EUROPEAN
COMMISSION

Brussels, XXX
[…](2025) XXX draft

SENSITIVE*
UNTIL ADOPTION

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

A Competitiveness Compass for the EU

* Distribution only on a 'Need to know' basis - Do not read or carry openly in public places. Must be stored securely and encrypted in storage and transmission. Destroy copies by shredding or secure deletion. Full handling instructions https://europa.eu/!db43PX

A Competitiveness Compass for the EU

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. 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[1] growth.

However, **today the EU must shift its focus to what will drive its future prosperity and competitiveness.** Europe is in the midst of a global transformation and is confronted with both the legacy effects of these crises and the impact of long-term structural trends. For over two decades, Europe's economic growth has not kept pace with other major economies. The productivity gap with the US has widened and personal income levels have grown further apart. The convergence between the EU and the US on innovation has slowed down, while China has caught up, and is winning the race for leadership in certain green technologies. The energy price differential between the EU and other major economies weighs heavily on industrial costs. Europe is also increasingly dependent on strategic inputs and highly concentrated supply chains, which creates vulnerabilities. These negative trends are set to continue unless determined action is taken. Their effects are becoming increasingly visible and alarming.

In a global system where geopolitical tensions, competition for technological supremacy, and the scramble for control over resources are on the rise, Europe's freedom, security and autonomy depend more than ever on its ability to innovate, compete, and grow. It is vital for the EU to 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.

In February 2024, European business and trade union representatives endorsed the Antwerp Declaration calling for an Industrial Deal. The **Letta Report**[2] has warned that Europe must leverage much more its Single Market or will lose relevance in a world 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**[3], prepared at the request of Commission President von der Leyen, has provided a sharp analysis and warned that in the coming years Europe will no longer be able to rely to the same extent on some of the factors which have supported growth in the past: strong external demand driven by an open global trade system, access to cheap and abundant fossil fuel energy, lower defence needs, and the security guarantee provided by the military alliance with the US within NATO. Europe finds itself vulnerable 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. **It is time to turn to action**.

Without an urgent shift in gear and approach, the EU's future as an economic powerhouse, an investment destination and a manufacturing centre is at stake. The

---

1 https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en

2 https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf

3 https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

risk for Europe is not just to be stuck in a low-growth path, with less income, less welfare, less opportunities. Sustained growth is key to fund the EU's decarbonisation and technological transition, to provide the fiscal space to finance its social model, to muster the resources to guarantee its security and to play a global role in foreign affairs, defending its values and interests. As Draghi has warned, if Europe accepts a managed and gradual economic decline, it is destined to a "slow agony".

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 **productivity dynamics play a central role** in explaining Europe's divergent economic trajectory compared to other major economies.

Three factors are relevant for Europe's productivity dynamics: the innovation gap, notably compared to the US tech and digital sector, reflecting a more static industrial structure in Europe with fewer start-ups and lower private sector research and innovation spending[4]; the transition to a climate neutral economy and the impact of higher and more volatile energy prices than in major competitors; the uncertainty of a changing security and geo-economic context, in which long global supply chains become fragile and excessive dependencies may turn into risky vulnerabilities.

Thus, the route to reviving EU growth is to rekindle productivity based on innovation. Europe's productivity increases must be driven by moving towards the innovation frontier rather than by restraining wages or expanding labour input, given the demographic trends. At the same time, Europe must address the other broader factors affecting 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. The EU must guarantee its industrial presence in key technological sectors and mitigate risks for its security and economic resilience.

The Compass goal is a Europe where tomorrow's technologies and clean products are invented, manufactured and marketed, as we stay the course to carbon neutrality. 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. 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. It aims to provide a common framework and a strategic vision to guide EU action to ensure that all policies work in step for competitiveness. In some areas, existing policies will have to be accelerated and upgraded, in others a change of approach is needed to adapt to new realities. In many, new ways of doing things and of working together must be found. EU policies and national policies must be better aligned around the same objectives and reinforce each other. As many levers, from taxation, to

[4] 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.

labour market legislation, regulation of financial services or industrial policies, are largely or partly in the hands of EU governments, national reforms and investment are a key component for steering Europe towards prosperity and competitiveness.

The Compass begins with **two basic requirements** for policies better geared to support competitiveness:

- **simplify** and accelerate the regulatory environment, reducing burden and over complexity and favouring speed and flexibility;

- better **coordinate** policies at EU and national level, rather than pursuing goals separately.

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 dependencies and increasing security

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

- fully exploiting benefits of **scale offered by the Single Market** by removing barriers;

- **financing** through an investment and savings Union and a refocused EU budget;

- promoting **skills for competitiveness and quality jobs** while ensuring social fairness.

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

Figure 1: the Competitiveness Compass

(1) More effective policies through simplification and coordination

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

Despite the EU's advanced better regulation policy, for two out of three companies the regulatory burden is the key obstacle to long-term investment[5]. Many signal that the complexity 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.

All the EU, national, and local institutions must make an unprecedented effort to produce simpler rules and to accelerate the speed of administrative procedures. Regulation must be proportionate, stable, coherent and technology neutral. Accessing EU funds or obtaining administrative decisions must become faster and cheaper for companies and citizens. To do so, building on the renewable energy permitting and Net Zero Industry Act, the planned Decarbonisation Accelerator Act will extend accelerated permitting to more (energy intensive) sectors in transition. Access to Horizon Europe funding is already streamlined. The Important Projects of Common European Interest (IPCEI) procedures will be made simpler and faster. The MFF proposal will be the opportunity to further simplify access to 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 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 the 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.

This Commission will deliver an unprecedented simplification effort. This will aim to achieve the agreed policy objectives in the simplest, most targeted and least burdensome way. This will start with a **first Simplification Omnibus proposal next month**, including a far-reaching simplification in the fields of sustainable finance reporting, sustainability due diligence and taxonomy. In this regard, the Commission will ensure tight alignment of the data required with the needs of investors, proportionate timelines, focus on the most harmful activities, 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 be proposed next month**. By creating such a new category of company, bigger than SMEs but smaller than large companies, up to 31.000 companies in the EU will benefit from tailored regulatory simplification in the same spirit as SMEs. In the

[5] EIB, EIB Investment Survey 2023.

course of the year and throughout the mandate, the Commission will continue to present simplification measuresi, based on stakeholders' feedback. The revision of the **REACH Regulation** will cover the existing acquis and new initiatives, bringing a real easing of the burden on the ground and ensuring faster decision-making on important hazards, bringing significant benefits for the competitiveness of the chemical industry.

The Commission will take the necessary steps to deliver on the goal to **cut by 25% the reporting obligations for firms and by 35% for SMEs,** including by defining a baseline against which to assess burden reduction, as stressed by the Draghi report. 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 other international competitors. Greater attention will be paid to assessing the costs of proposed delegated and implementing acts, when relevant.

Companies and public authorities must be better accompanied when it comes to implementing EU legislation through stepped up support 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 the business wallet, e-invoicing, e-signature and e-submissions.

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 Protection Regulation (GDPR), the Commission will continue to work towards more harmonised implementation and enforcement.

The commitment to better regulation must be shared by all institutions throughout the legislative process, in compliance with the principles of subsidiarity and proportionality. A revised interinstitutional agreement will ensure that the simplification commitment holds from start to finish in the legislative process.

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

Europe is falling short of what it could achieve by acting together and gets less impact from the use of its resources because its industrial 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 limits overall benefits from an EU-wide perspective[6].

A step change in Europe's competitiveness will not happen without a greater coordination of objectives between EU and Member States and a greater collaboration on cross border projects, in sectors and projects deemed of strategic importance. **The Commission will propose a new Competitiveness Coordination Tool to encourage Member States to act on common competitiveness priorities** in selected key areas and develop the framework to support projects of common European interest. The purpose is better coordination, complementing the European Semester and NextGenerationEU, which have introduced a successful logic of supporting reforms and investments – but with a focus on *national* milestones and targets rather than EU level ones. Identifying strengths and needs across the EU territory, the new coordination tool would provide the necessary governance

6 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

for industrial and investment policy, complementing the existing economic policy coordination. Its central elements would include identifying joint competitiveness priorities and working on action plans with Member States and other key stakeholders. The new coordination tool will be designed in conjunction with a streamlining of the European Semester, to align national plans and EU targets.

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 infrastructure (e.g. electricity grids and storage), digital infrastructure and AI vertical use cases, as well as other key manufacturing capacities (e.g. for critical medicines). Funding for the implementation of these plans will come from the EU budget, national funding, and private capital. The Commission will ensure follow-up and monitor progress in implementation, in close cooperation with Member States. Based on this experience, the Commission will develop a methodology to identify and define other strategic sectors or activities, suitable for coordination under the Competitiveness Coordination Tool[7].

Under the current MFF, financial incentives for the implementation of the action plans could build on the successful experience with the Strategic Technologies for Europe Platform (STEP), under which over 6 billion EUR have already been redirected from Member States' Cohesion Policy Funds to support strategic objectives. In addition to further reprogramming of Cohesion Policy Funds, financial incentives to implement the action plans could come from the EIB Group and national promotional banks, based on an enhanced InvestEU guarantee. This would include a coordinated reprogramming under STEP rules of Member States' NextGenerationEU funds towards their national compartments under InvestEU; and targeted amendments of the InvestEU rules to increase its risk-bearing capacity[8].

Under the next MFF, the new Competitiveness Fund should concentrate funding for this purpose. In addition, part of the nationally pre-allocated envelopes would provide financial incentives and support for the action included in the action plan.

(2) The three transformational imperatives to strengthen competitiveness

2.1. Closing the innovation gap

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

[7] 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.

[8] Efforts to enhance the implementation of InvestEU will focus on three key areas: (i) making it easier to aggregate resources from InvestEU and previous financial instruments (e.g., EFSI, COSME); (ii) augmenting the EU resources allocated to InvestEU by facilitating the use of Member State contributions; and (iii) accumulating additional resources and mobilising additional investments at EU-level, by increasing the EU guarantee efficiency and making more efficient use of future reflows.

The EU must restart a virtuous innovation cycle and remedy where it falls short relative to more dynamic competitors. The Draghi report shows that productivity growth is the result of a combination of disruptive innovation brought about by new, dynamic start-ups challenging incumbents; large-scale innovation introduced by companies; and efficiency gains in mature traditional industries applying innovation. Europe falls short on all these fronts[9]. The Commission will act on all aspects of the innovation lifecycle.

Start-ups' formation and scale-up is currently hindered across Europe by insufficient innovation support, market fragmentation and risk capital constraints.

A dedicated **EU Start-up and Scale-up Strategy** will address bottlenecks to market entry and scale-up, including relations between universities and business, cross-border mobility of talent and skilled workers, access to risk finance, barriers within the Single market, infrastructure constraints, as well insufficiently targeted innovation support. A European Strategy for Research and Technology Infrastructures will also promote state-of-the-art facilities to open to start-ups and SMEs.

Making it possible for innovative companies to benefit from a single, harmonised set of 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 aspects of insolvency, labour law, and tax law.

Another factor that hampers innovative start-ups' creation and scale-up is the financing structure. While Europe does not lack capital, it is made available predominantly through bank financing rather than equity or other forms of risk capital. The share of global venture capital funds raised in the EU is only 5%, compared to 52% in the US and 40% in China[10]. More difficult growth prospects and higher costs of failure weaken their attractiveness in the eyes of investors. As a result, many start-ups seek funding in the US and relocate there to benefit from a larger market and customer base. To address this and create a more suitable financing environment for start-ups, the forthcoming initiatives under the Savings and Investment Union will present measures to boost European Venture Capital, as explained in section 3.2.

Furthermore, the EIB Group will 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.

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.

[9] IMF, 2024, "Regional Economic Outlook Note Europe: Europe's Declining Productivity Growth: Diagnoses and Remedies", November 13, 2024

[10] EIB, 'The scale-up gap: Financial markets constraints holding back innovative firms in the European Union', 2024

Excelling in the technologies for tomorrow's economy

Europe needs to be at the forefront of innovation in tech sectors that will matter in tomorrow's economy such as Artificial Intelligence, advanced materials, biotechnologies, clean energy technologies, robotics, space technologies and others.

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 Act, the Data Governance Act and the AI Act. European standards have influenced the evolution of the global regulatory framework. The focus must now be on nurturing world-class industrial development in the EU to reap the productivity gains from technology.

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 the first-ever 'mega 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 propose to establish minimum criteria for cloud services in Europe, addressing existing capacity gaps and facilitating investment by Member States and the private sector in sustainable cloud and AI infrastructure. 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 private and public data sharing, simplify the regulatory regime 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 address regulatory fragmentation, foster synergies between EU and national programmes and support investment in pan European quantum computing, communication and sensing infrastructure.

Investing in the new growth engines

Life sciences drive innovation in biotechnology and together, they play a pivotal role in enhancing the bioeconomy by developing sustainable solutions that hold great potential for competitiveness across many sectors, from agriculture to energy or food and feed. Incentivising investment and innovation and accelerating the deployment in health technology assessment, clinical trials require a forward-looking regulatory framework that will be laid out in a new **European Biotech Act.** The Commission will also update the EU Bioeconomy Strategy, bringing innovations based on biological resources, driven by advanced technologies, new business models and social innovations.

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 9 times by 2030. The competitiveness of the European space sector must be preserved through greater coordination of public spending and supporting the investments of European innovative start-ups and scale-ups. 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 legislative frameworks and requirements at Union level and remove fragmentation arising from national legislation.

Rigorous and effective antitrust and merger enforcement 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 more supportive of companies scaling up in European and global markets - while always ensuring a level playing field.

This should be reflected in **new guidance for assessing mergers** so that innovation, resilience and the investment intensity of competition in certain strategic sectors are fully taken into account. Furthermore, the Commission will review the Technology Transfer framework[11], to strengthen the role of technology licensing agreements in promoting innovation by facilitating technology dissemination and incentivising initial R&D. 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** (IPCEI) for innovative sectors, in conjunction with the Competitiveness Coordination Tool.

Diffusing innovation across the whole economy

Innovation by existing large companies, as well as digitalisation and diffusion of advanced technologies across all sectors, 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[12].

Today, only a limited share of EU businesses adopts digital technologies – for instance only 8% for AI. The **Apply AI Strategy** will aim to boost new industrial uses of AI in sectors, such as manufacturing, automotive, energy, robotics, pharmaceutical and aeronautics, as well as to improve public services, for example in healthcare. Better EU-wide coordination and support of these AI vertical use cases could be ensured via a 'CERN for AI'. Working in this direction, the **European Research Council** and the **European Innovation Council** need to be aligned along the same strategic interests and cooperate more closely to achieve results.

At the same time, the digitalisation of public services and the integration of AI in the public sector can enhance competitiveness. Initiatives such as the deployment of the e-ID, the EU e-wallet, and the digital Euro exemplify the impact of digitalisation for streamlining administrative operations, reducing burden and increasing business efficiency.

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. The future EU research budget, with a more strategic and less bureaucratic approach to supporting the transition from applied research to the scale-up phase, will provide targeted support to industrial competitiveness.

Closing the innovation gap will not be possible without state-of-the-art infrastructure, including modern fibre networks, wireless and satellite solutions, investments in 6G and

[11] Technology Transfer Block Exemption Regulation and Technology Transfer Guidelines.

[12] World Economic Forum, 'For inclusive growth, leaders must embrace a global and open economic future', January 2023

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, 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

o Start-up and Scale-up Strategy [Q2 2025]

o European Strategy for Research and Technology Infrastructures [Q3 2025]

o 28th regime [2026]

o European Research Area Act [2026]

o AI Continent Initiative [Q4 2025], Apply AI Strategy and Data Union Strategy [Q3 2025]

o EU Quantum Strategy [Q2 2025] and a Quantum Act

o European Biotech Act [Q4 2025]

o Life Sciences Strategy

o Advanced Materials Act [2026]

o Space Act [Q3 2025]

o Review of the Horizontal Merger Control Guidelines [2026]

o Digital Networks Act [Q4 2025]

o Vision for agriculture and food [Q1 2025]

2.2. A joint roadmap for decarbonisation and competitiveness

Europe has set out an ambitious framework to become a decarbonised economy by 2050. It must stay the course towards its targets, including the targets for 2040[13], as this 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, while meeting 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 is dependent on fossil fuel imports for almost two thirds of its energy. This dependence can only change over time, as a greater share of energy is produced from

[13] Cf. Commission Communication COM/2024/63 final.

decarbonised generation in Europe. The EU must then accelerate the clean energy transition and promote electrification. But some of the cost components of energy prices are determined by the regulatory framework on network tariffs and taxation or by gaps in energy markets integration and can be mitigated in the short term.

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 electricity. The plan will help leverage the price 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 tariff methodologies. In conjunction with this, the Commission will present a Roadmap on the phase-out of Russian fossil fuels imports.

To accompany the progress towards a net zero energy system and leverage the benefits of its Single Market, Europe must invest more in modernising and expanding its network of energy transport and distribution infrastructure, accelerating investment in electricity, hydrogen and carbon dioxide transport networks as well as in storage systems, speeding up the work started with the Grids Action Plan.

A business case for clean production

Strengthening the business case for decarbonisation also requires lead markets and policies to reward European companies choosing to be early movers, through new measures to encourage demand for their low-carbon products, such as benchmarking/labelling, preference in public procurement or financial incentives through contracts for difference. In a logic of coordination 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[14].

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. Energy intensive sectors, such as steel and metals, chemicals or cement are 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.

Mobility is key for competitiveness. The Commission has launched the strategic dialogue with the automotive sector to design concrete strategies and solutions to ensure this 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 (energy, raw materials and others) and security of supply, global fair trade and competition and regulatory streamlining and implementation. The themes and solutions identified in partnership with stakeholders will feed into a EU

14 '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.

industrial action plan for the automotive sector. In parallel, the Commission will work on additional measures to de-risk the substantial market investment needed to swiftly ramp up charging infrastructure and the production and distribution of renewable and low-carbon transport fuels. A new strategy will highlight the role that European **ports** will play in the future EU economy.

European companies need a level playing field. The situation of energy intensive industries included in the European carbon pricing system 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. This will reinforce its underlying logic of preventing ‘carbon leakage’ and ensuring a greater impact in terms of promoting an international level playing field and global carbon pricing, while preserving the competitiveness of EU industries.

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 authorization facilitations, to industrial policy incentives, from reformed public procurement rules to trade defence instruments and Global Gateway and international partnerships to expand 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, like electrolysers, or on technologies where current EU domestic production risks being put under pressure by international competitors benefiting from an uneven playing field, non-transparent subsidies or support polices leading to structural overcapacity.

Finally, the vision for EU farming 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.

Tapping the potential of the circular economy

Making optimal use of materials and boosting circular use helps decarbonisation but also the EU’s 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[15]. Europe must aim to create a single market for waste and reusable materials, to increase efficiency and expand recycling. A **Circular Economy Act** proposal will serve to catalyse investment in recycling capacity and encourage the EU industry to effectively substitute virgin materials and to reduce the landfilling of used raw materials. This will be accompanied by the roll-out of Eco-design requirements on important product groups.

Flagship Actions Pillar 2

o Clean Industrial Deal and an Affordable Energy Action Plan [Q1 2025]

o New State Aid Framework [Q2 2025]

o Steel and metal action plan [2025]

o Chemicals industry package [Q4 2025]

15 World Bank, 2022

o Strategic dialogue on the future of the European automotive industry [Q1 2025]

o Sustainable Transport Investment Pact [Q3 2025]

o European Port Strategy [2026]

o Carbon Border Adjustment Mechanism Review [2025]

o Circular Economy Act [Q4 2026]

2.3. Increasing security, reducing excessive dependencies

The security environment in which European companies operate is a precondition for their economic success and their 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. 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. At the same time, security and resilience can become a driver for competitiveness and innovation.

Foreign economic policy and economic security

The global connections the EU has created around the world are vital to its economic success and economic security. Trade with third countries supports Europe’s prosperity. Today, external trade in goods and services accounts already for around 45% 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 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. 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.

At the same time the EU’s connections can create risks. In an increasingly fraught environment, 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 to have in place policies and investments aimed at ensuring 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.

As part of its Economic Security Strategy, the EU defined four risk areas and ten critical technologies. Building on the ongoing in-depth risk assessments, proportionate and targeted mitigation measures will be taken to respond to identified risks and increase resilience.

Europe must continue to implement policies to reduce over-dependencies on single or highly concentrated suppliers across key strategic sectors through bilateral and multilateral partnerships for diversification, 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. Where unfair competition threatens our Single Market, we should also use the protective tools at our disposal, such as the screening of foreign direct investment, export controls and outward investment monitoring, and rigorously enforce the Foreign Subsidies Regulation. The appropriate mix of these elements will vary from sector to sector.

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 and industrial sectors. Building on the Critical Raw Materials Act implementation, a policy combining promotion of domestic production, stockpiling and diversification must be pursued. In this context 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.

Unfair competition and levelling the playing field

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 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 dangerously dependent on imports in key segments of the economy.

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 critical sectors and technologies through a review of the Public Procurement Directive. The review aims at reinforcing technological security and domestic supply chains, as well as simplifying and modernising rules, in particular for start-ups and innovative companies.

Building the partnerships we need in a flexible manner

Mutually beneficial partnerships increase our resilience through diversification, while also providing the foundation for competitiveness. 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.

Our economic success will depend on our ability to deliver effective partnerships. 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 with Angola, while others are being developed), the EU needs to continue adapting its offer and seeking new ways of creating benefits for our businesses. To this end, our new **Clean Trade and Investment Partnerships** will bring together targeted trade and investment rules, financing and regulatory cooperation, into a single whole-of-government partnership. They will offer opportunities to help secure supply of raw materials, clean energy and clean tech from across the world, while scaling up European sustainable investments in partner counties and helping to achieve the global energy target championed by President von der Leyen.

Defence industry and preparedness

The EU defence industry is an important driver of competitiveness in its own right. While EU firms in this field are globally competitive, the defence sector suffers from a combination of structural weaknesses and decades of underinvestment. It is fragmented and characterised by mainly national players, many operating in relatively small domestic markets. The high dependency on non-EU suppliers and relatively low investment in defence R&D entails the risk for the EU to fall behind in defence innovation and the development of new advanced weapons' systems. The European defence industry must become able to deliver on the full spectrum of capabilities and to be a driver of innovation for the entire economy.

Pan-European coordination is key to finance, develop, produce, and sustain all the necessary defence capabilities and infrastructure. Europe must substantially increase the level of defence cooperation between Member States, by aggregating demand through increased recourse to joint defence procurement, promoting industrial 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 with the aim to increase scale. 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. The EU and Member States need to adopt a whole-of-government approach to shield the economy and protect citizens, including 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 will present a **Preparedness Union Strategy** outlining a common approach to existing and potential threats.

Increasing 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 depend on the resilience of our digital 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, in their construction and operation.

Extreme weather events resulting from a changing climate increasingly threaten European competitiveness. 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, mainstreaming climate resilience in urban planning, deploying nature-based solutions, developing nature credits and adaptation in agriculture are but a few lines of direction to protect the EU economy and society from the worst of natural calamities such as floods, droughts, wildfires and storms. Member States need to improve water management practices and promote sustainable water use. At EU level, the Commission will present a European Water Resilience Strategy and a European Climate Adaptation Plan

Flagship Actions Pillar 3

o The White Paper on the Future of European Defence [Q1 2025]

o Preparedness Union Strategy [Q1 2025]

o Clean Trade and Investment Partnerships

o Critical Medicines Act [2025 tbc]

o Joint purchasing platform for Critical Raw Minerals [Q2-3 2025]

o Revision of public procurement [2026]

o Water Resilience Strategy [Q2 2025]

o European Climate Adaptation Plan [2026]

3. Horizontal enablers of competitiveness

3.1. Making the most of Europe's Single Market

For 30 years, the Single Market has been Europe's tried and tested engine for competitiveness[16]. It is today the home market for 23 million companies, providing goods and services to almost 450 million European customers. Still, the Single Market is far from complete. Despite recurrent and constant 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 that, over the past year, market integration has stagnated**: the share of EU GDP represented by trade between Member States has decreased both for goods (23.8%) and services (7.6%) in 2023.[17] 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, enhancing access and facilitating factor mobility[18].

To improve the functioning of the Single Market across all industries, a Horizontal Single Market Strategy will modernise the Single Market 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

[16] 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.

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

[18] 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, Note One, p 8.

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 access of enlargement countries to the Single Market will allow companies to integrate in European value chains, facilitating the convergence process and enhancing investment, trade and competitiveness.

The Commission will seize 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, and the Internet of Things.

3.2. Financing competitiveness: a Savings and Investment Union

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. 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, carbon neutrality and defence. Such a large-scale effort requires that the EU and its Member States become much better at mobilising private investment and at using public funding in a more focused and targeted way.

Both the Draghi and Letta Report highlight that **the EU must integrate and have deeper and more liquid capital markets as a necessary step to foster greater mobilisation of private sector resources and direct them towards future-oriented growth sectors**. It is also necessary to stimulate greater appetite for risk-taking in both private and public investors. This is an area where longstanding hesitations must be overcome, and the Commission will present in 2025 a **Strategy on a European Savings and Investment Union**, followed by a set of specific legislative proposals, to mobilise capital for projects made in Europe.

While many companies require venture capital and equity investment to thrive, the EU is excessively reliant on debt financing[19]. The EU’s household saving rates was 65% larger than in the US in 2022. 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, every year 300 billion euro of savings from Europeans are invested in markets outside the EU. This calls for an efficient capital market by reducing market fragmentation in the EU via single and low-cost saving and investment products at EU level – while encouraging retail investors and pension schemes to avail of them. It also entails ambitious measures for much more unified supervision. In addition, the Commission will act to remove barriers to market-driven consolidation of infrastructure (such as stock markets, exchanges, funds).

[19] For instance, only 17% of EU household assets are held in financial securities (stocks and bonds), as opposed to 43% in the US.

The Commission will present measures to unlock bank financing by reviving the EU's securitisation market (especially for corporate and SME portfolios); to reform and harmonise 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 to remove taxation barriers to cross-border investment.

Better macroeconomic 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 sheer 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, is a matter of coordination of macroeconomic and fiscal policies towards this goal.

The **EU's revised Economic Governance Framework goes in this direction 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[20]. 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 STEP regulation, the EU has begun redirecting funding from 11 different financial instruments 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. So far, the Commission has mobilised 8.7 billion EUR of EU funds towards STEP across the five programmes it manages directly[21].

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 industry. 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 strengthened policy coordination tools (see Section 1.2). In the next MFF, a new **European Competitiveness Fund** should respond to these needs in a more integrated fashion, by financing investments in strategic technologies and manufacturing – from AI to space, from clean tech to bio-tech – and helping to leverage and de-risk private investments and support R&D. As suggested by Draghi, the successor to the EIC should be structured like an ARPA-type[22] agency for increased risk taking.

[20] ECB Blog, 'Mind the gap: Europe's strategic investment needs and how to support them', 2024.

[21] Horizon Europe, Digital Europe Programme, EU4Health, European Defence Fund, and Innovation Fund.

[22] Draghi Report, page 247.

The EIB Group's potential must be fully leveraged to crowd in private investment and bridge Europe's investment gap in priority areas. 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, 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 (see Section 1.2). This means increasing 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 mandates broader, simpler, and more flexible. The same tools represent an opportunity for increased cooperation and synergies with and between national promotional banks.

3.3. Promoting skills for competitiveness 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. It has a large pool of skilled workers, strong education and training systems, inclusive labour markets and a robust welfare state. However, this foundation is eroding. 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 persist. For example, nearly four in five small and medium sized businesses in the EU report difficulties in finding workers with the right skillset[23]**. 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 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, skill retention, qualified migration 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 on school education, and a European Strategy for Vocational Education and Training and foster youth skills development. Equally, labour market relevance of skills 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 start with a Skills Portability Initiative aimed to ensure that skills acquired are recognised in case of mobility. In addition to this, Europe must also be an accessible and attractive destination for skilled professionals from third countries, for whom we are in competition with other jurisdictions.

Furthermore, as Europe is confronted with a shrinking working age population, it is necessary to increase labour market participation. There are many factors limiting access to work for women and young people. Labor market access is also difficult for low-skilled and people with disabilities. Labour participation and productivity largely depends on good working conditions, like a fair wage and a work-life balance that caters for

[23] Eurobarometer European Year of Skills (2023) - Skills shortages, recruitment and retention strategies in small and medium-sized enterprises.

individual personal situations. It also depends on finding a nursery for children, and good care for elderly parents, and on having access to decent and affordable housing near places of employment opportunity. To tackle all these factors, 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.

Flagship Actions enablers

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

o Single Market Strategy [Q2 2025]

o Revision of the Standardisation Regulation [2026]

o European Savings and Investment Union [Q2 2025]

o MFF, including Competitiveness Fund [2025] and a Competitiveness Coordination Tool

o Union of Skills [Q1 2025]

o Quality jobs roadmap [Q4 2025]

o Skills Portability Initiative [2026]

4. Conclusion

The next years' guiding star must be the renewal of Europe's competitive strength. Europe has all the assets necessary to be competitive in tomorrow's global economy. It must play to its strengths and quickly harness its own pathway to innovation-based productivity growth towards a carbon 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 succeed in 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 materials 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 and also regional authorities, 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. The social dialogue will be the foundation for the Commission to deliver on the Compass initiatives.

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. The Compass will frame the work of the Commission for this entire mandate. 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 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.