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Sustainability Blog

By PwC Deutschland | 10 February 2025

The EU’s Competitiveness Compass – How Europe shapes its future

How can Europe strengthen its economic competitiveness and achieve its climate targets at the same time?

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The European Commission's new Competitiveness Compass outlines an ambitious roadmap. Find out how regulatory hurdles are to be removed and how industry is to be supported. What measures is the EU planning, to finance the green energy transition and tackle high energy prices? Find out how the financial sector can benefit from these strategic approaches.

The European Commission's "Competitiveness Compass" is a comprehensive strategic framework for strengthening the EU's economic competitiveness. It was presented by Commission President von der Leyen on 29 January 2025 and represents the first major initiative of her second term in office. Based on the requirements of the Draghi report, the roadmap aims to tackle existing obstacles and structural weaknesses. The compass contains three core areas of action:

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

Five horizontal enablers are intended to support the achievement of the priorities and strengthen competitiveness across sectors:

- Simplification
- Removing barriers in the single market
- Financing competitiveness
- Promoting skills and quality jobs
- Better coordination of policies at EU and national level

The importance of innovation and the need to close the innovation gap and reduce dependencies are highlighted. At the same time, the need to decarbonize the economy and promote green production methods is emphasized.
These sustainable approaches should establish the EU as a leading location for green technologies and circular economy models. The Competitiveness Compass calls for investment in the modernization of energy infrastructure in order to cope with high energy prices and ensure competitiveness. Other key elements are the promotion of skills and high-quality jobs, the simplification of the regulatory environment and the full utilization of the single market.

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EU-Commission: Competitiveness Compass (29 Jan 2025)
Three transformational imperatives and five horizontal enablers to boost competitiveness



Combining sustainability and competitiveness

The European Union's climate targets remain unchanged: The continent's economy should be fully decarbonized by 2050. This project offers the opportunity to strengthen the region's competitiveness and promote sustainable growth. Clear and forward-looking policy measures should give companies and investors the security they need to invest in a green future.

The "Clean Industrial Deal" is a central building block on this path. This initiative aims to make Europe an attractive location for energy-intensive industries, with a focus on green technologies and innovative, circular business models. The planned "Circular Economy Act" is intended to boost investment in recycling capacities and promote the use of secondary materials. These approaches should help achieving the decarbonization targets and strengthen competitiveness at the same time.
However, high and fluctuating energy prices pose a significant challenge for both companies and private households in Europe. The "Affordable Energy Action Plan" is being launched to tackle this issue. This plan aims to improve access to affordable energy and realize the benefits of greater market integration.

Another important aspect is the transformation of the European industrial landscape. Sectors such as steel, metals and chemicals are in the spotlight and require targeted measures in order to make the transition to greener production. State subsidies are supposed to be used here.

Europe's path to decarbonization is undoubtedly complex but offers enormous opportunities for sustainable growth and innovation. Through strategic policy decisions and international co-operation, Europe can take a leading role in the global fight against climate change while maintaining its economic strength. It remains exciting to see how these ambitious plans will be realized and what positive changes they will bring.

Closing the innovation gap: strategies to promote European start-ups and technologies

Economic growth also depends on disruptive innovations and efficiency gains. Although Europe's share of global patents is comparable to that of the USA and China, only a third of the patents registered by universities in the EU are utilized commercially. This is partly due to market fragmentation, a lack of venture capital and insufficient support for innovation. These factors significantly hinder the growth and scaling of start-ups in Europe. In order to improve these conditions, the EU is planning a start-up and scale-up strategy. The planned initiatives include increasing venture capital and supporting companies that invest in innovative technologies. Investments are also to be made in pioneering technologies such as artificial intelligence, semiconductors, quantum- and biotechnologies.

Moreover, the EU will adapt its competition policy to better promote innovation. One focus is on the

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consistent implementation of the Digital Markets Act and the increased use of "Important Projects of Common European Interest" (IPCEI) in order to intensify cooperation in strategic areas.

Economic resilience and trade

This topic covers various aspects such as trade agreements, measures to combat climate change and security policy. The EU is endeavoring to strengthen partnerships and promote trade agreements. At the same time, dependencies are to be reduced and measures to promote economic security implemented. Furthermore, the EU plans to strengthen its defense industry in order to become more independent.

In the fight against climate change, the EU's resilience is to be improved, for example by preparing for extreme weather events. In this context, a European action plan for adaptation to climate change and sustainable water strategies are to be developed.

Five key factors for the EU’s competitiveness

A central aspect of the compass is the simplification of regulations and the acceleration of administrative procedures. At the center of this lays the omnibus regulation, which is supposed to contribute to significant simplifications in the areas of sustainability reporting and sustainability due diligence. The aim is to reduce reporting obligations by at least 25% for all companies and 35% for small and medium-sized enterprises (SMEs). Another important step towards simplification is digitalization. The use of digital tools and standardized data formats should make it easier to access financial resources and comply with regulations.

The single market has been at the heart of European competitiveness for 30 years. However, despite its many benefits, there are still barriers that hinder the free movement of goods, services, capital and people, particularly in areas such as electronic communications. The Commission plans to remove these barriers through modern governance and enhanced co-operation with Member States.

Significant investment is needed to achieve Europe's goals. The Commission plans to introduce a "Savings and Investment Union" to mobilize private capital and channel it into future-oriented growth sectors. To this end, favorable savings and investment products are to be promoted at EU level. In addition, a European Competitiveness Fund should promote strategic technologies and manufacturing.

Europe's competitiveness is based on its people. Fair working conditions, decent wages and access to affordable care are essential for this. The Commission is planning a roadmap for quality jobs and affordable housing. Moreover, Europe should become more attractive for skilled workers from outside the EU.

The European Commission is planning to introduce a new competitiveness coordination tool. This tool is intended to better harmonize EU and national policy measures and investments and identify common competitiveness priorities. As a first step, the Commission will launch pilot projects in selected areas such as energy and transport infrastructure as well as digital infrastructure.

Conclusion

Europe must strengthen its competitiveness in order to be successful in the global economy in the long term. The proposed strategy is based on a combination of industrial policy, investment and reforms, all united around a common vision.

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The EU's climate targets are retained, but the strategy for achieving them is adapted. The regulatory burden will be reduced by eliminating extensive reporting obligations. Instead, the focus will increasingly be on incentives and support programs to finance the energy transition. The Competitiveness Compass is intended to ensure that the EU remains competitive and continues to transform itself towards a more sustainable economy. This course offers many opportunities for financial institutions.

Further Links:

- EU-Commission: A Competitiveness Compass for the EU
- EU-Commission: Political Guidelines for the next European Commission 2024-29

Get ongoing updates on the topic via regulatory horizon scanning in our research application, PwC Plus. Read more in our "**Services and Offerings**" section.

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Keywords

Circular Economy, ESG, Sustainable Finance (SF)

Contact



Christoph Schellhas
Frankfurt am Main
christoph.schellhas@pwc.com