

Competitiveness Compass



Context

The European Commission has introduced the **Competitiveness Compass** to address long-standing economic challenges and reinvigorate Europe's global standing. Over time, the EU has lagged behind competitors in productivity growth, innovation, and technological leadership. The EU faces stiff competition from the United States in advanced technologies and from China in industrial expansion. Furthermore, businesses within the EU struggle with high energy prices, regulatory complexity, and supply chain vulnerabilities.

Without decisive action, Europe risks declining economic influence and reduced global competitiveness. To counter this, the Competitiveness Compass sets out a strategic roadmap focusing on innovation-led productivity, reducing external dependencies, and fostering a more efficient regulatory and investment environment.

Objectives

The Competitiveness Compass revolves around three core transformational imperatives:

1. **Closing the Innovation Gap** – The EU aims to bridge the gap between research and market application, ensuring that homegrown technologies are commercialised effectively in Europe. Measures include fostering start-up to scale-up, increasing venture capital availability, and streamlining regulatory frameworks to facilitate investment in advanced technologies like AI, quantum computing, and biotechnology.
2. **Decarbonisation & Industrial Competitiveness** – The EU seeks to align its climate goals with economic growth by supporting clean energy investments, facilitating industrial electrification, and ensuring a just transition for energy-intensive sectors. Policies will encourage the demand for low-carbon products and create a more stable regulatory landscape for green industries.
3. **Reducing Dependencies & Enhancing Security** – Recognising vulnerabilities in critical supply chains, the EU intends to diversify its trade partnerships and bolster domestic production of essential goods such as semiconductors, raw materials, and pharmaceuticals.

Additionally, the Competitiveness Compass also introduces other support measures, such as the simplification of existing and future regulations, and strengthening the capital market to ensure businesses can raise the necessary funding for productive investments.

How do Maltese businesses benefit?

The **Competitiveness Compass** will significantly shape the business landscape by fostering a more competitive, investment-friendly, and sustainable economic environment. Key benefits include:

- **Regulatory Simplification:** Businesses will benefit from streamlined EU regulations, faster permitting processes, and reduced compliance costs. This is particularly beneficial for SMEs as it lowers administrative barriers and enhances market access.
- **Improved Access to Finance:** Strengthened investment mechanisms, such as venture capital expansion, promoting a securitisations market, a more streamlined EU budget, and an enhanced role for the European Investment Bank will provide businesses with greater access to funding opportunities. This is expected to boost investment and enable more start-ups and SMEs in Malta and across the EU to thrive.
- **Energy Cost Stability:** The Affordable Energy Action Plan aims to lower energy costs, enhance grid infrastructure, and support the adoption of clean energy solutions. For Malta, a country heavily reliant on energy imports, these measures will ensure more predictable electricity and fuel costs, allowing for a more stable business environment.
- **Supply Chain Resilience:** Businesses in critical sectors will benefit from diverse trade partnerships that aim to secure access to raw materials, and stronger trade protection mechanisms. This will help companies in Europe to mitigate supply chain disruptions and operate on a level playing field.
- **Workforce and Skills Development:** To address labour shortages, the EU will invest in talent attraction and workforce upskilling, particularly in high-growth sectors. This will support businesses in securing skilled labour to meet productivity and service levels as well as foster innovation.
- **Sustainability and Green Transition:** Stricter sustainability standards will drive businesses to adopt greener practices, but they will also gain access to EU funding for clean technology and carbon reduction initiatives.

Conclusion & Way Forward

The **Competitiveness Compass** is a pivotal framework designed to ensure that the EU becomes a global economic leader through innovation, sustainability, and strategic resilience. By addressing long-standing barriers, simplifying regulations, and fostering a more competitive environment, the EU aims to unlock new growth opportunities for businesses while safeguarding economic security.

With effective execution, the Competitiveness Compass has the potential to drive long-term prosperity, reinforce economic sovereignty, and create a thriving business landscape across Europe.

From a Maltese business perspective, one would like to see that the Commission moves from words to action. The synopsis of how the EU is losing competitiveness is now supported by economic data as presented in the flagship reports published last year by Enrico Letta in his 'Much more than a market' report and by Mario Draghi in his 'Future European Competitiveness' report.

A concerted effort is also needed by the co-legislators, the EU Council and the European Parliament, to build on the momentum and ensure that competitiveness remains at the centre of policy making even during the stage of negotiations prior to adopting a legislation.

Locally, it is also crucial that Maltese stakeholders take up new opportunities that will come about as a result of a new competitiveness agenda. The new Multiannual Financial Framework for the period 2028-2034 will present numerous funding opportunities for projects in strategic areas that are designed to enable companies to become more innovative, efficient and productive. But it is up to companies to evaluate opportunities, develop project concepts in line with EU objectives, and ensure to prepare application within stipulated timeframes.

Other initiatives such as the Savings and Investment Unions aim to increase capital that could be channelled to productive investments. Yet, a transformation must take place in Malta whereby traditional credit institutions increase the risk element within their lending portfolio to enable that companies qualify for business loans. Also, Maltese businesses must move on from relying almost entirely on bank financing and explore other funding instruments such as listing on the stock exchange, venture capital, and more.

Disclaimer: This is a policy brief to create awareness about the legislative proposal and for information purposes. It is not an official position of the Malta Business Bureau.

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