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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A Competitiveness Compass for the EU

A Competitiveness Compass for the EU

Europe has many economic strengths, but must act now to regain its competitiveness and secure its prosperity. The EU has all the assets to lead in the global economy of tomorrow. It has unrivalled talents and a skilful workforce, a large pool of private capital, a continental size Single Market, a stable and predictable legal environment, rule of law and a unique social market economy. In recent years, Europe has shown a remarkable ability to respond to a succession of crises. It has withstood the pandemic and the energy shock provoked by Russia's energy blackmail. It has made tangible progress on its twin digital and green transition and introduced new policies and new funding instruments to sustain recovery and increase economic growth.

The EU must urgently tackle longstanding barriers and structural weaknesses that hold it back. For over two decades, Europe has not kept pace with other major economies, due to a persistent gap in productivity growth. The EU has fallen behind the US in advanced technologies, while China has caught up in many sectors, and is winning the race for leadership in certain new growth areas. The root cause is a lack of innovation. Europe is failing to translate its ideas into new, marketable technologies, and failing to integrate those technologies into its industrial base. At the same time, domestic constraints are hampering the ability of European companies to fight back. They are being squeezed by high energy prices and a high regulatory burden. They also face an increasingly unlevel global playing field, characterised by the large-scale use of industrial subsidies abroad. Europe is also increasingly dependent on strategic inputs and highly concentrated supply chains.

To safeguard the EU's future as an economic powerhouse, an investment destination and a manufacturing centre, a resolute European response is urgently needed.

What is at stake for Europe is not just economic growth, but the future of its model. If Europe does not increase its productivity, it risks to be stuck on a low-growth path, with less income for the employed, less welfare for the disadvantaged and less opportunities for all. Europe faces a world of great power rivalry, competition for technological supremacy, and a scramble for control over resources. In this world, Europe's competitiveness and what Europe stands for are inseparable.

Our freedom, security and autonomy will depend more than ever on our ability to innovate, compete and grow. These will be the keys to fund the EU's technological and energy transitions. They will ensure that our distinctive social model remains sustainable. And they will provide the resources for Europe to guarantee its security and play a global role in foreign affairs. It is vital to create the conditions for businesses to thrive and where everyone has an equal chance of success. Increasing competitiveness and productivity will go hand in hand with empowering people. The clean economy is a powerful driver for a more competitive Europe. The EU must ensure its sustainable prosperity and competitiveness, while preserving its unique social market economy, succeeding in the twin transition, and safeguarding its sovereignty, economic security and global influence. As Mario Draghi has warned, if Europe accepts a managed and gradual economic decline, it is condemning itself to a 'slow agony'.

In February 2024, European business and trade union representatives endorsed the Antwerp Declaration calling for an Industrial Deal. The **Letta Report** ([1]) has warned that Europe must leverage much more its Single Market or lose relevance in a world

([1]) https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf characterised by big powers' competition. The risk of de-industrialisation and economic hardship were central in the public debate across Member States before the European elections. Building on the European Council's Strategic Agenda, EU Leaders adopted the Budapest Declaration calling for a Competitiveness Deal for Europe.

The **Draghi Report** ([2]), prepared at the request of Commission President von der Leyen, has provided a sharp analysis of Europe's predicament. The Report warns that Europe will no longer be able to rely on many of the factors that have supported growth in the past: strong external demand driven by an open global trade system, access to cheap and abundant fossil fuel energy, and the 'peace dividend' provided by a period of relative geopolitical stability, which allowed EU governments to spend on other priorities. Europe is losing its growth engines at the very moment when it faces massive investment needs for modernising its economy, financing the green and digital transition, and ensuring its security. The Draghi Report lays out a clear diagnosis and provides concrete recommendations to put Europe onto a different trajectory. **It is time to turn to action**.

The new Commission has an ambitious political mandate, based on the President's Political Guidelines, to be a growth and investment Commission. Competitiveness is front and centre of this mandate. **This Communication sets out a compass that will guide the work in the coming five years and lists priority actions to reignite economic dynamism in Europe.**

A new competitiveness model based on innovation-led productivity

The Draghi report shows that innovation must be at the heart of European renewal, while removing other constraints holding back growth. Europe's industrial structure has become static, dominated by traditional sectors that spend less on research and innovation than tech-led sectors in the US, and with few start-ups reaching critical mass with new breakthrough technologies ([3]). With its population set to decline, Europe cannot count on rising labour inputs to drive future growth. Productivity must therefore be revived by moving towards the innovation frontier and investing in skills, not by restraining wages.

At the same time, Europe must confront other potential brakes on its competitiveness. The transition to a decarbonised economy must be competitiveness-friendly and technology neutral, while the shift to cleaner sources of energy must reduce energy costs and price volatility. EU regulation must be proportionate. The EU must also guarantee its industrial presence in key technological sectors and mitigate risks for its security and resilience emanating from dependencies – otherwise geopolitical uncertainty will cloud the outlook for our companies and weigh on investment.

The Compass' goal is to nurture Europe's innate strengths, harness its resources and remove the barriers at European and national level.

Europe must be the place where tomorrow's technologies, services, and clean products are invented, manufactured and marketed, as we stay the course to climate neutrality. A Europe that remains home to cutting-edge scientific and research innovation. That retains and attracts the world's best talents and provides quality jobs for all. Where

([2]) https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

([3]) European Commission (2025), Annual Single Market and Competitiveness Report. This accounts for around two thirds of the gap in per capita GDP between the EU and the US.

upwards convergence between regions strengthens our global position and our unity. That shines as a leading global investment destination and rewards risk and entrepreneurship.

A Competitiveness Compass

The Competitiveness Compass establishes competitiveness as one of the EU's overarching principles for action.

The Compass pursues two broad goals. First, to identify the policy changes needed for Europe to shift to a higher gear. In some areas, existing policies will need to be upgraded; in others, a step-change is required to adapt to new realities. The second goal is to develop new ways of working together to increase the speed and quality of decision-making, simplify our frameworks and rules, and overcome fragmentation. Europe can only match its continent-sized competitors if EU and national policies are aligned around the same objectives and reinforce each other. As many key levers, from taxation to labour markets to industrial policies, are largely or partly in the hands of EU governments, coordinated national reforms and investment will be a key component of this overall strategy.

The Draghi Report identified **three transformational imperatives to boost competitiveness**, and the Compass sets out an approach and a selection of flagship measures to translate each of these imperatives into reality in the coming years:

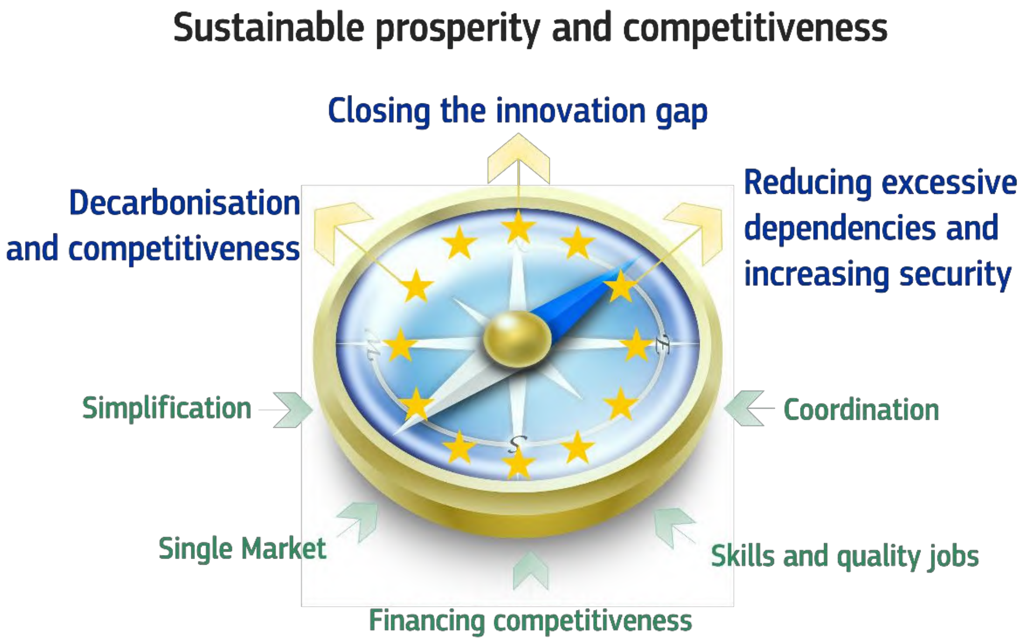
- Closing the innovation gap
- A joint roadmap for decarbonisation and competitiveness
- Reducing excessive dependencies and increasing security

These cardinal points are complemented by action on **horizontal enablers**, which are necessary to underpin competitiveness across all sectors:

- **simplifying** the regulatory environment, reducing burden and favouring speed and flexibility;
- fully exploiting benefits of scale offered by the **Single Market** by removing barriers;
- **financing** through a Savings and Investments Union and a refocused EU budget;
- promoting **skills and quality jobs** while ensuring social fairness.
- better **coordinating policies** at EU and national level.

A timeline and non-exhaustive list of planned initiatives is set out at the end of each section.

Figure 1: the Competitiveness Compass



1 . The three transformational imperatives to strengthen competitiveness

1.1. Closing the innovation gap

Europe's share of global patents is comparable to US and China. Yet, only one of third of patents registered by EU universities (4) are commercially exploited. For European researchers and entrepreneurs, the route from discovery and patenting to market is littered with barriers.

The EU must restart a virtuous innovation cycle. The Draghi report shows that productivity growth is the result of a combination of two forces: disruptive innovation brought about by new, dynamic start-ups challenging incumbents; and efficiency gains in mature traditional industries applying these innovations. If these two forces are weak – which is the case in Europe – the economy becomes trapped in sectors with diminishing scope for radical innovation, and private sector R&D spending stalls (5). **If we want the future of industry to be 'made in Europe', the EU must revive the innovation cycle**.

Starting and scaling up companies in Europe is currently hindered by market fragmentation, risk capital constraints and insufficient innovation support. European start-ups have a hard time expanding within the Single Market because of persisting regulatory barriers. They also have less access to venture capital and other forms of risk capital than their US peers: the share of global venture capital funds raised in the EU is only 5%, compared to 52% in the US and 40% in China (6). These two factors reinforce

(4) European Commission (2025), Annual Single Market and Competitiveness Report

(5) IMF, 2024, Regional Economic Outlook Note Europe: Europe's Declining Productivity Growth: Diagnoses and Remedies, November 13, 2024

(6) EIB, 'The scale-up gap: Financial markets constraints holding back innovative firms in the European Union', 2024

each other: lower growth prospects for EU start-ups and higher costs of failure weaken their attractiveness in the eyes of investors. As a result, many seek funding in the US and relocate there to benefit from a larger market and customer base.

A dedicated EU Start-up and Scale-up Strategy will address the obstacles that are preventing new companies from emerging and scaling up. It will start by improving relations between universities and business and creating better prospects for patents to be commercialised. It will remove barriers created by lack of access to risk capital, a fragmented Single Market and limited availability and mobility of talent and skilled workers, as well as insufficiently targeted innovation support. The **European Innovation Act** will promote the access of innovative companies to European research and technology infrastructures, intellectual assets generated by publicly funded R&I in view of increasing patenting, and regulatory sandboxes allowing innovators to develop and test new ideas.

Making it possible for innovative companies to benefit from a single, harmonised set of EU-wide rules wherever they invest and operate in the Single Market, instead of facing 27 distinct legal regimes, would represent a real game changer. The Commission will thus propose **a 28th legal regime**, which will simplify applicable rules and reduce the cost of failure, including any relevant aspects of corporate law, insolvency, labour and tax law.

As innovative companies grow in Europe, the EU will do everything possible to ensure they have the funding they need. Europe does not lack capital, but it is made available predominantly through bank financing rather than equity or other forms of risk capital. To create a more suitable financing environment for start-ups and scale-ups, the forthcoming initiatives under the Savings and Investments Union will present measures to boost European venture capital (see section 2.3).

Furthermore, the Commission will work with the EIB Group and private investors to deploy a TechEU investment programme to help bridge the financing gap to support disruptive innovation, strengthen Europe's industrial capacity and scale-up companies which invest in innovative technologies such as AI, clean tech, critical raw materials, energy storage, quantum computing, semiconductors, life sciences, and neurotechnology.

As the vision for the future of agriculture and food systems will develop, farming entrepreneurship should also be supported as a driver for innovative and more sustainable farming practices.

Europe will also support the innovation pipeline with a new focus on raising R&D spending and coordinating it on high-impact projects. To improve the overall environment generating innovation, the Commission will present a **European Research Area Act** to strengthen R&D investment and bring it up to the 3% GDP target, focus research support more on strategic priorities, reinforce alignment between the EU and Member States' funding priorities, and foster the circulation of knowledge and talent across Europe. As suggested by the Draghi Report, the work begun by the European Innovation Council to support scale-up by high-risk companies should continue with increased risk-taking, inspired by elements of the DARPA model ([7]).

Excelling in the technologies for tomorrow's economy

As barriers to scaling up fall, Europe needs to ensure the conditions for advanced technologies to thrive. Europe needs to be at the forefront of innovation in tech sectors that will matter in tomorrow's economy – such as Artificial Intelligence (AI),

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([7]) Draghi Report ' The future of European competitiveness – In-depth analysis and recommendations', page 248 semiconductor and quantum technologies, advanced materials, biotechnologies, clean energy technologies, robotics, space technologies, connected and autonomous mobility, and others – to enhance technological sovereignty and competitiveness.

Europe has led the way in providing a stable and secure framework for companies developing and operating digital technologies in the Single Market, with measures such as the Data and Data Governance Acts, the Cyber Resilience Act and the AI Act, and sectoral initiatives like the Net Zero Industry Act and the new European Health Dataspace. European standards have influenced the evolution of the global regulatory framework. The focus must now be on enabling our tech talent and nurturing world-class industrial development in the EU to reap the productivity gains from technology.

Europe needs the computing, cloud and data infrastructures that AI leadership requires. As part of the **AI Continent strategy**, the **AI factories** initiative will aim to leverage all the benefits from aggregation and network effects at European level. Building on Europe's existing world-class network of EuroHPC supercomputers, the initiative establishes 'AI factories' to boost Europe's computing power and makes it accessible for start-ups, researchers and industry to train, develop and improve their AI models. In parallel, through an **EU Cloud and AI Development Act** the Commission will mobilise public and private initiative to establish new AI Gigafactories specialised in training of very large AI models enabling key AI ecosystems throughout the EU. The Act will also set minimum criteria for cloud services offered in Europe. This will complement support for chip design and manufacturing in Europe, including further actions in relation to cutting-edge AI chips. As the availability of large and high-quality data is an essential component of developing AI, the Commission will propose a **Data Union Strategy** to improve and facilitate secure private and public data sharing, simplify the regulatory regime and its application, and accelerate the development of new systems or applications.

Europe must also maintain a leading position in **quantum technologies**, which can revolutionise digital encryption systems underpinning today's security and defence communication, health via scanning and drug discovery, as well as business transactions. A **Quantum Strategy** and a **Quantum Act** will build on the existing Chips Act to address regulatory fragmentation, align EU and national programmes and support investment in pan-European quantum computing, communication and sensing infrastructure.

Investing in the new growth engines

Life sciences are driving innovation in biotechnology, and hold great potential for competitiveness across sectors, from pharma to agriculture to energy to food and feed. The **EU Bioeconomy Strategy** will position the EU in the rapidly expanding bioeconomy market with a significant growth potential in bio-based materials, biomanufacturing, biochemicals, and agri-biotech sectors, reduce our reliance on fossil fuels and improve the economic perspectives of our rural areas. A new **European Biotech Act** will provide a forward-looking framework conducive to innovation in areas like health technology assessment and clinical trials and more generally to leverage the potential that biotechnologies can bring to our economy.

Demand for **innovative advanced materials** will increase exponentially in the coming years, attracting investments and reshaping global supply chains. The Commission will put forward an **Advanced Materials Act** to provide the framework conditions to support the whole lifecycle, from research and innovation to start-up creation until manufacturing and deployment.

In the same vein, **space** is a high-technology sector expected to grow nine times by 2030. The competitiveness of the European space sector must be preserved through greater coordination of public spending, supporting the investments of European innovative start-ups and scale-ups, and reinforcing the resilience of the space supply chain. A proposal for a **Space Act** will safeguard and improve the functioning of the internal market for space activities through a set of measures that harmonise requirements for the safety, resilience and sustainability of space activities at Union level and remove fragmentation arising from national legislation.

Competition policy is also an important lever to strengthen Europe's competitiveness. Rigorous and effective antitrust and merger enforcement in accordance with clear and predictable rules protects fair competition and incentivises companies to innovate and become more efficient. At the same time, in the global race to develop deep technologies and breakthrough innovations, competition policy must keep pace with evolving markets and tech innovation. This needs a fresh approach, better geared to common goals and allowing companies to scale up in global markets – while always ensuring a level playing field in the Single Market.

This should be reflected in **revised guidelines for assessing mergers** so that innovation, resilience and the investment intensity of competition in certain strategic sectors are given adequate weight in light of the European economy's acute needs. More generally, the new approach to EU competition policy requires us not only to simplify and speed up enforcement, but also to strengthen and better target enforcement. It will ensure a coherent approach conducive to overall EU objectives, in particular to closing the innovation gap, addressing the need for efficient scale where relevant, and supporting the decarbonisation of EU industry. For example, the Commission will review the Technology Transfer framework ([8]) to ensure that companies have clear, simple and up-to-date rules for pro-competitive technology licensing agreements, thereby facilitating technology dissemination, incentivising initial R&D, and promoting innovation. The enforcement of the Digital Markets Act will open up closed ecosystems and enable innovative businesses to propose new digital services to customers. Finally, the Commission will promote a wider use of Important Projects of Common European Interest (IPCEIs), in conjunction with the Competitiveness Coordination Tool (see section 2.5).

Diffusing innovation across the whole economy

Digitalisation and diffusion of advanced technologies across the European economy are the second necessary ingredient to lift Europe's productivity growth. Overall, 70% of the new value created in the global economy in the next 10 years will be digitally enabled ([9]).

Integrating AI into strategic sectors where Europe has traditionally been strong will be critical to maintaining their competitive edge. Today, only a limited share of EU businesses adopts digital technologies – for instance only 13% for AI ([10]). The **Apply AI Strategy** will aim to boost new industrial uses of AI in sectors, such as manufacturing, automotive, energy, robotics, pharmaceutical and aeronautics, financial services, as well as to improve public services, for example in healthcare and justice.

([8]) Technology Transfer Block Exemption Regulation and Technology Transfer Guidelines

([9]) World Economic Forum, 'For inclusive growth, leaders must embrace a global and open economic future', January 2025

([10]) Eurostat, EU survey on ICT usage and e-commerce in enterprises (January 2025). While this represents significant year-on-year growth, the potential for much broader AI use remains under-exploited.

The digitalisation of public services and the integration of AI in the public sector will enhance competitiveness. Better EU-wide coordination and support of these AI vertical use cases and AI for science could be ensured via a 'CERN for AI'. Working in this direction, the **European Research Council** and the **European Innovation Council** need to operate in their respective domains along the same strategic interests and cooperate more closely to achieve results.

Leading manufacturing companies must also increase their R&D intensity while accelerating the diffusion of innovation. Strategic partnerships with start-ups could foster the development of new products and systems. Future EU research funding will provide targeted support to industrial competitiveness with a more strategic and less bureaucratic approach to supporting the transition from applied research to the scale-up phase.

Closing the innovation gap will require investment in state-of-the-art digital infrastructure, including modern fibre networks, wireless and satellite solutions, investments in 6G and cloud computing capabilities. Yet, Europe is far behind its own 2030 Digital Decade targets for infrastructure connections. To correct course, a **Digital Networks Act** will propose solutions to improve market incentives to build the digital networks of the future, reduce burden and compliance costs, and improve digital connectivity for end-users, by creating an integrated Single market for connectivity and a more coordinated EU spectrum policy.

Flagship Actions Pillar 1

- Start-up and Scale-up Strategy [Q2 2025]
- 28^{th} regime [Q4 2025 – Q1 2026]
- European Innovation Act [Q4 2025 – Q1 2026]
- European Research Area Act [2026]
- AI Factories Initiative [Q1 2025], Apply AI, AI in Science, and Data Union Strategies [Q3 2025]
- EU Cloud and AI Development Act [Q4 2025 – Q1 2026]
- EU Quantum Strategy [Q2 2025] and a Quantum Act [Q4 2025]
- European Biotech Act and Bioeconomy Strategy [2025-2026]
- Life Sciences Strategy [Q2 2025]
- Advanced Materials Act [2026]
- Space Act [Q2 2025]
- Review of the Horizontal Merger Control Guidelines
- Digital Networks Act [Q4 2025]

1.2. A joint roadmap for decarbonisation and competitiveness

Europe has set out an ambitious framework to become a decarbonised economy by 2050. It will stay the course, including through the intermediate 2040 target of 90% ([11]). This framework can drive competitiveness if objectives and policies are well aligned, as it gives certainty and predictability to companies and investors alike. Moreover, as the Draghi Report shows, decarbonisation policies are a powerful driver of growth when they are well integrated with industrial, competition, economic and trade policies. This conviction will inspire the **Clean Industrial Deal** initiative, aimed at securing the EU as an attractive location for manufacturing, including for energy intensive industries, and promoting clean tech and new circular business models, in order to meet its agreed decarbonisation objectives.

Affordable energy

The EU needs to tackle upfront the issue of high and volatile energy prices for European companies and households. Energy prices are much higher than in competitor regions and vary significantly across the EU. Some of the drivers of high energy prices in Europe are structural. Europe relies on fossil fuel imports for almost two thirds of its energy. Russia's manipulation of this dependency in the context of its war of aggression against Ukraine is the major driver of the most recent price spikes. This dependence can only be reduced over time, as a greater share of energy is produced from decarbonised generation in Europe. The EU must thus accelerate the clean energy transition and promote electrification. But some of the cost components of energy prices can be mitigated **in the short term,** as they are determined by inefficiencies in the design of network tariffs and taxation or a lack of energy market integration.

These issues will be addressed by the **Affordable Energy Action Plan**, through a range of measures to ensure that households and industrial customers have a wider direct access to low-cost energy. The plan will help leverage the energy cost reduction benefits coming from further market integration, expand the use of guarantees and risk reduction instruments to facilitate conclusion of long-term power purchase agreements, incentivise industrial customers to provide demand flexibility services, and encourage a fair allocation of energy system costs through better designed tariffs.

An indispensable element in this plan is investing in Europe's grids, to accompany the progress towards a net zero energy system, reduce risks of curtailment for renewable energy and leverage the benefits of its Single Energy Market. Europe must invest more in modernising and expanding its network of energy transmission and distribution infrastructure, accelerating investment in electricity, hydrogen and carbon dioxide transport networks as well as storage systems.

A business case for clean production

To shift the economy towards clean production and circularity, the EU needs to develop lead markets and policies to reward early movers. The strongest driver in this process is harnessing the power of the EU's domestic market.This can be done through new measures to encourage demand for low-carbon products, such as benchmarking/labelling, mandates or preference in public procurement or financial

([11]) Cf.Europe's Choice: Political Guidelines for the next European Commission 2024−2029.

incentives through contracts for difference. Coordinating between the EU and Member States, the Commission will promote aggregation of demand and coordinate action between Member States, including through a wider and easier use of 'auction-as-a-service' schemes ([12]).

Alongside demand incentives, producers of clean technologies need help to translate innovative activity into manufacturing leadership. Better accompanying companies, especially energy intensive ones, in their efforts to switch to clean technologies requires a flexible and supportive state aid framework. In the **Clean Industrial Deal**, the Commission will set out how well targeted, simplified aid can further encourage investment for decarbonisation, while avoiding market distortions. In the same spirit, the Commission will invite Member States to ensure that the elements of their tax systems which impact private investment incentives, such as depreciation rules and tax credits, are conducive for a clean production business case.

Energy intensive sectors, such as steel, metals, and chemicals are among the most vulnerable in this phase of the transition. These industries are the backbone of the European manufacturing system, as they produce certain inputs vital for whole value chains. To accompany their transition, tailor-made action plans for some of them will be presented following the Clean Industrial Deal, based on close dialogue and consultation with the stakeholders. For instance, in Spring 2025, **the Steel and Metals Action Plan** will propose concrete measures to address investment needs, access to primary and secondary materials, use of trade defence instruments, and will define a long-term solution to replace current safeguard measures in light of global non-market overcapacity. The **Chemicals industry package** at the end of 2025 will be of key importance to ensure the competitiveness of industry as well as the protection of human health and the environment, looking also at supply of critical chemicals.

Mobility and technology neutrality is key for competitiveness. The Commission has launched the strategic dialogue with the automotive sector to urgently address the current challenges and design concrete strategies and solutions to ensure this key industry has a solid future in Europe. The dialogue will address challenges around innovation and leadership in future technologies, clean transition and decarbonisation, access to globally competitive inputs and security of supply, labour and skills, global fair trade and competition, regulatory streamlining and implementation and boosting of demand, by investing in recharging infrastructure and promoting uptake of electric vehicles. The CO2 standards provide long-term certainty to channel the necessary investments. As part of the dialogue, we will identify immediate solutions to safeguard industry's capacity to invest, by looking at possible flexibilities to make sure our industry remains competitive, without lowering the overall ambition of the 2025 targets. Moreover, reaching the 2035 climate neutrality target for cars will require a technology-neutral approach, in which e-fuels have a role to play through a targeted amendment of the regulation as part of the foreseen review. The dialogue will feed into an EU **industrial action plan for the automotive sector**, including ambitious supply- and demand-side initiatives, such as a proposal on greening corporate fleets.

In parallel, the Commission will put forward a **Sustainable Transport Investment Plan** with additional measures to de-risk investment needed to swiftly ramp up charging

([12]) 'Auction as a service' has been pioneered under the EU Innovation Fund for the Hydrogen Bank, allowing Member States to support qualifying projects for which EU funding was insufficient.

infrastructure and the production and distribution of renewable and low-carbon transport fuels. A new strategy will highlight the role that European **ports and maritime industry** will play in the future EU economy, while additional efforts will also be deployed to strengthen EU cross-border rail connectivity, including a plan for an ambitious European high-speed rail network.

Europe needs to combat carbon leakage of its industries. The situation of energy intensive industries included in the European Emissions Trading System (ETS) and the need to minimise cases of circumvention and unintended consequences on value chains will inform the forthcoming review of the Carbon Border Adjustment Mechanism ([13]). In order to reinforce the Mechanism's effectiveness this review will analyse the possible extension of scope to further sectors and downstream products as well as possible measures to address impacts on exports of relevant goods. This will reinforce the goal of preventing 'carbon leakage' and ensuring a greater impact in terms of promoting global carbon pricing and, as a consequence, an international level playing field.

To protect and promote **clean tech and decarbonised manufacturing** in the EU, the Clean Industrial Deal and its deliverables will mobilise in a coordinated way different policy levers, from permitting and authorisation facilitations, to industrial policy incentives, from reformed public procurement rules to trade defence instruments, from targeted Global Gateway investments and international partnerships to expanded market access. Policy intervention will be based on assessment of needs and market outlook, focusing on technologies key for decarbonisation and economic resilience, emerging sectors, or on technologies where current EU domestic production risks being put under pressure by international competitors benefiting from an uneven playing field, subsidies or support polices leading to non-market overcapacity. Energy-efficient technologies are to a large extent made in Europe, thus providing a competitive edge for the EU economy. Achieving climate neutrality will require negative emissions. Incentives will be developed, e.g. in the context of the review of the ETS Directive in 2026, to build a business case for permanent carbon removals to compensate for residual emissions from hard to abate sectors.

Finally, the **vision for EU agriculture and food production** will set out how to ensure long-term competitiveness and sustainability within the planetary boundaries for the agricultural and food sectors, ensuring thriving rural areas, food security and resilience. The European Oceans Pact will allow Europe to leverage its vast maritime area and coastline to boost innovation through new blue technologies, clean energy production and food security.

Tapping the potential of the circular economy

Resource efficiency and boosting circular use of materials helps decarbonisation, competitiveness and economic security. The European remanufacturing market's circular potential is projected to grow from its current value of EUR 31 billion to EUR 100 billion by 2030, creating 500,000 new jobs ([14]). Europe must aim to create a single market for waste, secondary and reusable materials, to increase efficiency and expand recycling. A **Circular Economy Act** proposal will serve to catalyse investment in recycling capacity and encourage EU industry to effectively substitute virgin materials and to reduce the

([13]) This review is independent of current preparations to simplify certain aspects of the mechanism in the short term. See section 2.1 below.

([14]) World Bank, 2022

landfilling and incineration of used raw materials. This will be accompanied by the roll-out of Eco-design requirements on important product groups.

Flagship Actions Pillar 2

- Clean Industrial Deal and an Action Plan on Affordable Energy [Q1 2025]
- Industrial Decarbonisation Accelerator Act [Q4 2025]
- Electrification Action Plan and European Grids Package [Q1 2026]
- New State Aid Framework [Q2 2025]
- Steel and metals action plan [2025]
- Chemicals industry package [Q4 2025]
- Strategic dialogue on the future of the European automotive industry and Industrial Action Plan [Q1 2025].
- Sustainable Transport Investment Plan [Q3 2025]
- European Port Strategy and Industrial Maritime Strategy [2025]
- High Speed Rail Plan [2025]
- Carbon Border Adjustment Mechanism Review [2025]
- Circular Economy Act [Q4 2026]
- Vision for Agriculture and Food [Q1 2025]
- Oceans Pact [Q2 2025]
- Amendment of the Climate Law [2025]

1.3. Reducing excessive dependencies and increasing security

The global connections the EU has created around the world support both economic growth and security. The EU is highly open to trade which creates deep interconnections, supporting diverse supply chains and tight alliances with key partners. Trade will be key to the EU's future growth.

In a global economic system fractured by geopolitical competition and trade tensions, the EU must integrate more tightly security and open strategic autonomy considerations in its economic policies. The security environment is a precondition for EU firms' economic success and competitiveness. Companies will not make long-term investments in areas where they face uncertainty about the security environment or threats to critical infrastructure; where they fear that their supply chains will be disrupted and choked as a result of international tensions; or where their investments risk being wiped out by unfair competition resulting from a global uneven playing field. At the same time, security and resilience can become a driver for competitiveness and innovation.

Trade and economic security

Trade with third countries is a key driver for Europe's prosperity. Today, external trade in goods and services accounts already for a major share of the EU's GDP. In 2023, transatlantic trade between the EU and the US exceeded EUR 1.5 trillion; together the EU and the US represent almost 30% of global trade. Looking ahead, 90% of global economic growth is projected to take place outside Europe's borders. A high degree of trade openness is therefore crucial, not only for sustaining Europe's prosperity, but also for enhancing its resilience.

The EU's ability to diversify and reduce dependencies will hinge on effective partnerships. The EU already has the largest and fastest growing network of trade agreements in the world covering 76 countries that account for almost half of the EU's trade. We are the number one trading partner for 72 countries that represent 38% of world GDP. We are also mobilising Global Gateway investment packages across the globe in key areas intertwining Europe's economic interests with those of its partners.

The conclusion of negotiations of the **EU-Mercosur Agreement** and the modernisation of the **EU-Mexico Global Agreement** show how mutually beneficial trade can go hand in hand with creating a level playing field and reciprocity and increasing economic security. For example, starting from the baseline of EUR 84 billion in EU annual exports, the removal of high Mercosur tariffs will enable EU exporters to save over 4 billion euros in customs duties per year ([15]) and provide a first-mover advantage. Access to public procurement, exclusive preferential access to some critical raw materials and green goods, and protection of more than 350 EU Geographical Indications for traditional food products represent major opportunities to increase trade. At the same time, safeguards are provided for sensitive sectors ([16]). The EU will continue to work closely with partners to continue expanding its vast network of trade agreements, opening up market access for European companies, securing greater reciprocity, while promoting open rules-based global trade governed by a modernised WTO.

The EU needs to continue adapting its offer and seeking new ways of deepening partnerships and creating benefits for our businesses, from **Digital Trade Agreements** (where negotiations are under way with Korea and finalised with Singapore) and **Mutual Recognition Agreements** (in place and under development with several partners including Australia, Canada, Japan, New Zealand, Switzerland and the U.S., reducing the costs of conformity procedures) to **Sustainable Investment Facilitation Agreements** (the first of which was finalised, while others are being developed). To this end, our new **Clean Trade and Investment Partnerships** will bring together targeted trade and investment rules, Global Gateway investments, and regulatory cooperation, into a single whole-of-government partnership. They will offer opportunities to help secure supply of raw materials, clean energy, sustainable transport fuels, and clean tech from across the world, while scaling up European sustainable investments that are beneficial to partner counties and helping to achieve the global energy targets championed by President von der Leyen. Under the new **Pact for the Mediterranean**, an ambitious Trans-Mediterranean Energy

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([15]) The average import duty in Mercosur is higher than in many other regions, at 13,5%. In contrast, the average tariff applied by the EU across all imported goods is 1,8%. Therefore, the gains from tariff liberalisation with Mercosur are high for the EU.

([16]) Additional protective mechanisms, such as safeguard clauses, allow the EU to respond if Mercosur imports, like beef within a TRQ, are found to cause significant harm to EU markets. Beyond safeguard clauses, the Commission will mobilise additional support by setting up a reserve worth at least EUR 1 billion in the unlikely event that market disruptions occur following the agreement's implementation.

and Clean Tech Cooperation initiative will stimulate large scale public and private investments in renewable energy.

At the same time the EU's trade relationships can sometimes create risks. In an increasingly fraught environment, excessive dependencies can be exploited and even weaponised. Industrial policies of certain third countries may intentionally seek to create overcapacities and strategic dependencies. This requires an understanding of the risks and to act on them accordingly in a targeted and proportionate way.

When the European market relies only on one or a handful of suppliers of key goods, services or other inputs, the EU needs policies and investments to ensure its economic security, minimising the potential for the weaponisation of dependencies or economic coercion. The Draghi report charts how Europe needs to ensure the resilience of its supply chains, notably for critical raw materials, or imports of essential advanced clean or digital technologies, such as semiconductors. Another example are current supply dependencies for active ingredients for critical medicines, essential for public health in general and certain patients in particular, or fertilisers, which underpin food security.

Europe must continue to pursue policies to reduce its dependencies on single or highly concentrated suppliers across key strategic sectors through recycling, innovation and research, targeted financial support for the establishment or promotion of domestic processing or manufacturing capacities and the creation of back-ups and stockpiles, as well as the bilateral and multilateral partnerships for diversification mentioned above. In addition, against the background of Russian energy blackmail linked to its war of aggression, the Commission will present a Roadmap on lawful measures towards ending Russian energy imports.

As part of its Economic Security Strategy ([17]), the EU defined four risk areas and ten critical technologies. Building on the ongoing in-depth risk assessments, proportionate and targeted mitigation measures to protect, promote and partner will be taken to respond to identified risks and increase resilience. These include measures such as screening of foreign direct investment, export controls and outward investment monitoring. The Commission will develop economic security standards for key supply chains with our G7 and other like-minded partners.

Unfair competition and levelling the playing field

Where unfair competition threatens our Single Market, we should also use the protective tools at our disposal, such as the trade defence instruments, and rigorously enforce the Foreign Subsidies Regulation. The appropriate mix of these elements will vary from sector to sector. The EU will also continue to press for a modernised WTO rulebook.

More intense coordination among Member States and forms of demand aggregation or joint purchase at EU level can increase leverage towards foreign suppliers. For example, it is vital for EU competitiveness to ensure a reliable, diversified supply of raw materials, as they are crucial inputs for the energy, food production and industrial sectors. Building on the Critical Raw Materials Act implementation, a policy combining promotion of domestic production, stockpiling and diversification must be pursued. Following the recent experience with AggregateEU, the Commission will create **a platform for the joint purchase of critical raw materials** to identify the needs of EU industries, aggregate demand, and coordinate joint purchases. Similarly, the **Critical Medicines Act** will aim to

([17]) Joint communication "European Economic Security Strategy", JOIN (2023) 20 strenghten supply of critical medicines and their ingredients, address market failures and reduce dependency.

The EU needs to address the challenge posed by unfair competition and global output overcapacities. These are often driven by systematic, state-induced over-investments and subsidies concentrated along supply chains in critical and strategic industrial sectors. Structural non-market overcapacities translate into aggressive market export strategies which increase pressure on European producers on an already unlevel playing field. The loss of European-based production capacities and know-how in critical sectors could leave the EU overly dependent on imports in key segments of the economy.

The public sector has a central role to play. In a context where other major players impose access restrictions to their markets and seek to boost manufacturing capacity in critical technologies, Europe must safeguard its own capacities. The Commission will propose the introduction of a **European preference in public procurement** for strategic sectors and technologies. Public procurement accounts for approximately 14% of EU GDP ([18]). The planned review of the Public Procurement Directives aims at reinforcing technological security and domestic supply chains, as well as simplifying and modernising rules, in particular for start-ups and innovative companies.

Defence industry, security and preparedness

The EU defence industry is an important driver of competitiveness, but it lacks scale and is falling short of its potential. While EU firms in the defence sector are globally competitive, they suffer from a combination of structural weaknesses and decades of underinvestment. The sector is fragmented and characterised by mainly national players, many operating in relatively small domestic markets, which reduces supply capacity. Investment in defence R&D is significantly lower than in the U.S.. As a result, the EU is highly dependent on non-EU suppliers. There is a material risk that the EU falls behind in defence innovation and the development of new advanced weapons' systems, with negative spillovers to dual-use technologies. The European defence industry must be able to deliver on the full spectrum of capabilities and be a driver of innovation for the entire economy.

We need to enhance and support the Member States' efforts to invest more, better, together, and European ([19]). Deeper coordination is key to finance, develop, produce, and sustain all the necessary defence capabilities and infrastructure (including dual-use) in Europe. Europe must substantially increase the level of defence cooperation between Member States, by aggregating demand through increased recourse to joint defence procurement, promoting rapid industrial ramp-up as well as cooperation on joint R&D concentrated on common European initiatives, pooling resources through Defence Projects of Common European Interest, integrating EU industrial capacity and establishing a Single Market for defence and improving access to finance for SMEs with the aim to increase scale, reduce inefficiencies and promote interoperability. The Commission and the High Representative will present a **White Paper on the Future of European Defence** to set out the actions necessary to achieve these objectives.

Experience has taught Europe the added value of preparedness. Concrete action is now necessary. The EU and Member States need to adopt a whole-of-government and whole-of-society approach to shield the economy and protect citizens, including

([18]) European Commission (2025), Annual Single Market and Competitiveness Report

([19]) Joint Communication "A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry", JOIN (2024) 10 final.

comprehensive public-private cooperation and a new preparedness-by-design principle. For example, in cases of limited industrial and production capacities, the coordination of procurement or stockpiling of crisis-relevant goods can be done jointly at EU level. Based on the Niinistö report, the Commission and the High Representative will present a **Preparedness Union Strategy** outlining a common approach to existing and potential threats.

Increasing hybrid threats require a closer alignment between the public and private sectors. The digital age is accelerating the speed of cyberthreats and cyberattacks. Entire economic sectors and essential services ([20]) depend on the resilience of our digital, transport and space infrastructure, energy grids, technological hardware. Undersea cables are a prominent recent example of an area of intensifying security risks. Europe must factor in risks for the security of critical infrastructure, whether digital or physical, at all stages – from construction and technology choice to operations and recovery capabilities. An Internal Security Strategy will set out a comprehensive EU response to face security threats, whether online or offline, and to ensure that security is integrated in EU legislation and policies by design.

A changing climate and extreme weather events increasingly threaten European economic security. The EU and Member States must therefore improve their resilience and step up their preparedness, regularly updating climate risk assessments and improving critical infrastructure resilience by design. Integrating climate resilience in urban planning, deploying nature-based solutions, developing nature credits and adaptation in agriculture while preserving food security, are also among the options to protect the EU economy and society from the worst of natural calamities such as floods, droughts, wildfires and storms that compromise supply chains and production sites. A **European Climate Adaptation Plan** will be presented to this end**.**

More generally, Member States need to address growing water scarcity by improving water management practices and infrastructures, increasing water efficiency and promoting sustainable water use. At EU level, the Commission will present a **European Water Resilience Strategy**.

Flagship Actions Pillar 3

- Conclude and implement ambitious trade agreements, Clean Trade and Investment Partnerships
- Trans-Mediterranean Energy and Clean Tech Cooperation initiative [Q4 2025]
- Joint purchasing platform for Critical Raw Minerals [Q2-3 2025]
- Revision of directives on Public Procurement [2026]
- White Paper on the Future of European Defence [Q1 2025]
- Preparedness Union Strategy [Q1 2025]
- Internal Security Strategy [Q1 2025]

([20]) Cf. the recent European action plan on the cybersecurity of hospitals and healthcare providers, COM (2025) 10 final

- Critical Medicines Act [Q1 2025]
- European Climate Adaptation Plan [2026]
- Water Resilience Strategy [Q2 2025]

2. Horizontal enablers of competitiveness

2.1. Simpler, lighter, faster: ensuring that EU regulation is fit for competitiveness

Regulatory burden has become a brake on Europe's competitiveness. Despite the EU's advanced better regulation policy, for two out of three companies this burden is the key obstacle to long-term investment ([21]). Many signal that the complexity, variety, and duration of permitting and administrative procedures make Europe a less attractive location for investment, compared to other regions. Restoring Europe's competitiveness requires going much further than before in cutting red tape. Regulation must be proportionate, stable, coherent and technology neutral.

All the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. Accessing funds or obtaining administrative decisions must become faster and cheaper for companies and citizens. For instance, building on the renewable energy permitting and Net Zero Industry Act, the planned **Decarbonisation Accelerator Act** will extend accelerated permitting to more (e.g. energy intensive) sectors in transition. The procedures for IPCEIs as well as for the energy infrastructure Projects of Common Interest will be made simpler and faster. The Multiannual Financial Framework (MFF) proposal will be the opportunity to further streamline access to and simplify EU funding instruments – currently fragmented over too many programmes – across the board.

The change will start with the Commission. The first-ever Commissioner for Implementation and Simplification is coordinating the Commission's work in this area and steering a screening of the EU *acquis* to identify ways to simplify, consolidate and codify legislation as needed. Each Commissioner will hold regular implementation dialogues with stakeholders, twice a year, to understand implementation issues, hear business concerns and identify opportunities for simplification and burden reduction. Reality checks held by Commission services with stakeholders will further feed the stress testing of EU regulation. Simplification must be informed by an understanding of the practical operation of value chains and with a regulatory system based on trust and incentives rather than detailed control in mind. The Commission will put forward its overall approach next month.

This Commission will deliver an unprecedented simplification effort. This will aim to achieve the agreed policy objectives in the simplest, most targeted, most effective and least burdensome way. To ensure sustained and measurable efforts over the years ahead, the Commission has set ambitious quantified targets for reducing reporting burden: at least 25% for all companies and at least 35% for SMEs. Reporting burdens are a subset of all administrative burdens. Thus, to further increase our ambition, the 25% and 35% burden reduction targets should in the future refer to the **costs of all administrative burdens**, and not only reporting requirements. This results in a goal of reducing around EUR 37.5 billion

([21]) EIB, EIB Investment Survey 2023

of recurring costs until the end of the mandate ([22]). Dedicated measures for SMEs will aim to meet the 35% target.

This will start next month with the **first of a series of Simplification Omnibus packages**. The first Omnibus will, among others, cover a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence and taxonomy. In line with the objectives of the sustainable finance framework to mobilise investment in the clean transition, the Commission will ensure better alignment of the requirements with the needs of investors, proportionate timelines, financial metrics that do not discourage investments in smaller companies in transition, and obligations proportionate to the scale of activities of different companies. It will notably address the trickle-down effect to prevent smaller companies along the supply chains from being subjected in practice to excessive reporting requests that were never intended by the legislators.

To ensure proportionate regulation adapted to companies' size, **a new definition of small mid-caps** will soon be proposed. By creating such a new category of company, bigger than SMEs but smaller than large companies, thousands of companies in the EU will benefit from tailored regulatory simplification in the same spirit as SMEs. The Commission is also preparing a **simplification of the Carbon Border Adjustment mechanism** for smaller market players.

In the course of the year and throughout the mandate, the Commission will continue to present simplification measures, based on dialogue with stakeholders.The **revision of the REACH Regulation** will cover the existing acquis and new initiatives on chemicals, bringing a real simplification on the ground and ensuring faster decision-making on important hazards, as well as sustainability, competitiveness, security and safety. Following the proposed overhaul of the EU's pharmaceutical framework to accelerate authorisations and streamline regulatory processes, the Commission is preparing short-term implementing measures to reduce burden and simplify in the field of **medical devices.** Furthermore, a substantial simplification package will be put forward this year to bring concrete on-farm burden reduction and relief to farmers.

A **new SME and competitiveness check** in impact assessments will become a stronger filter for new initiatives, also assessing the expected effects on cost differentials compared to international competitors. Greater attention will be paid to assessing the costs of proposed delegated and implementing acts, when relevant.

Digitalisation will go hand in hand with simplification to reduce the reporting burden. Companies and public authorities must be better accompanied when it comes to implementing EU legislation through stepped up support, capacity building and technical assistance. Use of digital tools and AI to power simplification efforts at governmental level must be facilitated, with full cross-border interoperability among public sector bodies' solutions such as e-invoicing, e-signature, e-submissions and digital product passport. Wherever possible, reporting must move to digital formats based on standardised data. Building on the EU e-IDAS framework, the **European business wallet** will be the cornerstone of doing business simply and digitally in the EU, providing a seamless environment for companies to interact with all public administrations.

To ensure a level playing field across the Single Market, as well as fight fragmentation and gold plating, the Commission will pursue a forceful approach to **full harmonisation and enforcement**. In addition to work on simplifying record-keeping under the General Data

([22]) Using data available at the EU and national level, and taking into account the estimation of the administrative burden made by the Stoiber high-level group, EUROSTAT has approximated the baseline of overall recurring (annual) administrative costs up to EUR 150 billion in the EU.

Protection Regulation, the Commission will continue work on its more harmonised implementation and enforcement.

All EU institutions need to work together to avoid a 'regulatory ratchet'. The commitment to better regulation must be shared by all institutions throughout the legislative process, in compliance with the principles of subsidiarity and proportionality. Working together with the European Parliament and the Council, a revised interinstitutional agreement will ensure that the simplification commitment and implementation focus hold from start to finish in the legislative process.

2.2. Making the most of Europe's Single Market

The Single Market is critical to build continental size in a world of giants. For 30 years, the Single Market has been Europe's tried and tested engine for competitiveness ([23]). It is today the home market for 23 million companies, providing goods and services to almost 450 million Europeans. Companies benefit from free movement and predictable business conditions underpinned by guarantees for the respect of the rule of law. Consumers benefit from wide choices and high protection. However, the Single Market is far from complete. Despite recurrent efforts to remove barriers to the free flow of goods, services, capital and people, certain barriers stubbornly persist, and new obstacles and sources of fragmentation continue to appear.

The **Annual Single Market and Competitiveness Report 2025 shows the costs of inaction: over the past years, market integration has lost momentum.** Indeed, the share of EU GDP represented by trade between Member States decreased both for goods (23.8%) and services (7.6%) in 2023 ([24]). Within the Single Market, trade in cross-border services is less than a third of that in goods and, differently from goods, not higher than services trade with non-EU countries. The Letta Report has mapped out persistent barriers and highlighted the benefits that would come from speeding up integration in electronic communications, energy, financial markets and from building a Single Market for defence.

Removing remaining barriers and expanding the Single Market will help competitiveness in all its dimensions, by providing bigger markets, lowering energy prices and enhancing access ([25]). To improve the functioning of the Single Market across all industries, a Horizontal Single Market Strategy will modernise the governance framework, removing intra-EU barriers and preventing the creation of new ones, fostering collaboration with Member States, and proposing a new approach to implementation. A reinforced Single Market Enforcement Taskforce (SMET) will ensure transposition that avoids unnecessary burdens, as well as overall implementation and enforcement of EU legislation. Further harmonisation measures will be launched to reduce remaining legal fragmentation, in the twin interests of deepening the Single Market and simplification. The early and gradual integration of candidate countries into parts of the Single Market will allow companies to integrate in European value chains, facilitating the convergence process and enhancing investment, trade and competitiveness.

([23]) Mario Monti, *A new strategy for the single market at the service of Europe's economy and society*, Report to the President of the European Commission, 9 May 2010

([24]) European Commission (2025), Annual Single Market and Competitiveness Report

([25]) The IMF estimates that the ad-valorem equivalent of the remaining barriers constraining intra-EU trade can be compared to a tax of around 45 percent for the manufacturing sector, and of 110 percent for the services sector. 'The direct impact of reducing estimated intra-EU sectoral barriers to the level observed among US states could potentially increase productivity by 6.7 percent.' IMF, Europe's Declining Productivity Growth: Diagnoses and Remedies - Regional Economic Outlook, November 2024

A modernised Cohesion policy is crucial for strengthening growth, reducing disparities, and fostering competitiveness across the Single Market, while supporting regions and communities in their long-term development and their just transition.

The Commission will take the opportunity for making standard-setting processes faster and more accessible, in particular for SMEs and startups. The current European standardisation system lacks responsiveness to faster innovation cycles in emerging technologies. Engaging systematically in global standard setting processes is very important to influence outcomes aligned with EU interests, helping industry to maintain competitive positions in key technology markets, such as 5G and 6G telecommunications, AI, renewable energy technologies, electric vehicle charging infrastructure, accessibility and the Internet of Things. Alternative options must be sought to give businesses legal security on compliance with the EU rules, in situations where harmonised standards do not exist, are not available or there is an urgent need.

2.3. Financing competitiveness and a Savings and Investments Union

The EU faces massive financing needs to deliver on its already-agreed objectives. Innovation, the clean transition, digital and tech diffusion across economic sectors imply very high capital costs, including for the necessary massive scale-up of common goods such as infrastructure across the continent. Member States have committed to quantified targets for renewable energy, to increase R&D spending to 3% of GDP, to raise defence spending to at least 2% of GDP (for NATO members), and to upgrade the EU's digital infrastructure. The Draghi report assesses the combined additional investment needs in Europe at EUR 750-800 billion per year by 2030, meaning that the EU's total investment-to-GDP rate will need to rise by around 5 percentage points of EU GDP per year, to reach levels last seen in the 1960s and 1970s. Ensuring sufficient public and private investment is critical to boost productivity growth and achieve the EU goals on innovation, climate neutrality and defence.

Such a large-scale effort requires that the EU and its Member States become much better at mobilising private investment, including by institutional investors, and at using public funding in a more focused and targeted way. While many companies require venture capital and equity investment to thrive, the EU is excessively reliant on bank debt financing ([26]).

The EU's household saving rates was 65% larger than in the US in 2022 ([27]). Yet, the EU's financial sector does not channel them efficiently to productive investment or allocate sufficient capital to innovation in the EU economy. As a result, citizens do not get adequate returns on their savings and every year EUR 300 billion of savings from Europeans are invested in markets outside the EU.

The EU must integrate and have deeper and more liquid capital markets as a necessary step to mobilise private sector resources and direct them towards future-oriented growth sectors. It is also necessary to stimulate greater appetite for risk-taking by private investors, using public money as an anchor.

Longstanding hesitations must be overcome, and the Commission will present in 2025 a **Strategy on a Savings and Investments Union**, followed by a set of specific proposals,

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([26]) EU firms rely much less on market sources of financing, with less than 30% of their funding coming from tradable equity and debt, compared to nearly 70% for US firms. See IMF, 2023, 'IMF Background Note on CMU for Eurogroup', 15 June 2023

([27]) Autumn 2024 Economic Forecast: A gradual rebound in an adverse environment, November 2024 to enable wealth creation for EU citizens and mobilise capital for projects made in Europe. This calls for promoting low-cost saving and investment products at EU level – while encouraging retail investors to avail of them. The Commission will also work on the potential of private and occupational pensions to help EU citizens plan for their retirement and channel their savings into the economy. In parallel, the Commission will act to remove barriers to market-driven consolidation of financial markets infrastructure.

Finally, the Commission will present measures to promote the EU's securitisation market to create additional financing capacities for banks (which should benefit especially corporate and SME lending), and measures for much more unified supervision; it will pursue the reform and harmonisation of insolvency frameworks EU-wide, currently still very fragmented, including the ranking of claims and insolvency triggers or the rules for financial collateral and settlement; and will remove taxation barriers to cross-border investment.

Better economic coordination

In addition to direct public investment, public support will be required to de-risk and unlock private investment in the volumes needed. Given the size of Member States' national budgets (around 50% of EU GDP), the capacity of the EU to finance strategic public investment, including European public goods, will hinge on prioritisation and coordination of national macroeconomic and fiscal policies towards this goal.

The EU's revised Economic Governance Framework supports this goal by reinforcing the integration of sustainable fiscal and growth-enhancing policies – via more gradual adjustment paths that allow more fiscal space for priority reforms and investments, compared to the previous regulatory framework ([28]). In the first assessment under the new framework, for five Member States the adjustment period was extended from four to seven years, underpinned by a set of reform and investment commitments. Going forward, strengthening debt sustainability through gradual fiscal consolidation should increasingly go hand in hand with safeguarding public investment and securing greater national ownership and better enforcement.

A refocussed EU budget

With the Strategic Technologies for Europe Platform (STEP) Regulation, the EU has begun redirecting funding from 11 different financing programmes towards industrial projects across three critical technologies: digital technologies and deep-tech innovation; clean and resource-efficient technologies; and biotechnologies. With the help of a single STEP Portal, this has made it easier and simpler for project promoters, managing authorities and investors to access EU funding. The STEP experience so far shows the added value of refocusing the EU budget support around clear and shared competitiveness priorities.

The next Multi-annual Financial Framework will be an opportunity to go further and rethink the structure and allocation of the EU budget in support of competitiveness priorities. The EU budget spending is currently fragmented over too many programmes – often with limited coordinated strategic steer and high complexity for the beneficiaries. Focusing on EU competitiveness requires a set of commonly agreed funding priorities in the form of EU public goods and multi-country investment projects, to be defined through a strengthened policy steering mechanism (see section 2.5). In the next MFF, a new **European Competitiveness Fund** should respond to these needs in a more integrated

([28]) ECB Blog, 'Mind the gap: Europe's strategic investment needs and how to support them', 2024 fashion. The Fund will establish an investment capacity that will support strategic technologies and manufacturing (from AI to space, from clean tech to bio-tech sectors etc.), which are critical to European competitiveness, including research and innovation, and IPCEIs. It will help to leverage and de-risk private investments.

Public funding is not sufficient: private capital must also be tapped at scale. The EIB Group's potential must be fully leveraged to crowd in private investment and bridge Europe's investment gap in all priority areas, from decarbonisation to defence. The network of European promotional banks as well as other international financial institutions can also help to further leverage public investment. De-risking financial instruments and budgetary guarantees have proven to be powerful tools, with an average multiplier effect above 15 times so far. Building on the successful implementation of InvestEU, with EUR 218 billion of investment already mobilised ([29]), of which 65% from private sources, broader use of de-risking EU-funded schemes will be proposed to support higher-risk and more scale-up investments in key economic sectors. The EIB Group's own resources should also be further mobilised. This, together with EU resources, should allow to increase the use of guarantees, loans, blending instruments as well as other types of financial instruments (including equity) across the policy priorities supported by the EU budget. It also entails expanding the scope of existing financing programmes, starting from InvestEU, making the EIB Group's and other partners' mandates broader, simpler, faster, and more flexible. The open architecture of such tools represents an opportunity for increased cooperation and synergies with and between national promotional banks.

2.4. Promoting skills and quality jobs while ensuring social fairness

The foundation of Europe's competitiveness is its people. The EU is home to some of the world's best scientists and researchers and vibrant creative and cultural industries. It has a large pool of skilled workers, strong education and training systems, inclusive labour markets, non-discrimination laws and a robust welfare state. However, Europe's labour market is going through a profound transformation. While employment in the EU rose to 216.5 million people, bringing the employment rate to a new record of 75.3%, and the unemployment rate to a historical low (6.1%) in 2023, skills gaps and labour shortages persist. For example, nearly four in five small and medium sized businesses in the EU report difficulties in finding workers with the right skillset ([30]).

Effective social policies built around the European Pillar of Social Rights are central to shaping a competitive Europe. A more competitive economy with high productivity will ensure that our social model is financially sustainable in the long term and that citizens see clear pathways to their own economic success. All Europeans must be able to contribute to and benefit from greater competitiveness improvements.

To ensure a good match between skills and labour market demands, the Commission will present an initiative to build a Union of Skills, focusing on investment, adult and lifelong learning, future-proof skills creation, skill retention, fair mobility, attracting and integrating qualified talents from third countries and the recognition of different types of training to enable people to work across our Union. Up- and re-skilling Europe's existing workforce is essential to allow the transition between jobs and occupations. The Union of Skills will include a STEM Education Strategic Plan, a Basic Skills Action Plan focusing

([29]) InvestEU is providing broad-based investment support through the four windows: Sustainable infrastructure; Research, innovation and digitalisation; SMEs; Social investment and skills

([30]) Eurobarometer European Year of Skills (2023) - Skills shortages, recruitment and retention strategies in small and medium-sized enterprises on school education, and a European Strategy for Vocational Education and Training, and will strengthen the European Universities Alliances. Equally, labour market relevance of skills and occupations requires a strong dialogue with the social partners, facilitating recognition and validation of skills, and building evidence on current and future skills and labour market trends. Work in this area will include a Skills Portability Initiative aimed to facilitate that skills acquired are recognised in case of mobility. In addition to this, Europe must also be a more accessible and attractive destination for skilled professionals from third countries, for whom we are in competition with other jurisdictions, building on the existing Talent Partnerships with partner countries and the future EU Talent Pool.

Furthermore, as Europe is confronted with a shrinking working age population, it is necessary to increase labour market participation ([31]). There are many factors limiting access to work for women, young people and older citizens who want to remain economically active. Labour market access is also difficult for the low-skilled, people with disabilities and other under-represented groups. Increasing labour participation and productivity largely depend on fair working conditions, decent wages, work-life balance, and on having access to affordable and quality childcare and long-term care. To tackle these and other dimensions impacting on labour market participation, the Commission will engage with social partners to present a Quality Jobs Roadmap. The Commission will furthermore put forward an Affordable Housing Plan.

Lastly, the world of work is changing and while new fast-growing economic sectors develop, workers require pathways to adapt to retain and find jobs, while also having a safety net during transitions. Through the European Semester, a strong focus will be placed on encouraging Member States to modernise social protection systems, to ensure access to adequate, efficient, and effective protection for all workers. Pension reforms should be coupled with initiatives that promote longer working lives, support active and healthy ageing and create more inclusive labour markets.

2.5. Joining forces to maximise impact: a Competitiveness Coordination Tool

The EU will not succeed on delivering its goals unless national and EU policies can be coordinated more effectively. Europe is falling short of what it could achieve by acting together because its industrial and research policies are fragmented between the EU and Member States and across multiple, uncoordinated objectives. Within the Single Market, each Member State deploys its own industrial and support policies to boost national competitiveness, with little consideration of what happens in other Member States or even to their detriment. This reduces the effectiveness of those policies and resources, limiting overall benefits from an EU-wide perspective ([32]).

The Commission will propose a new Competitiveness Coordination Tool to act together with Member States on common competitiveness priorities in selected key areas and projects deemed of strategic importance and of common European interest. The European Semester and NextGenerationEU have introduced a successful logic of combining reforms and investments in order to implement EU priorities at national level.

([31]) Cf. European Commission, Demographic change in Europe: a toolbox for action, COM (2023) 577

([32]) IMF Working Paper 24/249, Industrial Policy in Europe: A Single Market Perspective Prepared by Andrew Hodge, Roberto Piazza, Fuad Hasanov, Xun Li, Maryam Vaziri, Atticus Weller, Yu Ching Wong, December 2024

This approach should be complemented with coordinated cross-border and EU-wide actions.

The Competitiveness Coordination Tool will aim to align industrial and research policies and investments at the EU and the national levels. It will help to deliver new major initiatives and/or cross-border projects with European added value, for structural economic transformation, productivity, long-term growth and quality jobs, and benefiting the Single Market. Actions on joint competitiveness priorities in a given sector, necessary enabling reforms and investments and concrete projects requiring cross-border coordination, will be identified in close collaboration with Member States and other key stakeholders. The Coordination tool will work in conjunction with a streamlined European Semester focused on reforms and investments for competitiveness at the national level. Both will form part of a coherent and lean steering mechanism to inform decisions for investment and reforms at EU and national level. This new steering mechanism will link EU priorities with the EU budget, because for the Investments Union to happen, it is necessary to align Union, public and private spending with EU competitiveness priorities.

In an initial phase, the Commission will propose to coordinate EU and Member States' policies in a few selected areas with clear added value to EU competitiveness, as pilot cases. These areas could be energy and transport infrastructure (e.g. electricity grids and storage and sustainable fuels and charging), digital infrastructure and AI vertical use cases, biotechnology, as well as other key manufacturing capacities (e.g. for critical medicines).

Public funding for the implementation of such pilots will need to leverage to the maximum private capital, considering the large investment needs. The Commission will monitor progress towards effective alignment, in close cooperation with Member States. Based on this experience, the Commission will develop with Member States a steering mechanism for investments. The Commission envisages to work together on a methodology to identify and define other strategic infrastructure networks, sectors or activities, suitable for investment and policy coordination under the Competitiveness Coordination Tool, taking into account their potential for innovation, decarbonisation and economic security ([33]).

Under the current MFF, financial incentives for the implementation of coordinated investments could build on the successful experience with the STEP, under which over EUR 6 billion have already been redirected from Member States' and regions' Cohesion Policy Funds to support strategic objectives and EUR 8.7 billion across the five programmes directly managed by the Commission. In addition to further reprogramming of Cohesion Policy Funds, financial incentives to implement the action plans could come from the EIB Group, national promotional banks and other implementing partners, based on an enhanced InvestEU guarantee. This would include a reprogramming of Member States' NextGenerationEU funds towards their national compartments under InvestEU and targeted amendments of the InvestEU rules to increase its risk-bearing capacity.

([33]) The Draghi Report provides (at page 41) a useful – though necessarily schematic and non-exhaustive – starting point, distinguishing four different broad cases for which the respective policy toolbox would differ: (i) industries where Europe's cost disadvantage is too large to be a serious competitor, where diversification is key to limit dependencies; (ii) industries where the EU interest is focused on the location of production (and related employment) in Europe, rather than the origin of technologies; (iii) industries where European companies need to retain relevant know-how and manufacturing capacity, allowing production ramp-up in the event of geopolitical tensions; and (iv) 'infant industries' where the EU has an innovative edge and sees high future growth potential.

Under the next MFF, the implementation of the Competitiveness Coordination tool will be supported by a new Competitiveness Fund. The Fund will address the problem that our spending is spread over too many overlapping programmes, many of which fund the same thing but with different requirements and difficulties in combining funding effectively. The Fund's comprehensive architecture will allow it to accompany European projects along the entire investment journey, from research, through scale-up, industrial deployment, to manufacturing. It will be able to flexibly mobilise all our financial toolbox: grants, loans, equity and procurement. In addition, to ensure coherence and maximise firepower, funding linked to future national plans combining key reforms and investments could provide financial incentives and support for the measures identified through the coordination tool.

Flagship Actions enablers

Omnibus simplification and definition of small mid-caps [26/2/2025]

- European Business Wallet [2025]
- Single Market Strategy [Q2 2025]
- Revision of the Standardisation Regulation [2026]
- Savings and Investments Union [Q1 2025]
- Next MFF, including Competitiveness Fund and a Competitiveness Coordination Tool [2025]
- Union of Skills [Q1 2025]
- Quality jobs roadmap [Q4 2025]
- Skills Portability Initiative [2026]

3. Conclusion

The next years' North Star must be the renewal of Europe's competitive strength. Europe has all the assets necessary to be competitive in tomorrow's global economy but a change of gear is urgent. It must play to its strengths and quickly harness its own pathway to innovation-based productivity growth towards a climate-neutral future. The Competitiveness Compass points towards an EU where innovators can quickly bring products to market and companies can easily access funding thanks to an integrated and efficient EU-wide private capital market. Where a start-up company can locate and expand its activities – be they goods or services – in any part of the Single Market. Where a fair share of top global players in deep-tech sectors is European, and manufacturing sectors and farmers successfully combine competitiveness with their transition to low-carbon and sustainable production. Where workers can flourish in quality jobs and rely on durable social protection and safety nets. Where all customers can access affordable, clean energy and products whenever and wherever they need them, thanks to one of the world's largest continental markets and network infrastructure. Where the EU and the Member States use their collective weight to act together and reduce excessive dependencies.

The Compass proposes a new approach to competitiveness that combines industrial policies, investment and reforms, united around a common vision. Each component reinforces the other. Reforms to deepen the Single Market are necessary for industrial policies and investment to produce their full effect, expanding market size, facilitating companies' scale-up, and maintaining healthy competitive pressure to the benefit of companies and workers. A large-scale simplification effort and a new governance framework to coordinate actions at EU level and at Member States' level underpin this approach.

Competitiveness is not a responsibility for the EU level alone. EU institutions, national governments, regional authorities and also companies, must step up to meet the challenge, working together **in a joint endeavour** and taking commitment and cooperation to a new level. The Competitiveness Coordination Tool will be a key vehicle to deliver on the strategic priorities. In carrying out this agenda, the Commission will engage with stakeholders in close and regular consultation, to identify priority areas of concern and find solutions to ease business conditions. Social dialogue will continue to be a foundation.

The Compass will frame the work of the Commission for this entire mandate. Boosting competitiveness is not a quick fix. Some of the Compass' measures will be presented quickly and can rapidly provide tangible effects. But many will deliver over the medium term and will require a steady course. Progress on the Competitiveness Compass will be annually monitored and reported through the Annual Single Market and Competitiveness Report.

The window of opportunity is narrow. The EU must choose to act in unison for a future of sustainable prosperity for all or accept division and economic decline.

The Commission invites the European Parliament, the Council, and the European Council and social partners to endorse the Competitiveness Compass and to actively contribute to delivering on the initiatives it contains.