

POLICY FLASH

COMPETITIVENESS COMPASS FOR THE EU

“Boussole pour la compétitivité européenne”

AmCham France - February 2025

Amid growing concerns over economic decline, the European Union has introduced a strategic framework to safeguard its competitiveness, economic sovereignty, & global attractiveness: the **Competitiveness compass for the EU**.

This initiative pursues 2 key objectives: **reinforcing Europe's leadership in innovation & building a resilient economy that can compete effectively on the global stage**, particularly with the United States and China.

Simplified & coordinated regulations for European companies

The Commission is launching an unprecedented efforts and measures, which will be reflected on **February 26th** with the presentation of the **Omnibus Package**. It will mainly focus on the reform of the CSRD (Corporate Sustainability Reporting Directive), the CS3D (Corporate Sustainability Due Diligence Directive), and the green taxonomy, while aiming to streamline companies' reporting obligations and minimize their impact.

Today, one of the major obstacles to investment and growth in Europe lie in the complexity of its regulatory framework. With this in mind, the European Commission announces the creation of a **new category of companies, Mid-Caps**, to distinguish intermediate companies from SMEs and large corporations. Recognizing this new category will help reduce certain reporting obligations, tailor regulations according to the size and maturity level of companies, and facilitate their access to innovation support programs and European funding. It is estimated that 31,000 companies in the EU will benefit from this new status.

In addition, the Commission is committed to **reducing reporting obligations for companies by 25%** with the figure rising to 35% for SMEs. Building on this initiative, the Commission also announces a major reform of the **REACH regulation**, which regulates the registration, evaluation, and authorization of chemical substances.

To demonstrate its willingness, the Commission has appointed its **first Commissioner for Simplification, Valdis Dombrovskis** who will host a **roundtable on simplification** on February 6th. The event will bring together around 50 representatives from the private sector and 10 NGOs.

EU suffers from a significant fragmentation of its industrial policies. To address this, the Commission proposes the creation of a **competitiveness coordination tool**, aimed at becoming a true framework for governance and coordination. This tool seeks to move beyond the current approach of national policies, which are often disconnected from one another, to create synergies in sectors deemed critical for Europe's future, such as energy infrastructure, digital technology, artificial intelligence, and the production of critical technologies. This coordination tool would complement existing initiatives like the *European Semester*¹ and the *NextGenerationEU*² program, which already support investments in these areas but on the basis of national - rather than European - objectives.

Race for innovation: leveraging opportunities to project Europe into the future

Only a third of European patents are commercially exploited, despite Europe's share in the development of new patents being comparable to the ones of China & the United States. In this context, the Commission will propose a strategy dedicated to the development of start-ups at the European level, aimed at removing barriers to market entry, growth, and cross-border mobility of talent. A **new unified legal framework for innovative businesses will standardize rules across the EU, simplifying legislation & reducing costs**, particularly in areas such as taxation & labor law.

At the same time, the Commission will implement initiatives to **strengthen venture capital in Europe**, notably through the **TechEU investment program of the EIB Group** (European Investment Bank), which will support disruptive innovation & the industrialization of technologies (AI, renewable energy, biotech...).

[1] The European Semester is an annual cycle of coordination for the economic and budgetary policies of member states, aimed at aligning their strategies with the EU's priorities. It is based on an analysis of the Commission's recommendations and the monitoring of their implementation.

[2] The NextGenerationEU program is a European recovery plan worth €750 billion, designed to support economic recovery following the COVID-19 crisis. It finances reforms and investments focused on the green transition, digitalization, and the economic resilience of member states.

In the field of R&D, the **European Research Area Act (2026)** will be proposed with the goal of reaching 3% of GDP in R&D investment³. The aim is to build on the findings of the **Draghi Report** & invigorate innovation across Europe.

In addition, a **Quantum Strategy Act (Q4 2025)** will support the development of quantum technologies, which are crucial for the future of digital security & scientific research. The establishment of "**AI factories**"⁴ at the European level will also foster collaboration between start-ups, researchers & industries in AI & cloud computing (AI Factories initiatives planned to take place & be discussed in Q1 2025).

A new **European Regulation on Biotechnology (2026)** will be implemented to stimulate investment & innovation in health technologies. The **European Bioeconomy Strategy** will also be updated, focusing on innovations derived from biological resources.

The **Advanced Materials Act (2026)** will aim to support the entire lifecycle, from research & innovation to the creation of start-ups & the manufacturing of advanced materials⁵. This framework will focus on supporting the growing demand for innovative materials, which are set to reshape global supply chains.

The **Space Act (Q2 2025)** will be proposed to strengthen EU's competitiveness in the space sector by harmonizing national regulations & supporting innovative start-ups / scale-ups⁶.

Finally, to support the digitalization of public services, initiatives such as the deployment of **e-ID (European Digital Wallet)** & the **digital euro** will help streamline administrative processes.

To ensure industrial competitiveness, a **new European research budget** will be created to support the transition from applied research to scaling-up.

[3] In 2023, R&D expenditure accounted for 2.22% of GDP in the European Union and 2.25% in the Eurozone. Belgium was the only country exceeding the new target, with 3.32% of expenditure in this area (Eurostat).

[4] A center dedicated to innovation in artificial intelligence, where start-ups, researchers, and industries collaborate to develop and deploy advanced solutions.

[5] Advanced materials are materials with exceptional properties, often used in cutting-edge technologies. An example is graphene, an ultra-strong and conductive material used in electronics, which is 200 times stronger than steel, 1,000 times lighter than paper, and nearly transparent (98%).

[6] A scale-up refers to a rapidly growing company that has passed the start-up stage and is seeking to expand its operations and reach a larger scale, often internationally.

The **Digital Networks Act** will promote the construction of future digital networks, thereby helping to improve the necessary infrastructures, such as **fiber optic networks, cloud computing, and 6G connectivity**.

Balancing decarbonization & competitiveness

The upcoming **Clean Industrial Deal (Q1 2025)** initiative will aim to enhance the attractiveness of the European territory for the manufacturing industry while accelerating the transition to circular economic models and clean technologies. Labeling systems, preference criteria in public procurement, and financial incentives will encourage demand for low-carbon products. The Clean Industrial Deal will also define a simplified and more targeted state aid framework, particularly for energy-intensive industries such as steel, chemicals, and cement. Sectoral action plans will be developed in collaboration with stakeholders to support their transition.

The **Affordable Energy Action Plan (Q1 2025)** will be implemented to improve access to affordable electricity for households and businesses. This plan will include measures to reduce energy costs through better integration of energy markets, optimization of tariffs, and the expansion of guarantee instruments enabling long-term electricity purchase agreements. In parallel, the Commission will present a roadmap for phasing out Russian fossil fuel imports and will invest in energy transport and storage infrastructure, particularly for electricity, hydrogen, and CO₂.

The automotive sector will be the focus of a strategic dialogue aimed at preserving its competitiveness, which will feed into a **specific industrial action plan**, complemented by measures to facilitate investment in electric vehicle charging infrastructure and the production of alternative fuels.

In the interest of competitive fairness, the **Carbon Border Adjustment Mechanism (CBAM)** will be **reviewed** to enhance its effectiveness in combating carbon leakage while preserving the competitiveness of European industries.

Finally, the **Circular Economy Act (2026)** will promote investments in recycling & facilitate the substitution of virgin materials, aiming to create a true single market for waste and reusable materials.



Securing the EU & reducing strategic vulnerabilities

The European Commission has identified **4 risk areas** & **10 critical technologies** that could be subject to tensions. A **platform** dedicated to the **joint procurement of strategic raw materials (Q2 2025)** will be created to pool the demand of European companies and optimize access to the necessary resources.

The Commission will also propose a **revision of the public procurement directive (2026)** to introduce a **European preference** for critical sectors & technologies.

Europe will also continue to expand and modernize its network of trade agreements with the **finalization of the EU-Mercosur agreement** and the **modernization of the partnership with Mexico**.

New instruments, such as **Clean Trade & Investment Partnerships**, will be deployed to secure the supply of raw materials and clean technologies and to facilitate European investment in sustainable infrastructure in partner countries.

A **Union Strategy for Preparedness** will present joint R&D initiatives and joint defense procurement. The Commission and the High Representative will present a **White Paper on the future of European defense (Q1 2025)**, outlining the necessary actions to achieve these objectives.

Competitiveness mechanisms

The **2025 Annual Report on the Single Market & Competitiveness** highlights stagnation in market integration, with the share of the EU GDP represented by trade between Member States has decreased in 2023, both for goods (23.8%) & services (7.6%). A strengthened working group, the **Single Market Enforcement Taskforce (SMET)**, will ensure proper transposition of legislation, while new harmonization measures will be introduced to simplify & deepen integration.

The **European standardization system** will be reformed to respond more quickly to innovation cycles in emerging technologies. The goal is to strengthen the EU's involvement in setting global standards in areas such as 5G, AI or electric vehicle charging infrastructure.

Regarding the financing of competitiveness, the Commission plans to publish a strategy in 2025 for an **European Union of Savings & Investments** aimed at directing private resources toward future strategic sectors.

Addendum: “A simpler & faster Europe”

The European Commission will unveil a series of measures for simplification on February 29, 2025:

1/ Ensure the implementation of policies

- Implementation of **explanatory roadmaps** regarding directives’ transposition. Member states will be required to report any difficulties encountered during implementation.
- Each commissioner will hold at least **2 dialogue sessions per year** with relevant stakeholders.

2/ Simplify & accelerate Europe

- Use of digital programs such as the *Single Digital Gateway* or the *European Data Union Strategy* to simplify the regulatory framework.
- Implementation of a “**stress-test**” for **EU legislations** - continuous evaluation process conducted by each commissioner & relevant sectors’ stakeholders.
- Establishment of a **Simplification Advisory Group**, which will provide expert & strategic advice to the Commission - help to identify priority areas & simplification potential in existing legislation.

3/ Improve the way new rules are created

- **SME’s competitiveness**: assessment of the impacts of new legislation on their activities using quantitative & qualitative data.
- New **methodology for evaluating amendments**: estimation of the administrative cost of significant amendments.

4/ Report on progress

- Report regularly on progress made & ensure transparency: each commissioner will be required to present **an annual report** on the implementation of the measures in their assigned areas.

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+33 (0)1 56 43 45 63
amchamfrance@amchamfrance.org

American Chamber of Commerce in France
77 rue de Miromesnil
75008 Paris