



EU Unpacked

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EU Unpacked #1

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The EU Competitiveness Compass (2025): An In-Depth Analysis for Non-Experts

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The EU Competitiveness Compass (2025)

The powerful social welfare system, the sophisticated industries, and the cutting-edge environmental policies of the European Union are held up as examples of what can be achieved in an increasingly globalised world. The EU faces serious challenges today: slow productivity, rising energy prices, and tough competition from China and the United States.

In January 2025, the EU's European Commission published the comprehensive document named "The EU Competitiveness Compass", a strategic roadmap aimed at addressing the abovementioned challenges.

According to this report, if Europe wants to keep its ability to maintain economic growth, be innovative and preserve lead in key industries such as AI, clean energy, biotech, etc, to preserve high living standards for its citizens and reduce dependence on foreign suppliers for critical minerals, energy carriers and goods it must start acting.

If the EU doesn't take immediate actions to address existing challenges, very soon it may find itself lagging in technology, losing out on key industries to other regions, and facing problems in funding vital services like healthcare and education for its citizens.

Key Challenges that the EU is Facing

Analysing the current state of the EU's economy, the EU Commission identified several major obstacles to Europe's competitiveness, particularly:

I- The Gap in Innovation

According to the statistics, each year, the EU files as many patents as the U.S. or China, but only a third of these inventions are turned into marketable products. Another problem is start-up capital. Only 5% of global venture capital flows to EU start-ups, compared to 52% for the U.S. and 40% for China. In contrast to US and Chinese markets, start-ups in the EU face 27 different legal systems, making it difficult to expand from one member country into another.

II - High Energy Costs and Industrial Decline

Energy prices in the EU are 2 to 3 times higher than those in the U.S. and China, which negatively impacts energy-intensive industries such as steel, chemicals, and automotive. This, in the long run, will force companies to relocate their production to countries with lower energy costs and less regulation.

III - Overregulation and Bureaucracy

Complex rules and regulations in the EU slow down businesses; this particularly affects small and medium-sized enterprises (SMEs). With the new strategy, the EU aims to reduce administrative burdens by 25% for companies and by 35% for SMEs.

IV- Global Competition

The EU is facing increasing global competition in almost every sphere. For example, China is dominating clean technology (solar panels, batteries, electric vehicles), and the U.S. is the leader in AI, semiconductors, and defence technologies. Besides traditional competitors, the EU is also facing challenges from new emerging economies, such as India or those in Southeast Asia, which are rapidly catching up.

V - Demographic Decline

One of the biggest problems of almost all EU member countries is their aging population, which means fewer workers, higher productivity to sustain growth and increased spending for pensions.

Countering the existing challenges: The EU Competitiveness Compass

The plan proposed by the European Commission through the EU Competitiveness Compass emphasises three transformational objectives, which are backed by important policy tools:

I - Closing the Innovation Gap

In order to close the existing innovation gap, the commission would like to boost Start-ups throughout the EU member states. This initiative includes the establishment of a simplified EU-wide business framework under the **28th Legal Regime** to facilitate the expansion of start-ups across borders. This new initiative is expected to be finalised by the end of 2025. Additionally, the “**TechEU**” Investment Program will provide funding specifically dedicated to supporting the start-ups in sectors such as AI, quantum computing, biotech, and clean energy. Furthermore, the “**European Innovation Act**” will aim to accelerate patent approvals and create regulatory "sandboxes" that will allow to test new technologies.

II- Take a lead in Key Technologies

To take a lead in key modern technologies, the EU aims to create so-called AI Factories and supercomputing centres to train AI models and support European firms. At the same time, investments will be increased in the quantum technologies in order to support next-generation encryption and computing. The third important area of modern technology is Space. Here, with its “Space Act”, the EU intends to strengthen Europe’s Satellite and Space Technology Industries.

III - Strengthening Research & Development(R&D)

To maintain high efficiency, the EU intends to increase R&D spending to 3% of GDP (currently 2.2%) and with its “**European Research Area Act**”, it plans to better coordinate EU and national research programs.

A Joint Roadmap for Decarbonization and Competitiveness

To address global environmental challenges, but at the same time not to undermine the EU’s economy, the European Union has proposed a comprehensive plan that combines climate goals with industrial competitiveness, which includes several key pillars.

I - Affordable Energy Transition

To keep energy prices manageable while moving towards greener solutions, the EU will implement an “**Affordable Energy Action Plan**”, which aims to lower electricity costs through better grid integration and long-term energy contracts.

II - A Clean Industrial Deal

To ensure that European industries remain competitive during the green shift, the EU will provide financial incentives for the adoption of clean technologies, including hydrogen-based steel production. At the same time, a “**Carbon Border Adjustment Mechanism**” (**CBAM**) will be introduced to create fair competition by imposing taxes on imports from countries that have lower environmental standards.

III - Circular Economy Push

To reduce waste and make better use of resources, the EU will implement a new “**Circular Economy Act**”, which aims to increase recycling and reuse, targeting the creation of a €100 billion circular economy market by 2030.

Reducing Dependencies & Increasing Security

To ensure resilience and reduce vulnerabilities, the EU is taking steps to secure access to vital materials, reinforce its defence capabilities, and protect fair trade.

I- Securing Critical Raw Materials

To prevent future shortages of essential raw materials like lithium and cobalt, the EU will create a “**Joint Purchasing Platform**”. This system will allow member states to coordinate the collective purchase of critical minerals and reduce reliance on external suppliers.

II- Strengthening Defence and Cybersecurity

A new “**European Defence Industrial Strategy**” will support more joint defence projects among the EU countries, aiming to reduce the Union’s dependence on U.S. military equipment. At the same time, through the “**Preparedness Union Strategy**,” the EU will enhance the protection of key infrastructure, including undersea cables, energy grids, and other vital systems, from physical and cyber threats.

III - Promoting Fair and Open Global Trade

The EU will seek to conclude new trade agreements with partners such as Mercosur (Argentina, Brazil, Paraguay, and Uruguay) and Mexico, aiming to open up markets while ensuring protection for European industries. The EU will counter unfair practices by tightening rules on foreign that distort the EU market.

Supporting Competitiveness

To make the strategy work, the EU is introducing a series of structural measures - so-called “**horizontal enablers**” - to simplify rules, unlock investments, and strengthen the Single Market.

I - Simplifying Regulations

The EU aims to reduce paperwork and simplify the process for businesses to operate. Packages such as “**Omnibus Simplification**” will update complex regulations in key sectors, including finance, agriculture, and medical devices. At the same time, a new “**Digital Business Wallet**” will serve as a one-stop online platform where companies can obtain necessary permits and licenses more efficiently.

II - Deepening the Single Market

To help businesses scale across borders, the EU will remove barriers to cross-border services, especially in growing areas like cloud computing and digital finance and accelerate standard-setting for emerging technologies, including **6G** and artificial intelligence, to keep pace with global competitors.

III - Financing the Transition

The EU is planning to unlock new funding sources to make the strategy work. This will include programs such as the “Savings and Investments Union”, which will mobilise private capital for innovative start-ups and large-scale infrastructure projects, and the “European Competitiveness Fund”, with an annual budget of €750–800 billion, which will support investments in clean technology, digital infrastructure, and research.

IV - Skills and Workforce Development

Finally, to prepare Europe's workforce for the green and digital economy, the EU will introduce the “**Union of Skills**” initiative, which will retrain workers for jobs in technology and sustainable industries and will announce new measures to attract global talent, including simplified visa procedures for skilled professionals from outside the bloc.

Possible Outcomes

Europe's chance to be a global leader in visionary, next-generation tech areas like AI, quantum computing and clean technologies is largely dependent on the successful implementation of the EU's Competitiveness Compass.

In Best-Case Scenario:

- The EU will become a leader in AI, quantum computing, and clean tech;
- Energy costs will drop, making industries more competitive;
- Start-ups will get better funding and more simplified rules;
- And stronger supply chains will reduce dependence on China and the U.S.

This, in its turn, means more high-skilled and well-paid jobs in tech and green industries, and stronger social safety for the citizens. At the same time, the successful implementation of the EU's Competitiveness Compass will enable member states' governments to avoid wasteful spending through better coordination (e.g., joint defence projects) and balance green goals with industrial needs to prevent job losses.

If the EU's plan fails in the coming decade, we will observe:

- A massive relocation of factories to the U.S. or Asia, leading to the deindustrialisation of the EU.
- China's dominance in green technology and Europe's significant dependence on imports.
- Increase in taxes to cover the costs of the welfare system for the increasingly aging population.

Conclusion

The Competitiveness Compass is a bold plan aiming to maintain Europe's global leadership. Its success hinges on rapid execution, and the window of opportunity is narrow. It also depends on robust cooperation among EU member states and careful balance between innovation and social fairness.

Finally, Europe must choose to act in unison for a prosperous future, or it will face division and decline. The next five years will be crucial in determining whether the EU can reinvent itself or risk becoming a secondary player on the global economy stage.

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George is a diplomat and expert in international politics, security and European integration. During his career in the Georgian public service (2004–2023), he held senior positions focused on political affairs, European and Euro-Atlantic integration and regional security. Beyond diplomacy, he has contributed extensively as an author and researcher, specialising in the rise of radical and populist movements in Eastern Europe. He currently serves as the executive director of the EU Awareness Centre, a Brussels-based NGO promoting democratic reforms, good governance, and EU values. He continues his work as an independent researcher on political and international issues.