The European Commission's Competitiveness Compass for the EU

– Swedish Enterprise's Views –

Executive Summary

The Confederation of Swedish Enterprise welcomes the European Commission's Competitiveness Compass for the EU. The Compass points to the need for tackling longstanding barriers and structural weaknesses, and we share the European Commission's analysis that Europe must address the need for boosting productivity growth. At a very fundamental level, securing growth is necessary if we are to successfully address the great challenges of our time – not least those related to the new geopolitical situation. However, in the same way that the Compass highlights Europe's innate strengths, we firmly believe there are reasons to be optimistic about Europe's economic prospects, provided the right policies are pursued.

Three transformational imperatives to strengthen competitiveness

Swedish Enterprise agrees with the need for Europe to **accelerate its rate of innovation**, not least in harnessing new breakthrough technologies and facilitating the growth of those businesses that bring these innovations to the market. This will require conditions for commercialising tech but also services innovation, making better use of existing digital capacities and development of new ones.

Notwithstanding the lack of information at this stage, some of the flagship actions aimed at accelerating innovation hold the promise of adding real value if properly developed: the Start-up and Scale-up Strategy, the European Innovation Act, the European Research Area Act, the Data Union Strategy, the EU Quantum Strategy, the EU Bioeconomy Strategy and the Space Act.

In order for these actions to drive innovation-led productivity, some principles for policy development need to be taken into account. The EU needs to attract more private investments and release the power of the market. Policy must be evidence-based and economically sound, respond to market failures and focus on creating a business-friendly environment that meets the needs of business. In the area of digital policy, the EU has already adopted a large number of legislative acts, and businesses struggle to comply with the new and forthcoming acts within that area. Focus should therefore be on reducing the administrative burden, overlaps and uncertainty. The issue of legacy frameworks also needs addressing. Without a thorough overhaul of personal data processing, by revising the GDPR, the EU cannot expect to be successful in AI innovation and use.

Swedish Enterprise's starting point for **decarbonisation and competitiveness** is that the current climate and environmental ambitions are to be upheld and that decarbonisation and the enabling of a more circular economy drives investments and growth for European companies. The EU needs a clear route to climate neutrality, which enshrines energy and resource security, competitiveness as well as long-term commitments to climate resilience and biodiversity. Even though the EU's higher decarbonisation ambitions impose short-term costs, they also incentivise early adoption of new technologies and present a business opportunity. The long-term consequences of slowing down will lead to a further loss of competitiveness and a failure to fulfil our climate obligations. However, the regulations to fulfil the ambitions need to enable rather than restrict businesses to deliver the green transition.

Some of the initiatives to decarbonise the European economy while boosting competitiveness have the potential to drive positive change if properly developed, such as the Clean Industrial Deal, the Circular Economy Act, the Chemicals Industry Package and the Strategic Dialogue on the automotive industry. Other actions, such as a new State Aid Framework, warrant more caution. All flagship actions aimed at decarbonising the EU economy while boosting competitiveness must primarily focus on refraining from excessive and heavy-handed state intervention, putting a focus on addressing market failures, creating the framework conditions for a stronger business case while embracing the principle of tech-neutrality.

Given multidimensional and coinciding threats such as the Russian war of aggression against Ukraine, increasing geopolitical tensions, and the threats posed by climate change, Swedish Enterprise believes that trade diversification and strengthening industrial capacity for defence and space is crucial in order to **reduce excessive dependencies and increase security**. This starts with building a strong, stable and resilient economy based on Europe's strengths.

Several flagship actions listed in the compass can serve a useful purpose in this endeavour, if properly developed. They include expanding EU's network of free trade agreements, adopting the Preparedness Union and Water Resilience strategies and putting forward a White Paper on the Future of the European Defence. Other actions such as the initiatives related to critical medicines, joint purchasing of critical raw materials and revision of public procurement directives in a 'Buy European' direction warrant more caution. All initiatives developed to reduce excessive dependencies and increase security must be based on sound market principles and an EU 'open for business' default setting at its core.

Horizontal enablers of competitiveness

The clear focus on **better regulation** and reducing the regulatory burden is more than welcome, as is the ambition to avoid overlapping requirements. Combined with a goal to secure predictability and clear rules and regulations, these ambitions are exactly right, as is the focus on addressing the trickle-down effects on smaller companies in the value chains that are indirectly heavily impacted by EU rules and regulations. The SME and competitiveness check needs to be fully implemented. In addition, a revised and reinstated interinstitutional agreement between the institutions will be one of the most important instruments to ensure that competitiveness is at the heart of the European legislative machinery and over time.

A new **Single Market Strategy** is vital to enhance the competitiveness of the EU. It is of utmost importance that the focus is on core issues of removing trade barriers, making use of the 'better regulation' toolbox and improved enforcement. The strategy should prioritise deepening the Single Market in areas such as services and intellectual property where there are significant economic benefits to greater integration. Furthermore, the proposed **Competitiveness Coordination Tool** is welcome in the sense that it emphasises the important role of governments in enacting structural reforms at national level that further enhance competitiveness. It is also positive if it leads to a streamlined European Semester that focuses on reforms and investments for competitiveness.

On the issue of **financing competitiveness**, investments should be mainly driven by the private sector and the primary task of policy makers in this respect is to ensure the right framework for private sector investments. As regards public funding, the compass fails to address the how and costs of the objectives outlined. As for example the IMF points out, active industrial policy rarely creates long-term welfare benefits. It is mostly a short-term and expensive remedy that leaves taxpayers and future generations to bear the financial burden. That said, there are of course reasons to use supra-national and national state aid where market failures are identified and in areas where there is an urgent need such as defence and rapid decarbonisation. However, before public money is used, problems must be identified and the root cause of the problems investigated.

The Compass rightly points to the major challenge related to **skills shortages** in Europe, accentuated by a shrinking working age population. Therefore, efforts by member states that strengthen labour supply, supported by relevant actions at EU level, are imperative. Actions to equip, upgrade and make the skills of workers in Europe highly relevant for the labour market will help boost growth in Europe.

At the end of the day, the Compass launches flagships whose cargo is largely unknown. In developing this content, we encourage the EU institutions to engage with business throughout the policy process. A stated goal of the Compass is to develop new ways of working together to achieve better outcomes. As an organisation representing 49 member organisations and some 60 000 companies, we stand ready to contribute with our insights, and work with the Commission, member states and the European Parliament to remove obstacles and unlock entrepreneurial potential of Europeans.

Introduction

The Confederation of Swedish Enterprise welcomes the European Commission's Competitiveness Compass for the EU. We share the European Commission's analysis that Europe must address the need for boosting productivity growth. However, in the same way that the Compass highlights Europe's innate strengths, we firmly believe there are reasons to be optimistic about Europe's economic prospects, provided the right policies are pursued.

While the Compass identifies Europe's competitiveness challenge as being about improving productivity, the Compass lacks an extensive analysis of key drivers of productivity to underpin the policy actions. This is unfortunate, as developing measures to raise productivity growth requires insights, based on evidence, of what factors have a positive impact on productivity.

From what we know, what holds promise? The ambition to enable a business case for clean production chimes with our message that we need a green transition that delivers sustainable outcomes enabled by productive and market-driven investments and innovation. Another area that could act as a real driver for innovation-led productivity is if the ambition of this Commission to deliver an unprecedented simplification effort is realised. Beyond simplification, EU legislators may also need to be prepared to favour a greater level of risk taking, and for this approach to be reflected in policy content, if the EU is to accelerate its rate of innovation. If anything, the ability to achieve world-class regulation is probably what will constitute the real litmus test on whether this Compass is able to deliver on its promise to boost competitiveness. The ambition of the Compass to pay greater attention also to enacting growth-enhancing reforms at national level is welcome, as reflected in the proposed Competitiveness Coordination Tool.

From what we know, where are the risks? Although we share much of the analysis, the general thrust and ambitions, the Compass also brings to the fore issues where we see potential risks. One such area are the potential trade-offs inherent in the twin ambition to decrease dependencies while increasing economic efficiency. In its quest to increase its level of self-sufficiency, the EU must make the removal of barriers its main objective and remain very careful in selecting which areas are to be subject to state intervention as the risks are considerable in terms of market distortions, ultimately stifling innovation, and reducing economic dynamism, and thereby exacerbating historic issues hindering European productivity. We believe there is much truth in that there is no competitiveness without competition, and that this should be a guiding principle for developing the flagship actions throughout the Compass.

Flagships waiting to load their cargo. It should be said that most of the content of the flagship actions outlined in the Compass are yet to be defined. In developing this content, we encourage the EU institutions to engage with business throughout the policy process, and to live up to the Compass' stated goal to develop new ways of working together to achieve better outcomes.

Three Transformational Imperatives: The Flagship Actions

Closing the innovation gap

Start-up and Scale-up Strategy

Swedish Enterprise welcomes the development of a Start-up and Scale-up Strategy and the ambition to improve the business environment for innovative companies in the EU. Start-ups play a crucial role in economic growth by developing and applying new technologies and innovations, thereby challenging incumbents, driving change in mature companies and increasing the overall efficiency of the economy.

While a focus on facilitating for start-ups and scale-ups is welcome, there needs to be a wider recognition among policy makers that rules where SMEs are exempted, may still impact smaller businesses indirectly through their engagement with larger businesses. Hence, the starting point for policy development should be to create framework conditions that favour businesses of all sizes. In formulating a strategy, it is crucial that the underlying problems are correctly understood. When comparing funding levels between different parts of the world, it is important to keep in mind that financial market outcomes are greatly driven by the real economy. The lower funding levels of EU startups are not necessarily a reflection of lack of access to capital, but rather the lack of viable investment opportunities. In this endeavour, strengthening the Single Market is key, as innovative companies often require large investments, which require a large market in order to be financially viable.

The strategy must consider how important intangible assets are for these actors. For instance, investors avoid investing in situations where there are uncertainties linked to intellectual property (IP) ownership. Worth highlighting in this context is for example the legislative situation in Europe regarding patents for emerging technologies. Since this is an area where more start-ups and (potential) scale-ups are active, many other actions may miss the mark if the patenting issue remains unsolved.

In the Compass it is claimed that European actors are good at patenting, but not as good at taking these patented inventions to market. However, as many innovations, like service innovations, are not at all patentable, a focus only on patentable inventions paints an incomplete picture of the challenge involved in taking ideas to market in the EU.

28th regime

We are not aware of any evidence that a 28th legal regime would increase the competitiveness of European businesses. There is a risk that this would be a complex and difficult project, and that the outcome would not meet the simplification aims of the Commission.

If the EU Commission would nevertheless initiate work on a new 28th legal regime, a few general considerations include:

- Any new rules must clearly constitute a 28th regime that is voluntary, providing an additional possibility, not forcing any company to use it, and not impacting existing local rules and regulations in the member states.

- Complex regulation must be avoided for any rules to be attractive for businesses. Any new rules must be easy to apply, considering the important basic principles of better regulation, proportionality, and subsidiarity as well as competitiveness. Thorough impact assessments are key.

Alternative and possibly more meaningful measures on EU level could include (i) gathering information in an easily accessible manner, making it easy for companies/stakeholders to find out how to start and run a business in the different member states, and (ii) facilitating structured coordination between member states to exchange best practices, which can help member states develop their national structures.

European Innovation Act

Swedish Enterprise welcomes the initiative of a European Innovation Act. US and Chinese industry are today leading the innovation in critical technologies such as AI and quantum. In order to catch-up, the EU needs to attract more private investments and release the power of the market. Policy must be evidence-based and economically sound. The need for reforms cannot be understated. Politicians need to go back to basics and pursue a more market-oriented approach and a clear focus on global competitiveness to attract private investments. Venture capital (VC) is attracted by ideas and opportunities, not geography. Public VC funds are therefore most likely to fail. Furthermore, the European Innovation Council (EIC) should be discontinued or reformed.

Research cooperation between academia and businesses should be at the core of EU R&D policy and PPP-models should be developed with the aim of attracting more private investments in R&D. Missions in pillar two are not based on excellence, are lacking a clear R&I component and are not relevant enough for industry. They should therefore be moved outside future framework programs.

There are some concerns as far as what is the target. First of all, regarding how to define innovation. Sometimes innovation is described as an invention, an idea or a research result. However, in order to talk about innovation there has to be at least a potential market introduction. When considering ways to facilitate taking ideas to market, it is necessary to relate to IP issues. This is in fact sometimes even an obstacle. An innovation act that does not link to those issues will not be fit for purpose.

Secondly, an innovation act must define what kind of innovations that are within the scope. In many situations innovation equals technological innovation. This should be avoided. In the economy today service innovation is just as important. These types of innovation are not necessarily faced with the same challenges as technological innovation.

Thirdly, when discussing IP and innovation the focus is too often on the protection issue. However, for many innovative operations the IP is the way to commercialise. This is especially true when it comes to service innovation. This must be considered.

Regarding regulatory sandboxes, the need for these is growing due to the digital decade regulatory jungle. Either Europe needs to significantly increase innovation testing in sandboxes, or the regulatory frameworks should be simplified, fully harmonised and made fit for purpose through a review focusing on technology neutrality, predictability and a level playing field. Implementing acts should be avoided as far as possible. To support competitiveness, sandboxes need to focus more on fostering innovation and less on regulatory learning for the authorities.

European Research Area Act

A fragmented research area is a European weakness and if our continent is to succeed as a global R&D powerhouse, increased ambitions are clearly needed. The proposal of Enrico Letta to lower the thresholds for increased mobility and research collaboration is positive. There is a clear rationale and societal value for the EU to focus on increased and broadened use of research infrastructure.

Europe needs to streamline the next framework programme with a clearer focus on building competitiveness and attracting private investments. This requires more of a bottom-up allocation of resources rather than politically motivated top-down initiatives.

Data Union Strategy

The pending Data Union Strategy will draw on existing data rules to ensure a simplified, clear and coherent legal framework for businesses and administrations to share data seamlessly and at scale, while respecting high privacy and security standards. Swedish Enterprise supports the objective of the strategy. Increased availability of high-quality data is an essential component of developing AI. The strategy should focus on:

- Accelerating the development of new systems and applications, including investments in advanced computing capabilities and digital infrastructure.
- Equipping the workforce with essential digital skills to ensure that everyone can benefit from the digital economy.

The EU has already adopted several legislative acts within the framework of the European Digital Strategy. Businesses struggle to comply with the new and forthcoming acts within that strategy. Drawing on existing data rules i.e. not adding more rules and simplifying the regulatory regime must therefore be the overall objective with the Data Union Strategy.

EU Cloud and AI Development Act

Swedish Enterprise calls on the EU to refrain from new regulatory initiatives in the digital area that has already been massively regulated during the previous term. New initiatives should only be presented when there is a concrete market failure, which is fully in line with the Draghi report. However, we acknowledge the need for regulatory clarity. Importantly, the act must address the need for simplification as it builds on newly adopted and complex legislation.

The act is expected to set minimum criteria for cloud services offered in Europe. In this regard, businesses should be able to choose services regardless of where such service providers are domiciled. Furthermore, those offering such services must be able to address the EU as a single internal market, not as 27 separate ones.

EU Quantum Strategy and Quantum Act

Global investment in quantum technology has surged over the last decade and while the technology is still in its early stages, we are now approaching quantum advantage with the potential to redefine how we process data. By leveraging the principles of quantum mechanics, this cutting-edge technology can solve complex problems at speeds unimaginable for traditional computers. Quantum computing has the potential to revolutionise R&D by increasing productivity exponentially. Biotech and chemistry are two examples. Quantum safe encryption is a critical issue for the business sector and society as a whole.

The development is led by private tech companies in the US and state-controlled companies in China. The EU is also making significant investments in development, not least by the AI Factories and HPC-initiatives, but increased cooperation is needed to leverage the effort. Otherwise, the EU risks falling behind once again. As Draghi has pointed out, it is not more ex-ante regulation that is needed, and the associated impact assessment must spell out how competitiveness is affected by proposals and clearly state which market failure to be addressed.

European Biotech Act and Bioeconomy Strategy

We welcome an EU Bioeconomy Strategy but would like to highlight the fact that the supply of biomaterials – especially from the forestry sector – is unlikely to meet the level of demand that will arise in the coming years from all different industries looking to obtain biomaterials. It is also important to ensure that all potential subsectors of the bioeconomy are targeted by the Strategy, including for instance the marine bioeconomy, the agricultural sector and the food processing sector, in addition to the forestry sector. We welcome initiatives that boost the growth potential of the bioeconomy but would like to emphasise the consideration that also must be given to the ambitions to increase carbon storage and strengthen biodiversity, within the frame of the LULUCF and Nature Restoration Regulations.

Space Act

Swedish Enterprise welcomes the increased focus on space. The number of companies involved is limited but turnover makes it a substantial market. Of great importance for Sweden and our companies is increased investments and focus on SMEs. This is a domain for both military and civilian purposes including communications, AI etc.

Review of the Horizontal Merger Control Guidelines

Competition rules play a key role in safeguarding well-functioning and competitive markets, while granting companies legal certainty and the possibility to adapt their business according to new market conditions and opportunities. The current merger regime in the EU is generally fit for purpose. Updated guidelines should avoid radical changes but strive for increased process efficiency and transparency.

We do not find the current rules being too strict in a general sense, and we would therefore caution against watering down the rules. When it comes to acquisitions of smaller high-value companies, in the wake of new jurisprudence from the courts, we would urge the Commission to consider the need for companies to have predictability regarding whether the transaction will be subject to scrutiny, while at the same time limiting the number of transactions that will be subject to such new rules.

Digital Networks Act

The Digital Networks Act (DNA) addresses the future needs of digital infrastructure in the European Union. It aims to increase investments in state-of-the-art digital infrastructure, including modern fibre networks, wireless and satellite solutions, investments in 6G and cloud computing capabilities. It is also said to correct course as Europe is far behind its own 2030 Digital Decade targets for infrastructure connections. Swedish Enterprise argues that the goals of the 2030 Digital Decade Policy Programme should be revised and made more ambitious going forward and with greater focus on application rather than simply access.

It is important that all member states quickly implement new technology for digital infrastructure and make it available for the development of new services. For maximum effect, it is also important to stimulate the phasing out of legacy technologies. Developing new technology while retaining the old is costly and reduces the positive societal effects that derive from using new technologies. In addition, it is of utmost important to reduce the current regulatory complexity as it hinders innovation and investment. Businesses need a simplified and coordinated framework and less ex-ante regulation.

To compete globally, the EU needs to better support frontrunner member countries and regions. Current regulations have too much focus on markets in the EU that are lagging behind and thus have a levelling effect that inhibits rather than supports frontrunners. Greater spectrum harmonisation, more power to the EU and goals that fall short of frontrunners' abilities risk inhibiting the development of new technologies, new business ideas and with them the willingness to invest in Europe. To support frontrunners, the EU needs to rely on market forces rather than to regulate and control innovation and leadership.

A joint roadmap for decarbonisation and competitiveness

Clean Industrial Deal

The Clean Industrial Deal sets out several important premises for the European industry to stay at the forefront of the green and digital transition, while also focusing on how to create better conditions for industry to stay competitive. As a matter of priority, the climate ambitions must be upheld, while at the same time ensuring a greater focus on ensuring enabling conditions. Moreover, it is important that the Commission proposes tangible measures to improve conditions for European businesses. The Commission needs to address the structural challenges of the EU's high energy prices in a technology neutral way (e.g. work to phase-out expensive price setting fossil baseload technologies), a coherent approach to make EU permitting policy more effective and technology neutral. In addition, the Commission and member states need to carefully reflect on how to improve the EU energy union, drawing on recommendations from the Draghi report to build on the experiences of e.g. the EMU, where ambitions to deepen cooperation between member states are balanced with the responsibility of member states for their baseload and structure of their own electricity market.

Read more on our guiding principles for a Clean Industrial Deal here.

Industrial Decarbonisation Accelerator Act

The European industry has the daunting task of keeping up with ambitious climate targets while staying competitive. As emissions already have been reduced considerably, further reductions will be gradually more difficult and costly to achieve. The industry is in need of further simplifications when it comes to permit procedures and improved infrastructure. For certain sectors and technologies, certain public interventions such as contracts for difference could be considered. We welcome this initiative and calls on the Commission to ensure a focus on improving framework conditions for industry in general, and in particular to achieve the climate targets. In addition, the Commission's new lead market approach needs to carefully balance the need to incentivise clean tech production and reduce the regulatory burden of European companies, with the aims of safeguarding efficient competition and impacts on taxpayers. Moreover, the lead market approach should refrain from introducing mandatory sustainability and non-price criteria in B2B transactions.

Electrification Action Plan and European Grids Package

The EU Electrification Action Plan is expected to build on the adopted legislation and the Action Plan for Affordable Energy to address the key barriers to and promote electrification of demand. It is important in this context to put the technology neutrality principle advocated by the new Commission into practice. In addition, the Commission and member states need to carefully reflect on how to improve the EU energy union, drawing on recommendations from the Draghi report to build on the experiences of e.g. the EMU where ambitions to deepen cooperation between member states are balanced with responsibility of member states for their baseload and structure of their own electricity market.

New State Aid Framework

The state aid rules are crucial to safeguard a level playing field in the EU, while catering for the need to address market failures, in particular to support the green transition. The Commission will soon present a new framework – the Clean Industry State Aid Framework (CISAF). The rules are primarily based on the Temporary Crisis and Transition Framework (TCTF). We welcome the fact that the Commission through these rules aspire to create predictable and efficient state aid processes, and that the rules give sufficient time and predictability for companies, as they are to expire in 2030.

However, the possibility to grant extensive support to mass production of clean technologies are problematic. These are products where competition is fierce, and the risk of competition distortions on the internal market is considerable. We take note that the maximum aid thresholds have been reduced compared to the TCTF but are still concerned that this might lead to investments in production which are not competitive on the global market, and relocation of investments based on aid rather than the fundamental investment conditions on market terms.

In addition, we strongly advise against including the possibility to grant "ad hoc matching aid". This will lead to projects being overcompensated from a business case point of view and will risk leading to a state aid race between countries. The matching aid clause was initially included as a response to the US IRA initiative. Given recent political development overseas, and the fact that investment conditions in green technologies thereby have deteriorated, the reason for having a matching clause seem to have disappeared.

Chemicals industry package

We welcome this initiative but would like to strongly emphasise the fundamental importance of balancing the protection of health and the environment with the strengthened competitiveness of all industry sectors that are dependent on chemicals in their value-chain. All ambitions to phase out or regulate groups of chemicals (for instance PFAS) must be pragmatic and socioeconomically responsible. It is also critical that regulations allow for substantial transition periods, especially in cases where there are no viable substitution options in place today. Derogations are also needed for essential value-chains, including but not limited to pharmaceuticals, defence industry and energy production. We would also like to emphasise the centrality of complementing chemical regulation with substantial investments into innovation and substitution research. Lastly there is a need for the EU to investigate some form of collective solution to finance the removal of for instance PFAS already in circulation, in products and in natural environments as this today falls upon a very limited number of actors.

Strategic dialogue on the future of the European automotive industry

The automotive sector is one of many industries that need to transition, and it also faces very intense global competition. New initiatives to strengthen the automotive industry's conditions for being competitive are welcome, as in other sectors. The measures being considered should focus on how the EU can more uniformly support a transition to an electrified automotive sector. To achieve this, a variety of measures can be considered.

Carbon Border Adjustment Mechanism Review

We support the plans to carry out a broad review. The review needs to, as the compass says, look at the sectoral scope of the regulation. Expanding it downstream may have advantages but it is technically very hard to calculate emissions in more advanced products and to distinguish which parts of such products are covered by CBAM and which parts are not. Great caution is warranted as it must not turn into protectionism or unmanageable red tape. Furthermore, the review will have to look at the issue of export competitiveness and come up with potential solutions. We realise that such proposals may be in the grey area for what is strictly WTO-compatible, but it must still be discussed as the green transition in Europe has recently become increasingly more difficult due to the new American administration’s (lack of) climate policies.

Regarding simplification of CBAM, the idea proposed by the Commission to exclude importers of small quantities that only on the margin contribute to the EU’s imported CO2-emissions, is a good one. By focusing on large players that represent more than 95 % of all imported emissions, the EU can pursue a strong decarbonisation agenda without unnecessary red tape for SMEs.

Circular Economy Act

We welcome the proposal for a Circular Economy Act which has the potential to boost competitiveness, help us decarbonise, alleviate the pressure on ecosystems and prevent the spread of pollutants. We agree with the proposed outline of the act but would like to emphasise the need for it to cover a wide range of product groups and material flows, not only limited to critical resources. The act must make use of the full potential of the Single Market to spur innovations and commercialisation of promising technological solutions, strengthen the incentives for substantial investments and making best use of comparative advantages in for instance recycling and repurposing technologies and infrastructure. It is positive that the linkage to the eco-design criteria within the ESPR is made but we would like to highlight the need to also boost the demand-side for recycled materials, in parallel to investments in recycling capacities. Mandatory quotas for specific material streams, developed in close dialogue with industry, is one feasible option. The act must also strive to harmonise various EPR-schemes and speed up the development of additional end-of-waste criteria to facilitate large-scale cross-border flows of secondary materials.

Amendment of the Climate Law

Swedish Enterprise fully supports the ambition of climate neutrality by 2050 and the goal of 55 percent net emission reductions by 2030 compared to 1990 levels. We also welcome that the Commission initiates an early process to establish an additional ambitious and intermediate climate target for 2040 and firmly believe that the primary focus of 2040 climate policy should be to remove greenhouse gas emissions rather than an overreliance on compensating them. Swedish and European companies are well placed to lead the transition efforts but also require the necessary conditions to accelerate their ambitions while preserving or enhancing competitiveness. While setting ambitious targets for 2040 is essential, they alone are insufficient. Enabling policy will be crucial to provide the European business with a strong and stable framework for competitive decarbonisation.

Review of the ETS Directive (non-flagship initiative)

By around 2040, emission caps of both ETS1 and ETS2 are expected to reach zero. To ensure a stable investment framework, legislative adjustments need to be made at an early stage, to avoid liquidity problems and extreme price pressure. Negative emissions should be integrated into the ETS. This will allow innovation and technologies to flourish and prepare the ETS for climate neutrality.

Reducing excessive dependencies and increasing security

Conclude and implement ambitious trade agreements, Clean Trade and Investment Partnerships

The focus on concluding and implementing ambitious trade agreements is very much welcome. Free Trade Agreements (FTAs) are vital to boosting EU competitiveness. When the US market is looking inward, Europe must instead look to open new markets for exports and create a more diversified set of sourcing opportunities for EU businesses. It is reassuring that the ideas presented by Mario Draghi in his report regarding a new case-by-case approach to international trade is left out of the Compass. Nevertheless, the Compass could have been clearer on the importance of market access, especially in the east with countries such as India and the ASEAN.

On Clean Trade and Investment Partnerships (CTIP), it is still to a large degree unclear what they aim to achieve and, even more so, how to achieve it. This is partly due to them being tailor-made for each partnership. They will also each have to be based on their own merits. This is a welcome and pragmatic approach. As a general aim, we want the partnerships to contribute to secure access to vital resources for European industry but also to provide assistance and finance to developing countries to refine and add value to their own natural resources. This way we can avoid putting all eggs in one (China) basket and prevent the current overreliance in China, i.e. a healthy diversification of our import sources. If possible, the partnerships should also contain market opening mechanisms, such as elimination of non-tariff barriers and services restrictions that can expand business opportunities in clean tech.

One challenge that is not explicitly addressed in this section is the steadily increasing inflow of consumer products that do not fulfil EU safety or environmental standards (primarily in the form of textiles, small electronics and other household goods) to the Single Market, usually from online marketplaces. This greatly distorts competitiveness and creates an unlevel playing field for the European commerce and retail sector, while simultaneously hindering the development of a circular economy and creating new environmental hazards. We welcome regulatory initiatives that prevent such practices.

Joint purchasing platform for Critical Raw Minerals

In general, Swedish Enterprise believes that it is the responsibility of companies to ensure their needs for strategic raw materials through commercial transactions in a free market. However, market failures may occur where differences in market power and lack of information create difficulties for market participants. This is why there may be situations where it is justified for the public sector to play a role by jointly purchasing critical raw materials. Joint purchases could be particularly beneficial for smaller member states and/or smaller companies that may otherwise have a weaker position in this regard. We do however believe that this tool should be used restrictively and only where there are strong indications that it is appropriate and purposeful to employ such a solution.

Revision of directives on Public Procurement

From a general economic standpoint, Swedish Enterprise is sceptical of ‘Buy European’ rules in public procurement. Although other alternatives should be used as a baseline, there might be cases where this is necessary, especially if we have specific concerns regarding security of supply or reciprocity. In that case, it should be used very selectively.

White Paper on the Future of European Defence

Swedish Enterprise is overall supportive and welcoming of the pending White Paper. The document will address the defence sector capability issues, industrial competitiveness, and investment needs. It aims to strengthen the EU's ability to respond to threats, particularly in the context of Russia's continuing aggression in Ukraine and other evolving geopolitical challenges. The document will outline key initiatives such as a European air shield to bolster air defence across the continent, expanded cyber-defence capabilities, closer EU-NATO cooperation, more efficient EU member state defence spending, reduction of external dependencies in defence procurement, and increased intra-EU collaboration in industrial, innovation, procurement, and production issues. The EU must strengthen its capability, ramp-up the production and the member states have to make major investments in the field. Having said this, it will be of great importance that the competitiveness of the companies receives full attention, to avoid ending up in a heavily state funded, subsidised market that creates new vulnerabilities for companies.

Preparedness Union Strategy

Swedish Enterprise welcomes the pending Preparedness Union Strategy, building on the report ‘Strengthening Europe’s civil and military preparedness and readiness’ and its core themes by Special Adviser Niinistö. The strategy must take as its starting point that the main responsibility for national security lies with member states. It should not only reflect on an enhanced role for the Commission and other EU institutions.

Critical Medicines Act

This initiative aims at strengthening the supply of critical medicines and their ingredients, addressing market failures and reducing dependency. In this aspect, we find it important to base measures on market principles and improve the framework conditions for the sector, rather than using public intervention. Excessive dependencies should primarily be addressed through diversification, rather than using public support mechanisms.

Water Resilience Strategy

Water is vital to our ecosystems, our economy and our society as well as for human life. There needs to be a strategy for developing a water-resilient Europe, one that will prepare for a stable water supply in times of climate adaptation. It will strengthen sustainable development and deliver a strategic advantage to the Union. The Nordics are rich in freshwater and seawater, providing an important resource for our societies and for our competitiveness. It is essential to recognise that this water abundance differentiates us from other European countries, which needs to be considered in policy making and in legislation. However, we are experiencing more frequent droughts and floods, and we face a more rapid temperature increase than in other parts of Europe. This underscores the need to boost resilience and preparedness at both national and local levels throughout the Union, taking into consideration regional differences. Together with eight other major water stakeholders in Sweden, we have developed a position on the upcoming Water Resilience Strategy. Read our views here.

Horizontal Enablers of Competitiveness: The Flagship Actions

Simpler, lighter, faster: ensuring that EU regulation is fit for competitiveness

Omnibus simplification and definition of small mid-caps

As regards the Omnibus simplification package relating to the Corporate Sustainability Reporting Directive, the Sustainability Due Diligence Directive and the EU Taxonomy, the EU legislators should focus on targeted measures that will in practice lead to reduced burdens and simplification. Practical measures like the following examples will be needed for a successful 25% reduction of the reporting burden of companies in line with the Commission’s ambition.

- Secure alignment with and avoid overlaps with other applicable rules and regulations (e.g. on climate transition plans and definitions and on due diligence requirements, included in other pieces of EU legislation).
- Raised thresholds for the reporting requirements under the Corporate Sustainability Reporting Directive and the taxonomy, respectively.
- Pause the pending sector specific sustainability reporting standards (ESRS).
- Review and revise the sector agnostic sustainability reporting standards (ESRS) to add clarity, reduce granularity and secure that the level of reporting requirements is proportionate, reasonable and

relevant. To ease the burden of the trickle-down effect of value chain reporting on SMEs should be an explicit aim of the review.

- Revise the complex approach to electronic reporting or allow companies extra time to mark up their financial statements and sustainability reports according to ESEF after the publication of the original annual report.
- Clarify and remove current overlapping requirements, including requirements to report data on a legal entity basis for companies covered by a consolidated report.
- Ensure the overall usefulness of the taxonomy data, revise the indicators and remove the requirement to report on operating expenditure. All taxonomy disclosures should be subject to materiality assessment.
- Ensure workability in practice, legal certainty, and harmonisation to avoid fragmentation and achieve the level playing field that was one of the aims of the Corporate Sustainability Due Diligence Directive.
- Secure reasonable and practical guidance under the new Corporate Sustainability Due Diligence Directive and contribute to harmonised implementation and transposition in the EU member states.
- Secure a balanced enforcement, e.g. to avoid the risk of discretionary intervention by supervisory authorities on the business of companies.
- Make sure that the provisions on civil liability do not encourage or lead to frivolous litigation.
- Launch a comprehensive competitiveness assessment of the Corporate Sustainability Due Diligence Directive in consultation with businesses and business associations with the aim to identify and address areas of priority for simplification and clarification.
- Secure that national competent authorities and the Commission take a supportive approach to guide companies in the application of the due diligence requirements rather than having a punitive focus. This will be key to secure that the requirements and measures have the desired effects on human rights and the environment and avoid meaningless and burdensome tick box exercises.

We support reducing the regulatory burden and reporting obligations for small mid-caps (250-499 employees). The new category must not impact access to EU funding for SMEs. The European Commission should furthermore be attentive to the needs of companies that outgrow the thresholds of the SME definition, as well as the broader range of small mid-cap companies.

European Business Wallet

The simplification of identification vis-à-vis public administrations is often requested by companies, especially SMEs. If implemented, a European Business Wallet should not create extra administrative burden on companies but be part of the regular business register. The responsibility to keep register and share information on companies should still be on national authorities through the IMI-system.

Forceful approach to competitive data use (non-flagship initiative)

Without a thorough overhaul of personal data processing and data use, Europe cannot expect to be a successful continent in terms of growth and competitiveness. Data will become an increasingly crucial factor for AI innovation and uptake, which are the prerequisites for efficiency improvements and completely new solutions that society needs for the major challenges such as a shrinking population, increasing energy demand and climate change.

Yesterday the application of the GDPR needed to be fully harmonised – but for tomorrow's utilisation of AI it is important to revise the GDPR based on digitalisation and AI use with the ambition of modernising the regulation. Better possibilities and simplifications of lawfully using and reusing personal data and mixed datasets, as well as automated decisions, should be prioritised.

Revision of the REACH regulation (non-flagship initiative)

We welcome a thorough revision of REACH which has the primary aim of simplifying the regulatory framework and reporting requirements for companies, not least SME companies. It is critical to prioritise faster decision-making and to enhance predictability for companies as this often plays into decisions about investments and expansions. The revision of REACH must make full use of contemporary digital tools to simplify compliance, and it is important that the principle of proportionality (i.e. balancing the need for protection with the need for competitiveness) is fully respected.

New SME and Competitiveness Check (non-flagship initiative)

The SME and Competitiveness Check in impact assessments is very welcome and should also cover substantive amendments by the European Parliament and the Council. The check needs to follow a clear and precise method to be able to measure the cumulative impact of regulations on regulatory costs – including administrative and operating costs but also the overall cost of EU regulation on economic growth in areas like innovation.

IPCEI simplification (non-flagship initiative)

The IPCEI tool is a state aid tool directed towards research and first industrial development within specific technologies. As these projects are comprised of a large number of companies and member states, the coordination and assessment of the integrated projects has been and will still be a comprehensive and complex task. We would welcome further simplification and clarity regarding how these projects are being conducted, and how companies at an early stage can be informed and take a position on whether participation is an interesting alternative for them. However, we do not think it is wise at this stage, where no project has yet been evaluated, to expand the IPCEI tool to broader types of technologies and projects.

Streamline access to and simplify EU funding instruments (non-flagship initiative)

We agree with the description that the EU funding instruments are fragmented over too many programmes. We therefore welcome any attempts to consolidate the instruments and focus on streamlining access, directed towards broad research areas with the long-term ambition of being competitiveness-enhancing. We urge the Commission to focus on broad and open programmes that are based on objective criteria and competition based on excellence. In addition, and on a more general level, we would like the Commission to focus more on supplying entrepreneurs and companies with the framework conditions to thrive and grow. What the business sector needs is better and fewer rules, energy at competitive prices, skilled labour, mobility of labour, well-functioning transport and digital infrastructure, housing in the right locations, efficient permitting processes, better education and tax-efficiency that promotes investment, R&D and incentivises people to work.

25 % and 35 % burden reduction targets (non-flagship initiative)

The focus on the reduction of not only reporting requirements but the reduction of all administrative burdens is very welcome. It should nevertheless not be forgotten that there are other costs than administrative costs that burden companies and that put up barriers to innovation and growth. To achieve real change and lessen the regulatory burden for companies, focus has to be on the reduction of other operating costs but also on cutting the overall cost of EU regulation on economic growth in areas like innovation. It is also of utmost importance that the burden reduction targets are clear and understandable, and their effects have to be evaluated regularly.

Making the most of Europe's Single Market

Single Market Strategy

A new Single Market Strategy is vital to enhance the competitiveness of the EU. It is of utmost importance that the focus is on core issues of removing trade barriers, making use of the 'better regulation' toolbox and improved enforcement. The strategy should prioritise deepening the Single Market in areas such as services and intellectual property where there are significant economic benefits to greater integration. There should be efforts to reduce administrative burdens, such as overly prescriptive legislation and micromanagement of standards, over-use of delegated acts, and the lack of market control and oversight. A reinforced SMET, as well as a reinforced SOLVIT, are feasible measures to improve implementation and enforcement.

Recognising the need for well-functioning markets within the areas of energy, finance and defence, referenced in the Compass, there is still much to do within the already quite wide scope of the Single Market. Widening the scope further risks watering down the efforts to strengthen the same.

Read Swedish Enterprise's agenda for a competitive Single Market here.

Revision of the Standardisation Regulation

Using standards to offer voluntary guidance on how to fulfil legislative requirements is a cost-effective way to simplify legislation, reduce the regulatory burden, and support innovation. However, it is necessary to restore the clear distinction between mandatory legal requirements and standards used voluntarily to demonstrate compliance to realise these benefits. Mandatory, or de facto mandatory, standards should be exceptions, and copyright holders should retain the right to receive compensation if these documents are made publicly available by legislators. Additionally, standardisation requests from the European Commission must be technically sound, permit experts to standardise state-of-the-art solutions, and allow sufficient development time. This approach facilitates the development of market driven standards and allow for the cooperation with global standardisation organisations, supporting the competitiveness of European companies in the global market.

Financing competitiveness and a Savings and Investments Union

Savings and Investments Union (SIU)

Swedish Enterprise supports the aims of the Commission's strategic initiatives around the Savings and Investment Union. Strong, well-functioning capital markets are critical for businesses and are key to achieving the EU's long-term goals, such as the twin transition and increased competitiveness. Since there also needs to be suitable long-term projects for businesses to invest in, competitiveness and securing improved business conditions to attract and increase investment must remain top of mind. Financial market outcomes are greatly driven by the real economy.

Any actions taken under the Savings and Investment Union initiative should strengthen EU companies' access to finance by identifying their unmet needs, areas of potential improvement and by facilitating financial market innovation, thereby supporting the aim of increasing investment in the EU. The EU should contribute to increasing the size and liquidity of EU capital markets by encouraging a shift of household savings to the capital markets. This can be done via attractive savings accounts and reformed pension systems at the member state level, and it should be made easier for individuals to save in multiple markets and remove barriers to cross-border insurance and pension saving. The diversity in the EU should be leveraged by improving each individual market through a structured process of peer review where country-specific recommendations should be considered. Harmonisation of financial market rules across the EU should be sought only where needed and where this does not harm existing well-functioning structures. Many issues are more effectively resolved by a system of peer review, where the EU has an important leadership role.

Next multiannual financial framework (MFF)

We agree that the budget contains too many programmes with little coordination which limits the ability to evaluate their value-added. We support improved structure and coordination, as well as the approach of removing funds that are no longer deemed useful. Additionally, we encourage better evaluation of the programmes, both before and after implementation. This would benefit overall coordination. By setting clear goals for what the funds are meant to achieve, they can be better targeted and used more effectively. This may also lead to improved preliminary analysis and impact assessments before taxpayer money is spent.

The Compass states that: "The STEP experience so far shows the added value of refocusing the EU budget support around clear and shared competitiveness priorities." (page 21). This is not true for the Swedish business sector. We have not yet found companies using the STEP. Claiming it has been a success in the EU is therefore a very bold statement as it does not represent the facts in all member states. Assessment of programs, funds, and initiatives must be conducted based on facts; otherwise, trustworthiness is lost, as well as efficiency in how funds are used.

With that said, developing a Competitiveness Fund must be approached with a careful cost-benefit analysis and a thorough understanding of the obstacles hindering the EU's competitiveness. Before establishing funds aimed at closing the EU's innovation gap, increasing productivity, and scaling up companies, it is essential to identify and address these challenges.

We would welcome an extension of the Court of Auditors' remit to include the evaluation of effectiveness and economic value added. Ensuring that the EU budget is spent efficiently is of the utmost importance.

EIB's role to crowd in private investment (non-flagship initiative)

We welcome the idea that public money can be used as a guarantee for private investments in order to share the risk of funding projects. Moreover, we would like to stress that is it important to share the risk of funding projects between the private and public actors. Therefore, guarantees and loans to private actors are welcomed instruments. However, we do not support the EIB or other EU institutions to act as venture capitalists as this may lead to enhanced risk-taking and waste of EU citizens' tax payments. We do not see the benefits of public institutions investing as venture capitalists when loans and guarantees can be used instead.

It remains to be proven and demonstrated by the Commission, the EIB and other institutions (e.g. European Innovation Council) how public venture capital can add value to the union's competitiveness in a way that loans and guarantees cannot. The Compass states that public funds have had a multiplier effect on private funds, but it does not show how well the projects have performed, and whether the public funds have translated into increased productivity, innovation, and/or competitiveness. There needs to be a more thorough analysis of how public funds contribute to the Commission's goals and the welfare of the Union, not just whether funds have reached the correct recipients.

Joining forces to maximise impact: a Competitiveness Coordination Tool

Competitiveness Coordination Tool

The proposed Competitiveness Coordination Tool aims to align industrial and research policies and investments at the EU and the national levels. As such, it is to be welcomed that this is a tool that further emphasises the important role of national governments also enacting structural reforms that further enhance competitiveness. It is also positive if it leads to a streamlined European Semester, that focus on reforms and investments for competitiveness. We await further information on how this tool will relate to other tools, such as the IPCEI, and how it can be safeguarded that relevant stakeholders can be engaged when introducing new initiatives. To reach higher levels of innovation, scale-ups and competitiveness, policy makers must create a business-friendly environment. This includes sufficient energy supplies, skilled labour through good education systems and vocational training, well-developed digital and real infrastructure, an efficient public sector, quick permitting processes as well as regulations that enable a dynamic economy.

We welcome better economic policy coordination and the revised Economic Governance Framework as it will allow for reforms that entail short- or medium-term government budget deficits. Structural reforms are needed in member states to increase and maintain their competitiveness as we face future challenges. With better fiscal consolidation, the debt sustainability will become stronger, increasing the fiscal room for manoeuvre in future crises.

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