Competitiveness Compass: a path forward for startups?

The European Commission's Competitiveness Compass — its "north star", as put by President Ursula von der Leyen — marks an important milestone in defining the EU's strategy for the next five years. By putting competitiveness at "front and centre," the Compass aims to address the urgent need to align policies, streamline regulations, and stimulate innovation to overcome persistent obstacles such as Europe's lagging productivity, fragmented markets, and the innovation gap, especially in the face of a rapidly changing global landscape.

In accordance with this strategic document, priority should be put on closing the innovation gap. To achieve this, the EU will focus on horizontal enablers such as Single Market integration, financial investments, and skills development.

The EU's goal is to become a global leader in developing, producing, and selling cutting-edge technologies and clean products, while also attracting top talent and investment from around the world.

Given that the recently announced measures align with both the Draghi Report and the new Commission's Political Guidelines, and lack any significant surprises, it is uncertain whether this strategy will suffice for startups — the ultimate crash test for the EU economy's resilience and capacity for innovation. While it provides a solid framework, more could be done. Its success will depend on its execution and adaptability to the dynamic needs of innovators and entrepreneurs.

What's in for startups?

One of the Compass's standout features is its commitment to closing the innovation gap. Proposals such as the **EU Start-up and Scale-up Strategy** and **the 28th legal regime** highlight a welcomed focus on removing barriers to entrepreneurship, harmonising rules, improving access to risk capital, and reducing the cost of failure.

The emphasis on strategic industries — such as AI, quantum computing, semiconductors, and green technologies — is also commendable. Initiatives like the forthcoming **Savings and Investment Union**, the Competitiveness Fund, and the TechEU investment programme, to be deployed by the EIB Group, aim to position Europe as a leader in these future-defining sectors. Moreover, the inclusion of measures to reduce dependencies on critical raw materials and strengthen supply chain resilience demonstrates understanding of the geopolitical risks Europe faces.

The focus on simplifying regulations, cutting administrative burden, streamlining the standardisation system, and enhancing coordination between the Union and its Member States is another strong point. These measures, if effectively implemented, could unlock significant potential within the Single Market and create a more unified playing field for startups to thrive.

Is it enough?

Despite its strengths, the Competitiveness Compass falls short in addressing some critical issues — immediate startup-focused measures are lacking. 50% of startups created fail during one EU mandate. **We cannot afford this**.

Firstly, let's avoid another decade of empty promises regarding simplification and reduction of administrative burden.

EU institutions need to be bold and enact true deregulation (which is not even mentioned in the Compass), instead of continuing regulating merely for political gain, which is counterproductive to European interests. It is high time that the Commission abandons any unnecessary legislative proposals and that existing legislative acts that create barriers instead of solutions are eliminated. If a proposal does not pass a true 'competitiveness and innovation test', then it is not needed.

Startups, which thrive on speed and adaptability, cannot afford prolonged delays in regulatory reforms. The proposed measures must move beyond aspirational goals to deliver tangible outcomes within a short timeframe — we are already behind schedule.

Secondly, while the Savings and Investment Union's long-term goals of unlocking private capital and fostering a unified investment framework are positive, they do not offer immediate relief or create short-term opportunities to compete with more dynamic ecosystems like the US and China. Both nations have created robust VC ecosystems supported by public-private partnerships, tax incentives for investors, and large-scale government-backed funds. The EU's fragmented and less ambitious efforts fail to match these models.

Thirdly, the document's ambitious decarbonisation goals, while commendable, lack a clear strategy for integrating startups into these initiatives. Startups are often the drivers of disruptive innovation in green and digital technologies, yet the proposed frameworks focus more on large-scale industrial players. To grow sustainably, the EU must position startups as equal partners in its green and digital transition strategies.

What more can be done?

While we support the measures put forward by the Commission in the Competitiveness Compass, the EU must aim for the stars and truly redefine its innovation landscape. Incremental improvements are not enough in the face of rapid technological advancement and fierce global competition. This is Europe's opportunity to enact bold, transformative policies that unleash the full potential of its startups and entrepreneurs, securing its future as a global innovation leader.

Therefore, we urge the Commission, the Parliament, and the Member States to:

1. **Be bold:** it is time to turn to action — no more reports, studies and speeches. The diagnosis is clear, now we need concrete solutions. But are the proposed measures sufficient? Or are we repeating the same recipe? A change of

paradigm is urgently needed — the EU must aim at being an economic and innovation power, rather than a regulatory one.

2. **Act fast:** there is no time to lose. We know that legislative procedures take a long time — that is why an interinstitutional agreement is needed to speed up the main initiatives proposed in the Compass. European institutions must put aside any disagreements and row in the same direction.

3. **Deregulate:** one of two things — either a regulatory pause or the elimination of legislation that is creating obstacles. Proposing new regulations to simplify existing ones (some of which have not yet been implemented) is not a solution.

4. **Coordinate:** alignment between EU institutions, Member States, industry, civil society, and citizens is essential for our common future. We must ensure this through assertive and effective coordination.

5. **Think ahead:** the EU needs to shift its focus from constantly addressing past losses to proactively anticipating and preparing for future challenges, some of which remain unforeseen. This entails investing in foresight and ensuring sufficient capacity to tackle these emerging issues.

Next steps

The Competitiveness Compass provides a comprehensive and much-needed vision for Europe's economic future, but it must do more to ensure that startups are at the centre of its strategy. Startups are vital to driving innovation, creating jobs, and maintaining Europe's global competitiveness, yet they remain underprioritised in several key areas.

Allied for Startups will continue working to empower startups, ensuring that they can scale and compete globally. A truly competitive Europe must prioritise its entrepreneurial talent, leverage its innovation potential, and act decisively to reduce fragmentation and regulatory barriers.

Only by translating ambition into action can the EU secure its place as a global economic leader in the years to come — or, as the Competitiveness Compass puts it, "accept division and economic decline".