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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council
Subject: *Preparation of the Council (Competitiveness (Internal Market, Industry, Research and Space)) on 26 February 2026*
The 2026 Annual Single Market and Competitiveness Report
- *Exchange of views*

Delegations will find attached a Presidency background note on "The 2026 Annual Single Market and Competitiveness Report " with a view to an exchange of views at the Competitiveness Council on 26 February 2026.

The 2026 Annual Single Market and Competitiveness Report

Context

Europe's competitiveness faces unprecedented challenges in a volatile geopolitical situation. EU industry is coming under mounting pressure as third country overcapacities are directed towards the EU, important international currencies depreciate, and the rules-based international trade is challenged.

The Single Market is the EU's greatest asset in countering external pressures, and it is time to consolidate and build up its strengths. Effective action is urgently needed at both national and European levels to tap into the full potential of the Single Market.

The Annual Single Market and Competitiveness Report (the Report) is the main tool to take stock of the functioning of the Single Market and of EU competitiveness. It tracks the implementation of the Competitiveness Compass, the Clean Industrial Deal, and the Single Market Strategy.

The Report assesses competitiveness bottlenecks and the progress in addressing them through 29 Key Performance Indicators (KPIs) in line with the structure of the Competitiveness Compass: closing the innovation gap, decarbonisation of industry and investment, increasing security and reducing dependencies and as the central enabler, a functioning Single Market.

The Report is accompanied by three annexes that show firstly, more granular data for each KPI, secondly implementation trackers for the Competitiveness Compass, the Clean Industrial Deal and the Single Market Strategy, and thirdly an overview of resilience measures by selected global players. The Report is published together with the 2026 edition of the interactive online Single Market and Competitiveness Scoreboard, covering around 160 statistical indicators that complement the Report, as well as the Annual Report of the Single Market Enforcement Taskforce.

The key findings of the report

Single Market

Integration in the Single Market shows that trade inside the EU has reached a plateau. Trade in goods inside the Single Market remains broadly stable over the recent years at around 22-23 % of GDP, while trade in services is still increasing, but at a slow pace, reaching 7.9 % of GDP in 2024, up from 7.7 % of GDP in 2023. Similarly, the conformity deficit has deteriorated from 0.9 % in 2024 to 1.1 % in 2025.

New impetus is needed to remove the most harmful barriers in the Single Market, both national and European level to unlock further growth across the EU. Efforts to reduce administrative burdens have to continue. This work on barriers, fragmentation and administrative burden, needs to be accompanied by renewed ambition.

Industrial renewal in Europe

Private investment and industrial production declined in 2024. The renewable energy generation continues to grow. In 2024, 68 GW of renewable generation capacity was added, bringing renewable energy generation to 25.2% of the overall energy consumption. However, together with network bottlenecks, it is not yet sufficient to bring down energy prices in the EU. Consequently, prices remain at more than double the levels in the US.

Europe is losing its edge in the race for innovation. Despite world-leading universities and an excellent research landscape, R&D expenditure and patenting rates in the EU remain flat. Digitalisation advances more slowly than in competing economies. Start-ups and scale-ups are not able to gain a large enough scale.

Strategic dependencies remain amid sweeping changes in the global landscape

EU industry is coming under mounting pressure as third country overcapacities are directed towards the EU and important international currencies depreciate. The systemic and strategic application of increased tariffs, export controls and weaponisation of dependencies by major global actors highlight the need to strengthen the resilience of EU's supply chains.

The EU keeps a strong position in international trade despite strong global competition. However, Europe's share in inward foreign direct investments has dropped sharply. Strategic dependencies as measured by the external vulnerability indicator EXVI, remain largely unchanged. Only 6 out of the 27 clean tech components tracked under the Net-Zero Industry Act exceed the benchmark for domestic manufacturing rate.

There is a clear need to rapidly scale up industrial capacities and strengthen supply chains.

Questions for discussion

- Based on the main findings of the report, what do you consider the most pressing issues and the most promising policy measures to address them?
- Strategic dependencies are increasingly at risk of being weaponised in a volatile geopolitical situation. Important measures are underway, for instance in the area of critical raw materials. In which strategic sectors do you see the most important dependencies and how can they best be addressed by Member States and the EU?
