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A Compass for the EU's Competitiveness

Summary

- **Putting people first and foremost:** The Commission also believes that it is people who underpin Europe's competitiveness. With this in mind, the Austrian Federal Chamber of Labour (AK) is calling for the Just Transition Fund for employees to be multiplied, good work to be expedited and precarious working conditions to be suppressed to promote the development of skills and innovation. Appropriate implementation and further development of the European Pillar of Social Rights is also key.
- **Strengthening sustainable competitiveness:** Instead of price competitiveness with low wages, the focus must be on long-term sustainable competitiveness. In addition to a high level of productivity, key elements include specifically innovation, trust in robust welfare states, legal and planning security for employees and companies, modern public and climate-friendly infrastructures, high standards of education, high-quality public services, good work and high real incomes, an intact environment, functioning social partnerships and social peace ("High Road Strategy").
- **Involve social partners in industrial policy:** AK is in favour of an active and strategic industrial policy through public procurement, state subsidies and investments. This also includes technological clarity and strategic conditionalities, such as European added value. Social partners should be actively involved in this policy. Austria's companies and research institutions could benefit enormously from the coordinated EU-wide investments in key areas and security of supply could be increased.
- **Finally push ahead with investments in the future:** AK is in favour of an investment offensive proposed by Mario Draghi with an annual volume of EUR 750 to 800 billion. However, the need for investment is offset by uncertain funding, which consists of reallocations from existing funding pools and neglects revenue deficits. Care must also be taken to ensure that rising defence spending does not come at the expense of future investments.
- **The Capital Markets Union must ensure financial market stability:** Financial market stability must be the top priority when creating the Capital Markets Union as a means of increasing private investment. Securitisation and the privatisation of pension systems are counterproductive. Consumers must be protected from financial damage through better regulation and strict liability provisions.
- **The advantages of renewable energy must be recognised:** Faster expansion of renewable energies and the electricity grids is essential for greater resilience and sustainable competitiveness. However, the communication fails to mention that the costs for this must be distributed fairly so that the benefits of renewable energies actually reach households and companies.
- **Involve employees in digital transformation:** AK welcomes the focus on AI and digital transformation but calls for better governance and employee involvement as well as binding ethical guidelines. The competition strategy should promote digital skills and secure access to AI infrastructure for small and medium-sized enterprises. In view of the increasing energy consumption of digital infrastructure, a link with energy and climate policy is necessary.
- **No dismantling of hard-won protection standards:** Employee, consumer and socio-political protection standards must be ensured or further expanded and must not be sacrificed to any deregulation agenda. This is the only way to ensure the productivity of employees, which is essential for a sustainably competitive Europe. The 28th legal regime is also to be rejected insofar as it threatens to remove hard-won standards.
- **No coordination instrument for competitiveness:** AK rejects a (further) overarching coordination mechanism in combination with a separate fund in the interests of competitiveness at EU level. This would lead to a duplication of existing structures (e.g. in the EU Semester process) and would give rise to fears of a thematic prioritisation of EU policy, disregarding important issues from the perspective of employees and the general population.
- **The importance of standardisation** in international trade is recognised by AK. However, the scope of the standardisation regulation must be extended to include private standards (ISO, industry standards) to prevent standards from undermining national and EU protection laws.
- AK is sceptical of an internal **Competitiveness Fund** within the scope of the EU Financial Framework. Such a focus threatens to come at the expense of other important objectives with European added value (e.g. within the framework of the ESF).

AK's Position

Employees and companies in Austria and the EU Commission have come under increasing pressure in recent years. Both Austria and Germany have been in recession since 2023. There is a lack of private and public investment, as well as the necessary legal and planning certainty, which will restore confidence, consumption and investment amongst the population and companies and thus revive the economy in the European Union and in Austria. An inadequate climate and environmental policy will further impact livelihoods.

Against this backdrop, the European Commission's communication "A Competitiveness Compass for the EU" provides a programmatic overview of the path it intends to take in terms of EU policy over the next five years. It lists a number of aspects that could increase innovative strength and productivity.

However, there are considerable gaps in the compass. For example, the human factor, which has played a significant role in every structural change to date, is not addressed. A coordinated EU-wide industrial strategy is needed, not least because of the USA's aggressive customs policy.

The need for massive investment is recognised with reference to a necessary Savings and Investment Union. However, there are no reliable statements on the scope and financing of the investment projects for additional funds of up to EUR 800 billion per year. The implementation of the European Pillar of Social Rights is mentioned, but here too there is a lack of specifics. The educational aspects focus on vocational skills, whilst other important areas of education policy, particularly those aimed at securing basic skills and comprehensive opportunities for participation, are pushed into the background. The statements on the need to decarbonise do not mention the conflicting goals of competitiveness and the containment of the climate and environmental crisis. In view of the urgency of these challenges, in the coming years EU policy must be at the service of social and ecological transformation.

A key point in the Compass is the "reduction of bureaucracy". It is to be feared that this pretext will be used to dismantle protective rights for employees and consumers as well as environmental and climate protection regulations. Otherwise, the goal declared in the Compass of reducing the administrative expenses for SMEs by at least 35% appears illusory. The Commission's considerations that when a new EU law is introduced, an existing law is scrapped ("one in, one out" principle) and to cut higher level national

protection standards (i.e. to reduce "gold-plating") were also considered outside the Communication. Such tendencies should be rejected outright. A 28th legal regime – in addition to or instead of the 27 individual national legal systems – also threatens to undermine the rights of employees.

The European Semester is to be adapted to the competitive focus. There is talk of a "modernisation" of social protection systems, and private pensions are to be expanded. These considerations also threaten to exert pressure in the direction of restrictions on social rights.

AK's Position in detail

Putting people first and foremost

The Commission's Communication mentions **quality jobs** and promoting skills across the board. Good working conditions, fair pay and an end to wage and social dumping are, in the view of AK, important cornerstones for the goal of creating quality jobs. AK emphasises that competitiveness must be orientated towards the sustainable development of **prosperity and wellbeing**. In this context, AK refers to **Art. 3 TEU** in which a focus on "well-being", "sustainable development" and "social progress" is enshrined.

There is still a shortage of people in Europe with the training that companies are looking for, whilst at the same time there is a high demand for workers. The European Commission's plan to create a **Union of Skills** whose focus includes adult education and lifelong learning, as well as the development of future-proof skills, is to be welcomed in principle. Unfortunately, however, the Commission fails to provide further details of these plans in the Communication. AK takes a critical view of recruiting qualified specialists from abroad: Austria has a high number of **unemployed people** who urgently need the opportunity to access the labour market and gain qualifications through **training and further education**. They could be deployed in the scope of an **active labour market policy** and targeted training measures. Before we continue to recruit workers from third countries, the recognition of different types of training must be optimised. **AK welcomes the Skills Portability** Initiative announced by the Commission. Where there is labour migration from third countries, parallel measures must also be taken against wage and social dumping.

A **right to further training** must also eventually be created. A legal entitlement to educational measures and parental leave would be a step forward in Austria, for example. Groups discriminated against on the labour market, such as older people, people with a migration background, women, young people and people with health restrictions, must be supported to enable their (re)integration into the labour market.

The comments on employment and education and training policy reveal a key gap: it is missing a clear and coherent governance framework for socio-ecological restructuring. A **Just Transition** is required to also ensure success in the field of innovation. AK therefore calls for the **Just Transition Funds for employees to be multiplied**.

Strengthening sustainable competitiveness

An **inadequate climate and environmental policy will further impair** the productivity of the economy, infrastructure, food production and people's health. The statements on the necessary decarbonisation within the framework of the Paris climate targets do not reference the **conflicting goals** between the increase in **competitiveness** and the **containment of the climate and environmental crisis**. Not only are there conflicting goals in the reduction of GHG emissions but also in the use of raw materials, ecosystems, species protection, air, soil and water.

Furthermore, it must be recognised that aid for the reduction of greenhouse gases in installations participating in the **EU Emissions Trading System (EU ETS)** will only be effective overall if the corresponding number of certificates is withdrawn from the market and cancelled. Otherwise, a company's emissions would be reduced, but the way the EU ETS works would mean that the certificates released would be used by other companies. The Commission should therefore propose a coordinated instrument which, in the event of state aid for emission reductions at ETS installations, removes the corresponding number of certificates from the market. Whether the funding providers or the funding recipients are obliged to do so is a question of how the instrument is designed.

AK welcomes the idea of closing the innovation gap by providing increased support for start-ups, scale-ups, **targeted and strategic investments** in biotechnology, advanced materials, space technologies, artificial intelligence, life sciences, circular economy and clean technology. In some of these key areas, Austria's companies and research institutions are among the best in the world and could benefit enormously from these investments.

This will also improve Europe's research and innovation landscape by **focusing on research priorities and ensure they are better coordinated** and by increasing research investment to an average of three percent. From AK's point of view, however, the precarisation of university employment relationships is counterproductive, as it has become a stumbling block for Europe's innovative strength and urgently requires a solution.

AK considers the focus on the **EU Multiannual EU Financial Framework from 2028**, which is almost exclusively focused on competitiveness to be extremely problematic. Whilst simplified funding applications are warmly welcomed, **the priority of EU funding must also be to benefit society**. The volume of the **European Social Fund** must be significantly increased due to rising unemployment figures, the challenges of socio-ecological transformation and to benefit **disadvantaged groups**.

Active and strategic industrial and economic policy

In the view of AK, a **coordinated industrial policy** between European and national levels is both necessary and overdue. All industrial policy subsidies should be tied to social and ecological conditionalities. The **social partners** should be involved in this strategic and active industrial policy.

In its Communication, the EU Commission states "Mobility is key for competitiveness". But it is mainly about the automotive industry, which is currently in crisis due to outdated technologies. In the opinion of AK, the key finding that Europe has a very strong rail industry must be acknowledged accordingly and brought into focus. The rail industry is currently a growth driver, creating jobs and at the same time contributing to the mobility transition and climate targets.

AK calls for a stronger focus on public services of general interest and investment in public infrastructure such as public transport, water supply and disposal, health and social services as well as health centres, digitalisation, childcare and providing support for those in need of care. Comprehensive public services with good public infrastructure make an important contribution to sustainable competitiveness.

AK takes a positive view of the **stronger strategic role of public procurement** in important sectors and key technologies, the increased consideration of European added value and the simplification of procedures as defined in the Communication. AK advocates the introduction of a de minimis Regulation to facilitate regional procurement and strengthen the positive CO2 footprint. The EU Commission should **stop harmful**

state aid competition between member states to prevent competition being distorted in favour of richer member states.

AK criticises that the EU is undermining its own efforts by demanding technological neutrality. **Technological neutrality prevents prioritisation** and clear decisions that are necessary for a sustainable industrial policy. The EU should agree on a common technological path and make clear technology decisions in order to achieve global technology leadership. Technological neutrality makes sense in the early stages of research and development, but mature technologies require clear guidelines. The German automotive industry serves as an example of how the back and forth in technological decisions can be damaging.

AK welcomes the efforts of the Commission to **systematically increase security of supply** and to increase the strategic independence of the EU from third countries by diversifying supply chains. This protects Europe's companies from unfair competition and promotes greater European cooperation, for example in the procurement of raw materials. In addition, AK calls for the targeted and rapid **development of a European circular economy** that contributes to these efforts.

Finally push ahead with investments in the future

AK welcomes the investments outlined in the Competitiveness Compass with an annual volume of EUR 750 to 800 billion in strategic areas and the greater involvement of the European Investment Bank (EIB) in financing. However, the current communication fails to touch on the enormous funding requirements already outlined by Mario Draghi (around 4.5% of EU GDP in 2023). Instead of joint financing of important European public goods, the Commission is relying on **reallocating existing funding pools** and **at the same time neglecting existing revenue deficits**. The lack of a uniform corporate tax base and inadequate measures against tax evasion and avoidance cause the EU annual losses in the billions. Instead, private investment incentives are to be strengthened, which are essentially based on the deepening of the Capital Markets Union. Rising defence spending must not be at the expense of future investments.

Several statements in the Communication are aimed at making EU funding and the **European Semester** focus more strongly on competitiveness. There is a danger here that social policy objectives will take a back seat. In addition, requirements within the framework of the European Semester could **restrain investment** by both private and public bodies. AK calls on the Commission to take measures to

boost **confidence in the economy** and **stimulate investment** in the EU economies.

The Capital Markets Union must ensure financial market stability

The **stability of the financial sector** must have top priority in the Capital Markets Union from AK's point of view and be accompanied by initiatives for the comprehensive protection of retail investors. Past investment scandals such as Meinl European Land, ship funds or the Alpine Bau bankruptcy have shown that the lack of regulations can lead to losses or even the total loss of savings for groups of people such as employees and pensioners. To better protect consumers, AK is therefore calling for appropriate regulation and strict liability provisions.

AK rejects pensions reforms with a stronger focus on **capital funded pensions**. Occupational and private pensions are no substitute for a reliable and efficient public and solidarity-based pension system. The pay-as-you-go principle has proven to be resilient and supportive of purchasing power, especially during financial crises, and is better able to cushion biographical risks. AK takes a critical view of further promotion of capital funded, private pension provision through fiscal incentives. In addition, many countries used public funds to bail out pension funds during the financial crisis, which highlights the risks and uncertainties of the financial markets. A reliable and supportive public pension system must therefore not be replaced by private pension products.

A **standardisation of capital market regulation** and supervision of the capital markets and harmonisation of insolvency law can overcome the fragmentation of the European capital markets, as long as this does not lead to a reduction in the protection of retail investors and employees. On the other hand, AK is critical of the promotion of securitisation markets, as the securitisation, re-securitisation and structuring of loan instruments contributed to the financial crisis following the decline of Lehman Brothers.

The **public sector should above all reduce uncertainty**. The low private willingness to invest is mainly attributed to geopolitical risks and the high volatility of prices, especially energy prices. A stabilising economic policy and a clear regulatory pathway can reduce uncertainties. The assumption of risks by the public sector for private investments should be limited to precisely defined measures for key technologies. In other cases, there is insufficient justification.

Using the advantages of renewable energy

The Compass rightly recognises that faster expansion of renewable energies is an important basis for greater resilience and sustainable competitiveness. This requires enormous **investments**, especially in **electricity grids**. Measures are also needed to speed up approval procedures. Whilst the Compass provides an accurate analysis in this respect, it remains largely unclear **how the expansion of renewables and the electricity grids can be achieved as cost-effectively as possible**. However, this is essential to ensure that energy remains or becomes more affordable for households and companies and to reduce the price gaps compared to other regions of the world.

To this end, it is necessary that the **cost benefits of renewable energies** actually **reach households and companies**. The measures outlined by the Commission are unlikely to go far enough here. After all, whilst the focus on long-term electricity purchase agreements could lead to greater stability, it is doubtful that this will actually reduce the price level. This would require **the electricity market to be decoupled from gas prices**, especially in times of crisis. The electricity price must reflect the **actual production costs** of low-cost renewable electricity production.

Ultimately, affordable energy is not only directly but also indirectly important for sustainable competitiveness; because the **energy transition** requires enormous **efforts by society as a whole**. For the energy transition to have a positive impact, **it must be accepted by the population**. Therefore, the **social dimension** of the energy transition must also be taken into account. The first issue here is a **fair distribution of the transformation costs**.

For example, the **costs for the necessary grid expansion must be distributed proportionally**. At present, however, these are mainly borne by consumers, with households in particular bearing a disproportionately large share of the grid costs. **Electricity producers** in many member states, on the other hand, only contribute a small share – even though they are heavily dependent on grid expansion. A **greater producer participation** is therefore important to ensure acceptance of the energy transition. Furthermore, **vulnerable households** must be protected. The latest efforts in the course of the reform of the internal electricity market, for example in the area of energy sharing, are to be welcomed here. The EU Commission should work towards implementing these measures as soon as possible.

Finally, an **Evaluation of the existing energy taxes** to reduce energy prices in the short term would also make sense. However, it is important that this **energy efficiency targets should not be counteracted**.

Digitalisation and artificial intelligence

The focus on AI and digital transformation is to be welcomed in principle but does not take central aspects of governance and employee participation into account. The EU has a **pioneering role in AI regulation** but this **must be consistently embedded in the competition strategy**. AI-supported technologies, including algorithmic management and automation, must **not lead to more control over and insecurity for employees** but must, amongst other things, strengthen their autonomy. A binding integration of co-determination and ethical guidelines for AI applications in the workplace is crucial to reconcile innovation and social responsibility. **Technological innovation must go hand-in-hand with social innovation**. Well-educated employees, flourishing science and research as well as the welfare state are competitive advantages and form the foundation of a strong economy.

AK demands that the competition strategy **promotes digital skills and ensures** that all employees benefit from further training measures. Small and medium-sized enterprises should be given access to AI infrastructure so that they are not left behind by the digital transformation.

The **energy consumption of the digital infrastructure associated with the spread of digitalisation is increasing rapidly**. According to forecasts by the European Commission, the energy consumption of data centres will increase by 28% to 98.5 TWh by 2030. The establishment of "AI gigafactories" to increase computing capacity is an important economic policy project. However, AK is calling for a link to energy and climate policy.

No dismantling of hard-won protection standards

AK has already spoken out several times on the issue of **bureaucracy and administrative burdens**. Amongst other things, we refer to [AK statement](#) on the Letta report and an [AK Vienna study on the Better Regulation Agenda](#) at EU level.

Simplifications of procedures, adjustments and deletions of regulations that no longer bring added value for employees, society and companies are generally to be welcomed. Initiatives such as a **one in, one out principle**, according to which an existing law must be deleted for a new one, or the

campaign against so-called **gold plating** which aims to ensure that national protection standards above the minimum level defined in the EU directives are withdrawn, can only **be described as factually absurd**. Employee protection provisions, other employee rights, consumer protection and measures for socio-ecological restructuring **under the guise of reducing bureaucracy** must be resolutely rejected.

The EU Commission's plans **to reduce reporting obligations** by 35% for SMEs seems arbitrary. No account is taken of the fact that regulations for companies are generally issued on the basis of considerations in the public interest. It is obvious that **legitimate protection goals could be undermined** if rules for companies are to be removed to an arbitrary, prescribed extent. It should also be noted that it is partly about transparency and information obligations, the omission of which can have a negative impact on employees, consumers and companies themselves. At this point, AK is firmly in favour of **sustainable and socially responsible corporate governance**.

In this context, AK expressly criticises the plans to change the **SME definition** further: With a category of mid-cap companies, companies previously classified as large companies will in future be considered SMEs. Today, around 99.8 % of companies already fall into the SME category. The **redefinition** would expand the circle of **SMEs once again** and with it the concept of a small or medium-sized enterprise **ad absurdum**. This exempts a large proportion of companies from significant obligations to the economy as a whole and to society and shifts the costs of company and owner failure onto creditors, employees and the public purse. Even large industrial companies with 1,000 employees could operate as SMEs.

The now planned comprehensive **Omnibus Regulations** may even lead to the benefits of legal provisions in individual measures being overlooked or not considered carefully enough in the course of a deregulation frenzy, which is why AK strongly opposes the dismantling of important rules and reporting obligations in the course of the Omnibus initiatives.

Inadequate labour law regulations are often the cause of missed value creation opportunities in a given industry. Under these initiatives, **favoured precarious working conditions** could ultimately lead to an **exodus of workers** from an industry. Deregulation is therefore not a silver bullet. The fact is disregarded that it is in the nature of minimum standards in directives that they only specify the lowest level of regulation and that member states can also decide to set higher levels of protection. Calling that into

question would mean treating EU Directives like EU Regulations and **restricting democratic decision-making processes** in member states. When laws go beyond minimum standards, the aim is often to ensure socially desirable higher levels of protection for employees, consumers and the environment. The AK points out that **failure to legislate** can also result in high costs for national economies.

The situation is similar with the proposal for a **28th legal regime** to be introduced. Start-up and scale-up companies should be free to decide whether to opt for one of the 27 national legal systems or a new legal system at EU level in certain areas of labour, insolvency or tax law. Companies will always choose the legal system that is best for them. However, the particular contractual partner obviously cannot do this. It is also unclear at what point a start-up company becomes a normal company and which legal system should then apply. The idea of the 28th legal regime must therefore be clearly rejected. It would undermine protection standards, lead to problems of interpretation and lengthy court proceedings.

Completion of the EU Single Market

With regards to **completion of the EU Single Market**, AK refers to the [AK opinion](#) on the Letta report. In AK's opinion, it should be emphasised that the objectives for the internal market defined in Article 3(3) of the Treaty on European Union, which also include a competitive social market economy, full employment and social progress, as well as a high level of protection and improvement of the quality of the environment and the fight against social exclusion and discrimination, must be pursued in a targeted manner. It is surprising that Enrico Letta und Mario Draghi, like many others, discuss the lack of completion of the internal market on the basis of the different legal systems (according to that approach, federal states such as Austria would also not be considered a fully formed internal market). It would make more sense for the internal market to be realised not through abstract legal categories but rather through the establishment of **large common infrastructure systems** for the benefit of all (such as in the case of energy and rail networks).



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About us

The Austrian Federal Chamber of Labour (AK) is the legal body which represents the interests of approximately 4 million employees and consumers in Austria. It represents its members on all social, educational, economic and consumer policy-related issues at a national level and in Brussels at an EU level. In addition to this, the Federal Chamber is also part of the Austrian Social Partnership. AK is registered under number 23869471911-54 in the EU Transparency Register.

The AK EUROPA office in Brussels, which was opened in 1991, is tasked with representation of the Chamber of Labour vis-à-vis European institutions and interest groups, the monitoring of EU activities and the transfer of knowledge from Brussels to Austria, as well as lobbying in Brussels for the expert opinions and positions of the Chamber of Labour that are developed together with the regional