

EU Competitiveness Compass: How can competition, international trade and public procurement help?

05 February 2025

The European economy is under mounting pressure from China's rapid technological advances and industrial policy, trade uncertainties linked to the new Trump administration in the USA, and growing geopolitical instability, which impact the competitive landscape in several global markets and increase disruption risks in supply chains. In this challenging economic and political climate, enhancing the competitiveness of European businesses and reinforcing the resilience of the Single Market have become key political priorities, as outlined in the European Council's [Budapest Declaration on the New European Competitiveness Deal](#).

On 29 January 2025, the European Commission published its long awaited [Competitiveness Compass for the EU \(*Compass*\)](#), a high-level policy paper responding to this call for action and outlining a strategic action plan to achieve these goals. Building on insights from the Draghi and Letta reports ('[Much more than a market](#)' by Enrico Letta and '[The future of European competitiveness](#)' by Mario Draghi), which highlight key bottlenecks and propose concrete solutions, the document sets a roadmap to guide policy making for the years ahead. It focuses on cutting bureaucratic red tape for businesses, fostering research and innovation in strategic sectors within the EU, and promoting a more circular and resilient economy.

The Commission aims to make use of a broad tool set including competition, international trade, and public procurement to enhance EU competitiveness on which we give a brief overview here.

Competition

The Compass expressly acknowledges the essential role of antitrust and merger enforcement in safeguarding fair competition and driving innovation—both of which are crucial to boost EU competitiveness. Without a level playing field, companies have significantly weaker incentives to innovate.

However, the Compass calls for refinement: On **merger control**, it stresses the need for enforcement practices and merger guidelines to give adequate account to elements such as innovation, resilience, investment intensity and efficient scale in competition. As pointed out in the Draghi Report, this shift is particularly relevant in innovation-driven sectors, where not only low prices determine competitive strength but first and foremost scale and the capacity to drive technological advancements.

Additionally, the Compass identifies fragmentation in the telecom and financial markets infrastructure as a major challenge to the Single Market. For instance, it suggests that market-driven consolidation of financial markets infrastructure could unlock business potential by enabling low-cost saving and investment products to serve investors across 27 member states more effectively. In telecommunications, the Draghi Report notes that while the EU has traditionally encouraged a diverse landscape of smaller telecom providers within each member state to keep

consumer prices low, this approach has inadvertently restricted investment capacity for network improvements. Draghi warns that declining profitability in the telecom sector now threatens European companies, particularly at a time when cutting-edge network infrastructure is essential for digitizing manufacturing, supply chains, and industrial applications—such as AI-driven robotics and data streaming. To address this, Draghi calls for EU regulatory and competition policy reforms to fully establish a Digital Single Market for telecommunications and facilitate cross-border mergers.

Beyond telecoms, the Compass highlights digital markets as a key focus area for competition policy. The Digital Markets Act (*DMA*) is emphasized as a critical tool to assure that currently closed digital ecosystems are opened up. Lastly, the Compass underscores the need to review the Technology Transfer framework to encourage pro-competitive technology licensing agreements, thereby incentivising research and promoting innovation.

Interestingly, within enforcement circles, scepticism has been expressed informally regarding the need for merger regulation reforms or new assessment approaches (e.g., factor in elements that align more with industrial policy). It remains to be seen what practical impact the Compass will have on enforcement priorities.

International Trade

The Compass acknowledges the value of the EU's wide range of global trade agreements, which present major opportunities to increase business flow. It also stresses the importance of continuing to expand such frameworks—the EU-Mercosur agreement being the most recent example – and emphasizes securing reciprocity and promoting open, rules-based global trade.

However, with no oversight of the impact of protectionist-like trade policies of major economies, it also highlights the need to address unfair competition through protective measures, such as Foreign Direct Investment (FDI) screening, export controls, outward investment monitoring and the recently established Foreign Subsidies Regulation (which addresses potential distortive effects of foreign subsidies in the competitive landscape).

The Draghi Report offers more actionable proposals with a focus on

- **Knowledge transfer agreements:** Assure that foreign companies receiving EU or Member State financial support should be bound by local recruitment and apprenticeship clauses, similar to those under the US Inflation Reduction Act (IRA) during the Biden administration.
- **Outbound EU investment in clean technologies:** EU investments abroad in clean technologies should be subject to a screening mechanism to ensure that EU companies retain critical intellectual property and expertise.
- **Foreign direct investments screening in logistics:** China is steadily expanding its presence in the EU's transport and logistics infrastructure. FDI screening in the EU currently takes place at the national level, therefore does not examine the broader, sector-wide, or EU-wide implications of such investments.

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The Compass also highlights the impact that carbon emission costs for energy-intensive industries (*EIIs*) established in Europe on the competitiveness of these products in the world market. EU-based industries in sectors such as fertilizers, iron, steel, and aluminium must pay for their CO₂ emissions, whereas many foreign competitors do not face similar costs. While the Carbon Border Adjustment Mechanism (*CBAM*) aims to level the playing field by imposing fees on the emissions embedded in imported products, concerns persist regarding potential circumvention and leakage risks.

The Draghi Report further explains these challenges, noting that since EIIs are covered by CBAM while downstream industries remain exempt, imports may shift toward downstream products to bypass the border tax. Additionally, as production costs rise for domestic downstream industries outside CBAM—such as plastics, which depend on basic chemicals—the cost gap between European and foreign competitors could widen, jeopardizing their competitiveness in the world market. This, in turn, may further incentivize European companies to relocate outside the EU.

To address these risks, the Compass calls for a revision of CBAM, including a possible expansion of its scope to cover additional sectors and downstream products. It also emphasizes the need for measures to offset the cost disadvantage for European exports, ensuring that EU EIIs remain globally competitive.

Public procurement

The Compass advocates for the need to establish a general framework ensuring sector-specific European preference in public procurement, aligning with approaches of other major players. It underscores the need to review Public Procurement Directives, with a particular emphasis on strengthening technological security and domestic supply chains.

The Draghi Report provides further details on sectoral priorities, including:

- **Cloud services and data residency:** Establishing a unified EU-wide policy for public administration procurement, mandating, at minimum, EU sovereign control over key security and encryption elements.
- **Clean technologies:** Implementing explicit minimum quotas for selected locally produced innovative and sustainable products and components.
- **Defence:** Introducing strong incentive mechanisms to prioritize European defence solutions and technological excellence over non-EU alternatives.

Key takeaways

The Competitiveness Compass outlines a broad strategic direction, which clearly need further refinement through specific measures over the next two years. The greatest challenge lies in achieving the necessary political alignment among Member States at a time when various forces seek to undermine rather than reinforce the Single Market. A second –equally pressing – challenge is the urgency of these reforms. Multiple assessments indicate that the EU has only a narrow window of opportunity to address these bottlenecks and secure the long-term competitiveness of its industry.

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BLOMSTEIN will continue to closely follow the EU's evolving policy framework to boost EU competitiveness and its implications for trade, competition, and public procurement regulations. If you have any questions on this topic, our team is ready to assist you.
