendations	Examples
 EU-level legislative/regulatory	40% (153) 	28th Regime legislation, merger guideline revision, Solvency II reform, AI Act implementation, telecoms consolidation framework, defence procurement directive
 National government-led action	25% (96) 	Grid permitting reform, education/skills programmes, national R&D coordination, defence budget allocation, start-up visa schemes, tax incentives for R&D
 Business/industry-led action	20% (77) 	Cross-border standardization through industry consortia, AI adoption and deployment, worker retraining investment, data-sharing initiatives, supply chain diversification, corporate R&D scaling, ecosystem partnership
 Joint/mixed action (public-private)	15% (57) 	IPCEI programmes, strategic hub co-investments, pre-commercial procurement, innovation partnership, talent attraction programmes

Notes: Approximately 380 recommendations from the report were reviewed and grouped by primary implementation responsibility. Recommendations were assigned to one of four categories: EU-level legislative/regulatory action, national government action, business/industry-led action, or joint public-private action. Recommendations involving multiple actors were classified according to the actor with primary responsibility for delivery.

Source: Draghi, M. (2024). *The Future of European Competitiveness*. The European Commission; McKinsey analysis.

Europe increasingly understands the nature of its competitiveness challenge and the actions needed to address it. Progress is already visible across capital formation, AI adoption, public-private

collaboration and parts of the policy agenda. The imperative now is to translate this momentum into implementation at sufficient speed and scale.

Summary

This chapter argues that moving from ambition towards implementation will require progress on three fronts at once: improving framework conditions further, strengthening public-private mechanisms to turn ambition into investment and deployment and encouraging more firms and institutions to act boldly where they already have agency. Many of the most important solutions in the competitiveness agenda sit with the public sector, particularly at the EU, national and regional levels. Public policy alone will not be enough, however. Success will also depend on the speed and ambition with which businesses, investors, universities and other institutions invest, adopt, build and scale.

Only by making progress across the full competitiveness agenda can Europe convert its full potential into long-term productivity growth.

Europe has many of the resources it needs – and it has never been short of self-criticism in recognizing its shortcomings. While many relevant initiatives, reforms and pilots are already under way, it is key to now execute at speed, replicate what works and scale across sectors and member states. If it can do so, Europe can strengthen its technological position, raise productivity growth and secure a more resilient and prosperous place in the intelligent age.

In collaboration with Oliver Wyman,
a Marsh business

Leveraging Financial Markets



Overview

To maintain global competitiveness, Europe must close its critical funding gaps by strengthening mechanisms to turn savings into productive investments.

“Europe, therefore, needs a financial system that connects savings to productive investment, supports prudent long-term risk-taking and allocates capital efficiently to the projects and sectors that matter most.

Europe faces a defining economic challenge: the need to mobilize an unprecedented sum to finance investment in the region's growth and competitiveness priorities. Mario Draghi's 2024 report, *The Future of European Competitiveness*,¹⁸⁰ estimated that Europe required additional annual investment of €800 billion through 2030; more recent analysis suggests that this sum may be as high as €1.4 trillion. However, the region does not suffer from a lack of available funds; in 2023, European households held €37 trillion in savings.¹⁸¹ The problem lies instead in transmission mechanisms. Too little of Europe's capital reaches the businesses, infrastructure and technologies that can generate its future growth.

Europe, therefore, needs a financial system that connects savings to productive investment, supports prudent long-term risk-taking and allocates capital efficiently to the projects and sectors that matter most.

Europe needs to develop a fully functioning financing continuum – the spectrum of financing channels available to corporates based on risk, cost and duration. Such a system would direct capital towards Europe's strategic ambitions, price projects appropriately and ensure that risks are held by those best placed to manage them. That means linking household savings, pension capital, bank balance sheets, securitization opportunities, private markets and public markets into a more integrated system. No single channel can close the investment gap alone. Instead, Europe needs to strengthen and

repair its transmission mechanisms to allow capital to flow from savers and long-term investors to the projects that support Europe's future.

These findings draw on the work of the Leveraging Financial Markets (LFM) pillar of the Leaders for European Growth and Competitiveness (LGC) initiative. The initiative provides a platform for leaders across the public and private sectors to propose strategies to increase the availability and diversity of investment in Europe and reduce the frictions that constrain it in support of individuals, corporates, governments and broader regional ambitions. The pillar aims to accelerate progress on the European Savings and Investments Union (SIU) by developing pathways to further integrate and deepen Europe's single market for financing.

This chapter first discusses the functioning of Europe's financing continuum and the various financing channels available to European firms. Currently, these firms are heavily reliant on bank lending and are not fully accessing other channels like listed debt, public equities, private equity (PE), and venture capital (VC). It then discusses three enablers that are critical to financing Europe's investment needs, either by further strengthening the financing continuum or by generating larger pools of long-term, risk-tolerant capital to be deployed across these financing channels. They emerged as priorities due to their potential impacts and relevance to existing European Commission (EC) proposals.



1. **Securitization:** Europe can revive securitization markets to create a safe, transparent and scalable financing channel that enables banks to recycle capital and expand their direct lending capacity.
2. **Pension systems:** Europe can harness its pension systems more effectively to provide patient, long-term capital, which can be deployed across the financing continuum while simultaneously improving retirement security for citizens.
3. **Retail investors:** Europe can increase retail participation in capital markets to boost financing channels like public equity markets and to build citizens' wealth.

Together, these enablers would help deepen Europe's markets, improve household outcomes, and make a meaningful contribution to closing the investment gap; estimates suggest that these enablers could unlock €676 billion in annual financing. That said, the timescales of their impacts vary. Securitization is likely to have a more immediate impact by recycling capital and freeing up bank balance sheets for new lending; financial actors have the capabilities to quickly develop this market. Activating retail investors and future-

proofing pension systems, by contrast, will require long-term, systemic and behavioural changes. Fully developing these pools of long-term, risk-tolerant capital will take years, but would have a significant impact on the size and depth of European markets. Even so, incremental progress on these issues is possible and emphasizes the need for swift action. The rise of neo-brokers, for example, reveals pent-up demand from retail investors in Europe.

European policy-makers have recognized the direction of travel, and the SIU proposals provide many of the building blocks. The challenge is no longer diagnosis, but delivery. Fragmentation, complexity and slow implementation or adoption of EC policy proposals and recommendations across member states continue to limit Europe's ability to mobilize capital at scale for national and European Union (EU)-level priorities. Accordingly, the chapter offers guiding principles for mobilizing European financial markets to drive growth and competitiveness.

The EU has the savings, institutions and ingenuity to finance its own future. Whether it converts these strengths into investment, growth and prosperity for its citizens will depend on political will, coordinated execution and private-sector engagement.

Context: Finance as a key enabler for European growth and competitiveness

Europe's investment needs are significant and complex, positioning a strengthened financial system as a key lever in achieving European targets.

Finance sits at the centre of Europe's goal to achieve its strategic objectives. Yet its current financial system cannot mobilize capital at the scale, speed and risk profile needed. Success will depend on mutually reinforcing policy and market enablers such as modernizing the EU regulatory framework, removing barriers within the single market, deepening capital pools, strengthening and integrating financial channels and ensuring better coordination across the EU and its 27 member states. While policy discussions are largely focused on the EU's member states and additional members of the European Economic Area (i.e. Liechtenstein, Iceland and Norway), there are best

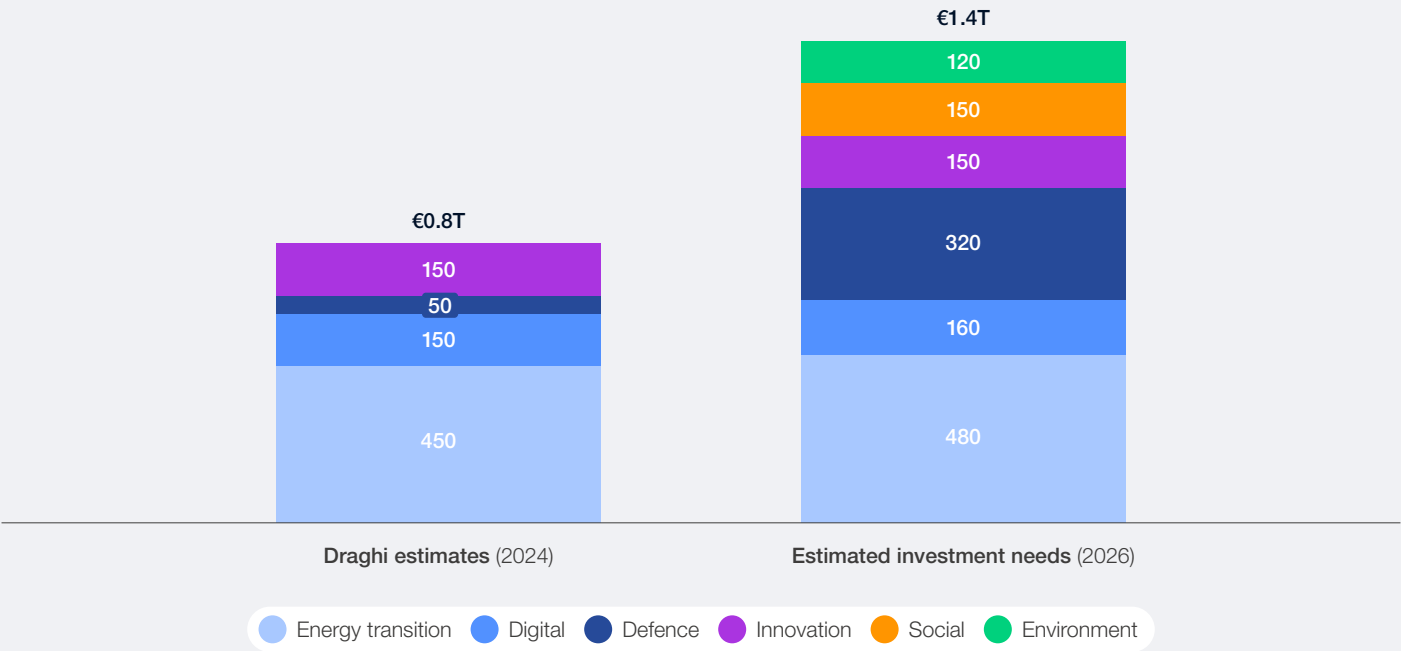
practices that can be shared between the EU and neighbouring European countries, including the UK and Switzerland.

The scale of investment required is unprecedented: *The Future of European Competitiveness* report estimated that Europe must mobilize an additional €800 billion per year from 2025 to 2030 to meet priorities related to the clean energy transition, digital infrastructure and defence.¹⁸² More recent estimates suggest the annual requirement could be as high as €1.4 trillion, reflecting rising defence needs, intensifying global competition, and broader social and environmental priorities.



FIGURE 1 | EU additional annual investment needs

€B per year until 2030–2031



Source: Draghi, M. (2024). The Future of European Competitiveness. European Union; Farah, E., Strahan, M. & Lancaster, R. (2026, 20 January). *Europe has the capital to compete – it just needs to fix its financial plumbing*. World Economic Forum; European Investment Bank (EIB). (2025). *Investment gaps to achieve sustainable targets in the bioeconomy*; European Central Bank (ECB). (2025). *Green investment needs in the EU and their funding*; European Central Bank (ECB). (2025, 25 July). *Time to be strategic: how public money could power Europe’s green, digital and defence transitions*. European Commission. (2018). *Boosting Investment in Social Infrastructure in Europe*; European Parliamentary Research Service (EPRS). (2025). *Benefits of EU strategic investment in high-tech digital innovation*; Oliver Wyman analysis.

Failure to close this investment gap risks a lasting erosion of the continent’s global relevance. The US leads in frontier technologies, China has built scale advantages in green manufacturing and Europe risks becoming a bystander in the industries that will define future growth, productivity and security. The consequences would impact citizens and businesses alike, including through weaker job creation, persistently high energy costs or growing pressure on pension systems.

Europe faces a financial plumbing problem as the mechanisms for transferring risk to the right holders remains too fragmented, constrained and inefficient:

- Pension funds, a core source of patient capital (i.e. longer-term and risk-tolerant), are underfunded in most member states, and in many cases simply do not exist.
- Retail investors remain relatively risk-averse and are steered away from capital markets.
- Prudential rules have historically caused insurers to invest in low-risk, low-yielding assets.

- Securitization markets, which can help transfer risk from bank balance sheets to long-term investors, remain underdeveloped.
- EU banks are well-capitalized and in their strongest positions in years, yet structural and market conditions have recently constrained their financing activities in higher-risk and longer-term investments.

Over time, regulation has strengthened financial stability and consumer protections, but it has also contributed to a system in which the pipes connecting capital to the real economy are clogged, trapping savings in low-yield, low-risk assets. Meanwhile, persistent fragmentation across member states prevents capital from efficiently flowing across borders to where it can generate productive returns. Estimates suggest that barriers in Europe are equivalent to a tariff rate of more than 100% on financial services alone.¹⁸³

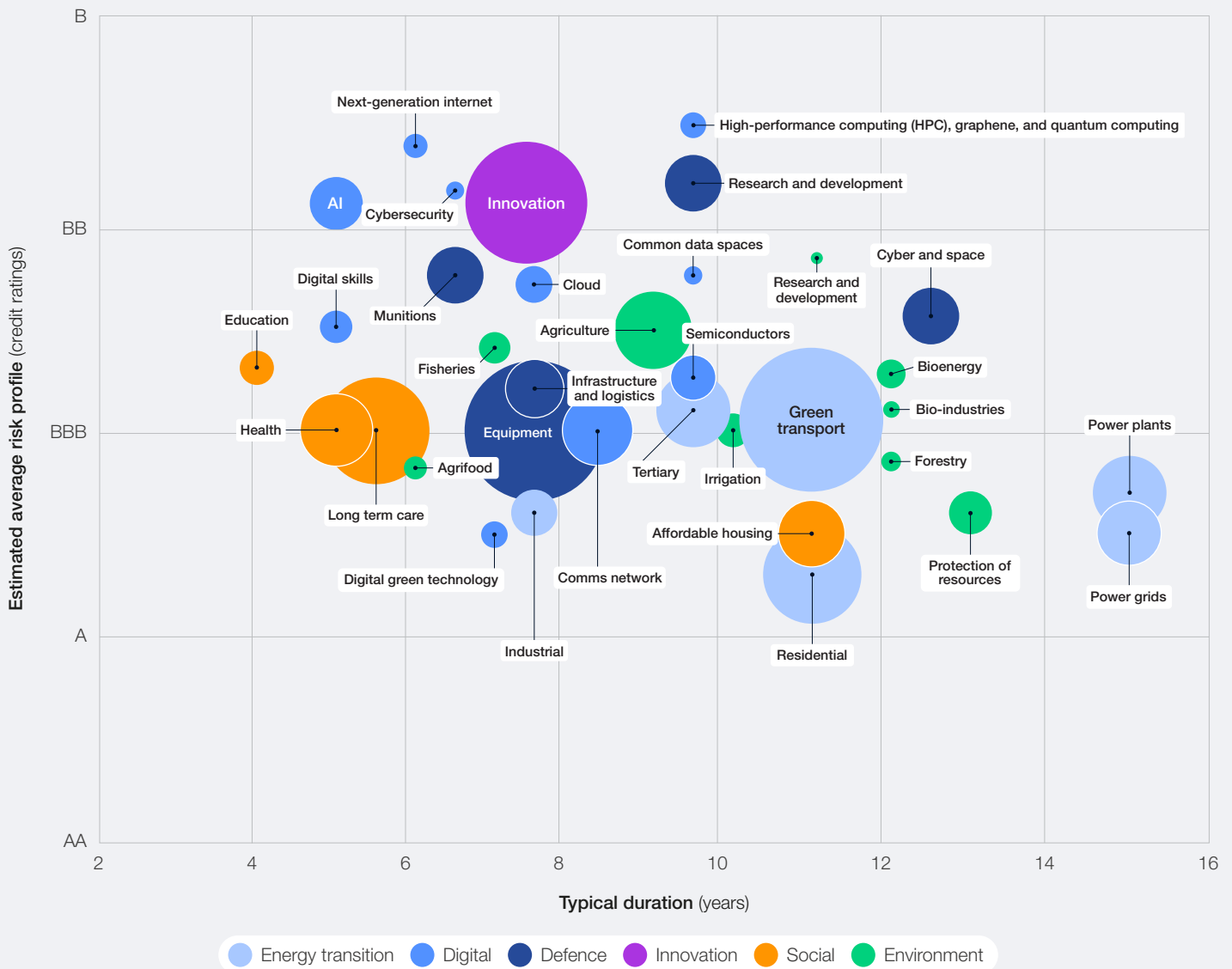


Ensure policy appropriately incorporates growth and competitiveness objectives, and build accountability mechanisms into the resulting supervisory structure.

The investment needs underpinning Europe's competitiveness agenda are also not uniform. Different strategic priorities require different forms of capital, depending on their risk, duration, scale and cash-flow characteristics. Many of Europe's investment needs are concentrated in capital-

intensive, long-duration and higher-risk assets. Each of these requires different financing channels with different characteristics depending on asset maturity, cash-flow visibility, technology risk, policy dependence and the extent to which returns can be monetized.

FIGURE 2 Estimated financing needs by risk and duration profile



Source: Draghi, M. (2024). *The Future of European Competitiveness*. European Union; Farah, E. et al. (2026). *European bank competitiveness – Enabling banks to play a greater role financing European growth*. European Banking Federation; European Investment Bank (EIB). (2025). *Investment gaps to achieve sustainable targets in the bioeconomy*; European Central Bank (ECB). (2025). *Green investment needs in the EU and their funding*; European Central Bank (ECB). (2025). *Time to be strategic: how public money could power Europe's green, digital and defence transitions*; European Commission. (2018). *Boosting Investment in Social Infrastructure in Europe*; European Parliamentary Research Service (EPRS). (2025). *Benefits of EU strategic investment in high-tech digital innovation*; European Commission (2020). *Europe's moment: Repair and Prepare for the Next Generation*; Oliver Wyman analysis.

Europe should therefore mobilize the right type of capital across the full risk and return spectrum. The different financial profiles of required investments underscore that Europe cannot rely on a single financing solution. Public institutions, banks, capital markets and private investors all have roles to play. Table 1 provides an illustrative indication of the different forms of capital needed across these strategic sectors.

TABLE 1 | Europe's investment priorities across capital sources

	Long-term institutional capital	Risk-bearing private capital	Public-private capital blend
	 Very high importance  High importance  Medium importance		
Clean energy transition	Power plants, power grids, green transport	Industrial decarbonization; carbon capture, utilization and storage	Energy security, tertiary industry
Digital	Communications networks, cloud	AI, next-generation internet, semiconductors, cybersecurity, HPC, quantum	Common data spaces, digital skills
Defence	Infrastructure and logistics	Cyber and space, R&D	Munitions, equipment
Innovation	Pilot lines, testing and scale-up facilities	Breakthrough start-ups, frontier R&D	Strategic sovereignty
Social	Health	Healthtech, educational tech	Affordable housing, education, long-term care
Environmental	Water infrastructure, forestry, fisheries	Bioenergy, bio-industries, agrifood	Protection of resources

3

Financing Europe's investment challenge

Europe must strengthen and repair its financing continuum to provide funding channels across the risk, return and duration spectrums.

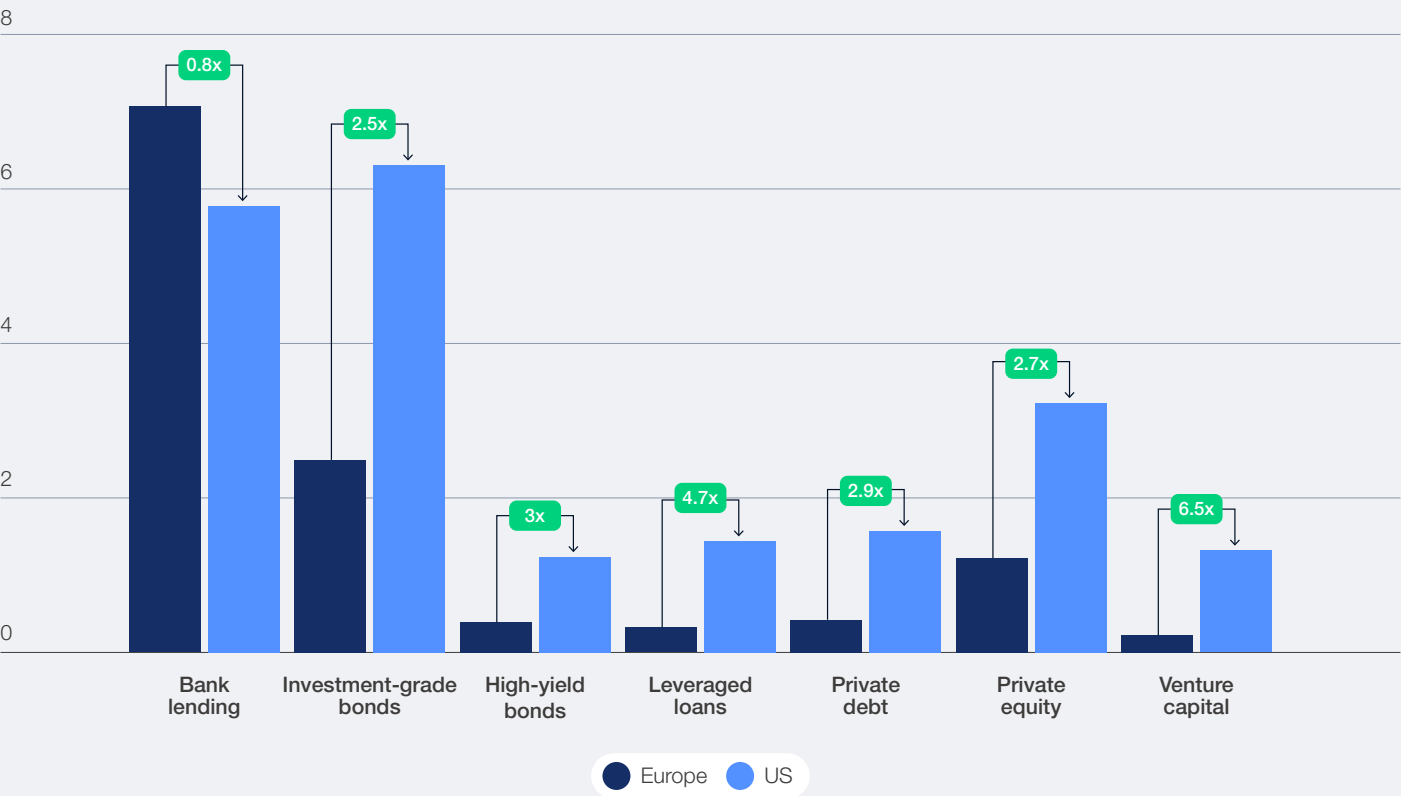
Europe's investment challenge is not driven by a lack of savings. In 2024, European households held €39.4 trillion in savings, yet a large share remained in low-risk, low-yielding instruments.¹⁸⁴ Around 32% of household assets are held in cash and bank deposits, more than double the 13% held by American households.¹⁸⁵ The challenge is mobilization: converting these savings into investments, moving capital efficiently across borders and ensuring risk is well distributed across the system.

European corporates are heavily reliant on bank lending, with banks providing more than 65%

of debt financing to non-financial corporates, compared with approximately 35% in the US.¹⁸⁶ US corporates can access financing through a broader, deeper ecosystem, supported by larger investor pools and more liquid secondary markets, enabling efficient pricing and risk distribution. Europe continues to operate through a patchwork of national markets shaped by differences in regulation, supervision and insolvency regimes. These frictions raise the cost of capital, reduce liquidity and prevent risk from moving efficiently across borders to the investors best placed to hold it.

FIGURE 3 Market sizing of financing channels in EU versus US

End-2024, \$T

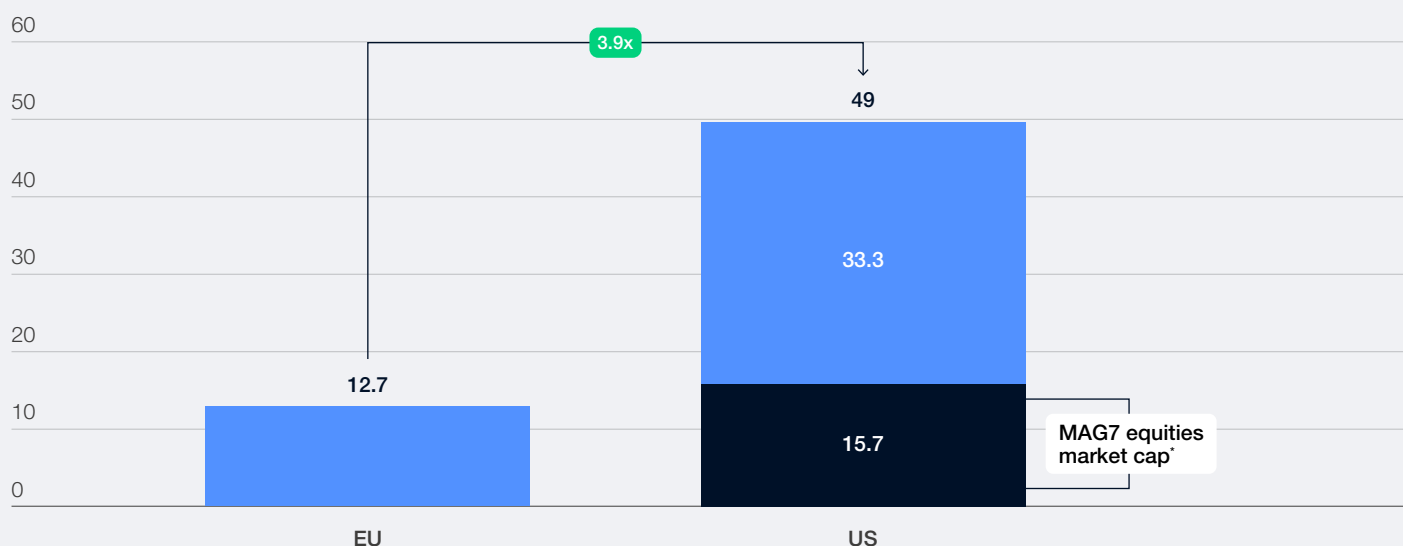


Source: European Banking Authority (EBA). (2024). EBA risk dashboard; Federal Reserve Economic Data (FRED). (2024). Bank loans to non-financial corporations; Van Steenis, H., Watkin, L. & Lancaster, R. (2026). Private Credit's Next Act in Europe. Oliver Wyman; Pitchbook. (2024). Venture Capital data; Preqin. (2024). Private Equity data; Preqin. (2024). Private Debt data; InvestEurope. (2024). Private Equity & Venture Capital Research. Oliver Wyman analysis.

The gap is also visible in public equity markets. At the end of 2024, the EU stock market capitalization was around 70% of the EU's GDP (gross domestic product), compared with the US's stock market capitalization of approximately 270% of US GDP.¹⁸⁷ Europe's shallower and more fragmented equity markets weaken valuations, reduce liquidity and can make it more difficult for firms to raise capital domestically.

FIGURE 4 Equity market capitalization in EU versus US

End-2024, \$T



Note: *MAG7 constitutes Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta and Tesla.

Sources: Securities Industry and Financial Markets Association (SIFMA). (2025). *Capital Markets Fact Book*; NASDAQ. (2024). *Market data for market capitalization of MAG7 constituting Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta and Tesla*; Oliver Wyman analysis.



3.1 The financing continuum

A well-functioning financing continuum (the spectrum of financing channels available to corporates depending on risk, return and duration profile) provides firms and projects with access to the appropriate funding sources that they require based on their needs and characteristics as they grow and evolve. It comprises a broad ecosystem of channels, including banks, listed debt, private credit, PE, VC and listed equity markets.

Its purpose is to ensure that the right type of capital reaches the right investment at the right stage of its development and that risk is allocated to

the investors best placed to bear it. Efficient risk allocation simultaneously supports growth and resilience by putting savings to more productive use and preventing risk from becoming concentrated in any one part of the system.

Europe's challenge is that this continuum does not yet function seamlessly. The mechanisms that connect savings to productive investment remain too fragmented, inefficient and weak. The consequence is a system in which substantial funding supply exists but is not mobilized.

TABLE 2 Europe's financing continuum – corporate view

Channel	Bank lending	Listed debt		Private credit	PE/VC	Listed equity
		Investment grade	High yield			
Risk allocation	Low-medium collateral	Low-medium	Medium	Medium-high	High	High
Average cost for corporates	Bench rate + 100–150 basis points (bps)	Bench rate + 200–450 bps		Bench rate + 450+ bps	Bench rate + 700+ bps	-
Observations	Constrained and bar to access is higher for corporates	Inaccessible to smaller corporates (less developed than the US)		Playing a bigger role and dominated by US players	Playing a bigger role and dominated by US players	Highly fragmented
Assets in Europe	€18T loans (€7T non-financial)	€8T (€2.5T non-financial)	€1T (€0.5T non-financial)	€0.5T assets under management (AUM)	€1.5T AUM	€14T
Infrastructure in Europe	4,000+ banks 120 supervised by European Central Bank	3 listed exchanges 16 trading exchanges 1 clearing house		350+ firms	1,750+ firms	35 listed exchanges 41 trading exchanges 18 clearing houses
Asset owners	Banks	Insurers Pension funds Asset managers		Private credit funds Insurers partnerships Pension funds	PE/VC funds Pension funds Family offices	Pension funds Asset managers Households

Sources: Farah, E., Strahan, M. & Lancaster, R. (2026). *Europe has the capital to compete – it just needs to fix its financial plumbing*. World Economic Forum; European Banking Federation. (2026). *European bank competitiveness – Enabling banks to play a greater role in financing European growth*.

Bank lending

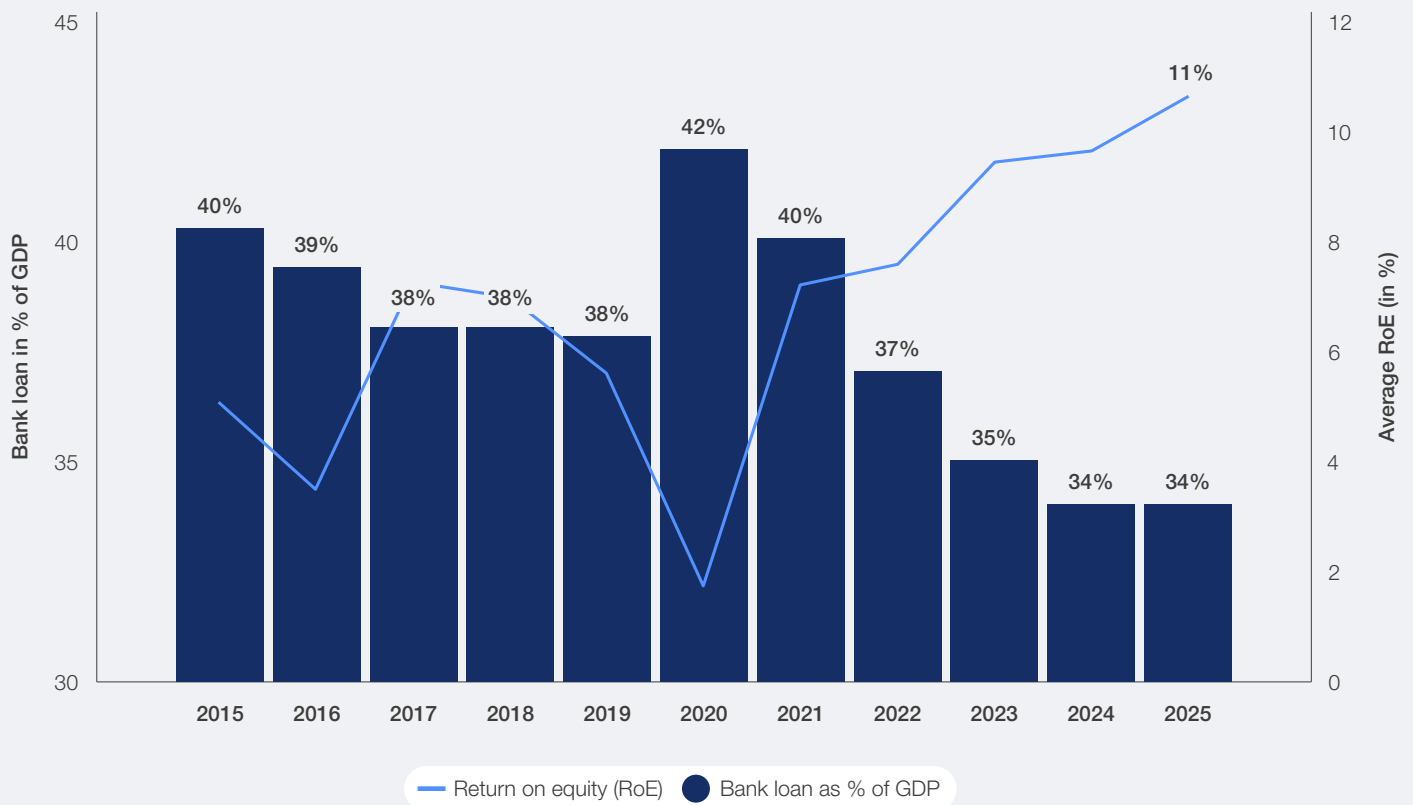
Banks are central to Europe's financing continuum and essential to financing growth. They intermediate the bulk of corporate credit and remain the primary source of finance for small and medium-sized enterprises (SMEs) and mid-cap (middle capitalization) companies that sit beyond public debt markets. Banks are also critical to deeper capital markets as they originate assets, assess and price risk, and connect borrowers with institutional investors who have an appetite for longer-duration or higher-risk exposures.

Since the GFC, regulatory reforms, necessary to restore public confidence in the financial system,

have made European banks substantially safer and more resilient. Examples include the implementation of Basel III and the creation of the Single Supervisory Mechanism, the Single Resolution Mechanism and the European Banking Authority. However, incremental reforms have resulted in an increasingly complex regulatory framework.

While banks are now more profitable, the composition of lending has shifted away from the long-duration assets that Europe needs to finance its ambitions.¹⁸⁸ Bank financing of the economy, measured by lending to non-financial corporates as a share of GDP, has declined by 7 percentage points between 2015 and 2025, at a time when Europe most needs investment.

FIGURE 5 Evolution of EU bank return on equity and share of EU bank loans to non-financial corporates (2015–2025)



Note: Based on a sample of the 10 largest EU banks (total assets).

Sources: European Central Bank (ECB). (2024). ECB Data Portal; European Commission. (2024). Eurostat, National accounts and GDP.

If Europe is to close its investment gap and strengthen its competitiveness, banks must continue to play an active role as direct lenders and underwriters of risk. Their role in originating, underwriting and packaging securitized assets is discussed further in Section 5.



Modernize European regulations and supervision to preserve resilience and stability while monitoring global peer developments.



Listed debt

Listed debt refers to fixed-income securities that enable companies to access financing through issuing instruments that are then traded on exchanges. This financing channel could play a larger role in Europe's financing continuum by providing companies with long-term funding beyond bank balance sheets and broadening the investor base across different risk profiles. Investment-grade listed debt is issued by lower-risk borrowers with stronger credit ratings and a higher likelihood of repayment. High-yield debt is issued by companies considered riskier, either because of higher existing debt levels or weaker credit ratings, and therefore typically carries higher interest rates.

Investment-grade

Europe's investment-grade market is sizeable, but remains fragmented across jurisdictions, investor pools and market infrastructure. Investment grade debt can be listed in three venues and traded across 16. It is then settled through around 30 central securities depositories, compared to only one in the US. This increases complexity for cross-border issuance and settlement, limits liquidity, raises trading costs and weakens price transparency. Public bond issuances also remain largely inaccessible to small and mid-sized corporates in Europe as minimum deal sizes, rating requirements, legal documentation and advisory fees impose significant cost barriers. US debt markets are deeper and more standardized, which spreads issuance costs and sustains a private placement market that gives mid-sized companies a route to bond finance.

High yield

Many of Europe's investment needs are higher-risk, but the listed debt markets that could fund them remain relatively small, making it challenging to predict when market conditions would allow a company to raise capital. Issuing this kind of debt

only makes financial sense at scale, given that, whether a company raises €50 million or €400 million, the legal, administrative and marketing costs are largely fixed. In 2024, a typical European high-yield bond deal raised around €450 million, although most SMEs and mid-sized companies need far less.¹⁸⁹ As a result, many smaller firms are priced out of this financing route entirely and are therefore instead reliant on bank loans or private credit financing.

Private credit

Private credit – a form of lending in which debt is not traded on public markets but is exchanged directly between non-bank lenders and businesses – is becoming an increasingly important part of Europe's financial system, providing funding that cannot be met by traditional bank lending or listed debt markets. Although the market remains relatively nascent in Europe compared to the US, it is growing quickly: private credit fundraising in Europe and the UK rose by 35% in 2025.¹⁹⁰

A major source of future growth in Europe is likely to be asset-based finance (ABF), which involves lending to hard assets such as data centres and renewable energy, secured against physical assets or pools of contractual cash flows (the cash receipts generated by physical assets). The European ABF market is estimated at around €4.2 trillion, but more than three-quarters remains on bank balance sheets, creating significant opportunity for investors.¹⁹¹

However, scaling private credit remains challenging. Origination requires local networks, servicing capabilities and country-level expertise, while markets are fragmented by language, law and licensing. As a result, bank partnerships are increasingly common: banks bring origination, client relationships and local knowledge, while private credit firms provide balance-sheet capacity and risk-sharing facilities.

35%

rise in private credit fundraising in Europe and the UK in 2025.

“ Europe is not short of entrepreneurial capacity, but struggles to scale companies. It hosts nearly 40,000 early-stage companies, more than any other region globally.

Private equity and venture capital

Private equity (PE) is a funding channel that pools capital to privately acquire, manage, grow and eventually sell non-publicly traded companies. It provides larger pools of capital, governance support and strategic scaling capabilities as firms begin to mature. Venture capital (VC) is a funding channel that focuses on providing private investment to seed, early-stage ventures, start-ups and high-growth companies. It is critical when firms face high uncertainty and hold few tangible assets.

Europe is not short of entrepreneurial capacity, but struggles to scale companies. It hosts nearly 40,000 early-stage companies, more than any other region globally.¹⁹² Over the past decade, however, EU VC investment averaged just 0.3% of GDP, less than a third of the US average.¹⁹³ This shortfall becomes more visible as firms grow: by the time European scale-ups reach 10 years of age, they have raised 50% less capital than comparable San Francisco firms.¹⁹⁴ As capital needs become larger and more strategic, many companies turn to non-European investors, foreign buyers or overseas listings, exporting future growth, ownership and talent outside Europe. Similarly, as companies in Europe look to scale their operations, they face

fragmented product and service regulations as well as inconsistent corporate governance and tax laws across the 27 member states.

The EU Startup and Scaleup Strategy seeks to close these gaps through innovation-friendly regulation, faster market uptake and expansion, talent attraction and infrastructure access.¹⁹⁵ The Scaleup Europe Fund has also committed roughly €5 billion in capital to back European strategic scale-ups.¹⁹⁶ The European Commission proposed the “28th Regime”, a single harmonized set of corporate governance and tax rules available to innovative companies and start-ups looking to scale across borders in the EU, developed in collaboration with EU Inc.¹⁹⁷

Durable progress will require mobilizing more European long-term savings from pensions, insurers and individual investors well-suited for private markets into risk capital as well as reductions in cross-border frictions in fund structures, company law and insolvency regimes. Europe also needs to strengthen exit routes by deepening the initial public offering (IPO) market and improving the conditions for strategic mergers and acquisitions (M&A) so that innovative firms can scale and remain in Europe.



Listed equity

Listed equity is the economy’s core source of patient, loss-absorbing capital. It provides permanent funding for business expansion, supports follow-on financing and spreads risk across a broad investor base. Deeper public equity markets are therefore critical to financing Europe’s strategic needs.

Fragmentation in Europe is multifaceted and appears across the equity life cycle, from issuance and trading to clearing and settlement. Stocks being split across 17 listing-venue groups (compared with just two major venues in the US) complicates trading in Europe. Cross-market fragmentation also splits liquidity and access across countries, reflecting Europe’s national legal, fiscal, regulatory, supervisory and market infrastructure differences, which are particularly pronounced in issuance and post-trade. The impacts of this venue fragmentation could be partially addressed by ensuring a level of interoperability between venues, reducing investor barriers and adopting harmonized regulatory and tax considerations.

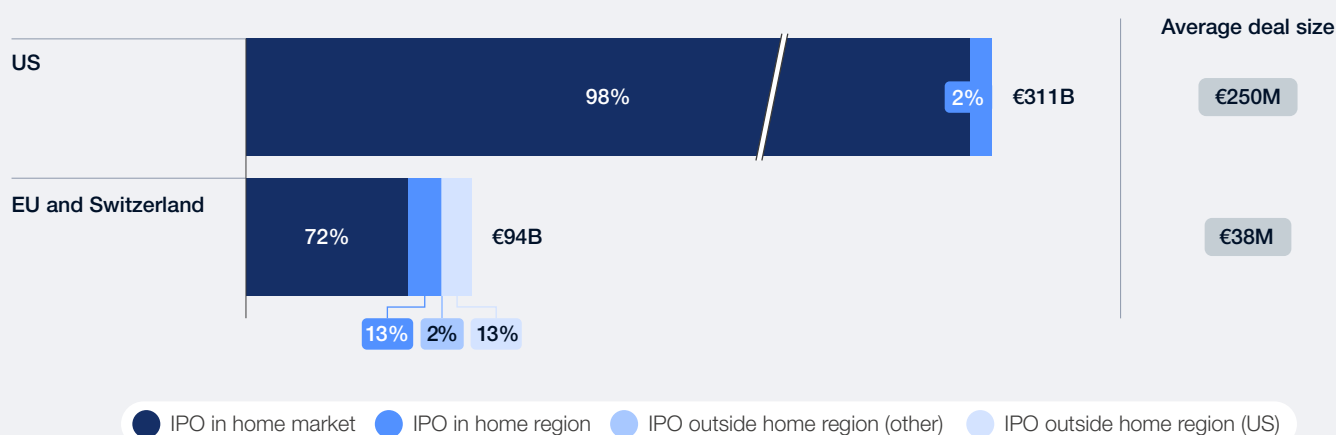
In addition, equity markets require deep pools of long-term capital provided by institutional and retail investors. These are discussed further in Section 5 of this chapter.

Between 2021 and 2025, EU- and Swiss-based companies raised €94 billion through IPOs, compared to €311 billion in the US. In that time, roughly three-quarters of those companies had IPOs in their home markets, while another 13% had IPOs elsewhere in the region, showing the potential for cross-border listings and financing activity in Europe.

That said, more than half of those companies raising over €50 million outside their home markets chose to list in the US, representing 50 companies and €12 billion of equity issuance.¹⁹⁸ Similarly, with an average deal size of €38 million, as compared to an average deal size of €250 million in the US, European markets do not have the necessary depth to absorb initial public offerings as large as those in the US. This then encourages European issuers to list outside of their home region, further cementing a negative feedback loop.

FIGURE 6 | IPO listing location by companies domiciled in EU and Switzerland versus US

Total apportioned value, 2021 to 2025 Jan–May



Note: Categorization of the IPO is based on the origin of the parent company vs the location of the stock exchange.

Sources: Burkl, M., Cailleteau, A. & Dienerowitz, N. (2025). *The Liquidity Matrix – Rebalancing European Fragmentation*. Oliver Wyman.

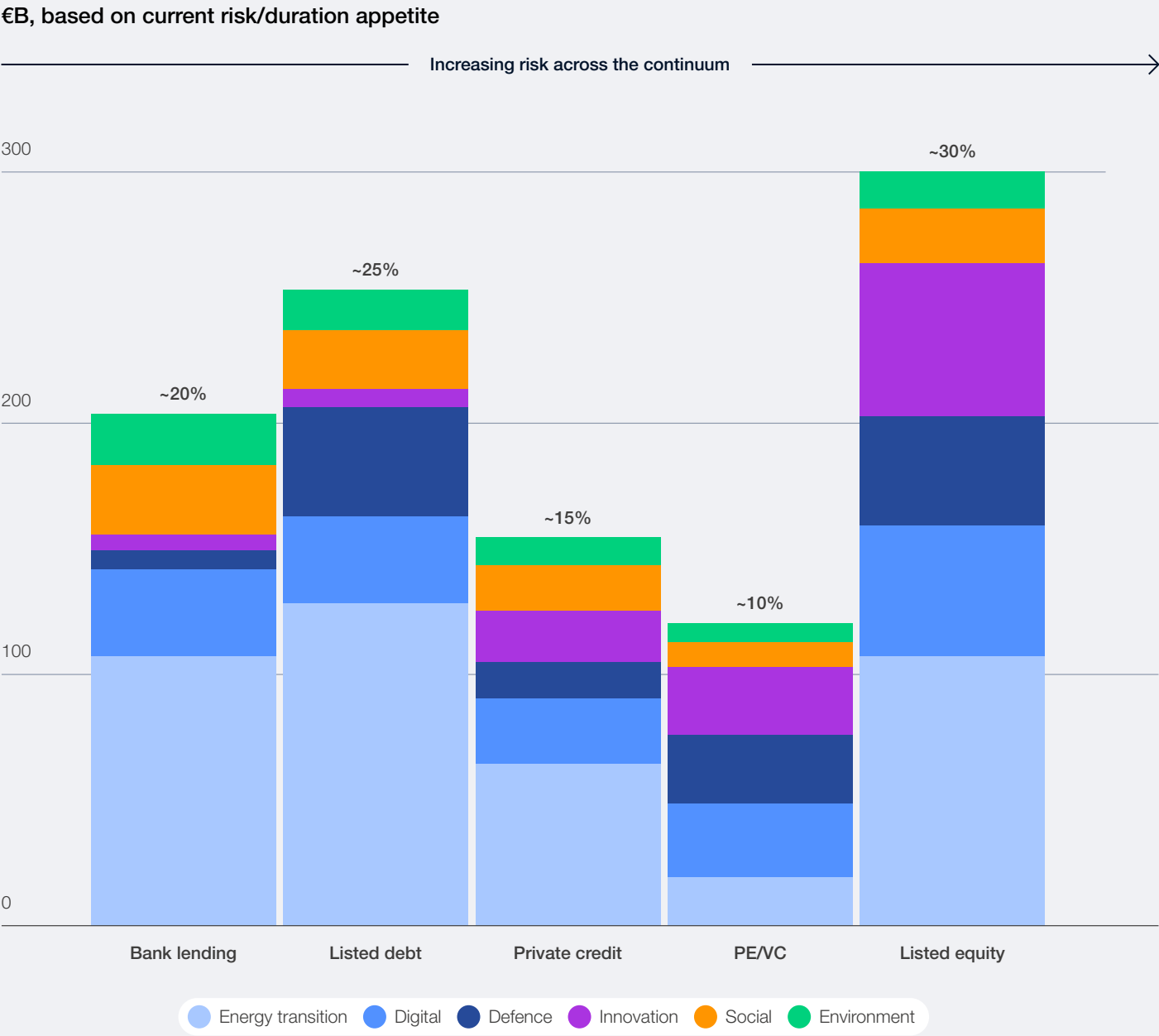
3.2 Financing Europe's investment needs requires all financing channels to play a role

As noted in Draghi's *The Future of European Competitiveness* report, around 80% of productive investment in Europe has historically come from the private sector.¹⁹⁹ If that share is to be maintained, private financing will need to expand significantly to meet Europe's strategic ambitions: an additional

€1.1 trillion annually. Based on the risk and duration profiles of these investment needs, capital will have to come from across the full financing continuum, with a large share of the incremental investment required being long-term, capital-intensive or higher-risk.



FIGURE 7 | Additional annual investment needs by financing channel



Notes: Indicative; estimates annual investment needs broken down by sector and mapped to financing channels based on estimated sun duration, debt:equity ratios, credit ratings and listings. Share of public financing (assumed to be 20% in total) varies across funding types (e.g. a higher proportion for public funding in defence).

Sources: Draghi, M. (2024). *The Future of European Competitiveness*. European Union; Farah, E. et al. (2026). *European bank competitiveness – Enabling banks to play a greater role financing European growth*. European Banking Federation; European Investment Bank (EIB). (2025). *Investment gaps to achieve sustainable targets in the bioeconomy*; European Central Bank (ECB). (2025). *Green investment needs in the EU and their funding*; European Central Bank (ECB). (2025). *Time to be strategic: how public money could power Europe's green, digital and defence transitions*; European Commission. (2018). *Boosting Investment in Social Infrastructure in Europe*; European Parliamentary Research Service (EPRS). (2025). *Benefits of EU strategic investment in high-tech digital innovation*; European Commission (2020). *Europe's moment: Repair and Prepare for the Next Generation*; Oliver Wyman analysis.

The right mechanisms across the regulatory regimes, incentives and risk appetites must be in place to support efficient capital flows and ensure that risks sit with those best equipped to manage them. Specific recommendations related to deepening securitization markets, harnessing pension systems and activating retail investors are

presented in Section 5 of this chapter. Persistent barriers that fragment markets or drive misallocation should be removed, and firms must be able to access financing at the right price across the full risk spectrum. Only then can Europe mobilize the scale of investment required to meet its strategic ambitions and remain globally competitive.

The Savings and Investments Union

Implementation is a priority for policy-makers, private-sector leaders and member states.

Launched in March 2025, the SIU is the European Commission's central response to close its financing gaps.²⁰⁰ Its primary aim is to create better financial opportunities for EU citizens and to enhance the financial system's ability to connect savings with productive investments. The strategy is organized around four strands of work:

FIGURE 8 Saving and Investments Union priorities



Citizens and savings

EU citizens can greatly benefit from investing in capital markets.

Greater retail investment can deliver higher long-term returns and strengthen retirement security.



Investments and financing

EU businesses and the economy need more capital and more financing options.

Public funding alone is insufficient, and so capital markets have an important role to play.



Integration and scale

Fragmentation in EU capital markets must be addressed.

More integrated capital markets will support growth while enabling citizens and businesses to benefit more from the single market.



Efficient supervision in the single market

The EU must ensure all market actors receive the same supervisory treatment regardless of location.

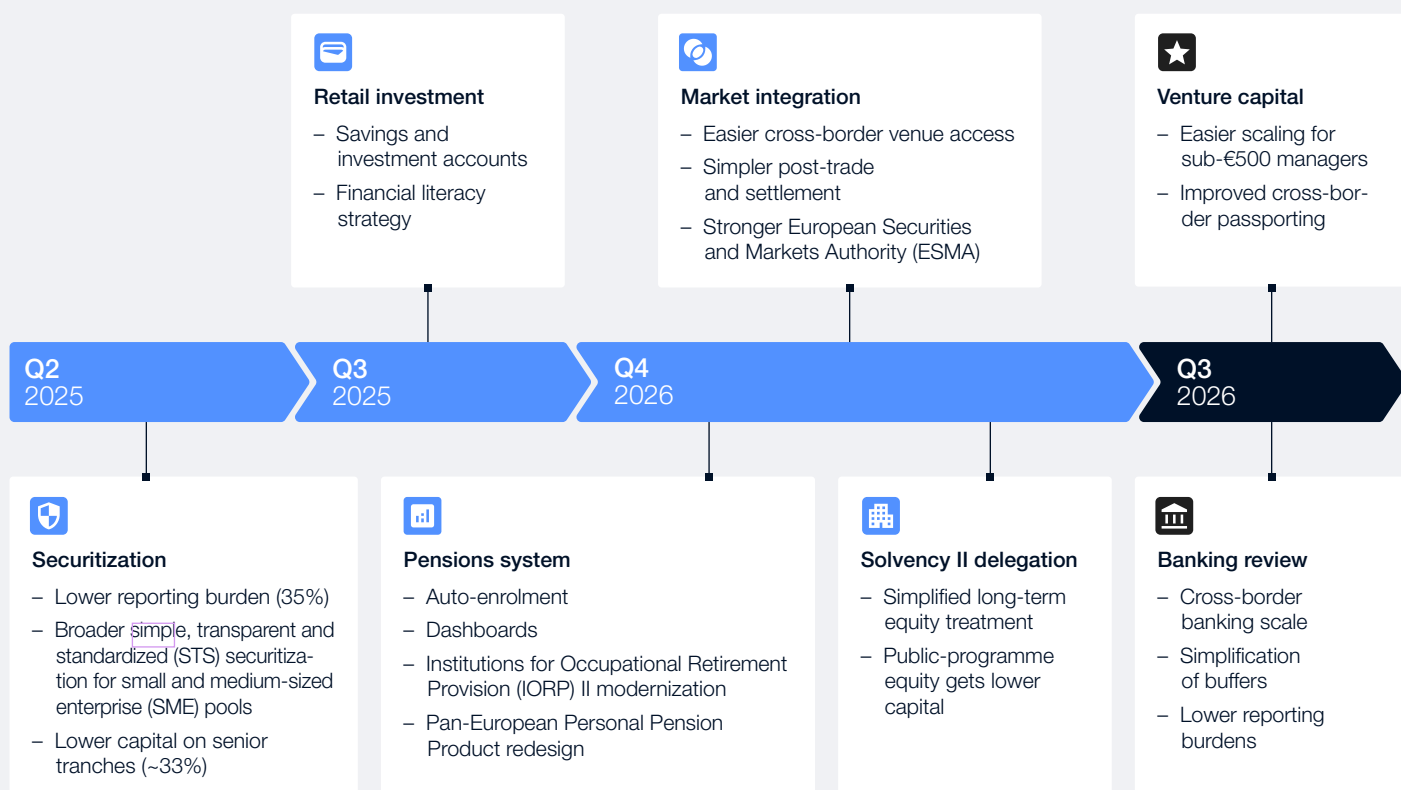
Creating a level playing field will support competitions and investor confidence in EU markets.

There has been concrete progress on the SIU across several strands of work. Measures have been tabled on securitization, savings and investment accounts, financial literacy, supplementary pensions, market integration and supervision, alongside a report on bank competitiveness.²⁰¹ However, most measures are

still moving through the EU legislative process or require implementation by member states. Although the SIU applies to the 30 members of the European Economic Area (i.e. the EU's 27 member states as well as Iceland, Liechtenstein and Norway), it also has relevance for neighbouring European countries including the UK and Switzerland.



FIGURE 9 | Savings and Investments Union progress to date



Enhance the efficiency of decision-making across EU institutions to expedite action on key priorities.

4.1 Key proposals

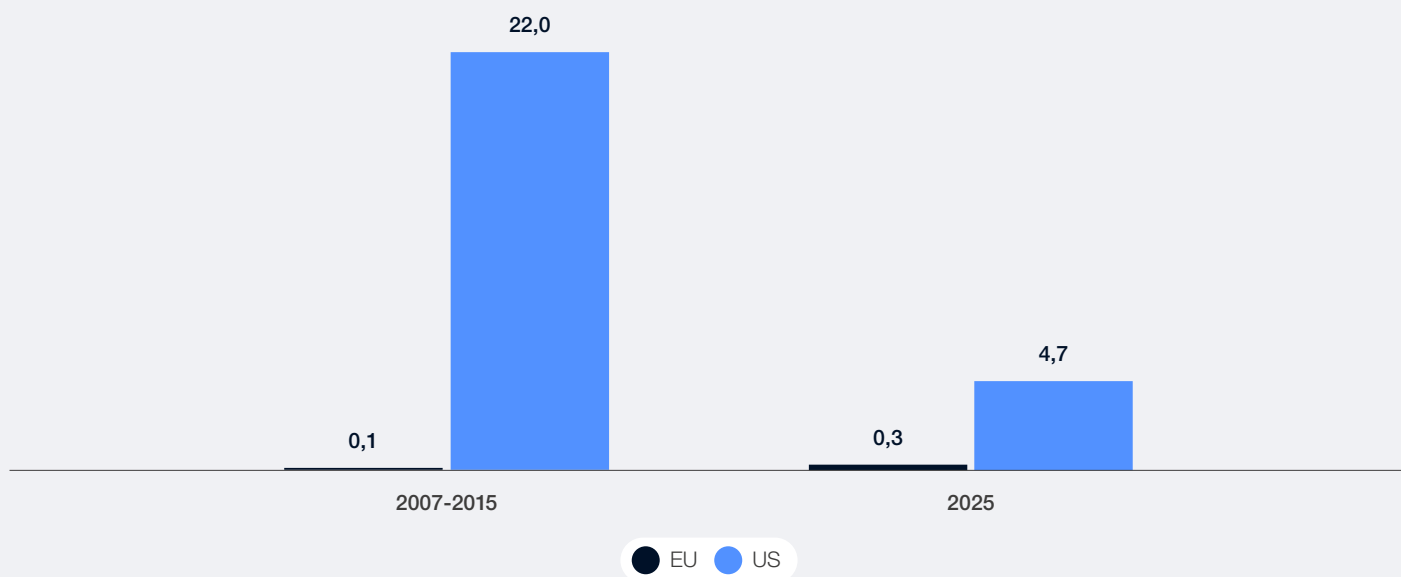
Securitization

Larger, deeper securitization markets offer a key channel through which Europe can finance its growth ambitions, yet securitization still occupies an uncomfortable place in EU policy debates. This is largely due to its association with the GFC, which traces to US residential mortgage-backed securities (RMBS) – securities backed by pools of

home loans. Before 2008, large volumes of weakly underwritten US mortgages were packaged into RMBS assets and distributed across the financial system. When house prices fell, and defaults rose, losses spread rapidly, turning poor underwriting into a systemic shock. As Figure 8 shows, US RMBS suffered materially higher loss rates than European RMBS, which proved far more resilient. Europe was struck by contagion, not by failures originating in its own markets.



Cumulative 2007 to 2013 and 2025, %



Sources: The Association for Financial Markets in Europe (AFME). (2025). *Myth busting – performance of European securitisation over 40 years*; S&P. (2025). *2025 Annual Structured Finance Default and Rating Transition Study*; Oliver Wyman analysis.

Post-GFC reforms have since strengthened transparency, underwriting standards and market resilience. However, this has made issuance and investment more complex and capital-intensive than in comparable markets, constraining both supply and demand. High compliance costs, due diligence requirements and prudential capital charges have curbed the market's capacity to scale. With defaults remaining low, Europe has considerable room to expand securitization while preserving financial safeguards.

The European Commission has proposed initial targeted reforms to revive the market through changes to Europe's existing securitization framework. The reforms focus on two areas:

1. **Updates to the Securitisation Regulation:** The Securitisation Regulation set common rules on due diligence, risk retention and transparency for all securitizations in Europe, and introduced the simple, transparent and standardized (STS) product category. The proposed updates would simplify or remove elements deemed redundant or overly prescriptive to make the process of securitizing assets more efficient.
2. **Targeted changes to the Capital Requirements Regulation:** These changes would make the capital treatments of securitizations for banks more risk-sensitive and introduce preferential treatment for STS securitizations. They are also intended to

streamline supervisory review of risk transfers, allowing banks to get faster approval when using securitization to offload risk from their balance sheets. Together, these are intended to make it easier for banks to underwrite, securitize and invest in these assets.

These legislative proposals are now undergoing trilogue negotiations between the European Parliament, the Council of the European Union and the European Commission to reach agreement on the final texts.

Separately, the European Commission put forward Level 2 measures, which include:

1. **Amendments to the Liquidity Coverage Ratio Delegated Regulation:** This governs the liquid assets that banks must hold to meet short-term needs. The changes would broaden which securitization positions count towards banks' liquidity buffers, intended to make holding these assets more attractive.
2. **Revisions to the Solvency II Delegated Regulation:** This sets prudential rules governing insurers' investments in securitizations, which differentiate more granularly between senior and non-senior tranches of non-STs securitizations. This has been formally adopted and will apply from January 2027 to make it easier for insurers to invest in securitizations.

“ With defaults remaining low, Europe has considerable room to expand securitization while preserving financial safeguards.

“ The SIU will therefore only succeed if member states, in collaboration with the private sector, adopt proposals and follow through on execution.



Convene “coalitions of the willing” to make progress and address critical issues on which there is agreement between individual member states.

That said, fragmentation across member states continues to compound costs and raise complexity for cross-border securitizations. The European Supervisory Authorities (ESAs) have repeatedly identified fragmentation and supervisory convergence as key priorities for a market that can operate across borders.

Supplementary Pensions Package

The European Commission released its Supplementary Pensions Package in November 2025.²⁰² The package focuses on strengthening supplementary pensions: workplace pension schemes (Pillar 2) and voluntary personal pension products (Pillar 3).

The commission recommends that member states promote auto-enrolment to broaden coverage and develop both national pension dashboards (to monitor the adequacy and sustainability of pension systems) and pension-tracking systems (to improve transparency for members of pension schemes). It also proposes amendments to Institutions for Occupational Retirement Provision (IORP) II Directive, including a review of the Prudent Person Principle, new information requirements and enhanced supervision.

Revisions to the Pan-European Personal Pension Product (PEPP) framework are also included to make personal pension products simpler and more attractive for users and providers.

Savings and Investment Accounts and Financial Literacy Strategy

The European Commission's Savings and Investment Accounts (SIAs) Recommendations and Financial Literacy Strategy seek to address the retail participation challenge by making investing more accessible and improving citizens' confidence.²⁰³ The SIA recommendation encourages member states to create simpler, tax-advantaged investment accounts offered by authorized providers, including banks, investment firms and digital platforms. In parallel, the financial literacy strategy will support member states through best-practice sharing, awareness campaigns and progress monitoring.

Several member states had already developed retail investment wrappers, such as Sweden's Investerings sparkonto (ISK), or have recently announced new programmes, such as Poland's Osobiste Konto Inwestycyjne (OKI). These examples demonstrate how simplicity, tax incentives and accessibility can transform participation.



Support the roll-out of EU policies and proposals through national measures and implementation strategies.

Many of the levers that are key to solving Europe's strategic challenges, such as the tax treatment of savings accounts and pension design, sit at the national level, where the Commission can only provide recommendations or guidance. The SIU will therefore only succeed if member states, in collaboration with the private sector,

adopt proposals and follow through on execution. Similarly, successful examples of funded pension schemes or retail investment wrappers in Europe show that member states can already begin to make progress in deepening domestic capital markets ahead of formal policy initiatives or agreements at the EU level.

Enhancing funding supply through capital mobilization

Three financial mechanisms, securitization, pensions and retail investing, are particularly well-positioned to help mobilize capital towards Europe's investment priorities.

The Leveraging Financial Markets (LFM) pillar serves as a key platform for leaders to propose strategies to increase the availability and diversity of investment in Europe and reduce financing frictions in support of individuals, corporates, governments and broader regional ambitions. The pillar aims to accelerate progress on the SIU by developing pathways to further integrate and deepen Europe's single market for financing.

Building on European Commission proposals, the pillar focuses on three levers: securitization, pension systems and retail investment. Together, these channels can help address Europe's financing gap by increasing the supply of capital, broadening investor participation and improving the efficiency with which savings are channelled into productive investment.

That said, these three levers differ in speed of impact. Securitization is the most immediate lever. By recycling capital already held by banks and freeing up balance sheet capacity, it can expand

lending relatively quickly without necessitating structural or long-term behavioural changes.

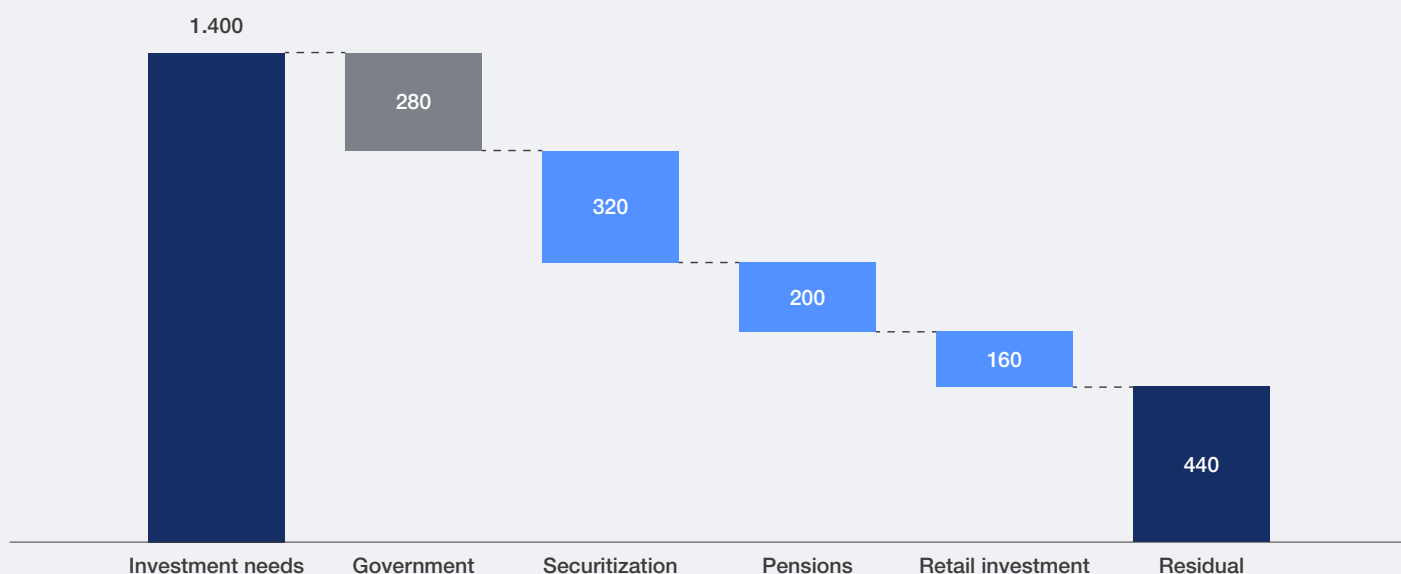
By contrast, enhancing retail investment and improving pension systems are larger but slower structural levers. Over time, they can deepen Europe's pool of patient, long-term capital and provide more stable funding for growth across Europe's financing continuum. However, their impact depends on shifts in household behaviour, institutional design and member state implementation – all of which are likely to mature over years or decades.

Ultimately, individuals are being asked to forgo near-term liquidity for the potential future benefit of compounding returns. National policy-makers are limited in their tools and can choose to encourage individuals to actively make these choices through programmes such as tax incentives and employer matches, or to facilitate passive participation through auto-enrolment and mandatory participation.



FIGURE 11 | Potential levers to close Europe's investment gap

Annual estimates, €T



Notes: Illustrative estimates; Securitization may overlap with pension and retail capital, figures are therefore not full additive; Government funding is assumed to cover 20% of investment needs, based on Draghi (2024). Securitization estimates are based on European Capital Markets Institute (2026). Pension asset and retail investment figures are derived from Bierbaum and Singhal (2024), which identifies long-term growth opportunities of €6 trillion and €4.8 trillion, respectively. The estimate assumes that one-third of these pools would be allocated to European assets, based on the cited allocation of Undertakings for Collective Investment in Transferable Securities (UCITS) funds, and annualizes the resulting stock over 10 years.

Sources: Draghi, M. (2024). *The future of European competitiveness*. European Union; European Capital Markets Institute. (2026, 13 April). *More credit, better risk sharing: Why Europe needs securitisation*; Bierbaum, M. and Singhal, S. (2024). *The future of pensions and retail investment in the EU*. New Financial and Vanguard.

5.1 Reviving securitization markets

The role of securitization in Europe's financing continuum

Securitization is one of the most direct levers available to strengthen Europe's financing continuum and channel capital towards its investment needs. It allows banks to convert loans into tradable securities sold to investors. By distributing these loans rather than holding them to maturity, banks transfer risk and free up balance-sheet capacity. This allows them to extend new credit to households and businesses. Investors, in turn, gain access to long-dated, income-generating assets that match their investment horizons.

In April 2026, the European Centre for Policy Studies and the European Capital Markets Institute estimated that a stronger EU securitization market could support additional annual lending of €130–320 billion. This estimate included both new securitizations for higher-risk, longer-duration projects as well as €10–30 billion in freed-up bank capital.²⁰⁴ This bank capital could then be used

for other purposes, including being lent directly to borrowers well-suited for bank financing, such as SMEs and mid-caps, among others.

The challenge

Despite its potential, Europe's securitization market remains underdeveloped. A relatively large share of credit risk continues to sit on bank balance sheets, while little institutional capital is channelled into strategic assets.

In 2025, €215 billion of securitized product was issued in Europe, but only approximately €110 billion was placed with or sold to external investors, while the remainder was retained by the originators.²⁰⁵ This meant that Europe's securitization market was less than a quarter of the size of that of the US. Similarly, with only about one-half of securitizations reaching external investors, securitization is not being fully applied to recycle bank capital and mobilize institutional investment in support of European growth.

€130–
€320
billion

additional annual lending supported by a stronger EU securitization market.

FIGURE 12 | Securitization (non-agency) issuance, EU versus US

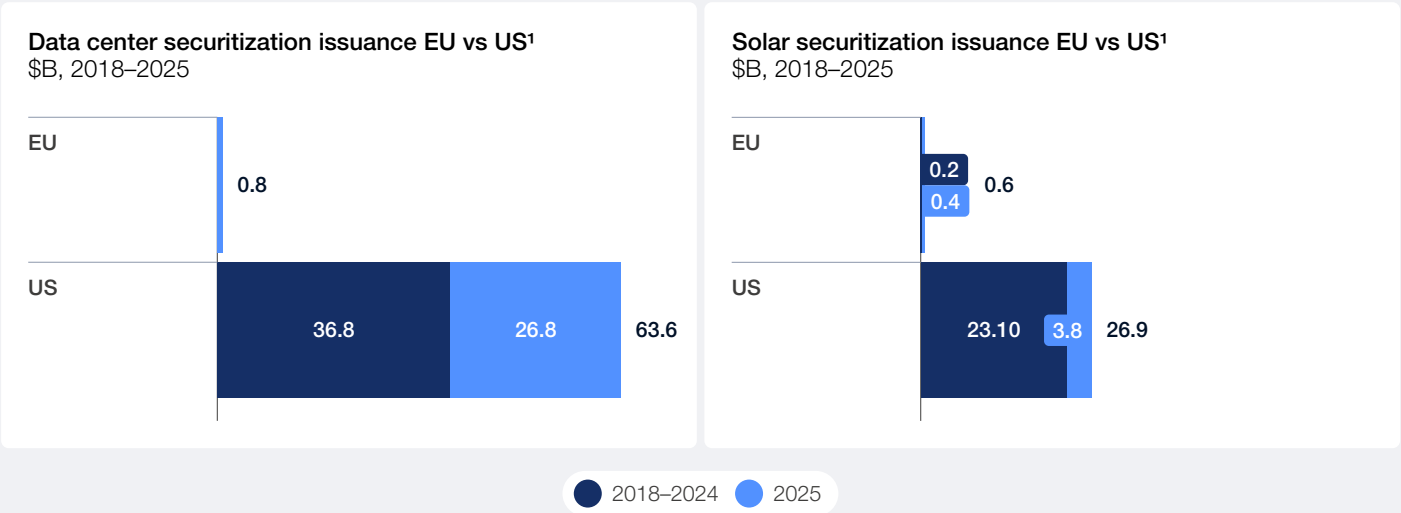


Notes: EU, excluding UK and Switzerland; US excludes agency securitizations; EU figure does not include retained securitizations

Sources: The Association for Financial Markets in Europe (AFME). (2025). *Securitisation Data Report, relevant quarterly or full-year edition*; Securities Industry and Financial Markets Association (SIFMA). (2025). *U.S. Securities Statistics*; Oliver Wyman analysis.

EU securitization markets also lag precisely where Europe needs investment. Since 2017, US issuers have securitized \$63.6 billion of data centre assets and \$26.9 billion of solar assets. The European equivalents stand at just \$0.8 billion and \$0.6 billion, respectively, despite these being among the asset classes Europe most urgently needs to scale.²⁰⁶

FIGURE 13 | Securitization issuances for data centres and solar from 2018 to 2025, EU versus US



Note: 1. Inclusive of asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS).

Sources: Farah, E. et al. (2026). *European bank competitiveness – Enabling banks to play a greater role financing European growth*; European Banking Federation. (February). *Private Credit’s Next Act in Europe*; Oliver Wyman.

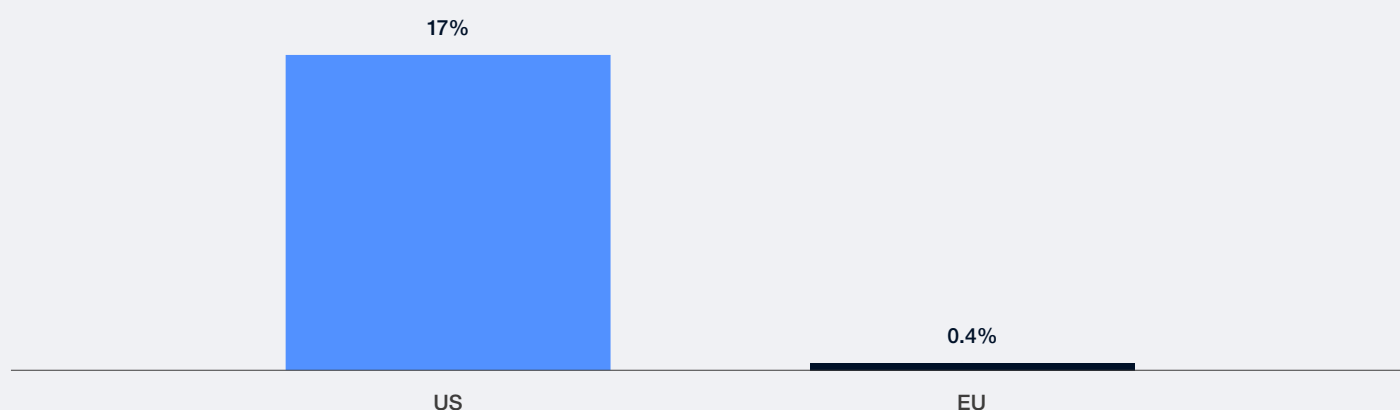
Other potential use cases are broad. Asset-backed securities (ABS) and synthetic risk transfers (SRTs) can help recycle capital to meet many of Europe's investment needs. Auto and equipment ABS can support electric vehicle fleets, charging networks and clean industrial machinery. SME securitization can free up capacity for working capital and supply chain resilience. Over time, different securitization assets could support fibre networks, telecommunications, grid connections and battery

storage, which are all areas where Europe faces increasing investment needs.

Insurers also represent a major untapped source of capital on the demand side. Their long-term liabilities make them natural holders of securitization tranches, yet they remain underinvested relative to US peers due to Solvency II regulations. Proposed Solvency II changes that reduce capital charges may increase insurance exposure to these assets.²⁰⁷

FIGURE 14 Life insurer securitized as a percentage of total invested assets EU versus US

Life Insurer securitized asset % of total invested assets Q4 2024



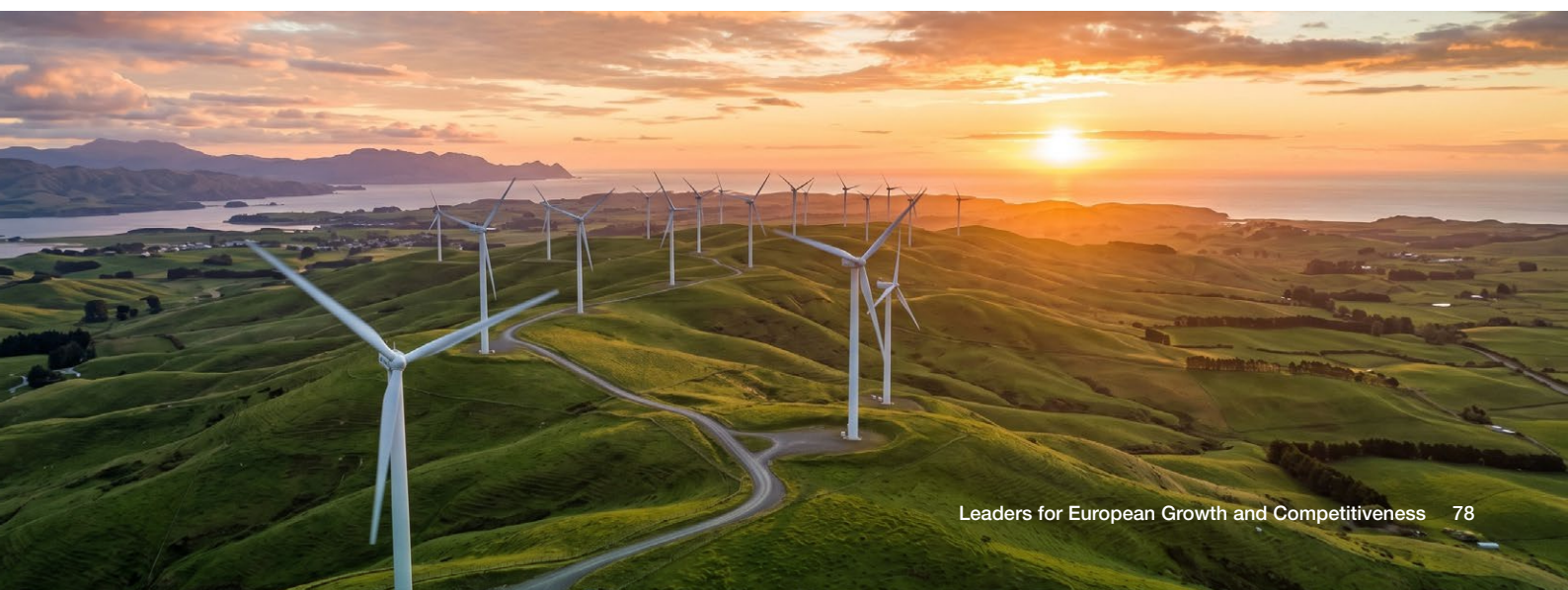
Note: US securitization assets include asset-backed securities (ABS) and other structured securities, residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). EU securitization assets are based on European Insurance and Occupational Pensions Authority's collateralized securities category. Categories are therefore broadly comparable but not identical.

Sources: European Insurance and Occupational Pensions Authority (EIOPA). (2024). *Insurance statistics, Q4 2024*; National Association of Insurance Commissioners. (2025). *Asset mix YE 2024*.

SPOTLIGHT 1 Public-private collaboration for transition finance

In April 2025, a Dutch bank completed a landmark securitization transaction with the European Investment Bank, entering into a risk-sharing agreement on a portfolio of over €1 billion in existing loans to Dutch businesses. This enabled €1.2 billion

in new lending to SMEs and mid-caps, with at least 30% allocated to projects aligned with climate and environmental sustainability objectives.²⁰⁸ This illustrates how securitization can be used as a key tool for Europe's investment needs.



5.2 Harnessing pension systems

The role of pension systems in Europe's financing continuum

Europe's pension systems are not only a mechanism for providing retirement income but also a critical source of funding for the continent. Funded pension contributions are accumulated over decades and can therefore be deployed into strategic, illiquid assets that support long-term growth and competitiveness when public budgets and bank balance sheets are insufficient. Well-functioning pension systems are essential for providing retirement security and transforming household savings into productive, risk-bearing capital for the real economy.

The role of pension systems is becoming increasingly important as Europe's demographic outlook

changes rapidly. Longer life expectancies, lower birth rates and a shrinking working age population are increasing old-age dependency ratios and placing growing pressure on public pension systems. By 2050, it is estimated that there will be fewer than two workers for every pensioner in Europe²⁰⁹ and that nearly one in three EU residents will be 65 or older.²¹⁰

European pension systems are typically described through three pillars. Pillar 1 is the public state pension, usually financed on a pay-as-you-go basis, which provides a basic income floor in retirement. Pillar 2 comprises occupational or employer-sponsored pensions, which are funded and invest employer and employee contributions over time. Pillar 3 covers voluntary individual retirement savings, which allow individuals to supplement public and workplace provisions.



State pension (Pillar 1) Mandatory/state-run

Mandatory pay-as-you-go system funded by social security contributions

Administered by the state to provide a basic income floor in retirement

Benefits can be linked to earnings history, contributions or residency – often inflation indexed



Occupational pension (Pillar 2) Mandatory/quasi-mandatory

Employer sponsored schemes that supplement the state pension, often with mandatory participation

May be defined benefit (DB) – a guaranteed income – or defined contribution (DC), where returns depend on investment performance



Personal pension (Pillar 3) Voluntary/individual

Fully voluntary savings vehicles

Typically tax-advantaged to encourage long-term saving

Flexible contribution levels and investment choices

The three-pillar architecture is common across Europe, but its practical operation differs substantially by country. Most EU systems are hybrid models, combining state, occupational and personal

pillars in different proportions. For example, Sweden, Denmark and Finland combine state-led pay-as-you-go pension schemes with supplementary funded components in their Pillar 1 pensions.

TABLE 3 Overview of EU pension systems

Archetype	Description	Example countries
State-led	Pillar 1 dominant, usually pay-as-you-go and financed by current workers. Funded occupational or personal pensions exist but are secondary.	
Nordic	Partially funded Pillar 1 public pensions that supplement mandatory or quasi-mandatory Pillar 2 occupational pensions.	
Collective	Pillar 2 highly developed. Mandatory or quasi-mandatory funded schemes cover large parts of the workforce, often through social partner arrangements.	
Auto-enrollment	Supplementary saving is built through automatic enrollment, usually with an opt-out mechanism. This strengthens Pillar 2 and 3 by increasing coverage while preserving individual choice.	
Individual	Basic unfunded state pension. Retirement income comes from individually invested pension pots to which employers and employees contribute.	

Source: Bierbaum, M. & Singhal, S. (2024), The future of pensions and retail investment in the EU. *New Financial & Vanguard*.

The challenge

Pillar imbalance: In many European countries, Pillar 1 carries the overwhelming burden of retirement provision. In these countries, supplementary savings are often shallow, more voluntary and unevenly distributed. Public pensions can be insufficient to sustain average living costs in retirement. Although public pensions will remain foundational to providing a basic income floor to alleviate poverty in retirement, they are increasingly constrained by ageing populations. Similarly, by not creating pools of investable capital, unfunded public pensions make their sustainability reliant on the economic growth of an individual member state rather than that of the global economy and markets. Across the EU, the old-age dependency ratio is projected to rise from 36% in 2022 to 59% by 2070, while gross public pension expenditure is expected to increase from 11.4% of GDP to 12.1% by 2045.²¹¹ As populations age, these systems face increasingly difficult sustainability trade-offs necessitating higher contributions, lower benefits or older retirement ages.

It is critical – and ultimately cost-effective – to make the necessary changes to develop future-proof pension systems in the near-term. By addressing

these challenges today, funded pension pots can be invested and grow as populations age. If unsustainable systems continue, pension and government buffers may be eroded to cover shortfalls, and necessary contribution levels will continue to climb. Similarly, it is important for social cohesion that all EU citizens, regardless of their home country, enjoy equal access to an adequate pension and dignity as affirmed by Principle 15 of the European Pillar of Social Rights.²¹²

Supplementary pensions are therefore important to provide a dignified retirement. When well structured, supplementary pensions can create large pools of professionally managed funded retirement capital that can be invested in productive assets. Furthermore, these large pools of capital can contribute to the EU's competitiveness priorities when investment opportunities provide prudent, risk-adjusted returns. The Scaleup Europe Fund, for example, brings together institutional investors with the European Commission to invest €5 billion into strategic European scale-ups.

Funded pensions managed by institutional investors are currently limited to a select number of countries, including Denmark, the Netherlands and Sweden, whose pension funds represent 204%, 150% and 115% of GDP, respectively.²¹³

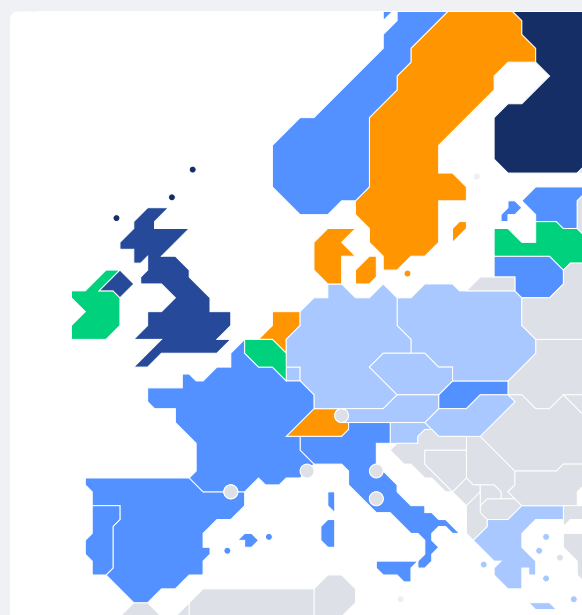


Ensure fairness in retirement and pension systems across generations, genders and other communities, to maintain trust and support for these systems.

FIGURE 15 Pension fund assets compare to GDP

End-2024, select countries before tax, %

Austria 7%	Hungary 5%	Portugal 13%
Belgium 30%	Ireland 28%	Slovakia 16%
Czech Republic 8%	Italy 12%	Slovenia 7%
Denmark 204%	Latvia 24%	Spain 11%
Estonia 18%	Lithuania 12%	Sweden 115%
Finland 66%	Luxembourg 2%	Switzerland 170%
France 13%	Netherlands 150%	United Kingdom 78%
Germany 6%	Norway 10%	Composite* 42%
Greece 1%	Poland 9%	United States of America 153%



Note: *European Organisation for Economic Co-operation and Development (OECD) country average.

Sources: Organisation for Economic Co-operation and Development (OECD). (2025). *Pension markets in focus – preliminary 2024 data*.

“ However, all [pension] systems should be designed with a long-term approach, ensuring they are future-proofed for demographic changes and remain capable of supporting dignified retirements.

Coverage gaps: Funded pension systems only create broad-based retirement security and meaningful capital formation when participation is wide and contributions are sufficiently high. When occupational or personal pensions depend on voluntary participation, coverage is usually skewed towards higher earners, larger employers and more established sectors. Workers in male-dominated, unionized or traditional industries are often more likely to be covered by occupational schemes. Women, migrants, part-time workers, the self-employed and platform workers are more likely to fall outside of meaningful supplementary provision or accumulate smaller pension pots over more fragmented careers, such as those that include caregiving career breaks.²¹⁴ Pension adequacy gaps often mirror labour-market inequalities. In 2024, the average pension income for women aged over 65 in the EU was 24.5% lower than those of their male counterparts. A recent report highlighted that, when combined with the gender pay gap, a single year of caregiving can reduce a woman's retirement savings by 24%.²¹⁵

Prudent Person Principle interpretation: The Prudent Person Principle sets the standards for those managing pension schemes' assets in Europe regarding risk, diversification and conflicts of interest, among other considerations.²¹⁶ Its interpretation varies widely across the EU, with some member states restricting funds to invest in specific asset classes or geographies (i.e. ex-ante regulation) while in others, fund managers set asset allocations with principle-based supervision (i.e. ex-post regulation). This ex-ante regulation potentially limits the ability of investment professionals to set appropriately risk-adjusted and diversified portfolio allocations, decisions that are then potentially politically motivated and not guided by risk-return optimization.

Weak transparency and engagement: Many citizens lack a consolidated view of what they have accumulated across the three pillars. This can undermine trust, engagement and planning. Pension systems deepen through participation, which occurs when savers understand their pensions, assets and projected benefits, validating that long-term contributions are worthwhile. National pension tracking systems, as recommended by the European Commission, and the European Tracking Service on Pensions (ETS) can play an important role.

Wide variety of occupational pension schemes: There is no uniform EU occupational pension system. Instead, the EU employs a minimum harmonization approach through the IORP II. Under this model, member states retain full competence for their national state-based systems, while the EU sets a basic standard to facilitate cross-border mobility and consumer protection. The EU's ability to change occupational pension systems within a member state is therefore limited.

Fragmentation and failed design: The Pan-European Personal Pension Product (PEPP) was intended to create a simple, portable, cross-border retirement product, but uptake has been limited. In 2025, the PEPP had only two pillar 3 providers, fewer than 5,000 savers and less than €12 million in assets under management.²¹⁷ PEPP was designed around consumer protection, portability and low costs, but elements of the original design also limited its appeal. Annual fees were capped at 1%, and tax treatment remained fragmented and complex across member states. Providers had limited incentive to launch the product, and savers had insufficient reasons to switch from nationally advantaged products. The European Commission is reviewing the PEPP regulation to make it more attractive both for users and providers.



Ahead of formal EU policy alignment, continue to nurture and deepen domestic capital markets through member state action on issues like the development of retail investment wrappers or funded pension systems, which reflect national contexts.

Recommendations: the five ingredients for future-proof pension systems

Pension reform requires long-term political and institutional alignment, which can take decades. Member states have different social contracts, fiscal positions and labour-market structures, meaning no single model can be universally applied. Moreover, it means that a pension system that works in one member state cannot simply be transferred to another. However, all systems should be designed with a long-term approach, ensuring they are future-proofed

for demographic changes and remain capable of supporting dignified retirements. There are lessons to be learned from elements in different member states.

The following five ingredients can help structure discussions on what a pension system should achieve and how it can be achieved, serving not as a one-off checklist, but as a diagnostic tool. The European Commission can support member states by sharing recommendations, enabling coordination and guiding transitions towards more effective pension systems. Leading examples can provide inspiration, but structural change must be adapted to national contexts.

1 Set clear goals for the pension system

A successful pension system should have clear long-term goals. It should define its objectives for each pillar, considering dimensions such as poverty prevention, consumption smoothing, preserving purchasing power, bequeathing capital, risk mitigation (e.g. longevity or inflation) and insurance against certain life events (e.g. disability or loss of a partner).

It should also be clear who the main actors are in the pension system. This includes beneficiaries

such as individuals and employees, as well as the institutions and stakeholders that design, administer and safeguard the system over time, such as policy-makers, regulators and social partners like employers and trade unions. Clarifying their roles and responsibilities is essential to ensure accountability, trust and effective long-term governance.

The pension system should also not be viewed in isolation, but as part of the broader social security and labour-market context and in relation to other national financial products.

SPOTLIGHT 2

A holistic approach to the pension system

The Netherlands shows that even one of Europe's strongest pension systems must adapt. Under the Future Pensions Act, Dutch pension funds are transitioning from defined-benefit schemes to contribution-based arrangements by 2028. The new system links outcomes more directly to investment performance, while retaining elements of collective risk-sharing and

mandatory participation.²¹⁸ The reform aims to improve sustainability, reduce intergenerational differences and better reflect a labour market in which workers change jobs more frequently.²¹⁹ These changes were accompanied by an increase in the retirement age in Pillar 1 and a significant expansion of tax incentives for Pillar 3 products.

2 Design the system to achieve the set goals

Once goals are set, pension systems should be designed around the right mix of public, occupational and personal provisions, resulting in different pension pillars. For each type of provision, important questions about financing, design, scale and appropriate stakeholder representation should be answered. Underlying every successful system is a high degree of trust among all stakeholders, based on consistent, predictable rules, including future-proofed legislation, good governance models and empowered regulators.

Good elements should include:

- An old-age income floor, sufficient to prevent poverty in retirement and support social

adequacy while remaining fiscally sustainable in the long-run

- Coverage through workplace-linked savings, which can raise replacement rates above the public minimum
- Flexible, tax-incentivized voluntary savings for households with the capacity to supplement other provisions

Designing, reforming and implementing a pension system is a complex and long-term process involving a wide variety of stakeholders that will persist beyond political cycles. Therefore, the design should revolve around a clear storyline that keeps all stakeholders on board, independent of politics.

SPOTLIGHT 3

Good governance builds trust

Sweden has built a governance model that defines roles for relevant stakeholders while maintaining the pension system's credibility and trust. More than 90% of workers are covered by collective agreements between employers' organizations and trade unions rather than legislatively

mandated schemes.²²⁰ More broadly, Sweden's Pension Group is a working group consisting of representatives from all parliamentary parties tasked with safeguarding the pension system from politicization, producing critical reforms and maintaining the system's fundamental principles.²²¹



3 Organize the input and output of the pension system

At its core, a pension system provides long-term retirement income. A system's effectiveness depends on the deliberate design of its inputs (i.e. the contributions to different pillars) and outputs (i.e. the retirement income paid to pension system members).

Input: Inputs to a pension system are determined by the number of participants and the level of contributions; the right combination can build scale. Participation should therefore be easy, attractive and, where appropriate, automatic. Participation mechanisms that cover many people, such as auto-enrolment or (quasi-)mandatory participation, achieve broader coverage than voluntary products. Voluntary products still play a role if barriers to uptake are low, products are simple to compare and savers understand the long-term value of participation. That said, contributions, which may come from savers, employers or governments, must reach sufficient levels to support adequate retirement outcomes. This can be achieved through tools such as payroll deductions, employer matching contributions and tax advantages. Similarly, societies can combat

ageism in the workplace, thereby increasing the participation of older workers and expanding the pool of contributions. A recent Forum report highlights that ageism in the workplace represents a more than \$100 billion opportunity in France alone.²²²

Output: The decumulation design of a pension system is equally important. Systems should define the right balance between annuities, drawdowns, phased withdrawals, lump sums and hybrid options. They should protect against longevity risk while allowing flexibility for different household circumstances, health outcomes and preferences. Design choices should also address how unused assets are treated after death, including whether they are inherited or recycled into a collective pool to support other members.

Retirement age marks the transition from accumulation to decumulation. As longevity, labour markets and fiscal conditions change, retirement pathways need to be robust but flexible. A well-designed system should allow individuals to make informed choices about when and how to retire, without undermining adequacy or long-term system sustainability.

SPOTLIGHT 4

Organizing inputs like auto-enrolment

The United Kingdom's introduction of auto-enrolment in 2012 is one of Europe's most effective policy interventions and serves as a clear example of a successful tool to encourage participation in occupational pension schemes. By making workplace pension participation opt-out rather than opt-in, the scheme saw

only about 10% of workers leave, bringing millions of individuals into funded saving for the first time, with total annual contributions standing at £150 billion in 2024.²²³ Ireland is launching a similar scheme in 2026, which is expected to create approximately 750,000 new pension savers.²²⁴

4 Ensure long-term robustness

Pension systems operate over decades, so they must withstand demographic change, market volatility and fiscal pressure. Robust systems should be protected from short-term political or fiscal pressure, while remaining accountable to members and regulators. Rules must be predictable and transparent, so citizens understand how the system works and institutions retain credibility.

Durable systems need to work for citizens. They should be simple, transparent and flexible enough to reflect different preferences, career paths or financial situations. This includes allowing appropriate choice between providers, contribution pathways and retirement payout options. Since all systems involve some risk-sharing or redistribution across individuals or generations, these trade-offs must remain socially acceptable and politically sustainable. Systems should also be stress-tested against ageing, labour-market changes and market shocks.

SPOTLIGHT 5

Ensuring long-term robustness in Germany

Germany has recently proposed various reforms to diversify retirement savings and lessen reliance on its increasingly strained pay-as-you-go public pension system, which could serve as a blueprint for other member states. These reforms include a mandatory funded component within Pillar 1, modelled partly on the Swedish system, supported

by an additional 2% contribution shared between employers and employees. The Social Partner Model for Pillar 2 pensions will also be expanded to broaden access for smaller employers. In addition, Germany is introducing a new personal pension product (Altersvorsorgedepot) and additional incentives for young savers.

5 Deliver on execution

Well-designed and robust pension systems can still fail without effective implementation. Execution depends on factors such as cost-efficient administration, reliable IT, effective contribution collection, strong asset and risk management, and clear communication with pension scheme members.

Change should be phased carefully so that employers, administrators and members can adapt. Payroll integration is particularly important; embedding contribution collection into existing systems reduces friction, limits leakage and supports compliance monitoring.

Investment execution is also central to outcomes. Asset and risk management frameworks should reflect members' time horizons, risk capacity

and retirement objectives, often through life cycle strategies that adjust risk as individuals age. Members should also be given structured ways to express investment preferences, such as sustainability-linked investments, provided these remain consistent with fiduciary duties.

Communication should help members understand what they are contributing, what they may receive and what choices they face. Standardized disclosures, pension dashboards and tracking services can lower barriers to long-term planning and give individuals a consolidated view of retirement income.

Execution should also be monitored continuously. Participation rates, contribution levels, costs, investment performance and projected retirement incomes should be tracked so that systems can be adjusted in response to real-world outcomes.

5.3 Retail investment

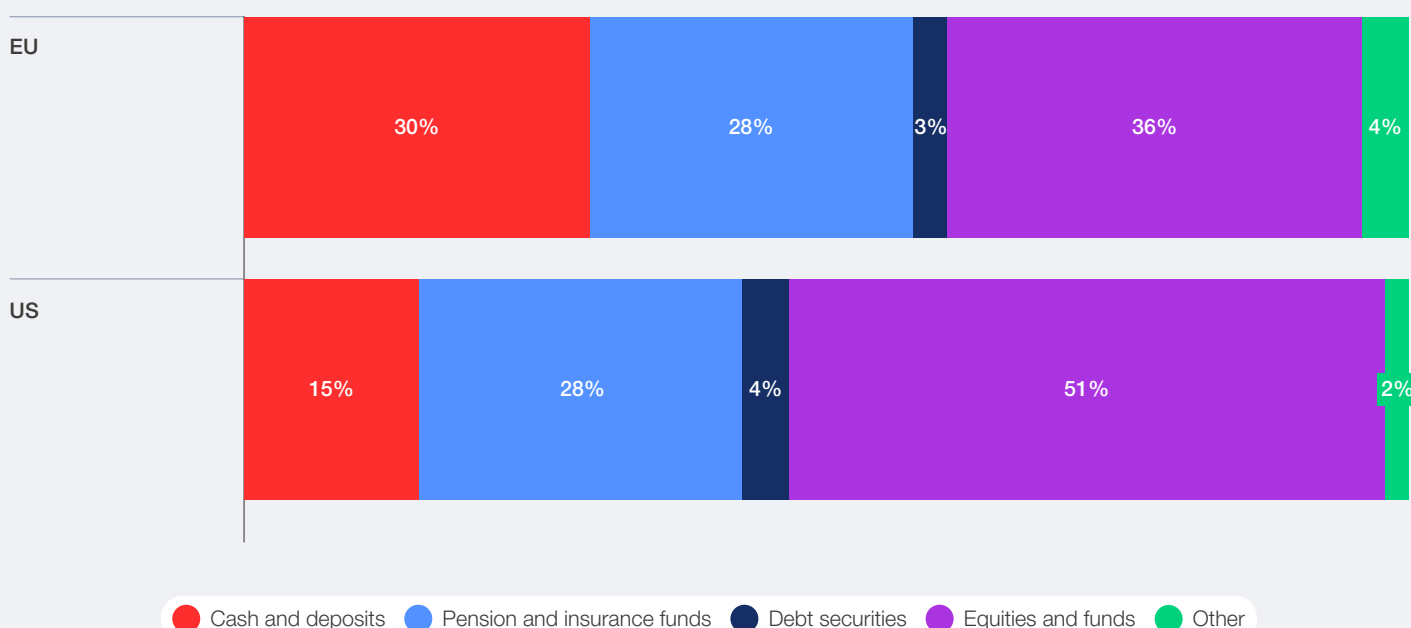
The role of retail investment in Europe's financing continuum

Europe is not short of household wealth. EU households saved around 13% of disposable income in 2023, compared with 8% in the US.

The challenge is that approximately €11.5 trillion in retail savings is held in cash and bank deposits rather than invested.²²⁵

FIGURE 16 Distribution of household asset holding by type, EU versus US

End-2024



Sources: Eurostat. (2025). *Financial balance sheets, dataset nasa_10_f_bs*, Q4 2024; Federal Reserve Bank of St. Louis (FRED). (2025). *Financial Accounts of the United States (Z.1), Table B.101.h, Balance Sheet of Households*; Oliver Wyman analysis.



€350
billion

annual market-based investments that could be unlocked if EU households matched deposit rates of US households.

Deposits are safe and easily accessible, but they do not always protect savers against inflation and yield lower returns than capital market instruments. In the euro area, the average interest rate on bank deposits was 0.94% between 2015 and 2025,²²⁶ representing a cumulative return of around 9.8% while consumer prices rose nearly 30%.²²⁷ By contrast, the EURO STOXX 50 provided an annualized net return of approximately 9.1% over the same period, equivalent to around 140% cumulatively.²²⁸ A 2024 Forum report found that nearly 50% of surveyed investors across Germany, France and Ireland did not start investing for years after entering the workforce, while only 40% of US investors waited.²²⁹ This limits the ability of these European investors to fully benefit from compounding. Taken together, there is a drag on wealth-building outcomes: from 2009 to 2023, US household wealth increased by roughly three times as much as EU household wealth.²³⁰

Improving retail participation in diversified, long-term investment products can support greater long-term wealth accumulation, provide better protection against inflation and strengthen retirement outcomes. Citizens should not be

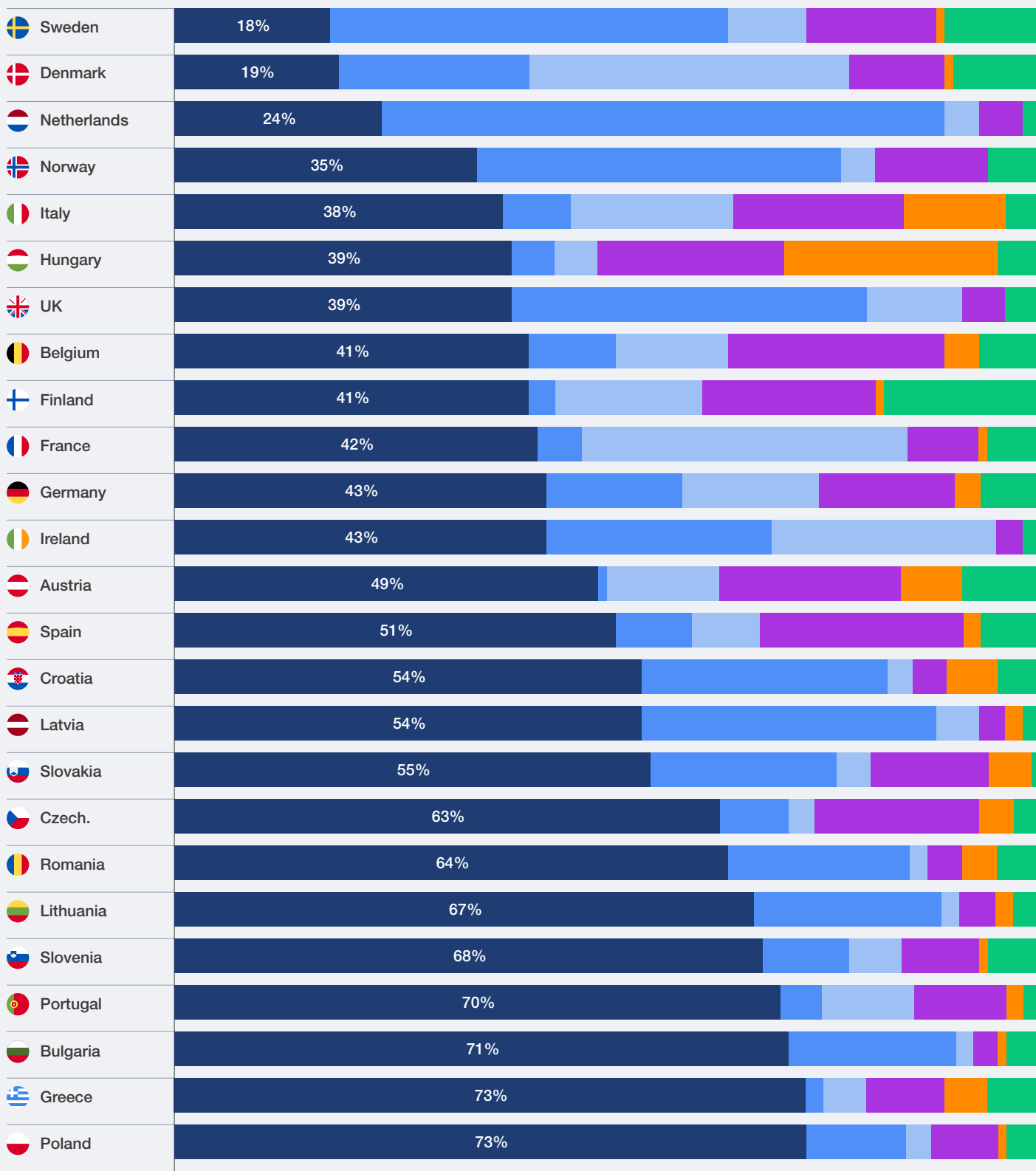
pushed towards excessive risk, but should be given the tools, education and access needed to invest confidently in products suited to their risk and return profiles. When households participate more actively in capital markets, they also contribute to deeper pools of capital, which can support Europe's investment agenda.

The European Central Bank (ECB) estimated that if EU households were to match the deposit-to-financial-asset ratio of US households, up to €8 trillion, or approximately €350 billion annually, could be unlocked for market-based investment.²³¹

Participation in markets also varies widely across member states, reflecting differences in pension systems, tax incentives, financial culture and levels of trust in financial institutions. In 2024, households in Greece, Poland, Slovenia and Bulgaria held more than 70% of their wealth in bank deposits and cash, while those in Denmark, Sweden and the Netherlands held less than 30% in bank deposits and cash, instead participating in pension schemes and investing in shares, debt securities and life insurance products.

FIGURE 17 | Share of financial assets held by households across Europe

End-2024, select countries, %



Bank deposits and cash Pension funds Life insurance Investment funds Debt securities Listed shares

Sources: European Fund and Asset Management Association (EFAMA), (2024), *Household participation in capital markets – Assessing progress focusing on 2020-2022*; Oliver Wyman analysis.

“ In order to attract retail investors, European companies need to innovate, grow and provide attractive investment opportunities.

The challenge

Retail investment in Europe is fragmented, opaque and expensive. A combination of low financial literacy, weak trust, behavioural preferences and fragmented distribution models leads to low participation. Households need to be able to access investments through a simple, trusted and affordable journey.

Access, confidence and trust: Retail participation is limited by households' ability to access investment products through simple, trusted routes. Trust remains a major constraint: 45% of Europeans are not confident that the investment advice they receive from financial intermediaries is in their best interest.²³² A 2024 Forum report found that 52% of surveyed individuals globally agreed that retail investors have the same access to investment opportunities as professional investors; in Ireland, Germany and France, only 38% of individuals agreed.²³³

Fees, tax incentives and value for money: Cost is another barrier to retail participation. Retail investors pay around 40% higher fees than institutional investors, including pension funds.²³⁴ High fees reduce net returns, weaken trust and make it harder for households to see the benefit of long-term investment. Cost transparency and comparability are central to participation. Savers need to understand not only expected returns but also what they are paying, who they are paying and whether the product offers value over time. Similarly, tax incentives vary across member states and are not sufficient to adequately encourage retail investor participation.

Risk perception and behaviour: Many households perceive cash as safe because its nominal value does not fluctuate, while underestimating the effect of inflation on purchasing power. At the same time, market dynamics such as short-term volatility can be mistaken for permanent capital loss. Poorly framed risk warnings can reinforce this behaviour by discouraging suitable long-term investment, while overly cautious suitability processes may push

savers towards guaranteed products with higher costs and lower expected returns.

Financial literacy: Financial literacy remains a structural barrier to retail participation. The European Commission's first EU-wide survey found that just 18% of citizens display a high level of financial literacy, with lower average levels among women, young adults (aged 18–24) and manual workers.²³⁵ If households do not understand concepts such as diversification, compounding or long-term risk, they are less likely to invest, less likely to remain invested through volatile periods and more likely to default to cash.

Distribution and market design: Good products do not automatically reach households. Banks, advisers, platforms, robo-advisers, insurers and pension providers shape what consumers see, understand and ultimately buy. Distribution, therefore, matters as much as product design. Digital channels can broaden access and lower costs, but they also create new risks where long-term investing is presented alongside trading or speculative products.

In addition to the structural market access barriers, European savers who do invest increasingly channel their money into globally diversified funds in search of better returns. These funds are typically weighted around 70% towards US equities.²³⁶ Approximately €300 billion of European savings flows out of the bloc each year, most of it to the US.²³⁷ This dynamic is asymmetric and self-reinforcing as this investment deepens US markets. Shallow retail participation in EU markets thus contributes to lower valuations and weaker returns, ultimately driving further outflows. That said, this dynamic is not irrational, as retail investors are seeking out US firms renowned for innovation in AI technologies, aerospace and other high-growth areas. The market capitalization of the Magnificent 7 (Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta, and Tesla) alone is greater than that of all European equities.

In order to attract retail investors, European companies need to innovate, grow and provide attractive investment opportunities.



Encourage European real economy firms to focus on innovation, growth and scale to provide the quality investment opportunities needed to properly absorb new sources of capital.

Recommendations: converting savers to investors

Converting European savers into investors requires coordinated action tailored to different national contexts

1. **Evolve investment culture and build a pro-European narrative:** To activate retail investors,

it will ultimately be important to build a culture in Europe that instils confidence in investors and celebrates responsible risk-taking and profit. Those with skin in the game are the most engaged and eager to learn about financial markets. Rather than simply investing with downside protection in mind, retail investors will need to seek out and celebrate return-maximization. Similarly, this will help build a pro-European narrative that encourages individuals

“ In general, good practice does not require a single harmonized product, but it does require simple rules, visible incentives and an accessible route from cash into investment.

- to keep capital invested domestically rather than seek opportunities abroad.
2. **Create simple, recognizable entry points through savings and investment accounts:** Households should not have to navigate complex product menus, fragmented tax rules and burdensome onboarding journeys before making an investment. Member states should seek to preserve common, broad design principles in savings and investment accounts (SIAs). This could include making them tax-advantaged, allowing flexible investments and timelines, and eliminating maximum holding limits, even if only a portion is tax-advantaged, to create easy, one-stop shop accounts. This should be done while keeping the accounts compatible with local tax systems, and providers should be encouraged and enabled to handle tax compliance for investors, either through direct communication with authorities or through the creation of tax return templates. Similarly, accounts should not be geographically ring-fenced or limited to investments in specific jurisdictions, as this can reduce participation. Instead, domestic investment is likely to be bolstered by investors' natural home bias, as seen in Sweden.²³⁸
 3. **Design investor journeys that are accessible and trusted:** Even with the right products and incentives, participation will remain limited if the investor journey feels complex and expensive. Simpler disclosures, proportionate suitability requirements, affordable guidance, trusted distribution channels and intuitive digital journeys can help ordinary savers. Policy-makers must also ensure that platforms clearly

distinguish long-term investing from trading and speculative products. The goal is not simply more participation, but better household outcomes through trusted, low-cost and understandable routes into investment.

4. **Build household capability and confidence through financial literacy:** Retail participation will not scale if citizens do not feel equipped to assess risk and understand the benefits of long-term investing. The European Commission's Financial Literacy Strategy is a core enabler, but impact will also depend on sustained action by member states, education systems, employers and financial institutions. Those countries with funded mandatory pension systems, including Sweden, Denmark and the Netherlands, are also the ones with the highest financial literacy scores,²³⁹ likely due to citizens already having a vested interest in financial markets as well as the strong financial educations provided by professional investment managers and pension administrators. Financial literacy should be practical and focused on topics such as budgeting, emergency savings, pensions, investment risk, fraud prevention and the power of compounding.
5. **Remove cross-border frictions:** Simple entry points will not create an integrated market if cross-border investing remains costly, slow or administratively difficult. The EU FASTER Directive, adopted in December 2024, aims to make withholding-tax relief faster and safer for cross-border investors, with member states being required to transpose the rules by 31 December 2028 and apply them from 1 January 2030.²⁴⁰

SPOTLIGHT 6 SIAs

Sweden's ISK is a strong example of how a simple retail investment wrapper can lower barriers to market participation. The ISK simplifies investing by replacing separate taxation of gains, dividends and withdrawals with a standardized annual tax based on the value of the account. This substantially reduces administrative friction and makes the tax treatment easier for households to understand.

Sweden has also recently made the account more attractive for smaller savers by introducing a tax-free basic allowance, applied automatically through the tax return. The allowance is SEK 150,000 (Swedish krona) (around €13,700) for the 2025 income year, rising to SEK 300,000 (around €27,350) from January 2026.²⁴¹ The strength of the ISK lies in its tax-advantaged status as well as its simplicity, predictability and automation.

More recently, in August 2025, Poland announced the OKI, a new voluntary personal investment account. Individuals can invest up to PLN 100,000 (Polish zloty) (around €23,250) tax-free, including up to PLN 25,000 (around €5,800) in a savings component such as deposits or retail savings bonds. Additional amounts above the threshold are subject to a lower asset-based tax rate.²⁴²

This example shows how a country with a more deposit-oriented savings culture can adapt the retail investment wrapper concept to its own market structure, bridging traditional savings products with market-based investment.

In general, good practice does not require a single harmonized product, but it does require simple rules, visible incentives and an accessible route from cash into investment.

Summary

Despite progress, the success of Europe's financial system will ultimately depend on cooperation, implementation and national advancements.

Europe's investment needs are immediate and growing, and the cost of failing to meet them will ultimately be borne by European citizens. A persistent investment gap will constrain growth, erode competitiveness, weaken household wealth creation and leave many citizens facing inadequate retirement outcomes.

Europe is not constrained by a lack of savings, institutional expertise or an innovation base. It is constrained by a financial system that fails to convert these strengths into productive investment at the scale Europe requires. EU institutions, member states and the private sector need to work together to develop Europe's financing continuum.

Encouragingly, the diagnosis is well understood, and many of the paths forward are starting to

take shape. The initiatives presented so far under the SIU strategy cover many of the necessary themes, spanning securitization, retail participation, financial literacy, pensions, market integration and bank competitiveness.

Similarly, individual member states and coalitions of the willing are beginning to make progress in developing local capital markets ahead of EU-level alignment.²⁴³ The challenge is no longer diagnosis, but delivery.

Europe has the savings, institutions and ingenuity to finance its own future. Whether it converts them into investment, growth and security for its citizens is now a matter of political will, regulatory pragmatism and coordinated execution.

Enabling Strategic Alliances



Overview

Europe has started aligning its trade, investment and external partnership strategy to strengthen competitiveness and economic security.

“ Europe can reduce its strategic vulnerabilities without retreating from an open, rules-based economic system.

Europe's external economic environment is becoming increasingly complex. Strategic competition, economic fragmentation and the growing use of trade and investment for strategic purposes are reshaping global markets and creating new risks for supply chains, investment and industrial competitiveness. In this context, Europe faces the challenge of reducing strategic vulnerabilities without retreating from an open, rules-based global economy. This chapter identifies actionable solutions to strengthen Europe's competitiveness, economic security and engagement with international partners.

Drawing on consultations with leaders from government, business and academia, the Enabling Strategic Alliances pillar of the LGC examines developments in trade policy, economic security and inbound and outbound investment. It also conducts a sectoral analysis on critical raw materials. This analysis underscores the need to pursue a coherent external economic strategy rather than tackling policy areas in isolation.

The analysis identifies four priorities:

- First, broaden trade agreements beyond market access to incorporate economic security, technology cooperation and resilient supply chains.
- Second, evolve the Global Gateway into a more effective platform for strategic investment by

combining stronger de-risking instruments with political support, technical coordination and greater private-sector participation.

- Third, reinforce Europe's economic security framework through targeted and proportionate measures that reduce strategic vulnerabilities while preserving openness.
- Finally, accelerate implementation of its critical raw materials strategy by improving project bankability through dedicated financing, de-risking mechanisms and greater investment in circularity.

A recurring theme is that many of the needed solutions are already taking shape. A recent EU agreement with Australia shows how supply-chain resilience can be written into a trade deal. Under a recent EU investment initiative, the Global Gateway, Europe is financing the Lobito Corridor to link central Africa to Atlantic markets, thereby improving trade possibilities, job growth and critical mineral connectivity, among other developments. A tougher investment-screening regime, approved in June 2026, is sharpening Europe's economic-security defences. Taken separately, these initiatives hold promise; united as a single, coherent strategy, they show how Europe can reduce its strategic vulnerabilities without retreating from an open, rules-based economic system.

Context

Amid increasingly fragile supply chains and investment skewed towards the technology sector, Europe must pursue targeted de-risking rather than decoupling.

Europe is grappling with a fundamental debate: to what extent can de-risking be prioritized without undermining the benefits of open markets? While greater resilience has become a strategic imperative, protectionism can increase costs, distort investment and production decisions and weaken long-run competitiveness and living standards.

First, Europe's relationship with its largest trading partner, the US, has become less predictable and more transactional. The EU-US relationship remains the world's largest and most integrated bilateral economic relationship, representing nearly 30% of global trade in goods and services and 43% of global GDP in 2025.²⁴⁴ Although EU goods' exports to the US rose by 3.6% in 2025, from €535.6 billion in 2024 to €554.9 billion,²⁴⁵ this growth masks underlying variability. For example, Germany, Europe's largest export economy, saw exports to the US fall by 9.4% between January and November 2025, driven particularly by a higher tariff burden on motor vehicles, machinery and chemical products.²⁴⁶

Consultations with businesses indicate that the growing uncertainty surrounding US trade and industrial policy is more significant than any individual tariff measure. Businesses report they can adapt to stable tariffs, but constantly shifting measures increase planning costs, complicate investment decisions and raise disruption risks across supply chains. This volatility has characterized transatlantic trade relations since the US announced sweeping "reciprocal" tariffs in April 2025, which triggered months of negotiation culminating in the EU-US Framework Agreement reached in July 2025, informally referred to as the "Turnberry deal". Nonetheless, implementation stalled for months amid political friction, including a dispute over Greenland, before the European Parliament and European Council reached a provisional agreement in May 2026 and the parliament gave final approval in June 2026. This stabilized one aspect of transatlantic trade relations, although broader uncertainty over US trade and industrial policy remains.²⁴⁷



“ Europe’s objective is targeted de-risking rather than decoupling, supported by the strengths of its single market, industrial base, skilled workforce and role in global value chains.

Second, while China remains a major economic partner for the EU, the relationship is a source of structural economic challenge for the region. The EU runs a large and persistent goods trade deficit with China, especially in high-volume manufactured goods such as electronics, machinery, chemicals, batteries, electric vehicles (EVs) and renewable energy equipment. In 2025, EU exports to China fell by 6.5% while imports from China rose by 6.4%.²⁴⁸ In the same year, the EU–China goods trade deficit reached around €360 billion, up by roughly a fifth year-on-year, and widened further in early 2026 to nearly €95 billion in the first quarter alone. The gap reflects a one-sided dynamic: Chinese exports to the EU have surged more than 40% since the pandemic, while European exports to China have broadly stagnated or declined across all major EU economies except the Netherlands.²⁴⁹

The imbalance extends beyond its size. Much of it is concentrated in sectors that Europe considers strategically important for its industrial future and green transition. As US–China trade decouples, Chinese exports are increasingly redirected to other regions, including Europe, heightening competition with European manufacturers and widening existing imbalances in critical sectors, such as renewable technologies and industrial outputs. In 2025, Chinese exports grew more than twice as fast as global trade, while European exports lagged behind.²⁵⁰ This has intensified concerns over a renewed wave of Chinese import competition, widely described as a “China Shock 2.0”. Unlike the first “China Shock”, which followed China’s integration into the global trading system in the early 2000s and was associated with significant manufacturing job losses across advanced economies, the current wave is being driven by a combination of weak domestic demand, large-scale industrial support – estimated by the International Monetary Fund (IMF) at around 4.4% of gross domestic product (GDP), or roughly \$800 billion a year²⁵¹ – and strong competitiveness in advanced manufacturing sectors. China’s rising trade surplus and export-led adjustment are creating mounting competitive pressures across advanced economies.²⁵² Europe also faces increasing competition in third-country markets where European firms have traditionally been strong. Many of the affected sectors – including batteries, EVs, solar technologies and clean industrial inputs – are sectors in which Europe is seeking to build strategic capabilities and attract investment. European producers risk losing market share to lower-cost Chinese competitors, while emerging firms may struggle to scale before becoming cost-competitive. While cheaper Chinese imports can lower consumer costs and support the green transition, they may also erode Europe’s industrial competitiveness in sectors central to Europe’s long-term economic security and technological leadership.

Beyond trade, geopolitics and technology trends are reshaping cross-border investment. Global FDI flows increased by 14% in 2025 to

an estimated \$1.6 trillion, with the EU recording a 56% increase in inflows. However, much of the increase came from greenfield investment in data centres, reflecting growing AI infrastructure demand. Data centres accounted for more than one-fifth of global greenfield investment value, exceeding \$270 billion.²⁵³ Yet, investment in most other sectors, including renewables and traditional manufacturing, declined. This points to a growing concentration of FDI in capital-intensive, technology-driven projects, with limited momentum in areas such as clean technology, advanced manufacturing and electric vehicles.²⁵⁴ On the other hand, EU outbound investment rebounded to \$360 billion in 2024 and \$170 billion in the first half of 2025.

Still, commercial realities continue to constrain investment in Europe. In sectors such as critical raw materials, semiconductors, refining and clean technologies, companies often struggle to make a viable business case due to higher operating and energy costs, long payback periods, regulatory complexity and weaker returns compared to competing markets such as the US and China.

Geopolitical shocks put further strain on trade and investment. Conflict in the Middle East disrupted key transport corridors, most notably the Strait of Hormuz, increasing costs and delays. Due to higher energy and production costs, this is sending shocks across agrifood systems by constraining food and fertilizer flows, thereby heightening the risk of food price inflation and worsening hunger in import-dependent regions. It is also impacting the supply of raw materials, such as the global supply of helium, a critical input for semiconductors, healthcare and other strategic sectors, highlighting how geographic chokepoints quickly become industrial vulnerabilities.

At the same time, export bans and restrictions on critical materials and technologies over the past year have made supply chains more fragile and politically exposed. As strategic uncertainty grows, companies are facing more complex sourcing, investment and supply chain decisions, reinforcing the need for diversification, stronger risk management and resilient partnerships.

Together, these pressures show that trade, investment and economic security must be pursued via a coherent strategy. Europe’s objective is targeted de-risking rather than decoupling, supported by the strengths of its single market, industrial base, skilled workforce and role in global value chains. These assets allow Europe to reduce vulnerabilities while remaining an open economy. Europe occupies strategically important positions in global value chains. For several critical products and industrial inputs, economies like the US and China rely on the EU for more than 80% of their imports, including for products such as insulin, pharmaceutical intermediates and specialized machinery for agriculture.²⁵⁵

Europe's trade strategy

Harnessing business intelligence to map strategic dependencies, integrating economic security into trade negotiations and deploying a credible trade defence strategy are essential priorities.

“ The EU is increasingly complementing its trade agreements with broader security and defence partnerships, signalling a more integrated approach to external partnerships.

3.1 Europe's shifting trade geography

Against this geopolitical backdrop, Europe's trade strategy is evolving to strengthen competitiveness and economic security through four key strategies:

1. Trading partners' diversification effort

Outside of the US and China, Europe's largest trading partners include Brazil, India, Japan, Mexico, South Korea and Türkiye.²⁵⁶ In the past year, the EU has accelerated its trade diversification by signing new trade agreements with India, Indonesia and Mercosur.²⁵⁷

The partnership with Australia, for instance, reflects an approach focused on strengthening supply chain resilience and securing critical minerals from an alternative source to China, specifically. This model could serve as a template for future negotiations with other like-minded partners. However, the question remains whether, beyond market access, these agreements can translate strategic intent into the reality of diversifying trade and building resilience in the supply chain and crucial sectors such as critical materials and technology. Their scope also matters; although Europe is broadening its trade network, expanding trade with smaller economies has limited value compared to doing so with larger economies such as India. In addition to market size, geography can also confer strategic relevance. The Mediterranean is becoming an increasingly important partner for Europe, linking it to critical energy and resource suppliers in the Middle East while strengthening access to growing industrial hubs such as Türkiye, Morocco and Egypt that can support more resilient and diversified European value chains.

2. New implementation models

The EU is also streamlining the implementation of trade agreements. In May 2026, it signed an interim Trade Agreement (ITA) as well as a wider-in-scope modernized Global Agreement (mGA) with Mexico. The ITA covers areas under

the EU's exclusive competence and therefore requires only EU-level ratification, enabling a faster entry into force, while the mGA also requires ratification by individual Member States. The use of such “EU-only agreements”, where legally feasible, reflects a growing emphasis on speed and urgency in trade policy.

3. Security and defence partnerships

The EU is increasingly complementing its trade agreements with broader security and defence partnerships, signalling a more integrated approach to external partnerships. In the case of Australia and India, trade negotiations have been accompanied by dedicated security and defence partnership agreements, reflecting the growing integration of economic and security policy. Between 2024 and May 2026, the EU concluded security and defence partnerships with twelve countries to strengthen collaborative/collective security.²⁵⁸ These partnerships build on the 2022 EU Strategic Compass for Security and Defence, which called for deeper cooperation with external partners across both civilian and military dimensions of security. The scope of the partnerships extends beyond conventional military cooperation to encompass emerging security challenges, including the protection of critical infrastructure, cybersecurity and maritime security. Past agreement provides sufficient flexibility to evolve.²⁵⁹

There is a growing demand from third countries to strengthen such ties with Europe to gain access to its defence market and industry. For many partner countries, closer security cooperation with Europe provides a pathway to access Europe's expanding defence industrial base, including opportunities for joint research, capability development, procurement and innovation. As Europe scales up investment in defence and dual-use technologies, these partnerships have the potential to stimulate industrial cooperation and support the growth of a more competitive European defence sector.

“ The benefits of new trade agreements will ultimately depend on effective implementation. This requires sustained collaboration between governments and the private sector.

4. Coalition-based trade governance

Alongside its expanding network of bilateral trade agreements, the EU is also pursuing a parallel track centred on coalition-based trade governance through its ongoing engagement with members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), including key trading partners such as Canada, Japan and Mexico. Beyond market access, these arrangements increasingly focus on economic security through flexible plurilateral cooperation that complements traditional multilateral institutions like the World Trade Organization (WTO) by advancing common approaches on areas ranging from digital trade and supply chain resilience to trade and investment facilitation.^{260,261,262}

An EU CPTPP partnership would encompass 39 economies, accounting for approximately 40% of global trade. Hence, it is being described as a “coalition of the willing” echoing the vision articulated by the Canadian Prime Minister, Mark Carney, during his special address at the 2026 World Economic Forum Annual Meeting in Davos.

While Europe has made significant progress in diversifying its trade relationships, important gaps remain. Expanding engagement with African economies should become a strategic priority, given both the continent’s long-term economic potential and its growing importance for critical minerals, manufacturing, clean-energy

value chains and future consumer markets. Deepening these partnerships would strengthen economic resilience and diversify trade. A memorandum of understanding (MoU) between the EU and the African Continental Free Trade Area (AfCFTA) Secretariat in April 2026 provides an important foundation for deepening cooperation on trade, investment and regional economic integration. However, translating this political commitment into tangible economic outcomes will require sustained implementation and greater private-sector engagement through concrete initiatives.

The benefits of new trade agreements will ultimately depend on effective implementation. This requires sustained collaboration between governments and the private sector to identify implementation barriers and translate political commitments into commercial opportunities. Platforms such as the World Economic Forum can play an important facilitating role here – for instance, through high-level exchange between the EU and India on the EU–India agreement, since both European and Indian businesses recognize its significant economic potential.

Predictability is increasingly becoming one of Europe’s competitive advantages. As other major economies adopt more volatile trade policies, deploying tariffs with greater frequency, the EU’s commitment to transparent rules, support for multilateral trade, legal certainty and stable market access represents a significant source of strength.



3.2 Limited and strategic use of trade defence

Anti-dumping, anti-subsidy and safeguards

Traditional trade defence instruments have long been used by governments, including the EU, to address unfair competition and protect domestic industries from injury. Anti-subsidy and anti-dumping investigations remain among the most widely used tools, allowing for country- and product-specific duties when imports unfairly benefit from trade-distorting state support such as subsidies, or when exporters sell goods below normal value. The EU's Foreign Subsidies Regulation, operational since October 2023, aims to prevent foreign companies from gaining an "unfair" competitive advantage through state-backed support and ensure fair competition within the European Single Market. The first year of implementation saw more than 120 notifications of mergers and acquisitions (M&A) and over 1,300 notifications or declarations relating to public procurement bids. However, only four in-depth investigations were initiated. This suggests that, rather than functioning as a broad-based screening mechanism, the instrument is not efficiently used.²⁶³

Safeguards, temporary WTO-consistent measures, could offer an effective response where foreign overcapacity threatens European production and manufacturing, without the creation of new regulations.²⁶⁴ Since they apply irrespective of origin, they may be better suited than anti-dumping or anti-subsidy measures to address systemic pressures in sectors such as automotive, batteries and chemicals, while reducing the focus on any single country. In 2024, the EU had 192 trade defence measures in force, comprising 162 anti-dumping measures, 29 anti-subsidy measures and just one safeguard measure.²⁶⁵ This underscores that safeguards remain a largely underused instrument despite their potential to address broad-based import surges linked to overcapacity.

Beyond traditional trade defence instruments, the arsenal of economic-security-related trade tools has expanded significantly in recent years. Instruments such as sanctions, export controls, foreign investment screening, anti-coercion measures and local content requirements have increasingly become mainstream.

Sanctions, export controls and investment screening

Sanctions have become an important instrument of economic statecraft, particularly following Russia's invasion of Ukraine. The EU has since relied extensively on sanctions targeting trade, finance, technology transfers and individuals. However, the

application of the EU sanctions framework falls under a "common foreign and security policy", which requires unanimity among member states, limiting the speed and scope of action in imposing stringent sanctions.

Export controls have also gained prominence in recent years and expanded beyond non-proliferation to encompass broader economic security objectives, including the protection of critical technologies and essential products. Within Europe, export controls are imposed at both the EU and national levels. However, European businesses have highlighted increased complexity, especially due to sanctions and export controls on high-tech and dual-use goods.

Foreign investment screening has rapidly increased in Europe in recent years, allowing governments to review or block foreign investments that may threaten security or public order. The primary instrument governing foreign investment within Europe is the EU Foreign Direct Investment (FDI) Screening Regulation, which entered into force in 2020 and established a framework for coordination and information sharing among member states and the European Commission, with an estimated over 1,200 transactions discussed by the Commission. The framework is set to become significantly more stringent under revisions proposed in February 2026 and approved by the European Council in June 2026.²⁶⁶ Once implemented, all EU member states would be required to establish national screening mechanisms and notify the European Commission of transactions involving designated strategic sectors, increasing transparency around ownership structures and the extent of foreign control. Although initially more focused on Chinese investment, screening is increasingly applied more broadly across strategic sectors.

Local content requirements and Industrial Accelerator Act

In March 2026, the European Commission tabled the Industrial Accelerator Act (IAA), which seeks to introduce "Buy European" preferences by linking public procurement, subsidies and market access to low-carbon and local content requirements. The proposal reflects a broader shift towards using Europe's large internal market to support domestic industrial capacity in strategically important sectors. The central question is whether Europe should prioritize a "Made in Europe" model or a more open "Made with Europe" approach that includes trusted partners and countries with free trade agreements. The former would require higher local-content thresholds and stronger incentives for firms to source and manufacture within Europe, while the

🗨 Instruments such as sanctions, export controls, foreign investment screening, anti-coercion measures and local content requirements have increasingly become mainstream.

“ Europe must build on its own strengths: a large and integrated single market, predictable regulation, the rule of law and a broad network of trusted economic partners.

latter seeks to balance industrial resilience with openness and supply chain integration.

Organisation for Economic Co-operation and Development (OECD) evidence points to a consistent trade-off – that is, while local content requirements may support domestic production in the short term, their costs are rarely confined to protected industries. Around 80% of the disrupted trade affects intermediate goods, highlighting how these measures spill across supply chains by raising input costs and ultimately weakening industrial competitiveness and employment over the long term.²⁶⁷

As a competition-oriented industrial policy operating through the Single Market, the IAA has the potential to strengthen European manufacturing while remaining more market-based than traditional subsidy regimes. Its effectiveness, however, will depend on careful calibration. A sector-specific approach can help target areas where strategic resilience and industrial capabilities are most important, but if local content requirements are applied too broadly, they risk raising production costs, straining relations with trading partners and reducing competitiveness. Conversely, if their scope or the share of demand covered is too limited, they are unlikely to generate sufficient investment to reshape industrial capacity.²⁶⁸ Ultimately, the framework’s success will depend on its ability to evolve with market conditions, supported by regular assessments of investment, production and competitiveness outcomes, and adjustments to its scope as evidence and strategic priorities change.

Anti-Coercion Instrument

The EU’s Anti-Coercion Instrument (ACI), entered into force in 2023, is popularly referred to as Europe’s trade “bazooka”. It was designed to deter and respond to attempts by third countries to exert economic pressure on the EU and its member states. The instrument provides the EU

with a broad range of potential countermeasures, including restrictions on trade, investment, public procurement and market access. Measures that the EU may take in response to coercion include imposing duties on goods, restricting services, withdrawing protection from intellectual property protections and foreign investment and removing the right to apply for government contracts. Any measures adopted must be proportionate and targeted, and may only remain in force for as long as the coercive measures persist. The wide-ranging counteractions that the ACI enables make it the most comprehensive economic defence and retaliation tool in Europe’s arsenal. Its primary objective is deterrence, with the threat of action intended to discourage coercive behaviour.

The ACI has not yet been deployed and, therefore, its effectiveness cannot yet be determined. However, the US threats regarding Greenland in January 2026 pushed the EU to seriously consider deploying the instrument for the first time, although it ultimately chose not to do so. In the absence of clear mechanisms for cost sharing among countries, reaching consensus on when and how to deploy such instruments proved challenging. The episode nevertheless marked an important shift in the debate surrounding the ACI. The challenge is no longer whether the EU should possess the instrument, but when and how to use it credibly without imposing disproportionate costs on European industry.

Europe’s trade defence strategy would not benefit from replicating either the US model of threatening broad-based tariffs or China’s model of large-scale subsidies and export restrictions. Both approaches reflect economic structures and political systems that differ fundamentally from Europe’s. Instead, Europe must build on its own strengths: a large and integrated single market, predictable regulation, the rule of law and a broad network of trusted economic partners. The objective is not strategic autonomy through isolation but greater competitiveness and resilience through targeted, proportionate and coordinated trade and industrial policy.

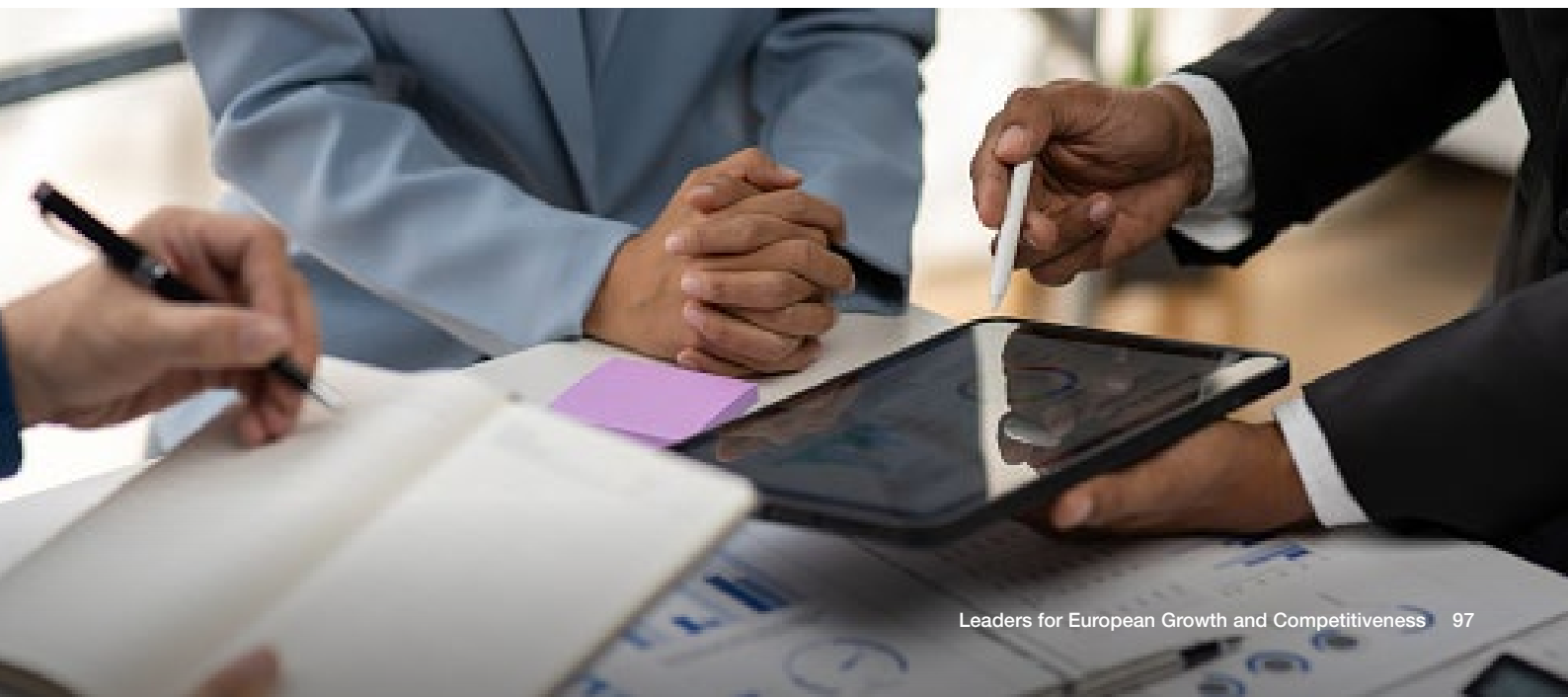


TABLE 1 | Key risks and potential solutions

 Key risk	 Potential solutions
Persistent asymmetric dependencies and exposure to strategic trade chokepoints – Europe is heavily reliant on external suppliers for critical raw materials and advanced technologies. – Europe is significantly exposed to the strategic deployment of tariffs and export controls by the US and China. – There is limited detailed mapping of value chains by sectors, including vulnerabilities – Europe depends on limited and narrow trade corridors meaning that crises, such as Strait of Hormuz blockage and Red Sea shipping attacks, disrupt supply chains affecting energy supply as well as agricultural, fertilizer and healthcare raw materials.	Targeted dependency reduction in collaboration with the private sector through 1) mapping value chains by sectors and products 2) attracting private-sector investment in Europe Establish public-private collaboration mechanisms to map and prioritize vulnerabilities across value chains of key sectors, including critical raw materials, food and agriculture, healthcare inputs, clean technology and critical technologies. This would involve integrating business intelligence into value chain risk assessments to identify critical dependencies and overreliance on single-source suppliers ahead of a crisis, enabling governments and businesses to develop alternative sourcing and substitute product strategies rather than relying on ad-hoc responses when a crisis hits and causes supply shocks. One example that Europe may follow is that of the EU-ASEAN Business Council, which helps European companies invest in South-East Asia through coordinated regional promotion. Association of Southeast Asian Nations (ASEAN) countries align on sector-specific strengths, promote national champions and present a shared narrative of regional complementarity. If investors approach a country lacking expertise in a particular sector, they are redirected to another ASEAN member better positioned to meet those needs. Europe could adopt a similar model by coordinating across member states (harnessing complementary strengths across member states) to strengthen competitiveness and attract private investment. Short-term resilience through shock absorption Expand Europe's storage buffer so short-term disruptions, such as trade corridor blockages, do not immediately become supply crises; fully use existing stockpiling capacity for essential products to create more time to reroute cargo and stabilize markets. This is an expensive approach and stands in contrast to an alternative centred on deeper coordination with partners to prevent simultaneous panic buying during crises. The two approaches reflect a trade-off between unilateral shock absorption and collective market stabilization strategies.
Addressing common challenges of trust and imbalances All economies face similar challenges, in varying forms, of economic fragmentation, geopolitical tensions and industrial transformation.	De-risking dialogue Open and structured dialogue with the US, China and other economies on the difficulties faced and potential solutions is essential.
Uncertain impact of new trade agreements on economic security While recent trade agreements aim to diversify dependencies, their ability to meaningfully reduce vulnerabilities in critical sectors remains uncertain. Coordination on supply chain resilience, including risk monitoring, stockpiling and supplier diversification, remains fragmented across partners, while economic security mechanisms are still insufficiently embedded within trade partnerships. Coordination on supply chain resilience also remains fragmented across trading partners, particularly in risk monitoring, stockpiling and supplier diversification. The EU–Australia agreement is the only exception to this.	More holistic approach to negotiating trade agreements Adopt a more holistic approach to trade agreements that combines an offensive agenda to expand market access and build future growth with a defensive agenda to strengthen resilience and strategic autonomy. Alongside traditional market access provisions, agreements should include security partnerships, co-investment frameworks, technology cooperation, selective IP sharing and corridor planning for infrastructure and logistics to develop resilient supply chains and future demand. Trade agreements with like-minded partners, including Japan and Canada through the EU alliance with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (EU-CPTPP), should also incorporate economic security provisions such as joint monitoring, information sharing, coordinated stockpiling, supplier matchmaking, mutual support mechanisms against economic coercion and market access linked to shared standards and rules.²⁶⁹
Balancing credible economic defences while limiting supply chain exposure A credibility gap persists in the deployment of trade defence tools, as political constraints limit the effective use of instruments such as the ACI. Blunt or unilateral measures risk triggering retaliation and disrupting deeply interconnected European supply chains. This creates a dilemma in which insufficient action weakens deterrence but overly aggressive measures can impose significant costs on European industry itself. The challenge is not the absence of tools, but their strategic use. Policy-makers must identify where Europe has capacity to exert influence, where intervention and excessive protectionism risks backfiring in highly interconnected supply chains and how defensive measures can be coordinated with trusted external partners. Building greater resilience and reducing strategic dependencies also will inevitably come at a fiscal cost. For businesses that may not face a direct cost impact, there are indirect impacts, such as compliance-related costs.	Strengthening credible trade defence strategy Make trade defence tools operational and credible by pre-agreeing deployment conditions and cost-sharing mechanisms across member states to strengthen political preparedness and collective resolve.²⁷⁰ Their use should be targeted, focusing on sectors where Europe holds concentrated strategic advantages, supported by rigorous risk and spillover analysis to minimize self-harm and unintended supply chain disruption. Trade defence strategy can also be implemented in coordination with like-minded external partners, for example by harnessing frameworks such as the EU-CPTPPP dialogue. Closing the gap between Europe's strategic ambitions and the commercial realities facing businesses also requires more robust financing and budgeting frameworks, as well as greater certainty to support long-term investment. Equally important is speed. The complexity of decision-making across EU institutions and member states can result in lengthy periods of inaction, even when strategic vulnerabilities are well understood.

4

Europe’s outbound investment and development strategy

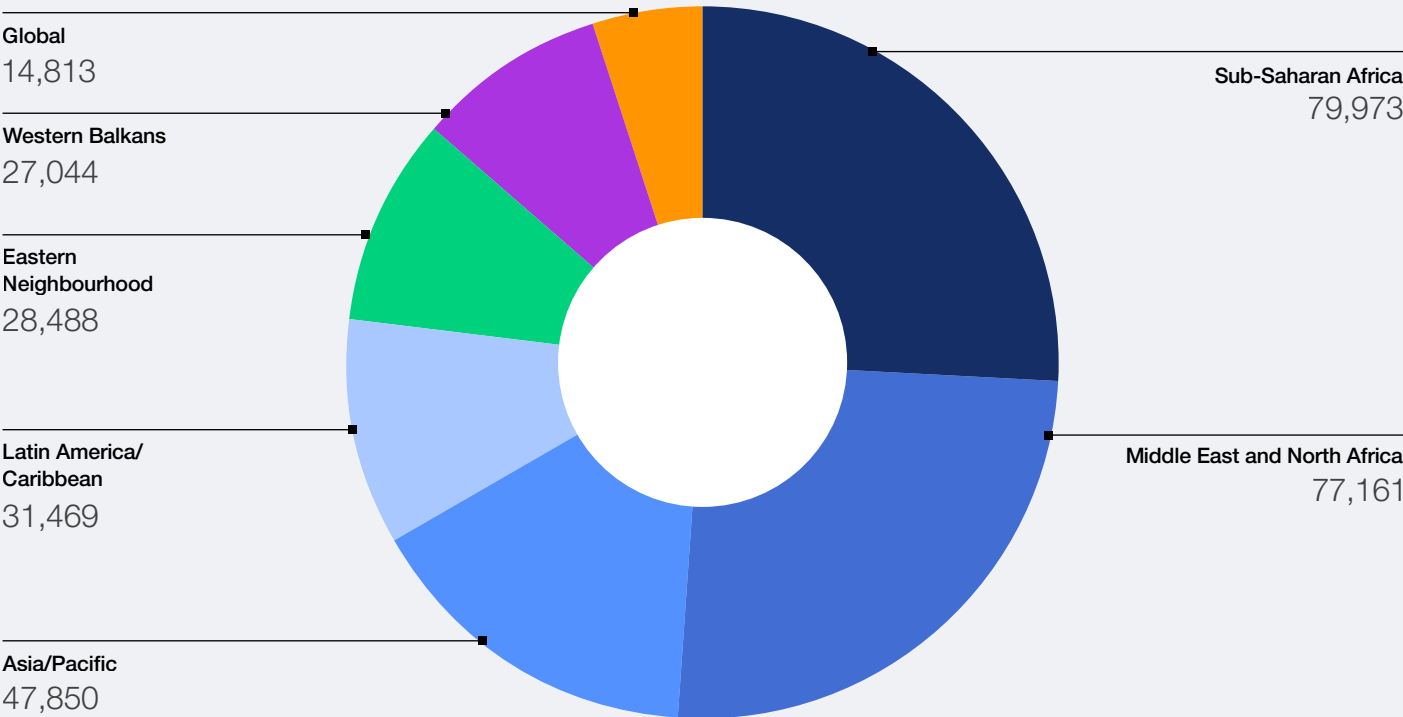
The Global Gateway is pioneering a new model for strategic investment, but greater flexibility and private capital are needed to scale impact.

The Global Gateway is the EU’s flagship outbound investment and development strategy, designed to advance European strategic interests through large-scale infrastructure and connectivity investments across partner countries while supporting development priorities and contributing to narrowing the global investment gap. Launched in 2021, it has mobilized over €300 billion in five years, reaching its

original target two years ahead of schedule. It now aims to exceed €400 billion by 2027, by combining EU institutions, member states, development banks and private capital to invest in sectors such as energy, transport, healthcare, digital connectivity, education, research and critical supply chains, with projects spanning Latin America and the Caribbean, the Middle East, Asia Pacific and Africa.

FIGURE 1 Investments mobilized by the Global Gateway in different regions

Total global gateway investments mobilized 2021–2024
 \$306,798 million



Note: Global Gateway is implemented through a “Team Europe” approach. Team Europe consists of the European Union, its member states, implementing agencies, public development bank, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (ERDB).
Source: European Commission.

“ The challenge is therefore not only the availability of capital, but whether the financing architecture can be translated into investable structures that mobilize private capital at scale.

Rather than traditional development aid, the Global Gateway reflects a broader shift in the EU's approach to external economic engagement. It is designed to use public resources strategically to crowd in private investment, combining grants, guarantees, blended finance, technical assistance and other risk-sharing instruments to improve project bankability and reduce commercial and political risks. By harnessing public funding as catalytic capital, the initiative enables development finance institutions and private investors to participate in commercially viable projects in more complex markets, while promoting EU standards on environmental and social sustainability, good governance and transparency. Access to finance is only one component of the value proposition. Early-stage de-risking, including access to guarantees, risk-sharing instruments and catalytic capital, can play an equally important role in enabling commercially viable investments and attracting private sector participation.

To strengthen implementation and private-sector engagement, the European Commission launched the Global Gateway Investment Hub in 2025 as a single-entry point for companies seeking to participate in Global Gateway projects. The hub is designed to connect investment proposals with European financial and non-financial support, bringing together the European Commission, the European Investment Bank (EIB), development finance institutions, export credit agencies and member states through a single entry point. It provides a more coordinated pathway for project preparation, structuring and financing, helping accelerate project delivery, strengthen coordination across the Team Europe architecture and make participation more accessible for European businesses. As such, the hub represents an important step towards improving the accessibility and coordination of Global Gateway financing for the private sector.

However, private-sector engagement remains limited. While Global Gateway brings significant public finance, guarantees and advisory tools, companies and investors continue to face challenges in accessing instruments that are sufficiently coordinated, flexible and tailored to project risks. Key constraints include bankable project pipelines, early-stage project preparation, risk allocation, currency and political risk, long-tenor financing and clarity on how EU member states, development finance institutions, export credit agencies and private capital can be combined in practice. The challenge is therefore not only the availability of capital, but whether the financing

architecture can be translated into investable structures that mobilize private capital at scale. The EIB, for example, can play a central role in financing Global Gateway projects. However, despite the creation of the EIB Global, the EIB's development arm, and efforts to expand its toolkit and risk-taking capacity, its current mandate, capital frameworks and approval processes can still limit how far it can operate as a catalytic development finance institution. In practice, this can constrain the rapid deployment of capital for private-sector investment in emerging and frontier markets, where projects often require greater risk tolerance, more flexible instruments and stronger blending with guarantees, concessional finance and technical assistance.

Addressing these gaps will require a stronger development finance function that takes European priorities more systematically into account. This includes strengthening the financial toolbox with more flexible and strategically targeted instruments, such as equity financing, guarantees and catalytic capital for strategic industries and infrastructure projects, in ways that respond to calls for pace and flexibility. The next Multiannual Financial Framework will also require a more investment-driven approach, better aligning public and private financing mechanisms to mobilize capital at the speed and scale necessary to strengthen Europe's competitiveness and economic security. The Global Europe instrument can help address these deficiencies.

Two additional areas that need to be addressed are the call for greater strategic clarity on the Global Gateway's geopolitical and economic priorities, and the mismatch between institutional timelines and commercial realities. First, the Global Gateway requires greater strategic clarity of its objectives across regions, sectors and partner countries, along with stronger mechanisms to ensure that project selection and implementation consistently reflect those objectives. Second, companies' investment horizons are often short given competitive pressures, while long and complex EU processes can risk projects losing momentum before financing is secured. Addressing these concerns will require both greater clarity in how the initiative's priorities are defined and communicated, and a simplification of processes to better align with private-sector timelines.

At the same time, there are calls for improved access and communication to SMEs about the opportunities in Global Gateway projects. This will require early involvement, information and guidance to facilitate small and medium-sized enterprise (SME) participation.

CASE STUDY 1

The Lobito Corridor

The Lobito Corridor illustrates both the ambition and the evolving model of the Global Gateway. Stretching from Angola's Atlantic coast through the Democratic Republic of Congo to Zambia's Copperbelt, the corridor aims to reduce export transit times from more than a month to around one week while enabling conditions for trade, employment and development. The project adopts a corridor-based investment approach that combines hard infrastructure development with trade facilitation through soft connectivity, biodiversity, renewable energy and a focus on job growth, SME access and eco-tourism rather than pure extraction.

The Lobito Corridor illustrates how the Global Gateway operates less as a single funding programme than as a platform for coordinating public and private capital. Rather than relying solely on EU grants, it combines EU funding with EIB financing, bilateral development assistance, export credits and commercial investment. The diversity of contributors demonstrates the potential of the Team Europe model to mobilize investment at scale, while also highlighting that successful implementation depends on aligning multiple financing institutions and private investors behind a common strategic objective.

TABLE 2 | Illustrative examples of selected projects in the Lobito Corridor through the Global Gateway

Project country	Project type	Value	Key contributors	Financing mechanism	Project targets
 Angola	Sustainable agricultural value chains	€50M	EU; farmer organizations; agro-processing businesses	EU grant	+25% productivity; 100 farmer groups; 8 new agro-business.
	Technical and vocation education and training (TVET) and skills	€43M	EU; France; Portugal; African Development Bank; private-sector employers	Grants and partner co-financing	10,000 beneficiaries; 50 private-sector aligned courses
	Water infrastructure	€100M (EIB); €150M (AFD); \$300M (World Bank)	EIB; Agence Française de Développement (AFD); World Bank	Development finance loans	Access to water in three provinces, reaching thousands of families
	Electricity	€1B	Germany; MCA Deutschland	Export credits	Supports electrification of 60 communities
 Democratic Republic of the Congo (DRC)	Trade facilitation	€6M	EU; TradeMark Africa	Grant	Simplifying customs and reduce trade barriers between Angola, DRC and Zambia
	Critical raw materials skills and entrepreneurship	€10M	EU; local mining sector	Grant	Promoting fair, transparent and environmentally responsible value chains
	Renewable energy	€15mn	EU; ElectriFI; private renewable energy developers	Blended finance	Expand access to reliable, clean power in Lualaba and Haut-Katanga
 Zambia	Railway modernization	€50M	EU; Zambia Railways	Grant	Connect the planned Lobito Corridor line to the existing TAZARA railway and the Southern Africa railway network, forming part of a future trans-African rail link between the Atlantic and Indian Oceans
	Critical raw materials value chains	€9.8M	EU; United Nations Industrial Development Organization (UNIDO); mining companies	Grant and technical assistance	Supporting responsible value chains, training and local processing
	Water infrastructure; Nexus Energy and Water Programme for Zambia 2.0 (NEWZA 2.0)	€20M	EU	EU grant	Providing renewable-powered water supply to fast-growing towns in the North West Western and Copperbelt provinces

Source: European Commission.

TABLE 3 | Key risks and recommended solutions

 Risk/constraint	 Potential solution
Limited private-sector engagement in the Global Gateway	✓ While there is already a pipeline of investible projects and a direct tender portal, develop defined timelines, co-financing structures and risk-sharing mechanisms for each project. ✓ Engage industry earlier as co-designers of projects, not just implementers, to ensure commercial viability. ✓ Use the EU's collective diplomatic and regulatory influence to support companies in tendering processes, regulatory dialogue and project implementation in higher-risk markets. ✓ Streamline approval processes and reduce administrative complexity to better align institutional timelines with private-sector investment horizons.
Further alignment required between projects and core strategic objectives – e.g. how the projects strengthen Europe's industrial resilience and competitiveness	✓ Prioritize strategic sectors and explicitly align projects with EU competitiveness and economic security goals. ✓ Position Global Gateway as a delivery vehicle for concrete and measurable outcomes.
Financing constraints for private-sector mobilization, including limited guarantees, de-risking tools and long-term capital	✓ Adopt a more investment-driven Multiannual Financial Framework and consider alternative financial instruments and/or new governance structures to provide guarantees, equity financing and capital for the private sector

Sectoral analysis: critical raw materials

Europe's mineral security now hinges on the execution of partnerships through the financing of bankable projects to scale mineral circularity.

Global demand for critical raw materials is rising sharply, driven by the energy transition, defence, AI, advanced manufacturing, the automotive sector and other emerging technologies. Many of Europe's critical raw material value chains are highly trade-dependent, exposing industries to supply disruption and price volatility. The European Court of Auditors reported that for most critical raw materials, "the EU is dependent on imports from non-EU countries. For 10 such materials, the EU is fully dependent on imports."²⁷¹ While Europe consumes 25–30% of metals globally, its domestic mining yields only about 3% of global output. This leaves Europe heavily dependent on imported minerals, particularly in rare earth elements, lithium and cobalt. Europe relies on China for 100% of its heavy rare earths, Brazil for 92% of its niobium and Chile for 79% of its lithium.²⁷²

Many mineral value chains that supply these materials remain highly concentrated. This is particularly true of midstream segments in rare earth value chains, with one dominant player hosting more than 90% of global refining capacity and associated intellectual property. This concentration represents a structural vulnerability for Europe. As such, Europe has articulated a desire to develop midstream refining capacity at home to address its supply dependencies. The nuances of such dependencies vary across different minerals; strategic materials such as lithium, natural graphite and rare earth elements show particularly acute exposure across the value chain. By contrast, for cobalt, copper, and nickel, Europe's reliance is comparatively lower and more at the extraction stage rather than at processing and refining.

Governments are deploying a wide mix of policy tools to address this concentration: industrial policy and subsidies, trade defence instruments, investment screening and bilateral or plurilateral partnerships with mineral-producing countries. In the EU, this policy momentum has accelerated through the Critical Raw Materials Act, strategic agreements and projects with partners abroad, and a new Raw Materials Mechanism launched in April 2026 to serve as an aggregation platform. The European Commission has also announced legislative progress towards the establishment of a European Critical Raw Materials Centre to strengthen market intelligence, joint purchasing, stockpiling and project monitoring.

Policy architecture alone will not solve Europe's minerals challenge. The next phase must focus on implementation: translating partnerships into bankable projects by de-risking projects across the value chain, as well as advancing Europe's leadership in circularity and its potential in secondary markets.

Partnerships

Europe has made important progress in diversifying mineral supply through trade diplomacy and economic partnerships. The EU has signed agreements containing critical mineral provisions with key partners such as the US, Mexico, Australia, Mercosur and South Africa, and concluded negotiations on a bilateral Comprehensive Economic Partnership Agreement with Indonesia. Notably, the agreements with Australia, Mexico and Mercosur include supply-access disciplines, limiting export duties, dual pricing, export monopolies and other supply restrictions. By contrast, partnerships with the US and South Africa are more investment-oriented, aspiring to jointly develop and finance diversification through extraction and processing stages. The priority now is to implement these agreements and convert diplomatic partnerships into investable projects through blended finance, long-term purchasing commitments and support for enabling infrastructure, among other market signals. Equally important is ensuring that producer countries capture value through mineral partnerships with the EU, including by advancing local industrial capacity, skills, employment opportunities and technical know-how.

Some industry players have illustrated how these partnerships could look. Umicore has a long-term collaboration with Gécamines subsidiary the Lubumbashi Slag Heap Treatment Society (STL) in the Democratic Republic of the Congo (DRC) to recover and process germanium from mining waste in Lubumbashi. The initial recycling processing takes place in the DRC, enabled by technology transfer from Umicore; Umicore then continues with the secondary stage of high-purity refining.²⁷³ Another example is Johnson Matthey's partnership with South African mining group Sibanye-Stillwater, where the latter mines and initially processes platinum

“Europe relies on China for 100% of its heavy rare earths, Brazil for 92% of its niobium and Chile for 79% of its lithium.

group metals in South Africa. Johnson Matthey then provides refining and materials expertise through long-term supply and refining arrangements, as well as technological collaboration to improve the efficient use and circularity of metals.²⁷⁴

Financing Europe's mineral future: the bankability challenge

The scale of Europe's mineral financing challenge is clear: the 13 overseas strategic projects designated by the EU on 4 June 2025 are estimated to require €5.5 billion in overall capital investment to begin operations.²⁷⁵ Diplomatic agreements and strategic partnerships are important signals, but they do not address the risk-return profile facing investors and industry actors, ranging from uncertain long-term returns to challenges in obtaining the social license to operate. For Europe's external minerals strategy to move from ambition to execution, partnerships need to be accompanied by de-risking tools that can convert political intent into investable projects. These include long-term offtake agreements, joint ventures in upstream mining, co-investment in

midstream processing capacity and political risk insurance, to name a few.

Mineral projects are capital-intensive and long-dated. Investors face volatile mineral prices, uncertain long-term policy signals, regulatory complexity in both Europe and partner countries, lengthy permitting timelines, infrastructure constraints and limited visibility over future demand. These factors elevate investors' risk perception and result in thin project pipelines. Therefore, building a business case requires projects that correspond to the risk profile and mandates of private capital.

To address the bankability challenge, the World Economic Forum Securing Minerals for Energy and Technologies initiative's report, *Making Critical Minerals Bankable: Policy Tools to Unlock Investment*,²⁷⁶ identifies targeted de-risking interventions to crowd in private capital by matching policy tools to different minerals, jurisdictions and project stages. To close the minerals investment gap, the tools that are effective for a mature copper expansion in a stable jurisdiction will not necessarily work for an early-stage graphite, lithium or rare earth project in a higher-risk environment.

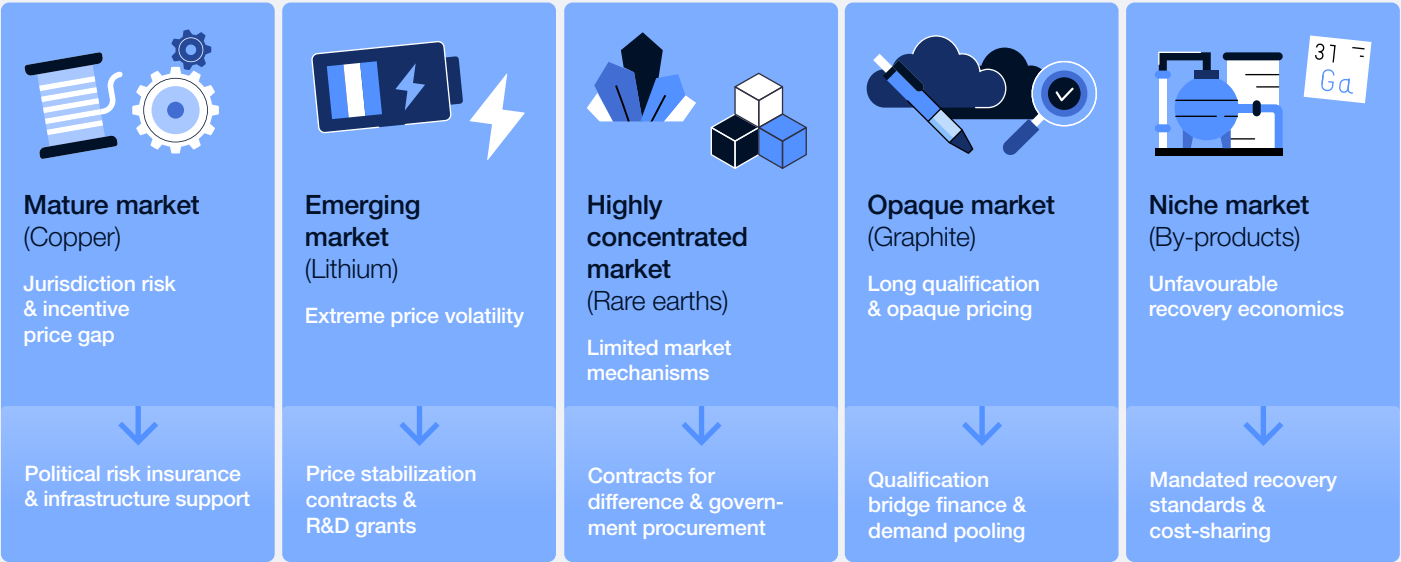
TABLE 4 Overview of global mineral market archetypes and financing risks

Financing risks	Market archetypes and mineral examples				
	Mature market	Emerging market	Highly concentrated market	Opaque market	Niche market
	 Copper	 Lithium	 Rare earths	 Graphite	 By-products
Pricing transparency	High (LME, COMEX) ¹	Medium (emerging benchmarks)	Low (bilateral, policy-driven)	Very low (bespoke contracts)	Very low (bilateral)
Supply concentration	Upstream: Low Midstream: Medium	Upstream: Low Midstream: High	Extreme	Extreme	Extreme
Hedging availability	Deep, liquid	Limited	None	None	None
Demand drivers	Broad (AI, electrification, construction)	Battery-dependent (EVs, grid storage)	Tech-specific (EVs, defence, wind)	Battery-dependent (anodes)	Niche
Primary constraints	Jurisdiction risk, incentive price gap, midstream pressure	Price volatility, market concentration, conversion capacity	High concentration, limited price transparency, technical scale-up challenges	Market concentration, opacity, qualification timelines	Market size, recovery economics, market concentration
Bankability without policy support	Moderate	Moderate	Very low	Very low	None

Note: ¹ LME = London Metal Exchange; COMEX = Commodity Exchange Inc., a major New York-based derivatives exchange for trading futures and options on metals, including gold, silver, copper and aluminium.

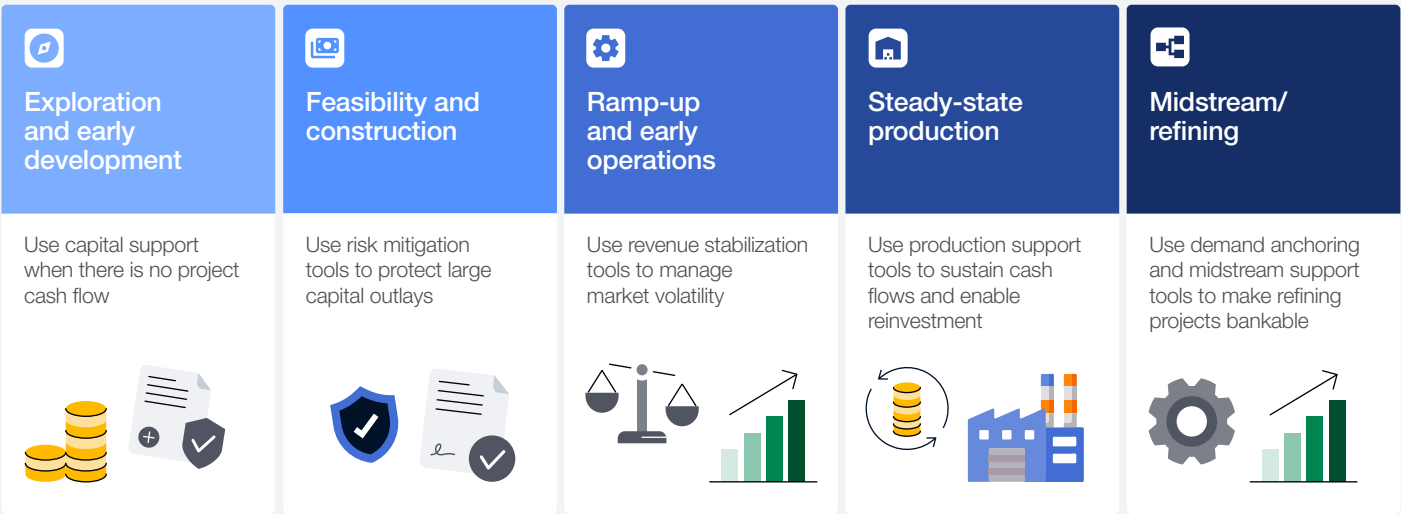
Source: World Economic Forum.

FIGURE 2 | Matching policy to the minerals market



Source: World Economic Forum; School of International and Public Affairs (SIPA) Columbia.

FIGURE 3 | Matching policy to the project lifecycle



Source: World Economic Forum; School of International and Public Affairs (SIPA) Columbia.

For Europe, the bankability challenge is also an institutional challenge. The Forum’s stakeholder dialogues highlighted that Europe’s minerals finance toolkit remains limited. Participants articulated a shared concern about Europe’s lack of a dedicated, minerals-focused financing vehicle, especially for earlier, riskier project stages and, most importantly, for projects outside the EU. In this context, constituents across public and private sectors observed that Europe lacks a dedicated financial

toolkit. There is no European equivalent to the US International Development Finance Corporation or Japan Bank for International Cooperation, mandated with a minerals-oriented strategy and comparable ability to deploy concessional, equity, guarantee or political risk tools in a coordinated fashion. In this light, participants proposed establishing alternative financing mechanisms and governance structures to facilitate and de-risk investments for Europe in mineral projects abroad.

“Mineral circularity is not only a sustainability imperative or waste management challenge; it is an area of leadership for Europe and a strategic industrial opportunity.

Circularity and recycling: secondary mineral markets in Europe

Primary extraction will remain indispensable to meeting mineral demand in the immediate future, but Europe’s mineral security will also depend on the development of robust secondary markets. Mineral circularity is not only a sustainability imperative or waste management challenge; it is an area of leadership for Europe and a strategic industrial opportunity. The EU’s Critical Raw Materials Act acknowledges the importance of mineral circularity by setting a 2030 benchmark for domestic recycling capacity equivalent to at least 25% of the EU’s annual consumption of strategic raw materials. Despite recognition of the importance of secondary supply, Europe’s circular material base remains limited. Only 12.2% of materials used in the EU in 2024 came from recycled sources.²⁷⁷

The European Court of Auditors’ April 2026 report cautioned that bottlenecks in production and recycling continue to hinder Europe’s raw material security, pointing to a lack of EU targets to incentivize mineral recycling as well as persistent market barriers.²⁷⁸ Mineral recycling is lagging, partly due to the high rate of use of already-mined minerals. The gap also largely stems from inadequate mineral-rich waste collection, processing capacity, traceability and economies of scale. Recycling facilities, advanced sorting

systems and recovery plants require substantial upfront capital investment, long permitting and construction cycles and reliable access to end-of-life feedstock that may only become available in larger volumes over time. In some cases, mineral-recycling investments can have payback periods of more than two decades, making public funding for R&D at times unappealing to policy-makers who do not yet see building secondary mineral capacity as a medium- to long-term resilience strategy. As a result, recycling systems remain underdeveloped, especially for minerals that are used in small quantities or embedded in complex products, undermining the business case for circularity at scale, especially where collection rates are low or recovery technologies are costly.

EU member states and industry actors have a distinctive opportunity to de-risk circularity by improving the cross-border movement of recyclable materials within the single market, thereby aggregating fragmented feedstock and strengthening mineral supply at home. This would be most effective if supported by clear demand signals for recycled minerals, including through offtake agreements from the private sector, other de-risking measures with public finance and an ecosystem of high-quality collection, sorting and traceability mechanisms. Internationally, stronger secondary markets would reduce Europe’s mineral import dependence and allow the EU to compete not only as a buyer of primary minerals but as a hub for high-value recovery, refining, standards-setting and circular industrial know-how.

TABLE 5 Key risks and potential solutions

 Risk	 Potential solution
Uncertain demand signals and price volatility in minerals markets dissuade upstream investment in mining and perpetuate supply concentration in the hands of dominant players.	Buyers’ club Should Europe pursue or join a minerals “buyers’ club” to send predictable demand signals, pool purchasing power and set shared standards for responsible sourcing alongside like-minded partners?
Protecting against the risk of supply disruptions, export restrictions and price shocks that have the potential to halt key downstream industries is key.	Minerals stockpile Another model would be a joint stockpile or strategic reserve with allies, which Europe has kickstarted at home through its Raw Materials Mechanism – however, stockpiling remains an expensive option.
There is a need to diversify the sources of – and build resilience in – mineral supply while creating shared value with resource-rich countries , as well as to align supply with Europe’s sustainability and industrial policy objectives.	Enhanced trade agreements Examine “enhanced” partnerships with resource-abundant countries – i.e., agreements that go beyond merely extraction deals. Consider provisions for technology transfer, investment in local refining and processing capacities or trade-enabling infrastructure, and support for accelerated circularity and substitution technologies etc.
Europe’s shortage of midstream capacity and China’s dominance in midstream refining and processing are a major structural vulnerability for Europe. Market forces alone are unlikely to address this gap.	Stronger financing and derisking mechanisms to develop or access midstream technologies , in addition to deepening public-private cooperation through alternative financial instruments and governance structures, with one of its mandates being investments in critical minerals megaprojects beyond Europe.

Summary

Europe's economic and geopolitical environment is undergoing a structural transformation. Intensifying strategic competition and the growing use of economic statecraft are reshaping the conditions under which European businesses trade, invest and compete. At the same time, the fragmentation of the global economy is creating new challenges for supply chains, investment decisions and long-term competitiveness. Strengthening Europe's competitiveness and economic security will therefore require a more integrated approach to external economic policy – one that brings together trade, investment, industrial policy and strategic partnerships. Enabling strategic alliances means equipping Europe with the policies, partnerships and investment tools needed to deepen cooperation where interests align, reduce strategic vulnerabilities where necessary and strengthen long-term competitiveness and economic security.

First, Europe should strengthen its network of strategic partnerships to support competitiveness and economic security. Future trade agreements should move beyond market access to incorporate economic security, technology cooperation, supply chain diversification, infrastructure connectivity and co-investment frameworks, while preserving Europe's commitment to open and rules-based trade. Alongside the implementation of trade agreements, business uptake must be closely monitored through public-private engagement platforms.

Second, Europe should strengthen its outbound investment and development strategy by making the Global Gateway a more effective platform for strategic partnerships, with clearer business value.

This requires stronger de-risking instruments, clearer strategic priorities, more streamlined implementation and a financing architecture capable of mobilizing private capital while also harnessing the Global Gateway's ability to coordinate public and private actors, provide political support and improve the commercial viability of strategic projects.

Third, Europe should strengthen its economic security framework through targeted and proportionate measures that reduce strategic vulnerabilities while preserving openness. Better mapping of critical value chains, more effective use of trade defence instruments and closer public-private collaboration will be essential to anticipate risks, strengthen competitiveness and provide greater certainty for business.

Finally, our sectoral analysis on critical minerals suggests that Europe should accelerate the implementation of its critical raw materials strategy. Strategic partnerships should be complemented by commercially viable financing solutions, dedicated de-risking mechanisms and investment across the value chain, alongside scaling of circularity and secondary raw material markets to reduce long-term dependencies and strengthen Europe's industrial competitiveness.

Ultimately, Europe's competitiveness and economic security will depend less on individual policy areas than on how effectively they are brought together. As trade, investment, industrial policy and economic security become increasingly interconnected, the challenge is to align these policies within a coherent external economic strategy that translates strategic ambition into concrete action.

Conclusion

Europe enters this new era of competition with real advantages: its first consumer market, deep industrial expertise, a leading base of early-stage companies, abundant household savings and increasingly mature clean-energy technologies. Across clean energy and industry, technology and innovation, financial markets and strategic alliances, this report's chapters reach the same underlying finding: Europe's constraint is rarely a shortage of capital, technology or ideas. It is the speed and coordination with which existing strengths are deployed.

The evidence supports this. Buyers' coalitions are already turning uncertain clean-technology markets into bankable ones, a joint public procurement effort is anchoring Europe's first quantum computers, auto-enrolment pension reforms are creating hundreds of thousands of new savers, and the Global Gateway has mobilized over €300 billion in outbound investment, ahead of schedule. Yet progress remains uneven and, in places, too slow: less than one-third of the Draghi report's recommendations have been implemented, and many proven national models have yet to be replicated at a European scale.

Four conclusions stand out.

- First, Europe's clean energy and industrial transformation requires durable political commitment and diversified supply, particularly as recent geopolitical shocks reinforce the cost of import dependence.
- Second, scaling Europe's early-stage companies and technology base depends on reducing fragmentation across 27 jurisdictions and using collective tools, such as joint procurement, to create markets no single member state could anchor alone.
- Third, converting Europe's deep pool of savings into productive investment requires completing the financing continuum, through securitization, retail participation and stronger pensions.
- Fourth, reducing strategic dependencies without retreating from open trade requires a more integrated external economic policy, combining trade agreements, outbound investment and targeted economic security measures.

Running through all four is a single, unifying message: public policy alone cannot deliver these outcomes. Durable progress depends on sustained partnership between governments, businesses, investors, civil society and institutions, each acting on the part of the solution they hold.

Next steps for the LGC

Consistent with its mandate, translating strategic ambition into practical, collaborative action rather than revisiting settled diagnoses, the LGC will prioritize:

1. **Scaling what already works:** Across member states and sectors, help scale proven national and sectoral models informed by country-specific conditions, such as buyers' coalitions, joint procurement, auto-enrolment pensions and de-risking instruments.
2. **Deepening multistakeholder coordination platforms:** Enable structured engagement between business, EU institutions and member states across the four thematic areas so that stakeholder input informs decision-making in real time.
3. **Tracking implementation, not just ambition:** Establish a light-touch mechanism to monitor delivery against the practical recommendations in this report, similar to the scrutiny applied to the Draghi recommendations, so that momentum and success is visible and widely understood and gaps are identified early.

The LGC's role is to ensure these priorities guide its work across the four thematic areas that have emerged as European priorities: energy, technology, finance and strategic partnerships. Because of its unique, cross-sectoral, jurisdiction-spanning position, the LGC can serve as a linking mechanism to sustain multi-year commitments across election and business cycles. Through such evidence-based, integrative work, the LGC can help translate Europe's considerable strengths into lasting productivity growth, resilience and prosperity.

Contributors

Clean and Competitive Energy and Industry

Grzegorz Bien

Analyst, Strategy and Consulting, Accenture

Nathan Chicheportiche

Lead, First Movers Coalition Government Engagement, Centre for Nature and Climate, World Economic Forum

Aman Chitkara (Lead author)

Lead, Policy Engagement and International Processes, Centre for Energy and Materials, World Economic Forum

Wytse Kaastra

Global Utilities Lead, Accenture

Emilie Kaern

Partner Lead, Electricity Industries, Centre for Energy and Materials, World Economic Forum

Isabelle Lengeling

Lead, First Movers Coalition Strategy and Business Engagement, Centre for Nature and Climate, World Economic Forum

Espen Mehlum

Head, Energy, Centre for Energy and Materials, World Economic Forum

Nadia Mondini

Specialist, Sustainable Finance, Centre for Financial and Monetary Systems, World Economic Forum

Michał Piotrowski

Senior Manager, Strategy and Consulting, Accenture

Marta Rudzka

Manager, Strategy and Consulting, Accenture

Agata Szczotka-Sarna

Consultant, Strategy and Consulting, Accenture

Shaping the Intelligent Age

Solveigh Hieronimus

Senior Partner, McKinsey & Company

Dietrich John (Lead author)

Community Lead, Europe and Eurasia, Centre for Regions Trade and Geopolitics, World Economic Forum

Wouter Kokx

Partner, McKinsey & Company

Anna Kortis

Partner, McKinsey & Company

Jan Mischke

Partner, McKinsey Global Institute

Tunde Olanrewaju

Senior Partner, McKinsey & Company

Leveraging Financial Markets

Magnus Burkl

Partner; Global Head, Capital Markets and Financial Infrastructure, Oliver Wyman, a Marsh business

Elie Farah

Managing Partner; Head, Banking and Financial Services, Europe, Oliver Wyman, a Marsh business

Natalya Guseva

Head, Financial Markets and Resilience Initiatives, Centre for Financial and Monetary Systems, World Economic Forum

Ryan Lancaster

Associate, Oliver Wyman, a Marsh business

Hiten Patel

Partner; Global Head, Financial Infrastructure, Technology, and Services, Oliver Wyman, a Marsh business

Huw van Steenis

Partner and European & Economic Policy Advisor, Apollo

Matt Strahan (Lead author)

Lead, Private Markets Initiatives, Centre for Financial and Monetary Systems, World Economic Forum

Harry Yeung

Specialist, Financial Markets and Resilience, Centre for Financial and Monetary Systems, World Economic Forum

Enabling Strategic Alliances

Thomas Lehmann

Community Lead, Europe and Eurasia, Centre for Regions, Trade and Geopolitics, World Economic Forum

Angela Minyi Hou

Mineral Trade and Public Engagement Lead, Centre for Regions, Trade and Geopolitics, World Economic Forum

Alex Roth (Lead author)

Community Lead, Europe and Eurasia,
Centre for Regions, Trade and Geopolitics,
World Economic Forum

Nivedita Sen (Lead author)

Trade and Insights Lead, Centre for Regions,
Trade and Geopolitics, World Economic Forum

Initiative Leadership**Emmy van Enk**

Community Specialist, Europe and Eurasia,
Centre for Regions, Trade and Geopolitics,
World Economic Forum

Marushia Gislén

Community Lead, Europe and Eurasia,
Centre for Regions, Trade and Geopolitics,
World Economic Forum

Production**Mary Bridges**

Writer

Louis Chaplin

Editor, Studio Miko

Laurence Denmark

Creative Director, Studio Miko

Charlotte Ivany

Designer, Studio Miko

Cat Slaymaker

Designer, Studio Miko

Oliver Turner

Designer, Studio Miko

**World Economic Forum
Public Engagement****Maxwell Hall**

Creative Editorial Lead

Floris Landi

Design Lead

Gayle Markovitz

Head, Written and Audio Content

Sybille Penhirin

Head, Video and Design

Co-Chairs**Clean and Competitive Energy
and Industry Pillar****Faith Birol**

Executive Director, International Energy Agency

Anna Borg

President and Chief Executive Officer, Vattenfall

Wopke Hoekstra

Commissioner, Climate, Net Zero
and Clean Growth, European Commission

Shaping the Intelligent Age Pillar**Christian Klein**

Chief Executive Officer, SAP

Henna Virkkunen

Executive Vice-President, European Commission
for Technological Sovereignty, Security,
and Democracy, European Commission

**Leveraging Financial
Markets Pillar****Maria Luis de Albuquerque**

Commissioner, Financial Services and the Savings
and Investments Union, European Commission

Annette Mosman

Group Chief Executive Officer, APG Group

Christian Sewing

Chief Executive Officer, Deutsche Bank

Enabling Strategic Alliances Pillar**Arancha González Laya**

Dean, The Paris School of International Affairs (PSIA)

Bart Sap

Chief Executive Officer, Umicore

Jozef Síkela

Commissioner for International Partnerships,
European Commission

Senior Advisors to the Co-Chairs

Clean and Competitive Energy and Industry Pillar

Oskar Ahnfelt

Vice-President, Public and Regulatory Affairs, Vattenfall

Alessandro Blasi

Special Advisor to the Executive Director, International Energy Agency (IEA)

Astrid Dentler

Deputy Head, Cabinet of Commissioner Wopke Hoekstra, Climate, Net -Zero and Clean Growth

Annika Ramsköld

Vice President, Corporate Sustainability, Vattenfall

Shaping the Intelligent Age Pillar

Xavier Coget

Member of Cabinet of Executive Vice-President Henna Virkkunen, European Commission

Sarah Schmidt

Senior Vice-President; Head, Corporate Strategy, Transformation and Portfolio, SAP

Leveraging Financial Markets

Benjamin Alka

Global Head, Corporate Affairs and Strategy; Chief of Staff of the CEO, Deutsche Bank

Stephen Fisher

Managing Director and Global Head, Government and Public Affairs, Deutsche Bank

Ruben Laros

Senior Advisor, APG Group

Philippe Thill

Member of Cabinet of Commissioner Maria Luís Albuquerque, European Commission

Enabling Strategic Alliances Pillar

Hana Genorio

Member of the Cabinet of Commissioner Jozef Sikela, European Commission

Wouter Ghyoot

Vice-President, Umicore

Sophia La Marca

Chief of Staff, Office of the Dean, Paris School of International Affairs

Endnotes

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744
contact@weforum.org
www.weforum.org