European Economic and Social Committee
Employers' Group

Newsletter

February 2025

Competitiveness Compass: a timely step to reignite Europe's economic engine

On 29 January, the EU Commission adopted the Competitiveness Compass, a critical and timely step to reignite Europe's economic engine that will chart the EU's course for the next 5 years, ensuring that all policies align to enhance competitiveness.

EU employers have long advocated for an overarching competitiveness agenda, and we welcome the three pillars of the Compass: closing the innovation and productivity gap, marrying decarbonisation with competitiveness, and reducing dependencies to secure supply chains. These are critical to ensuring that Europe can compete globally, attract and retain talent, and foster innovation.

At the heart of the EU's long-term competitiveness lies the Single Market, home to nearly 450 million people, 23 million companies and a GDP of EUR 17 trillion. It positions the EU as one of the three largest economies in the world and accounts for about one-sixth of the global economy.

However, persistent barriers in the Single Market and administrative burden hold it back from reaching its full potential, particularly in services. Companies, especially SMEs, relay their struggles in facing administrative burden and complying with government regulation. This makes it harder to do business and reduces opportunities for businesses. The attractiveness of Europe as a business destination is in decline. Since 2008, a third of so-called "unicorn companies" relocated outside the EU. Only 4 out of the 50 largest tech companies are based in the EU and none of the EU's most valued companies have been created from the ground up in the last 50 years, signaling a lack of market dynamism, insufficient innovation climate and high barriers to market entry.

This is why the Competitiveness Compass was long overdue. But its ultimate success depends on the development of concrete actions and their timely implementation. Key initiatives such as the Omnibus Simplification Package, the Clean Industrial Deal, and the Horizontal Strategy to deepen the Single Market will play a decisive role. Nonetheless, rebranded strategies and catchy titles alone cannot shield us from the challenges ahead.

For example, **simplifying the regulatory framework** is the first and most urgent step. The long-overdue reduction of 25% in reporting obligations—announced nearly two years ago—has yet to be delivered. Delays like these undermine trust and weaken Europe's business climate. Economic competitiveness and sustainability are not opposing forces. On the contrary, market-innovation-driven growth is the key to a successful green transition. But this also calls for fresh money and the Commission remains unclear on how it will finance critical spending needs in climate transition, defence and industrial policy. Companies cannot survive without proper access to finance. Many innovative, fast-growing companies depend on risk capital, estimated to remain 10 times smaller than that of the US and 7 times smaller than that of China. There are also vast investment needs for businesses to master the green and digital transitions.

The Compass rightly focuses on **fostering innovation** through a robust Capital Markets Union and addressing structural barriers to unlock Europe's potential in deep tech, clean energy, and advanced manufacturing, while creating a fertile ecosystem for start-ups and scale-ups. The never-completed Capital Markets Union is indeed a reminder that we cannot afford any delays. But the world will not wait for us. The race is on and now is the time for accelerated action.

Unlocking competitiveness is not just an economic imperative, it is the key to shared prosperity for all and **European businesses are and will remain part of the solution.**

About the author:
Stefano Mallia
President of the EESC Employers' Group

Letta-Draghi recommendations cannot result in cherry-picking

The Letta and Draghi reports cannot be cherry-picked but should be implemented as a whole, without limiting the proposals and attention to comfort zones, and without avoiding the most critical and divisive issues, such as investments. In an own-initiative opinion, the EESC calls for urgent EU action to implement the recommendations of the two reports, written by two former Italian Prime Ministers, Enrico Letta and Mario Draghi, which aim to increase competitiveness and play a crucial role in shaping the future of the EU.

The two reports, published respectively in April and September 2024, underline the cornerstones of the EU action: better regulation, economic, social and territorial cohesion, lower energy prices, and an enhanced defence policy. In this regard, the opinion underlines:

Cutting administrative burden

We ask for drastic reduction of the bureaucratic burdens, urging for an effective implementation of the Commission's proposal to reduce the reporting burden by 25% for all businesses, and setting a target at least of 50% for small and medium-sized enterprises (SMEs). In addition, the EESC strongly supports the suggestion for a competitiveness check to be carried out before EU legislation is passed. If we look at the 2025 Commission Work Programme, we can be optimistic, but I think the Committee should stay vigilant.

Reduce energy prices

Energy prices are currently much higher in Europe compared to other economies, putting it at a competitive disadvantage. We call for increased investments in clean energy, the introduction of contracts for difference, and the decoupling clean energy prices from fossil fuel prices. Moreover, we share Letta and Dragh's scepticism on the Carbon Border Adjustment Mechanism (CBAM), and call on the EU legislators to explore effective ways of handling exports and imports in order to allow EU industry to remain competitive in international markets.

The next MFF as a driver for competitiveness

We also touch on the topic of the next MFF (2028–2034), whose negotiations will start soon, by recommending a strong focus of the next EU budget around strategic priorities able to enhance the EU competitiveness, such as R&D, pan-European infrastructures in the fields of energy, mobility and digital economy, skills and open strategic autonomy. As we know the devil is in the details.

A stronger industrial policy

The opinion supports a new European industrial policy able to overcome fragmented national approaches. We highlight the need for greater public investment in R&D and technological innovation, particularly in sectors with high growth potential. We also call for new and effective measures to up-skill and re-

skill the EU workforce in times of transitions, and for a simplification of the cross-border mobility of European workers.

A European defence union

Finally, we acknowledge the necessity for a European defence policy, also in the light of new geopolitical shifts. We stress the need of increased investments and calls for coordinated procurement strategies, immediate implementation of the European Defence Industrial Strategy (EDIS), and a rapid adoption of the European Defence Industry Programme (EDIP).

In conclusion, the EESC's Opinion aims to turn the insights of the Letta and Draghi Reports into concrete action, urging the EU to prioritise competitiveness and strategic investment. The only way forward is the one to shape a different EU competitive future, otherwise as Draghi said we will face a "slow agony."

About the author:
Matteo Carlo Borsani
Rapporteur of opinion [INT/1070 Assessment of the Letta and Draghi reports on the functioning and competitiveness of the EU's Single Market]
EESC Employers' Group member

Boosting EU SMEs' Competitiveness Amid New Administrative Burdens

The competitiveness of small and medium-sized enterprises (SMEs) within the EU has been a focal point in recent discussions, particularly in light of the rising administrative burdens stemming from new regulations. The EESC acknowledges the efforts made by the EU Commission to reduce the regulatory burden but underlines that improvements are needed.

Challenges faced by SMEs

Despite the EU Commission's initiatives, SMEs continue to grapple with overlapping legislative requirements and sanctions. The additional wave of regulation, particularly in relation to the Green Deal, has exacerbated the situation. Empirical studies, company surveys, and reports by Draghi and Letta all confirm that the increasing bureaucratic burden is detrimental to consumers, productivity, job creation, and global trade. This highlights the need for continued efforts to streamline processes and reduce administrative burdens on SMEs.

Balancing Act: Reducing Burden vs. Maintaining Standards

The EESC underscores the importance of not compromising social, environmental, and consumer safety standards established at international (e.g. International Labour Organisation, Paris Agreement, UN Sustainable Development Goals) and EU levels while reducing the regulatory burden. Transparency and the rule of law within the EU must also be upheld. It is a delicate balance that needs careful consideration to ensure that any reduction in bureaucracy does not come at the cost of essential standards.

Recommendations for Improvement

1. **Merging SME Test and Competitiveness Check**: The EESC recommends merging the SME test and the competitiveness check into a single procedure to simplify the process. Additionally, the Regulatory Scrutiny Board (RSB) should be significantly strengthened and made more independent. The RSB should conduct consistency and subsidiarity checks at the beginning of each legislative process and have appropriate revision rights. This strengthening should be outlined in the forthcoming interinstitutional agreement.

2. **Leveraging Artificial Intelligence**: The EESC suggests using artificial intelligence and machine learning tools to create an easy-to-use single reporting tool. This tool would provide SMEs, mid-caps, and other companies with all EU-relevant reporting obligations, deadlines, and sanctions. Establishing a framework to parse documents, harmonise data sources, uncover hidden connections, and draw conclusions is crucial. Each Member State should also set up a central contact point for European reporting obligations.

3. **Positive Steps by the Commission**: The EESC acknowledges the positive steps taken by the Commission, such as the REFIT platform, the SME test and competitiveness check, digital coordination of the legislative process, reforms to the European Semester, and commitments to reducing reporting obligations. However, it regrets that the portfolio of the Commissioner for Economy and Productivity, Implementation, and Simplification is not a vice-presidential portfolio, and none of the 14 Commissioners' Project Groups are specifically dedicated to efficiency and simplification.

4. **Enhancing Subsidiarity Complaints**: The EESC believes that the EU Council and national authorities should make greater use of opportunities for reviewing responsibilities (subsidiarity), especially regarding the impact on SMEs, consumers, administration, and justice. Developing efficient procedures for subsidiarity complaints is essential to streamline the process.

5. **Expedited Procedures for Impact Assessments**: The EESC recommends that the EU Parliament and the EU Council develop an expedited procedure for impact and risk assessments carried out by their policy departments for substantial amendments to proposals adopted by the EU Commission. A new interinstitutional agreement should define this principle and empower EU institutions with a simple, comprehensive procedure.

All these recommendations could be consolidated into a binding legislative Bureaucracy Reduction Act, ensuring a streamlined and efficient regulatory environment for SMEs. By addressing these challenges and implementing the suggested improvements, the EU can foster a more supportive and competitive environment.

About the author:

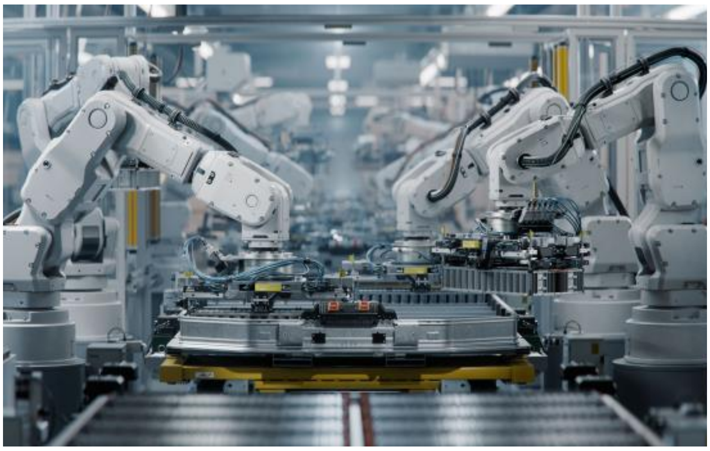
Paul Rübig

Rapporteur of opinion INT/1075 The competitiveness of the EU's small and medium-sized enterprises in light of new administrative burdens/obligations

EESC Employers' Group member

The future of EU industry in the face of high energy prices and transition costs

As Europe faces an era of industrial transformation, high energy prices and transition costs pose significant challenges to its manufacturing and economic sectors. A comprehensive industrial strategy that aligns with Green Deal objectives while ensuring competitiveness and job security is urgently needed.



The Energy Dilemma

Energy will remain at the core of Europe's industrial competitiveness for years to come. The EU's high dependence on energy imports—over 64% in 2022—exposes industries to volatile global market fluctuations. Gas prices in the EU are 3 to 5 times higher than in the US, while electricity prices for industrial users are 2 to 3 times higher than in China and the US. This disparity threatens to erode Europe's manufacturing base unless decisive policy interventions are made.

The EU's Emissions Trading System (ETS) adds another layer of complexity. While the system incentivises decarbonisation, it also increases production costs in energy-intensive sectors such as steel and cement. With the phasing out of free allowances, industries must navigate rising carbon costs while remaining globally competitive.

High energy prices and regulatory burdens threaten Europe's industrial base, and we must act swiftly to prevent deindustrialisation.

Balancing Industrial Competitiveness and Sustainability

For Europe to maintain a leading industrial base, investment and innovation must drive competitiveness. This means developing an economic framework that supports sustainable growth while ensuring businesses can thrive without excessive regulatory burdens. The findings of recent reports on European competitiveness stress the need for policy coherence, the optimisation of resources and an investment fund to boost industrial resilience.

A technology-neutral energy policy is critical. Industry electrification, a key component of the Green Deal, demands large-scale investments in decarbonised power sources, but authorising new clean energy projects remains slow and cumbersome. Streamlining permitting procedures and expanding cross-border electricity interconnections is essential.

Addressing the Skills Gap

Europe's industrial transition will only succeed with a skilled workforce that can meet the demands of new technologies. The concept of a "5th freedom"—allowing for the free movement of research, innovation, knowledge, and education—offers a compelling approach to bridging the skills gap. Aligning training programs with industrial needs and facilitating labour mobility will be essential, as well as reskilling and upskilling, particularly in sectors undergoing structural change. The recognition of qualifications across EU member states, alongside investments in research and innovation, will help drive industrial growth while ensuring workers are not left behind.

Rethinking Trade Policy and Strategic Autonomy

Europe's trade policy must be recalibrated to reflect industrial realities. Global overcapacity, decarbonisation asymmetries, and trade tensions require a resilient industrial strategy. Greater autonomy in sourcing critical raw materials enhanced stockpiling mechanisms, while promoting circular economy principles will mitigate supply chain vulnerabilities.

Moreover, aligning competition policies with industrial goals can boost EU's ability to manage the transitions. The proposed adjustments to the Carbon Border Adjustment Mechanism (CBAM) should address cost disparities in exports while ensuring fair competition within global markets.

Unlocking Investment for Industrial Growth

The EU's industrial strategy must be underpinned by substantial financial commitments by establishing a robust fiscal framework that fosters public and private investment. Measures to reform the Energy Taxation Directive, enhance State aid mechanisms, and ease access to capital for strategic projects are necessary steps.

Public procurement policies should prioritise European-made clean technologies while regulatory simplification will be key to accelerating industrial projects and ensuring businesses can scale up.

The Path Forward

Europe's industrial future hinges on a pragmatic yet ambitious approach—one that balances sustainability with economic vitality. A forward-looking industrial strategy should not only mitigate the impact of high energy costs but also position European manufacturers as global leaders in innovation and sustainability. The transition is a formidable challenge, but with the right policies in place, Europe can secure long-term industrial strength while achieving its environmental goals.

About the author:

Tomasz Andrzej Wroblewski

Study Group President of INT/1074 The future of EU industry in the face of high energy prices and transition costs

EESC Employers' Group member

Without security, there is no prosperity: The case for boosting EU defence funding

Defence funding in the EU is a complex and evolving area, driven by the need for enhanced security and strategic autonomy. EU institutions and the majority of Member States now understand the challenges related to Europe's security. This is a new development and a change that has occurred over the past 2-3 years, since the brutal aggression of Russia on Ukraine.

The numbers speak for themselves. In 2023, EU member states' total defence expenditure was approximately €279 billion. This figure rose to an estimated €326 billion in 2024. Countries like Sweden (+30.1%), Luxembourg (+27.9%), Lithuania (27.6%), Spain (19.3%), Belgium (14.8%), and Greece (13.3%) recorded significant increases in their military expenditures.

Also, there are efforts underway to improve the quality and efficiency of European defence spending. Estimates suggest that inefficiencies cost between €17 billion and €58 billion annually due to duplication among member states. Defence procurement is largely conducted at the national level, with only about 11% of total procurement activities being joint initiatives in 2020. This fragmentation hinders economies of scale and leads to inefficiencies.

The European Defence Fund is a significant instrument for supporting collaborative defence research and development across member states. It has a budget of nearly €8 billion for the period 2021-2027, with allocations of €2.7 billion for research and €5.3 billion for capability development projects.

With this in mind, everyone agrees that with the volatile geopolitical winds, the EU needs to boost EU-wide defence spending, with estimates suggesting that an additional €500 billion may be needed over the next decade, according to European Commission President von der Leyen. But current allocations fall short of this target.

The new Commission is sending the right signal with the decision to appoint for the first time ever a dedicated Commissioner for Defence. The European Parliament has also addressed this issue by establishing a dedicated Sub-Committee on Security and Defence. However, these initiatives will not be sustained without Europe's commitment to financing defence.

To be clear, this is not about creating European defence structures. We continue to speak about synergy, coordination, and support for defence efforts at the Member State level.

In our EESC opinion, we highlight three levels of financing. These include national expenditures of EU Member States and NATO members, extra-budgetary EU financing (such as the European Peace Facility and funding from the European Investment Bank), and finally, the approach in the new programming period – the Multiannual Financial Framework (MFF). Particularly in the context of extra-budgetary financing and the MFF, we are realistically talking about a significant increase in expenditures.

It is crucial to emphasise that the EESC opinion is not merely a contribution to the discussion on the future EU budget. We are addressing the need to develop financial solutions that can already support EU Member States in their efforts to ensure Europe's security.

The opinion covers aspects such as cooperation with NATO, strategic support for joint procurement processes, opening the Single Market to the defence sector, and focusing on high technologies. In the field of technology, we particularly emphasise the need to build competitive advantages and resources in missile defence systems and drone development.

There is broad consensus within the EESC on fundamental defense issues as we also recognise that we must take responsibility for building public support for a secure Europe. Without security in Europe, we cannot talk about prosperity. Without prosperity, there can be no social programmes or cohesion policy.

About the author:
Marcin Nowacki
Rapporteur of opinion ECO/654 Defence Funding in the EU
EESC Employers' Group member

The CAP post-2027: an integral asset of European strategic autonomy

Agriculture and food are strategic sectors for the European Union, providing safe and quality food to 450 million people and playing a key role in global food security. The agri-food sector generated an added value of more than €800 billion in 2023, providing employment to almost 30 million people (15% of employment in the EU).

These numbers are not insignificant, but we should not take our food sovereignty for granted. The agri-food sector has withstood the shocks of the pandemic, demonstrating incredible resilience. However, the sector is now facing difficult structural transformations, including the ageing of the agricultural population.

The COVID-19 pandemic only made this change even more urgent. The need for a change of direction is recognised in the European Commission's Farm to Fork Strategy, which commits the EU to a transition to sustainable food systems and to developing a legislative framework for sustainable food systems (SFS) to enable this to take place.

That said, it is clear that guaranteed long‑term food sovereignty and food security should therefore certainly be an integral part of the European Union's strategic autonomy. Farmers' interests need to be put back at the centre of policymaking.

The process of developing a new policy framework was launched with the recent publication of the European Commission's Inception Impact Assessment on the Sustainable Food System Framework Initiative.

The EESC opinion responds to the request of the Polish presidency, which stresses the need to increase direct support for farmers, but also to simplify CAP subsidy rules and reduce the administrative burden on farmers, in particular as regards applications for various permits.

Firstly, my co-rapporteurs, Piroska Kállay and Joe Healy, and I called for a budget for agriculture – food – which amounts to 0.5% of European GDP. Inflation has significantly reduced the share of agriculture, moving away from the objectives of the Treaty of Rome, which stressed the need to ensure a fair standard of living for farmers.

Crop insurance or income insurance schemes would become more attractive if these financial resources were restored. Over the last five years, for example, the Netherlands and Poland have spent a lot on crisis management.

Countercyclical support in CAP instruments after 2027 is also a

solution for addressing production or market hazards, which are often due to too low or greatly fluctuating prices. The US has used them for a long time –- let us not deprive ourselves of this tool.

Furthermore, the opinion supports the creation of mutual funds, which also exist in some Member States, complementing other schemes, and can be financed collectively by farmers, downstream operators and regions in the Member States and Europe. The effects of animal or plant health crises can be reduced by these mutual funds.

The flexibility of pilot loans makes it possible to modulate repayment of normal instalments by +/-30% or to add a row at the end of the amortisation schedule. This flexibility from banks is recent, giving borrowers peace of mind.

We also highlight our commitment to trade agreements that do not lead to unfair competition and do not create carbon leakage. That will be the price paid for the European Pact for Social Dialogue. Lastly, all this would cost less if products were not sold below the cost of production, so that farmers, the first link in the chain, can be fairly remunerated.

About the author:
Arnold Puech d'Alissac
Rapporteur of opinion NAT/939 Ensuring sustainable food production and a fair income for European farmers in the face of market, environmental and climate challenges
EESC Employers' Group member

The physical completion of EU's internal market in the new geopolitical situation

In the current geopolitical situation, much more focus should be put on the role of transport and logistics. Well-functioning, coherent and secure transport infrastructure is a must for guaranteeing the proper functioning of the single market and to improve EU's global competitiveness, security and territorial cohesion. To improve our transport system and infrastructure actions are needed to tackle both the existing deficiencies of the EU's transport network as well as the new and growing geopolitical challenges. Russia's war of aggression against Ukraine, the increase of hybrid operations and the aftermath of the pandemic on supply chains and transport connections have set new demands.

The role of transport must be recognised as a crucial element in achieving the EU's strategic goals. In the next Multi-annual Financial Framework (MFF), appropriate funding must be made available to respond to the needs together with a dedicated financial instrument for transport, Connecting Europe Facility (CEF). The next CEF needs to be focused on areas where there is European value added. In allocating finances, both the short- and long-term benefits of transport infrastructure, including the generation of growth and jobs, need to be considered.

What are the main areas where more focus is needed?

The European transport network need to be aligned with the new needs of economic and geopolitical security, including greater reliance on domestic production and the single market to improve the security of supply of raw materials, components and products within the EU.

As a starting point, all areas within the EU should remain connected to the Single Market. From the security point of view, it is also important to improve the vitality and single market connections of the EU's border regions.

Secondly, more attention should be paid to improve the resilience and reliability of transport systems. Strengthened contingency planning is necessary to be prepared to manage hybrid risks, including cyber threats and physical attacks on transport infrastructure. More emphasis needs to be placed on the dual use of infrastructure and military mobility, while also working together with NATO.

Moreover, we need to increase cooperation and connectivity with third countries, both for export purposes and for enabling the diversification of supply chains and imports. At the same time, we need to manage the consequences of the climate crisis on transport systems and the impacts of the geopolitical

situation on the green transition. We call for proper investment in finding competitive ways of ensuring secure access to the key technologies, energy and raw materials necessary for the green transition of the transport sector.

The momentum for the Single Market is now, with the Draghi and Letta reports and an upcoming new Strategy for the Single Market. As part of this Strategy, the Commission should evaluate how to improve the transport systems across the EU to secure supply chains in critical and vulnerable sectors, both in regular and exceptional situations.

What's next?

A comprehensive analysis of the barriers in the transport market in each Member State is needed to overcome the prevailing fragmentation within the Single Market. A proper analysis needs to be conducted to evaluate the long-term consequences of COVID-19 for transport and supply chains. It is also necessary to assess the impacts of Russia's war of aggression on all transport modes to identify possible handicaps in the connectivity within the EU and to address them properly. The analysis must cover aviation, railways, inland waterways, and short sea shipping routes, as well as roads linking urban nodes, maritime and inland ports, airports and terminals, and different EU regions. The evaluation also needs to consider the impact on internal cohesion and connectivity between the Member States.

About the author:

Päivi Elina Wood

Rapporteur of opinion [TEN/845 The physical completion of EU's internal market in the new geopolitical situation]

EESC Employers' Group member

Editor
Daniela Vincenti | daniela.vincenti@eesc.europa.eu
Samantha Falciatori |samantha.falciatori@eesc.europa.eu
Photo credits: Shutterstock/European Union
THE EESC IS NOT RESPONSIBLE FOR THE CONTENT OF EXTERNAL WEBSITES

Contact
European Economic and Social Committee, 99 Rue Belliard, 1040 Brussels
Tel. +32 (0) 2 546 82 07 | Fax: +32 (0) 2 2 546 97 54
gr1@eesc.europa.eu • www.eesc.europa.eu/employers-group

@employers_EESC
EmployersEESC

Print:
QE-01-25-006-EN-C
ISSN 2467-4478

EESC-2025-14-EN

PDF:
QE-01-25-006-EN-N
ISSN 2467-4494

EN