

Weekly Summary

Economics of Climate Change

June 7, 2024

A new Single Market to strengthen Europe in the World, including energy and climate policies

The Letta report¹ provides a comprehensive assessment of the European Union's single market and contains a set of policy proposals for its future development. These proposals are not particularly disruptive to avoid entry vetoes, but they have the potential to substantially impact the European strategic agenda for the next few years, particularly to strengthen the green transition with targeted recommendations.

The Single Market has been a key pillar of Europe's economic success, but needs to be adapted to new developments and demands in order to contribute to a competitive and successful European Union (EU). Letta's [report](#) on the Future of the Single Market published in April, offers powerful arguments in favor of deepening and expanding the EU Single Market. **A new single market would be essential to address the main problems facing Europe:** boosting investment; reducing decarbonization costs; strengthening its defense capacity; and scaling up European companies. Regarding specific recommendations on decarbonisation, see Box 3 "Energy Transition, Environmental Sustainability and Competitiveness in the Letta report".

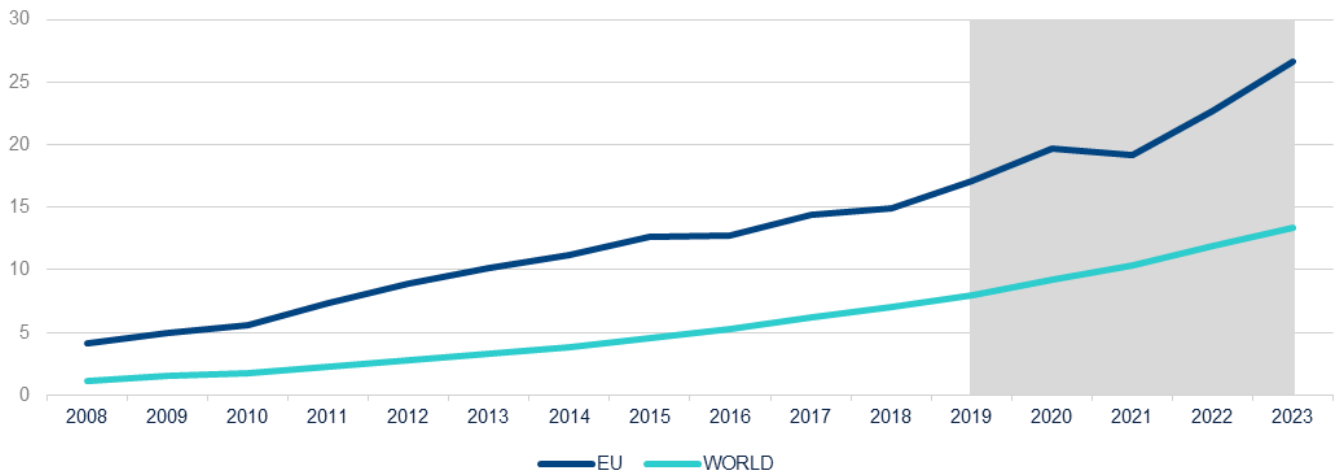
1. A single market to finance strategic goals

Funding a fair, green, and digital transition, pursuing EU enlargement, and enhancing defense capabilities remain unresolved challenges. To support Ukraine during ongoing conflicts, European countries have increased financial contributions and investments, yet there is a gap between announced commitments and actual disbursements. Addressing these challenges requires a strategic approach that leverages the Single Market's potential to mobilize both private and public resources more effectively.

The EU is a global leader in the green transition. In 2019, the share of wind and solar in the EU electricity mix (17%) was double the global average (8%) and, by 2023, this share gained 10 percentage points to reach 27%, still double the global average of 13% (see **Figure 1**). In order to maintain this global leadership, **the EU must adopt a "single market" perspective to develop a comprehensive green industrial policy.** The recently approved Net-Zero Industry Act (NZIA) is a relevant step in the right direction and should help Europe to lead the global race for green technologies and ensure its contribution to the fight against climate change.

1: Enrico Letta - Much more than a market (April 2024).

Figure 1. **SHARE OF WIND AND SOLAR IN ELECTRICITY GENERATION (%)**



Source: BBVA Research from [Ember](#)

But to achieve these goals, the EU cannot rely on fragmented national measures. The industrial strategy needs to embrace a more European approach to ease tensions between new industrial policies with domestic bias and the single market framework. The strategy should be supported by a State Aid framework with uniform conditionalities for disbursement. Additionally, reducing administrative burdens for firms, harmonizing State Aid rules, and expediting the assessment of State Aid measures will simplify access to support, particularly for SMEs. The EU should embrace a vision to progressively establish a Circular Single Market, ensuring fair competition for circular materials, products, and services while boosting demand for high-quality recycled materials. Financial backing from EU initiatives like the Innovation Fund and the European Investment Bank is crucial for large-scale circular economy investments.

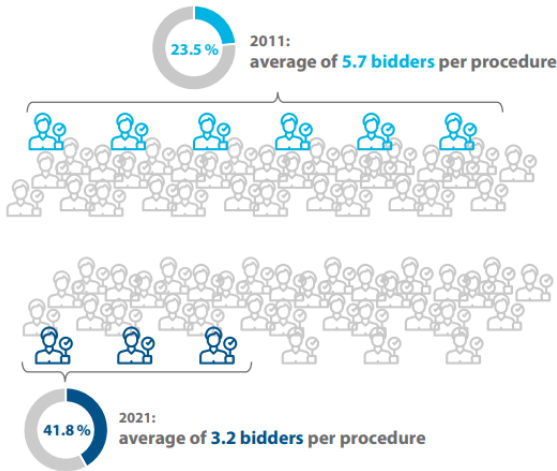
European institutions must unite to implement the ECA² recommendations: simplifying processes, boosting SME participation, and aligning procurement with strategic goals. The ECA highlighted a decline in competition for public contracts to deliver works, goods and services in the EU Single Market over the 2011-2021. The share of single bidding procedures³, a key indicator for measuring competition in public procurement, almost doubled in that decade (see **Figure 2**), and the average duration of public procurement procedures increased by half since 2011 (see **Figure 3**).

Despite this, there has been a significant rise in SME participation in public procurement, particularly in 2021 when eight Member States awarded over 80% of contracts to the lowest bidders. As Letta noted, the default reliance on the lowest price award criterion in public procurement warrants critical examination. The EU should also establish a **new facility for a Pact enhancing European Administrations Cooperation and Expertise (PEACE)**. This initiative would be essential due to recent struggles in public administrations, which have led to bottlenecks in delivering initiatives, underscoring the need for enhanced investments and reforms in public administrations and providing targeted support to those facing similar challenges or goals.

2: European Court of Auditors (ECA). [Special report 28/2023: Public procurement in the EU](#).

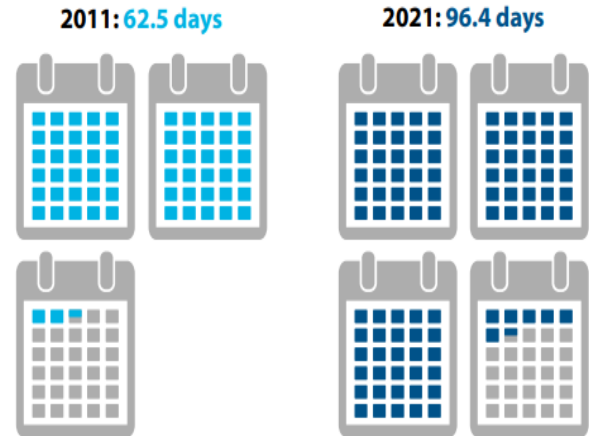
3: Single bidding rate shows the proportion of contracts awarded where there was just a single bidder. The higher the ratio, the less competition.

Figure 2. **SINGLE BIDDING RATE AND AVERAGE NUMBER OF BIDDERS. 2011 AND 2021**



Source: ECA Dashboard's "Competition Indicators".

Figure 3. **DECISION-MAKING PERIOD UP TO THE TIME OF CONTRACT AWARD. 2011 AND 2021**

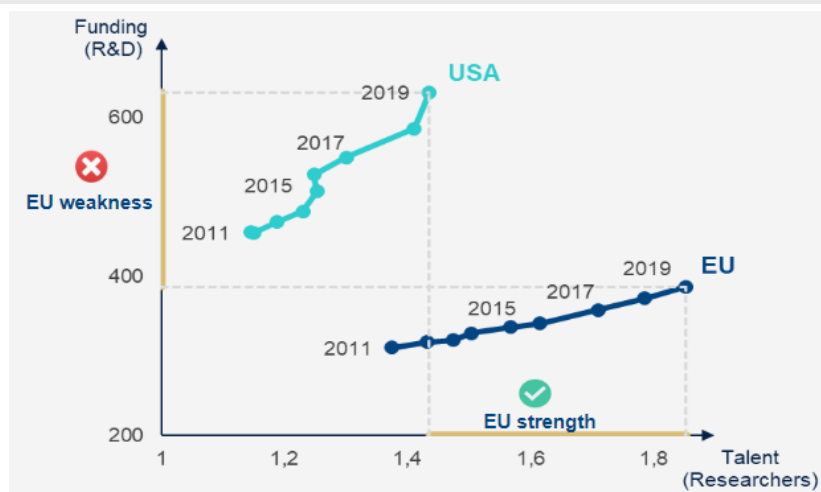


Source: ECA Dashboard's "Competition Indicators".

2. A single market to play big: scale matters

Demographic shifts and economic patterns are gradually reducing the EU's global influence. However, Europe has the potential to be a pivotal global player, boasting strong assets such as highly qualified engineers, excellence in research, quality infrastructure, a solid manufacturing base, a strong services sector, and a competitive edge in clean technologies, high-performance computers, quantum, and transformative digital technologies (see Figure 4). **Scaling up EU companies within the Single Market will be crucial.** Successful scaling would attract foreign investment, foster innovation ecosystems, and empower the EU to negotiate favorable trade deals, shape international standards, and address global challenges effectively.

Figure 4. **EVOLUTION OF FUNDING AND TALENT (R&D AND RESEARCHERS). EU AND USA**



Notes: R&D in billion constant USD (2015 prices and PPPs). Researchers in billion total researchers, full time equivalent.
Source: BBVA Research from OECD data.

Preserving the link between large and small companies is key to the social market economy. Competition policy should not engineer specific market outcomes but ensure rules remain effective. EU companies in global strategic sectors require the scale and reach of a fully integrated EU market. National markets, initially designed to protect domestic industries, now act as a ceiling, hindering growth potential. This issue is particularly pertinent in **finance, energy, and electronic communications**. The perspective that once prioritized domestic control is now proving to be a barrier to the growth and competitiveness of these sectors at both the European and global levels. Additionally, the defense, health, and transport sectors are crucial to this strategic vision.

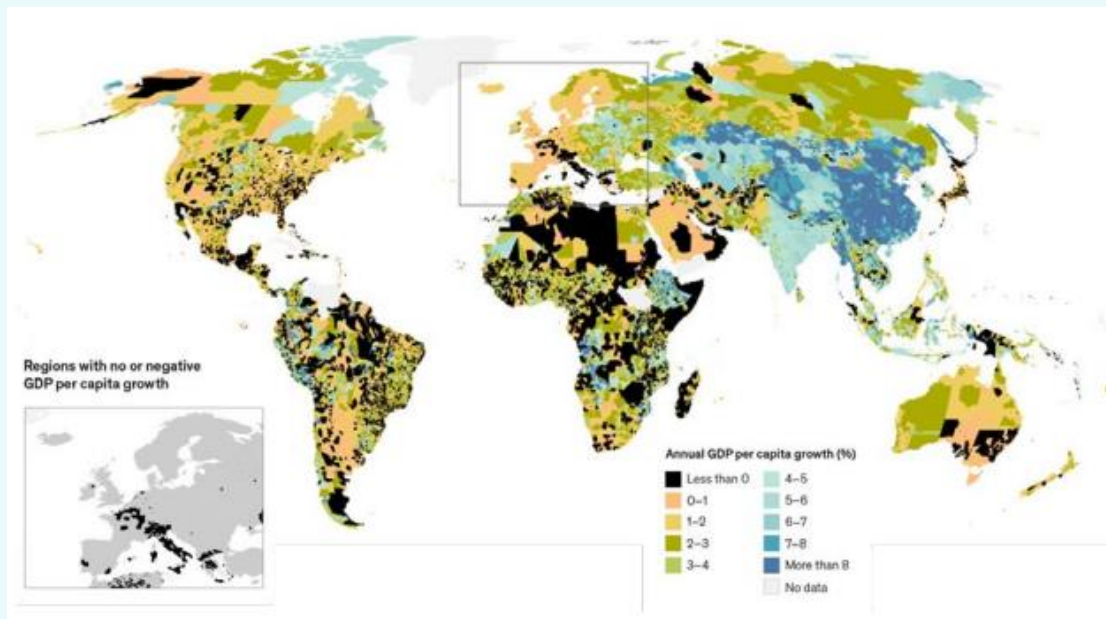
A sustainable single market for all

The European Single Market has fueled economic growth, social progress, and higher living standards in Europe. However, concerns are rising about the unequal distribution of benefits. There is an increasing belief that the Single Market primarily benefits those with the resources and skills to leverage cross-border opportunities, or large corporations that can expand across Member States. If not addressed, this view may weaken the public and political support essential for the Single Market's ongoing success (see **Box 1**).

Box 1. Cohesion for a competitive and inclusive Europe

Cohesion policy was put in place as a fundamental element of the Single Market, but today, the EU operates in a dramatically changed global environment, facing new distributional challenges that require innovative solutions: the pandemic affected sectors, territories, and socio-economic groups unevenly; the green and digital transitions will affect regions and economic sectors differently; inflation disproportionately burdens families and businesses already experiencing economic difficulties; and ongoing changes in industrial policy pose the risk of unintentionally increasing regional inequalities within the EU.

Figure 5. **REGIONAL GDP PER CAPITA GROWTH 2000-2019 AT WORLD LEVEL**



Source: [Cohesion for a competitive and inclusive Europe](#) with data from McKinsey Global Institute (2023).

More than 60 million EU citizens live in regions with GDP per capita lower than in 2000. An additional 75 million in regions with near-zero growth. Collectively, nearly one third of the EU population live in places which, in the last two decades, have slowly fallen behind (see **Figure 5**). To redress this structural challenge and improve the economic and social well-being of citizens, it must enable all its people to use their full potential, wherever they live. In other words, **the EU needs economic, social and territorial cohesion.**

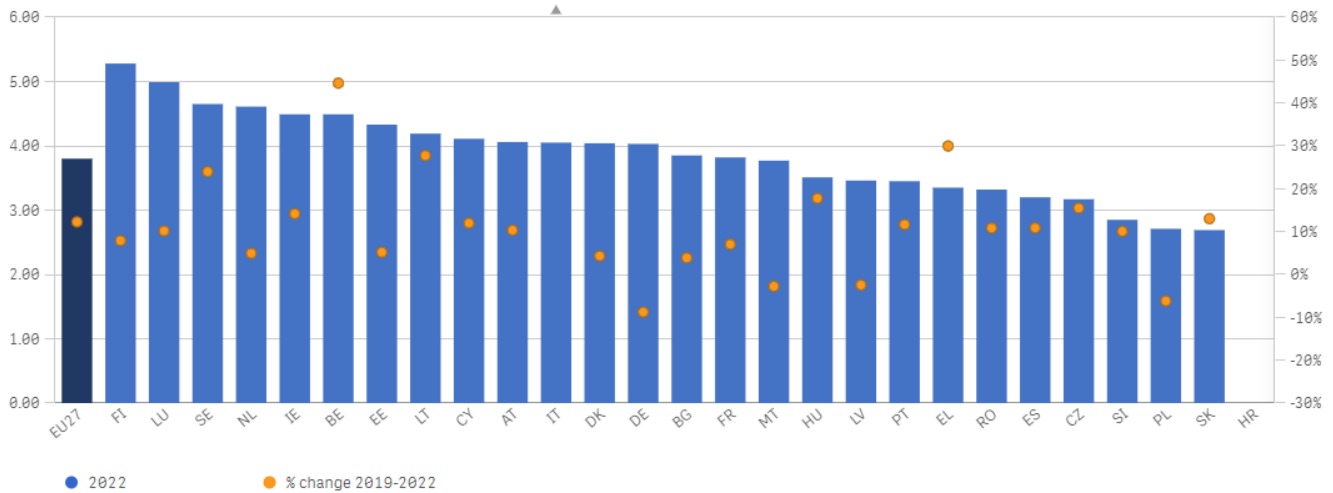
To achieve the goal of shared prosperity, the **Single Market needs to address five critical and interrelated needs:**

- **Freedom to move and freedom to stay.** It is important to maintain the free movement of people within the Single Market, while introducing the concept of "freedom to stay." This suggests that the Single Market should enable citizens to thrive without feeling forced to relocate. Echoing Delors' view, the Single Market goals should support both the freedom to move and to choose where to stay.
- **Strengthening the Single Market social dimension.** The Single Market should include a genuine social dimension that ensures social justice and cohesion, as the Single Market is a powerful engine for growth and prosperity, but it can also be a source of inequality and poverty if its benefits are not widely shared or, worse, if it leads to a race to the bottom in social standards.
- **Unleash the potential of European SMEs.** While the EU aims to make significant strides, it's essential to enhance the involvement of SMEs in the Single Market. Many SMEs are hindered by complex regulations, administrative loads, and insufficient information and support. By streamlining processes, offering advice and improving the availability of information, SMEs can be empowered to succeed in the Single Market.
- **Addressing tax fragmentation to empower the Single Market.** Tax fragmentation is a significant obstacle for businesses, especially SMEs. Implementing a unified EU tax framework would help in smoothing the movement of workers, goods, and services, thereby supporting economic growth and private investment. Additionally, combating aggressive tax planning, tax avoidance, and tax evasion will be crucial.
- **A Single Market for Consumers.** Improving consumer protection rules is essential for creating a Single Market that serves everyone effectively. By reinforcing these measures, equitable access to goods and services is ensured throughout the member states and promotes a competitive market that advantages both consumers and businesses.

3. A Single Market to go fast and go far

The dynamism and efficiency of the Single Market are currently being significantly impeded by a complex web of challenges, primarily due to the excessive regulatory burden and bureaucratic red tape. **Over-regulation places significant additional costs on businesses**, proving unsustainable for SMEs and inadvertently favoring non-European companies that are not bound by the same stringent rules. There's an opportunity to unlock efficiency gains amounting to up to 700 billion euros by 2030, but this requires a **simplification and reduction of administrative burdens** (see **Figure 6 and Box 2**).

Figure 6. **BURDEN OF GOVERNMENT REGULATION**



Source: [ERT-Competitiveness-and-Industry-Benchmarking-Report-2024](#). The indicator is measured by tracking replies to the survey question: 'In your country, how easy is it for companies to comply with government regulation and administrative requirements (e.g. permits, reporting, legislation)? (1 = Overly-complex; 7 = Extremely easy)'. Higher values indicate a better performance (i.e. less burdensome regulation).

Box 2. Simplifying and reducing EU administrative burdens

- **To maximize harmonization.** EU Institutions should unequivocally prioritize the use of Regulations (“reglamentos”) in the formulation of Single Market binding rules.
- **Enhancing proposal design in the Single Market.** Streamlining consultation processes and empowering weaker stakeholders, as well as Better Regulation toolbox.
- **Implementing EU Rules with effectiveness and efficiency.** It is recommended to establish a legal framework for SOLVIT and consider consolidating enforcement instruments under a 'Single Market National Office' in each Member State and a 'EU Single Market Office' at the EU level.
- **Strengthening enforcement to uphold market integrity.** It is proposed that the next European Commission appoint an Executive Vice-President, responsible for Single Market and specifically tasked with serving as the Chief Enforcement Officer
- **Simplifying regulations for a more dynamic Single Market.** Ensuring that rules and regulations remain not only relevant and efficient but also minimally burdensome is paramount. This necessity comes into sharper focus as we address the dual challenges of **simplifying existing legislation and leveraging digital technologies to ease administrative processes** (the implementation of the Single Digital Gateway-SDG-, an initiative designed to serve as a comprehensive online access point for key information, administrative procedures, and assistance services and the newly adopted digital EU wallet).

4. The single market beyond its borders

Europe's common market should expand its focus beyond internal concerns, due to its reliance on critical technologies essential for green and digital transformations. Economic security, emerging from global trade interdependence, is becoming vital for stability and resilience, necessitating a balance between global market integration and security.

The EU must maintain an open and dynamic economy while protecting national security from international threats. Geopolitical shifts are leading to a fragmented world with increased economic barriers, challenging the EU's principles of rule-based free trade. In this new landscape, the EU must maintain an open and dynamic economy while protecting national security from international threats. Fragmentation is likely to intensify in the coming years and, to minimize its economic damage, the EU must give a strategic and cohesive response, identifying external economic security threats and supporting the EU's economic competitiveness and resilience. In this sense, Letta proposes the creation of an **Economic Security Council** within the Council of the EU, encouraging all Member States to appoint an Economic Security Minister. He also suggests expanding the list of critical technologies (semiconductors, AI, quantum computing, and biotech) through rigorous risk assessments and private sector engagement, and coordinated export controls at European level to protect against targeted retaliations and provide clear procedures for the private sector.

In summary, Letta's report makes a powerful political and economic case for single market deepening and broadening. It explains why the single market is critical to tackle the big problems of our times: boosting investment to finance Europe's needs; lowering the costs of decarbonisation; strengthening Europe's ability to defend itself; and making it easier for companies to grow and achieve scale. The single market is critical not just to give Europe's citizens better choices, but to strengthen Europe in the world. Anyway, it is also noteworthy that the Letta report, in order to avoid entry vetoes to its proposals, is also characterized by not proposing policies that would require Treaty changes, as well as not being too specific in some of them, to avoid points of contention that could invalidate the discussion among member states from the outset.

Box 3. Energy Transition, Environmental Sustainability and Competitiveness in the Letta report

Topic	Challenge	Recommendation
Transition Towards Renewable Energy	High energy costs and dependency on imported fossil fuels	Enhance market integration , promote cross-border electricity trading, and accelerate the deployment of low-cost renewables.
	Divergence in electricity prices among Member States	Develop coordinated approaches and joint procurement schemes for flexibility and renewables
	Limited infrastructure for energy transition	Invest in robust, continent-wide infrastructure networks for electricity, hydrogen, carbon capture, and storage.
Environmental Sustainability	Fragmented standards and regulatory frameworks	Reduce fragmentation of standards, enhance product quality requirements, and streamline regulatory processes .
	Dependency on critical raw materials	Implement the Critical Raw Materials Act, enhance recycling , and develop global partnerships for diversification .
	High cost and slow adoption of clean technologies	Develop new financial instruments , increase use of Green Bonds, and establish a Clean Energy Delivery Agency .
Climate Change Mitigation	Achieving ambitious emission reduction targets	Mobilize private and public investment, establish a Savings and Investments Union , and streamline funding access for clean technologies.
	Inadequate funding for green tech scale-ups	Provide targeted funding for growth, project finance, and commercial rollouts without diluting ownership.
Competitiveness	Uneven playing field for clean technology industries	Adopt proactive de-risking policies , bolster clean tech manufacturing, and foster credit enhancement models.
	High 'green premium' for clean technologies	Reduce time to market for clean technologies , simplify access to funds, and replicate successful rapid execution models.

Source: BBVA Research from Letta report.

Highlights of the Week

- **Global** | [The uninsurable world: how the insurance industry fell behind on climate change](#). Surge in floods and fires has caught out the insurance industry and added an 'uncertainty factor' to premiums.
- **Global** | [World falling short on renewable energy goal for 2030, IEA warns](#). UN talks kick off as countries fall behind the curve on targets and global warming heads for 2.7C since pre-industrial times.
- **Global** | [Investment in clean energy this year is set to be twice the amount going to fossil fuels - News - IEA](#). Global spending on clean energy technologies and infrastructure is on track to hit \$2 trillion in 2024 even as higher financing costs hinder new projects, notably in emerging and developing economies.
- **Global** | [La Niña switch expected to fuel extreme weather later this year](#). Chances rising of a swing in Pacific currents and knock-on effects of ocean cooling phase, warns UN agency.

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