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BULLETIN

Building a More Competitive EU: Objectives and Challenges

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In the first quarter of 2025 the European Commission presented a number of proposals aimed at improving the conditions for doing business in the EU. It wants to achieve this objective while remaining faithful to climate policy commitments and improving defence capabilities. The main goals include support for the development of new technologies, stronger backing for key sectors of industry, and reducing dangerous economic dependencies. Reconciling economic ambitions and the green transition, as well as striking a compromise on adequate financing of a growing number of priorities, will be the biggest challenges in implementing the EC's plans.

One of the main policy documents on how to strengthen the economic health of the EU presented by the Commission (EC) in the first months of 2025 is the Competitiveness Compass. It defines improving competitiveness as an overarching principle for the Union's action, indicating that it is to go hand in hand with the transformation towards a low-carbon economy, as elaborated by the EC in the Clean Industry Package (CID) presented on 26 February this year. In addition, the EU defence industry is to become an important driver of competitiveness, with its development to be stimulated by initiatives presented in March this year: the ReArm Europe plan and a white paper on the subject. In its Communication of 12 February, the EC encourages countries to rethink the structure of the future EU 2028-2034 multiannual budget, taking into account the modernisation of the economy.

Competitiveness vs. Decarbonisation. The CID envisages increasing the competitiveness of EU industrial production while maintaining the climate ambition (90% emissions reduction by 2040). Clean industry in the EU is to be supported by an investment fund and a dedicated decarbonisation bank with a budget of €100 billion. In addition, the CID is to be made possible through deregulation (to be achieved through a deregulation package, or "omnibus") and the simplification of rules, such as those on state aid. However, the EC's ambitious deregulation plans, including a reduction in the obligation for companies to report their impact on the environment, raise concerns about the lowering of environmental standards and lack of access to reliable data on the subject. The main political forces in the European Parliament have agreed on the "omnibus", but it is likely that some in industry and conservative circles will also want to push through a slowing down of the green transition and a modification of its key objectives. In turn, maintaining more liberal state aid rules could translate into a widening of development disparities within the EU.

An important element of strengthening competitiveness is a reduction of energy prices. In the short term, the EC's recipe for this is lowering taxes, making it easier for citizens to choose their energy supplier, and strengthening oversight of compliance with equipment energy-efficiency standards, while in the long term, the transition to clean sources and the development of energy links between countries. In the short term, however, lowering energy prices will not be straightforward, and liberalising countries' tax policies may have limited effect in the face of differing national solutions.

Economic Security (Not Only). The increasing likelihood of a reduction in U.S. military involvement in Europe makes the imperative to strengthen the EU arms industry, present among the priorities from 2022, even more important. The EC wants to make it easier for the Member States to increase their military spending and encourage joint procurement to take advantage of economies of scale. The ReArm Europe plan is designed to mobilise €800 billion for defence expenditure. According to the plan, national defence spending will be exempt from the excessive deficit procedure, while governments will have more room to use cohesion policy funds for defence infrastructure. In addition, the Commission will take on €150 billion in joint debt to provide loans to members and will attempt to attract private capital through the European Investment Bank. While most Member States are increasing defence spending, it is questionable to what extent they will be prepared to coordinate actions in this area. Consolidation in the armaments sector could imply that less-profitable companies scale down or go out of business.

With regard to the economic dimension of external policy, the focus remains on efforts to reduce dangerous dependencies and strengthen instruments to respond to economic blackmail willingly used by authoritarian powers and, more recently, the EU's biggest ally. In this context, the EC strongly emphasises the benefits of expanding trade relations with a wide range of partners, enabling diversification in both imports and exports. Joint procurement of key raw materials and products is considered to be another driver of economic security. President Donald Trump's aggressive policies may encourage U.S. partners to cooperate and facilitate these plans. However, experience shows that negotiating trade agreements is time-consuming and, even if talks reach a successful outcome, ratification is fraught with difficulties. Persuading developing countries to conclude the clean trade and investment partnerships described in the Competitiveness Compass will require additional resources to support partners in meeting ambitious climate and environmental goals.

Funding. The EC stressed that a significant amount of money will be required to implement its objectives, citing assessments spelled out in the Draghi Report, which called for additional investment on the order of €750-800 billion per year. However, more concrete financing plans will not emerge until the middle of the year when the EC will present its draft of the new multiannual financial framework (MFF). The Competitiveness Compass merely reiterates the Commission president's earlier declarations on changing the structure of the budget and creating a Competitiveness Fund to allow more funds to be allocated to projects of key importance to the European economy, such as those enabling the development of modern technologies. In the meantime, the Communication on the new MFF signalled that the disbursement of funds should be linked to the implementation of reforms and investments which would be designed by national authorities together with regional and local ones and reflect the priorities adopted at the Community level.

Until the new multiannual budget comes into force, the options for using Community funds to finance new undertakings are limited. Net contributors to the EU budget do not accept the issuance of another tranche of joint debt to provide more subsidies to Member States. Consequently, the EC can only offer loans to the latter (as envisaged under ReArm Europe) and initiate the use of clauses within the EU's fiscal rules that would allow governments to increase military spending. In addition, the EC has proposed an amendment to cohesion policy that will broaden the possibilities of using its resources to support the development of green technologies or defence and energy infrastructure. In line with the recommendations of the Letta Report, the EC wants to improve the integration of capital markets and attract private investors to European projects.

Conclusions and Outlook. The EC's plans envisage the completion of endeavours that have been facing various types of barriers for years, mostly related to the desire of states to protect selected sectors or maintain control over economic processes. Those longstanding ambitions include the creation of a capital markets union, the adoption of new sources of EU revenue, reforms of the single market, closer integration of energy markets and consolidation of the defence industry, and conclusion of new trade agreements. However, the continued threat from Russia and the crisis in transatlantic relations constitute exceptional circumstances, which, just like the COVID-19 pandemic, may encourage the Member States to take unprecedented decisions on closer integration.

The details of the projected economic revival will be a matter of dispute between the states and political currents supporting the EC. The centre-left fears that a pro-business turnaround could mean a gradual erosion of climate targets, while the emphasis on increased military spending will inevitably lead to cuts in social policy. With regard to the financing of the planned reforms, the southern European states will argue for more joint debt, while the so-called frugal, mainly northern states will propose budgetary shifts without a significant increase in the scale of spending.

For Poland, it is important that the ambitious intentions in terms of decarbonisation and a push for a more innovative economy are realised in accordance with the principle of solidarity and do not translate into an excessive redistribution of EU funds in favour of the most advanced sectors and the most developed countries. At the national level, better support (financial and regulatory) for research projects and the high-tech sector, especially those crucial for the green transition, could lead to a broadening of the circle of entities with the potential to participate in projects financed from the future Competitiveness Fund.