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› Vertical and Multi-level: A Coordinated EU Governance for Technological Competitiveness*

- › Strategic autonomy requires a more coordinated and effective EU governance to produce tailored and actionable rules on competitiveness and manage an uneven distribution of competencies with member state on technological industrial policy.
- › A multi-level governance along critical supply-chains developed through the Competitiveness Coordination Tool would reduce the risks of policy fragmentation.
- › Flexible mechanisms to allocate the EU budget would enhance competitive and retaliatory capacities of the EU, but should not translate in an excessive centralised governance and be matched by the predictability in resource allocations needed by public and private investors.

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European leaders have been discussing about strategic autonomy for over a decade. Recurrent geopolitical crises, increasing geoeconomic competition and lukewarm economic performances have all but deepened the need to relaunch European competitiveness as a means to restore the continent's resilience vis-à-vis external dependencies, while assuring better economic prospects for the next generations of European citizens. From securing critical supply chains and strengthening European defence capabilities, to enhancing digital standards and spearheading the green transition, technology plays a central role in shaping a more competitive and secure EU.

The Union has acknowledged in multiple occasions the urgency of relaunching competitiveness through technological innovation, recently during the European Council in February 2026. However, the recognition that the lag in the development of the European tech sector is a key factor explaining the productivity gap with the United States, highlighted by the report drafted by Mario Draghi in 2024,¹ has been translated into action only to a limited extent. Among other factors, a piecemeal governance that fails to support the EU's ambition for greater autonomy has not helped Europe substantiate its ambitions.

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¹ Draghi, Mario, *The Future of European Competitiveness. Part B, In-depth Analysis and Recommendations*, September 2024, https://commission.europa.eu/node/32880_en.



EU governance, technology and competitiveness

An EU governance aimed at promoting competitiveness and technological innovation means producing tailored and actionable rules in industrial policy, decarbonisation, trade policy, investments, defence and digital standards. It also implies upgrading existing rules by shifting “to a higher gear”, as recognised by the European Commission in its 2025 Competitiveness Compass.² To do so, the institutional functioning of the EU needs reforms to ensure better mechanisms through which regulations are adopted and a more balanced management of competencies between the EU and member states. A more effective leveraging of the EU’s limited budget – and the institutional mechanisms governing it – would be another step in the right direction so that strategic sectors, the development of EU public goods and the deepening of the internal market can be prioritised.

The technology sector poses a peculiar challenge, because it sits at the interjection of policy areas with different decision-making methods, such as competition and trade policy (supranational), industrial policy (shared competencies) and defence (intergovernmental).³ Vested national interests over strategic economic sectors, national champions and critical infrastructure further complicate this picture.

A broader turnaround of the EU’s institutional structure may appear appealing to overcome similar predicaments. However, proposals for a new governance must be infused with realism. As underlined by Draghi, Treaty changes would ideally be required to strengthen EU policy-making on technological competitiveness, but they are not the sole precondition for a better governance. In addition, any attempt to reform the Treaties would be politically unfeasible under current circumstances. At the same time, reforms are still needed, as current EU governance, as well the bloc’s financial power rolled out through its Multiannual Financial Framework (MFF), can only go so far in shaping the investment environment in Europe, due to the distribution of competencies mentioned above and the limited dimension of the EU budget.

The EU strongly needs a vertical multi-level governance integrating different layers of government (European, national and local) along critical supply-chains, which would favour inter-institutional dialogue among authorities with different competencies, especially in the technological field, and a more targeted disbursement of funding. Tailored forms of cooperation on key technological dossiers may facilitate the identification of bottlenecks and bureaucratic obstacles to strategic investments and reduce the gap between policymakers’ intentions, economic stakeholders’ needs and funding decisions.

While grand ambitions can inspire the debate, cumulative smaller reforms and targeted interventions across sectors and supply chains would likely be a more sustainable way forward for the EU to create a European market facilitating

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² European Commission, *A Competitiveness Compass for the EU* (COM/2025/30), 29 January 2025, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025DC0030>.

³ Calcara, Antonio et al., “Technological Underpinnings of European Autonomy and US-China Competition”, in *Journal of European Integration*, Vol. 47, No. 6 (2025), p. 943-963, <https://doi.org/10.1080/07036337.2025.2536828>.



»» *There are at least three main reasons why a better and more balanced governance matters for deepening policy coordination on technology*

technological competitiveness.⁴ To that end, the EU can capitalise on its added value as a transnational entity able to look beyond national interests of member states, while leveraging the sheer mass of its internal market. At the same time, EU governance may fall into the trap of pronounced centralisation, especially when it comes to the role of the Commission in pushing innovative packages (for instance, the one on technological sovereignty issued in June 2026) or within the more simplified and concentrated governance envisioned for the next MFF. Caution is warranted on this side too: excessive centralisation in the hands of the Commission risks alienating national capitals by fuelling inter-institutional tensions and introducing unwelcome rigidities that would debilitate the rolling out of regulatory decisions and the disbursement of funding.

Why governance matters for strategic autonomy and technology

There are at least three main reasons why a better and more balanced governance matters for deepening policy coordination on technology and, in turn, enhancing strategic autonomy. First, a more effective governance would facilitate the enforcement of existing rules. The EU's attempt to project regulatory power to advance its own values and standards holds a prominent role among the aims defining open strategic autonomy.⁵ However, internal debates on how to respond to the Trump Administration's threats over the EU's supposed regulatory overreach against US Big Tech have revealed how the Union struggles to manage collective responses to external challenges in an extremely politicised environment. For instance, the European Commission is tasked with implementing the Digital Services Act (DSA) and the Digital Market Act (DMA), but its reaction to US threats has been severely constrained by disagreements among member states, and between them and the Commission, which have watered down or delayed the implementation of existing instruments.

Secondly, an industrial policy targeting sensitive technological sectors by coordinating different policy areas is not neutral: trade-offs will emerge and will have to be effectively managed. Calls to scale up nascent technological companies by introducing 'buy-European' clauses in public procurement must be balanced against the costs of protectionism, while enhanced investment screenings should be carefully designed not to hinder competition and innovation; cuts to red tape could well simplify access to investment and credit opportunities for European tech companies if accompanied by the establishment of a true Capital Market Union to provide liquidity to innovative start-ups, but they may also end up facilitating a race to the bottom that would disaggregate the internal market, rather than strengthen its competitive capabilities. Even sectorial interventions can incur in unintended consequences detrimental to greater autonomy, if not well crafted: look for instance at far-fetched benchmarks set by the EU on advanced semiconductors vis-à-vis the

⁴ Foroohar, Rana, "Can Europe Make a Difference?", in *The Financial Times*, 30 March 2026, <https://www.ft.com/content/ea38510c-4d7c-4192-a44b-a3ccd0e68d98>.

⁵ Molthof, Luuk et al., "Unpacking Open Strategic Autonomy. From Concept to Practice", in *Clingendael Reports*, November 2021, p. 12, <https://www.clingendael.org/node/13360>.



actual needs of European companies for legacy chips.⁶ These examples show that a more effective governance should ensure a degree of coordination, but also be flexible enough to accommodate innovation and receptive to the actual urgencies of European economic stakeholders.

Finally, governance matters to help nuancing existing EU dependencies.⁷ Europe has been defined as a “playground” for external actors due to its vulnerabilities, especially when it comes to access to tech services.⁸ In any case, the EU’s strengths still lie in its collective governance. However convoluted, it has been capable of producing pieces of legislation, such as those in the digital domain, that can be leveraged to compete and negotiate with external competitors, despite the implementation constraints discussed above. The EU remains a player in global competition through its regulatory power. A governance able to refine the EU’s current regulatory capability and sustain external pressures is instrumental to strategic autonomy. It unites member states, while both the United States and China prefer to deal with single capitals.

The EU currently possesses two complementary policy tools to implement a more balanced approach that responds to these challenges by introducing a more vertical and multi-level governance: the operationalisation of the Competitiveness Coordination Tool and governance reforms accompanying the MFF 2028-2034.

A multi-level governance for technology through the Competitiveness Compass

The European Commission launched in 2025 a Competitiveness Compass for the EU,⁹ laying out a roadmap for reforms to strengthen the EU’s ability to compete and prepare it to future geoeconomic challenges. The Compass better define the contours of competitiveness, stating that the overarching goal of the new strategy is to transform Europe in the place where technological innovations and services, with a special attention for climate neutrality, are invented, developed, scaled up and marketed.

The Compass revolves inherently around governance, as its main goals are the identification of policy changes to reform European economies and the development of quick and qualitative methods for EU decision-making. The Commission proposes a toolbox of crosscutting policy instruments, from simplifying EU rules to deepening the single market and the Saving and Investment Union to mobilise credit. In addition, the Compass also introduces a new institutional mechanism: the Competitiveness Coordination Tool (CCT).

The CCT aims to institutionalise a multi-level governance between EU institutions and member states and across national policies and EU initiatives.

⁶ Insisa, Aurelio, “Beyond the European Chips Act: EU Supply Chain Dependencies on China, Taiwan and the United States”, in *IAI Briefs*, No. 26|21 (June 2026), <https://www.iai.it/en/node/22320>.

⁷ Alcaro, Riccardo, “Running in Circles: How Europe’s Quest for Autonomy Creates New Dependencies”, in *Survival*, Vol. 68, No. 2 (April-May 2026), p. 85-116, DOI 10.1080/00396338.2026.2647641.

⁸ Calcara, Antonio et al., “Technological Underpinnings of European Autonomy and US-China Competition”, cit..

⁹ European Commission, *A Competitiveness Compass for the EU*, cit.

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While the institutional structure of the CCT is still unclear, it would be inspired by the principle of subsidiarity bringing together EU institutions and member states – possibly also regions – in a single organism. By applying a “whole-of-supply chain” approach,¹⁰ joint efforts would counter the risks of fragmentation especially on industrial policy, where competencies fall still for the most part into the remit of member states. Such a vertical scheme would help relaunch competitiveness while incorporating in its own mandate the preservation of a number of key EU strengths, such as predictable rules for investments, high standards on the rule of law and the benefits of its social model, in order to avoid participating in a global race to the bottom with other systems inspired by deregulation and weak labour standards.

Balancing strategic priorities so differentiated is challenging. Policy moves pushed by member states in 2026 – the recently approved “omnibus” simplification packages and a general call to mitigate climate neutrality standards and mechanisms such as the Emission Trading Scheme (ETS) – indicate how the debate is actually rediscovering deregulation. Italy and Germany have issued a joint non-paper on European competitiveness calling for sweeping deregulation and a loosening of state-aid rules in order to complete the single market. Such proposals have been considered a risk due to an “already insufficient internal cohesion among EU member states”,¹¹ which in turn would further weaken any attempt to strengthen EU’s autonomy.

The intention of bringing together different levels of governance within the CCT responds to a different logic inspired by the “whole-of-supply chain” method, which could be instrumental in identifying bottlenecks and the means to mitigate them,¹² while preserving a more cohesive approach. Beyond aligning reforms occurring at the local, national and European level along technological supply chains, the CCT could also be tasked with coordinating the portfolios of relevant Commission Directorates-General (DGs) and assessing the impact of cross-border investment projects, especially in critical infrastructure.

To avoid launching a new institutional empty box that will not deliver on its promises, the CCT should be equipped with a credible implementation roadmap and adequate financial backing. The Commission envisages a first phase within which the CCT would coordinate efforts in pilot sectors with a clear added value. Critically, most of these sectors relate to the need of stimulating technological innovation: digital infrastructure, AI vertical use, biotechnology, energy grids and storage capacities.¹³ Such an incremental approach should guarantee the political sustainability of the project, as national sensitivities would be mitigated by building trust where strategic pressures are perceived the most by member states.

¹⁰ Miller, Christiny et al., *The Competitiveness Coordination Tool*, Bonn, Friedrich-Ebert-Stiftung, December 2025, p. 9, <https://collections.fes.de/publikationen/download/pdf/1952210>.

¹¹ Buti, Marco and Marcello Messori, “Why the Italo-German Competitiveness Paper is Heading in the Wrong Direction”, in *IEP@BU Commentaries*, 26 January 2026, <https://iep.unibocconi.eu/node/1187>.

¹² Miller, Christiny et al., *The Competitiveness Coordination Tool*, cit.

¹³ European Commission, *A Competitiveness Compass for the EU*, cit., p. 24.



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The next budget will affect how the EU invests in technology

How the EU structures its MFF sets future priorities, informs how the EU works and shapes how it pursues ambitious projects. The Commission's proposal for the next MFF, published in July 2025,¹⁴ follows up on the goals set by the Competitiveness Compass and introduces a specific financial envelope under Heading 2, the 234-billion-euro European Competitiveness Fund (ECF), dedicated to investments in innovative capabilities, especially in defence, technology and decarbonisation.

The governance of the next MFF, underpinned by the policy principles of flexibility, simplification and conditionality, will display severe implications for the development of EU investment strategies along key supply chains in technology. While realism is still needed when assessing the concrete impact of a limited budget on the European economic system, decisions over spending will be critical in signalling to economic operators the direction in which the EU industrial policy will move. According to the Commission's proposal, the programming of the ECF will thus be anchored to the CCT through periodic work programmes that incorporate the priorities set by the CCT itself.

However, relaunching European competitiveness through the next MFF goes beyond the ECF and spills over in other areas of the budget proposal, in particular Heading 3, covering the EU's external action. EU external funding dedicated to competitiveness would better equip the EU in pursuing its strategic priorities on technology by streamlining strategic investments also in the external dimension and securing critical supply chains. While currently not envisioned, a future involvement of the CCT in coordinating different budget strands pursuing technological innovation in the internal and external domains would be the natural evolution of the incremental process sketched by the Commission, despite the political obstacles such a scheme would face.

Beyond facilitating coordination, the next MFF will be critical under several other aspects to enhance EU's strategic autonomy. First of all, it should contribute to mobilising resources to deepen the single market, which remains one of Europe's assets despite its limitations.¹⁵ While deeper market integration can be mainly attained through regulatory interventions, the MFF may play a key supporting role in this process by setting the conditions to launch new financial instruments and multiply investments opportunities, so as to create incentives to scale up competitive and technological capabilities. For instance, the ECF puts great emphasis on unlocking private investments through the provision of budget guarantees and other financial instruments, such as loans, equity instruments and blending of grants. In this sense, one of the most significant tools envisioned by the Commission's proposal is the new ECF InvestEU, with a minimum allocation of 17 billion euros, which is meant to catalyse strategic investments, including in technological innovation. Beyond the amount of

¹⁴ European Commission, *A Dynamic EU Budget for the Priorities of the Future. The Multiannual Financial Framework 2028-2034* (COM/2025/570), 16 July 2025, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025DC0570>.

¹⁵ Letta, Enrico, *Much More than a Market*, April 2024, <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>.



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resources that will be effectively put at the EU's disposal through the ECF and its implementing instruments, what matters in terms of governance is that the MFF is a powerful tool to indicate present and future priorities, including a more integrated internal market.

Another key contribution of the MFF would be a simplified governance. Simplification could sharpen current governance processes by enhancing policy coherence vis-à-vis a fragmented distribution of competencies on industrial policy and favouring easier access to funds. However, the new MFF will have to balance this move against the risks of deregulation, which could hinder several EU key policies, including the commitment to the fight against climate change.¹⁶

The new MFF would also facilitate a more coordinated governance by pooling resources in geographical areas and economic sectors that are key to diversify from – or at least smooth – current vulnerabilities vis-à-vis external chokepoints over technological services or critical resources. Investments should be distributed between technology-driven and more traditional development-oriented interventions in infrastructure and other key supply chains, such as critical raw materials. The re-orientation of resources would also benefit from rethinking some institutional structures, starting from the most exposed Commission's Directorate-Generals (DG), starting with the DG for International Partnership (INTPA), tasked with managing the EU's development cooperation – and related funding (Heading 3). In fact, the governance of DG INTPA would be likely impacted by the focus on competitiveness spilling over in the external domain and will need readjustments accordingly.

Lastly, budgetary flexibility would make the EU better equipped to prevent and – when necessary – retaliate in case of external pressures. Flexible mechanisms to allocate the budget could be exploited to nuance potentially harmful consequences of using punitive measures, for instance on digital services and social platforms, like the Anti-Coercion Instrument (ACI) or the provisions of the DMA. In the recent past, their deployment has been blocked by member states' fear of US or Chinese counter-retaliatory measures. The flexible re-allocation of resources under the new budget sets the conditions to pool them in sectors that, in similar circumstances, would suffer the most from external actors' reaction. This flexible use of spending resources would constitute a political guarantee that may reassure member states over the use of some of the most incisive instruments at the EU's disposal. The EU has already made a number of tentative steps in this direction by increasing budget flexibility on technology and digital innovation under the current MFF. The 2025 proposal goes even further, streamlining flexibility as a policy principle informing all Headings and maintaining a dedicated Flexibility Instrument to allocate resources for strategic investments in sectors with technological added value.

While several of the Commission's proposal point to the right direction by envisioning a new budgetary governance more aligned with policy priorities, member states have already signalled scepticism. Moreover, the implications of a new use for the MFF will have to be carefully assessed to avoid damaging

¹⁶ Barana, Luca et al., "How to Fund European Ambitions? Opportunities and Challenges for the Next MFF", in *Documenti IAI*, No. 25 | 15 (December 2025), <https://www.iai.it/en/node/21231>.



outcomes. Enhanced competitive and retaliatory capabilities along vertical supply-chains should not translate into the centralisation of decision-making in a single institution, namely the Commission. An excessive centralised governance would be rejected by member states. Spending decisions should rather be coordinated through the work programmes of the CCT by privileging its multi-level approach, in order to keep member states and local actors on board. The CCT could thus act as the privileged venue for identifying critical sectors for European strategic autonomy and the development of related investment plans. Its configuration would avoid the risks of excessive centralisation, while still preserving a swifter decision-making process. Meanwhile, accrued flexibility will need to be matched by the predictability in resource allocations required by public and private investors to mobilise investments necessary to stimulate innovation and enhance competitiveness.

Policy recommendations

A vertical and multi-level governance would enhance strategic autonomy by setting the conditions to relaunch European competitiveness and invest in technological innovations. To do so, the EU should:

- › Introduce tailored forms of enhanced coordination on key technological dossiers and the implementation of the CCT, without wasting political capital in pursuing unattainable Treaty changes.
- › Operationalise the CCT by bringing together local, national and EU relevant stakeholders along critical supply chains, in order to deepen policy coherence and a strategic vision for the investments needed in digital infrastructure, AI vertical use, biotechnology, energy grids and storage capacities.
- › Provide the CCT with financial firepower by following through the Commission's proposal of backing it with the ECF and extending its role in the programming of other funding sources for competitiveness and strategic autonomy, especially on external action.
- › Develop a more flexible budget to counter existing vulnerabilities in tech services and critical raw materials by facilitating the re-allocation of resources towards sectors that would suffer from external competitors' retaliation.
- › Balance a flexible use of resources in the next MFF with the level of predictability needed by public and private investors to spearhead a strategic mobilisation of funding in tech sectors where the EU can still make a difference.

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