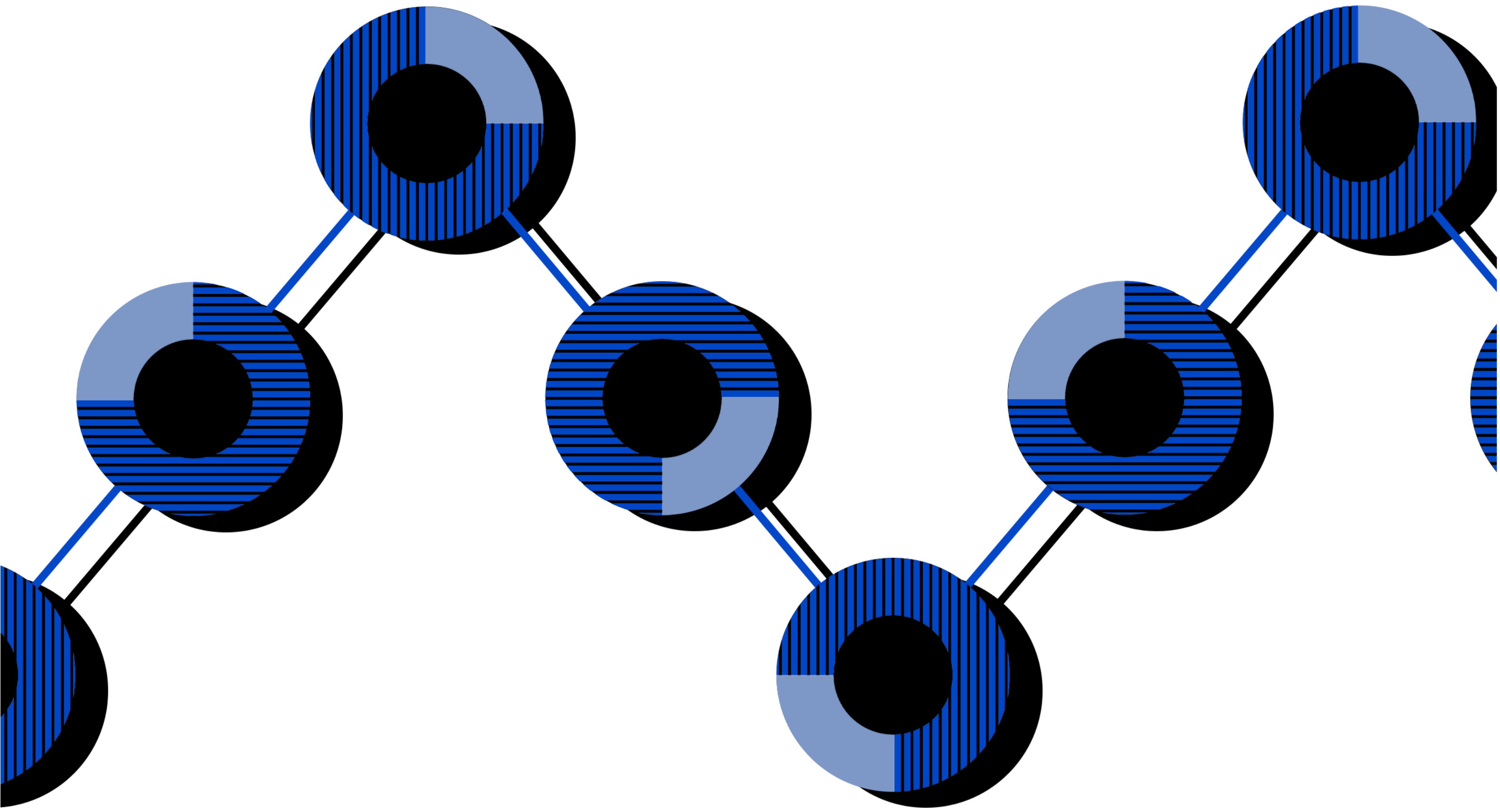
UK IN A CHANGING EUROPE

UK-EU REGULATORY DIVERGENCE TRACKER

Q4 2024-Q2 2025



JOËL RELAND

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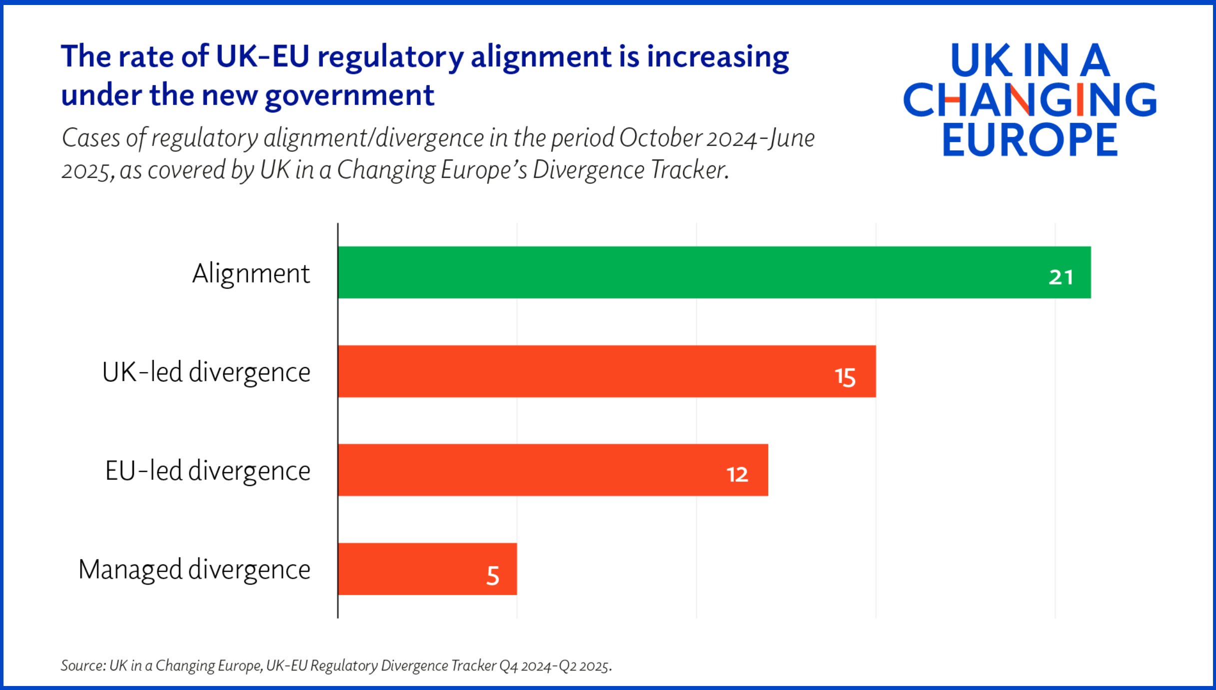
OVERVIEW

This is the thirteenth edition of the UK in a Changing Europe's regulatory divergence tracker. It outlines how UK and EU rules and regulations have diverged in the period October 2024-June 2025. The previous tracker found that the new government appeared to be 'laying the groundwork' for greater regulatory alignment with the EU, as it paused several major initiatives that would have led to divergence. This edition finds that the shift has now kicked off in earnest, with 21 cases of regulatory alignment identified - compared to four last time.



Though it is the commitments to alignment made at May's UK-EU summit which have grabbed the headlines, the tracker finds that there is plenty more going on below the surface, with several different types of alignment at play. Most prominent is 'dynamic alignment', where the UK commits to sector-specific EU rules (in this case on veterinary standards, carbon pricing and energy) in exchange for much smoother EU market access in those areas. Previous UK governments saw such alignment as an unjustifiable abandonment of the UK's post-Brexit regulatory freedom, whereas this government takes a less ideological stance: willing to sacrifice some regulatory control for better economic relations. The UK has also accommodated EU negotiating asks (on fisheries, youth mobility and Erasmus+) to extract economic concessions; and an ensuing agreement on Gibraltar should lead Spain to end its opposition to UK involvement into EU defence projects. Though the hard work of negotiating most of these agreements remains to be done, and the macroeconomic gains will be relatively minor, it represents a newfound pragmatism in the UK's approach to EU relations which opens the door to further alignment in future.

And, indeed, there are signs in this tracker that wider-ranging alignment is already underway. One emerging trend is 'voluntary alignment', where the UK unilaterally mirrors EU regulations, without any bilateral agreement, in order to minimise unwanted effects of divergence. This has been most notable in competition policy, where the government has instructed the Competition and Markets Authority (CMA) to 'ensure parallel regulatory action' to the EU and others when investigating digital markets, in order to create regulatory predictability. The legislation which empowers the CMA to do this is strikingly similar to the EU's Digital Markets Act and, tellingly, the CMA's first investigation (into Google) mirrors a Commission investigation from last year; while other recent EU investigations – into Meta and Apple – could serve as guides in the future.

Moreover, there are signs that a significant proportion of the EU-led 'passive' divergence found in this tracker could soon lead to UK voluntary alignment. Take product standards, the single-biggest area of passive divergence, with five new measures either proposed or now in force, all of which seek to broaden the scope of EU product safety legislation to deal with modern challenges like greater oversight of online 'marketplaces'; liability for makers of digital products; digital information labels; information on goods' environmental footprint; and increasing the reusability and recyclability of goods. The UK Product Regulation and Metrology Bill was explicitly designed to give ministers powers to replicate such EU regulations, so the UK does not become a regulatory laggard, and it would be no surprise to see some or all of those EU measures copied into UK law once the bill takes effect. The UK government also rejected two requests by Northern Ireland Assembly Members to block the application of two EU laws – on craft products and substance labelling – on the grounds that they did not meet the necessary thresholds for doing so but, notably, indicated that it will instead consider aligning with the legislation on a UK-wide basis. This suggests that voluntary alignment with NI-applicable EU law could become a regular means of avoiding unwanted GB-NI divergence. Meanwhile, new EU proposals on gene editing and the marketing of agricultural goods may well have to be adopted by the UK as part of UK 'dynamic alignment' under a future SPS deal.

Another emerging trend is what we might call 'coordination', where the UK and EU take common steps on topics of shared interest. A key focus area is, perhaps surprisingly, trade policy, where both sides are taking action to uphold shared 'principles of free and fair trade' in an increasingly volatile global system. Though the UK has made use of its post-Brexit freedoms to strike new trade deals (of contrasting depth) with India and the US, and the EU has struck its own deal with the South American 'Mercosur' bloc, the new UK 'Trade Strategy' commits to joining an EU-backed 'stop-gap' replacement for a WTO arbitration body (to which the US is opposed). The UK is also supporting EU efforts to build an alliance with the 'CPTPP' trade bloc (which includes the UK) and considering joining the Pan-Euro Mediterranean Convention (which includes the EU) – though the EU is now resisting this move despite having previously indicated its support.

The UK and EU have also opted for a strikingly similar set of measures to try and boost their ailing economies, with respective missions to cut 'red tape' for business; industrial strategies to reduce businesses' energy costs; and 'action plans' to upscale AI infrastructure. Though there are technical divergences in focus and policy prescriptions, this has not so far led to many developments which are likely to disrupt trade or cooperation. There is also some alignment in approach – for instance relaxing rules on the shift to electric vehicles in the name of industrial competitiveness – while the EU's 'omnibus' package, which controversially waters down several pieces of landmark green legislation, will lessen future divergence by reducing the scale of new obligations faced by GB firms selling into the EU or Northern Ireland. The EU's new 2040 emissions reduction target has also been criticised for its lack of ambition, in particular for allowing member states to offset emissions with 'carbon credits', and it remains to be seen whether the UK aims comparatively higher in its own forthcoming 2040 target.

The only area of significant UK-led divergence is financial services regulation: a key focus area in the Chancellor's drive to cut 'red tape'. There are reforms to rules on capital requirements and alternative investment funds, as well as a delay to the introduction of international rules on capital reserves. These reforms seek to make the UK a more attractive investment destination and underline the fact that the UK and EU still consider each other competitors on financial services. The EU only reluctantly extended its 'equivalence' decision for UK-based clearing houses, asserting that it is a temporary measure while it develops a plan to reduce its dependence on UK-based services. It has, similarly, only extended its UK 'adequacy' decisions – allowing a free exchange of data – by six months, as it waits to see whether the UK Data (Use and Access) Bill leads to significant divergence. A loss of adequacy would add major cost to UK-EU services trade and undermine police and judicial cooperation.

Finally, there are five cases of 'managed' divergence, which refers to the UK and/or EU taking steps to manage the effects of ongoing divergence. These fall into two camps; first, UK actions to implement outstanding obligations under treaties with the EU (on the Windsor Framework, Border Target Operating Model, and EU Settlement Scheme) and, second, the UK responding to claims about its failure to uphold legal obligations (over its ban on sand eel fishing and bilateral treaties with member states). The ability of the two sides to navigate such legal disputes without derailing the wider 'reset' agenda is evidence of the growing maturity of the relationship.

This edition marks a clear turning point for the divergence tracker. The imperative for the UK to demonstrate post-Brexit divergence from the EU appears all but gone, as it instead takes many more steps towards alignment – sometimes with the letter of EU law and sometimes with the spirit. More often than not, the EU now appears to be a regulatory lodestar which guides UK policy thinking, rather than a competitor to outmanoeuvre.

1. Agriculture/SPS

UK-EU Summit: proposal for an 'SPS' agreement.

ISSUE	IMPACT
The UK and EU held a summit on 19 May, following which they published a 'Common Understanding' setting out a range of measures to be taken to deepen cooperation on security and defence, people-to-people links and the economy. It includes a commitment to negotiate a sanitary and phytosanitary ('SPS') agreement, which would remove the majority of certification requirements and controls on the movement of plant and animal goods between Great Britain and both the EU and Northern Ireland. Such an agreement will require UK 'dynamic alignment' (i.e. now and in the future) with EU regulations on plant and animal health, food safety and consumer protections. The exact terms of the agreement - including a short list of potential exemptions - remain to be negotiated. Negotiations are yet to begin, with the European Commission first having to secure a mandate from member states. Early 2027 is a potential target date for a deal to take effect. A vital prerequisite to the EU agreeing to negotiate on SPS was the UK agreeing to extend the terms of cooperation on fisheries by twelve years. It is notable that the two other key proposals in Labour's manifesto for improving trade with the EU - agreements on mutual recognition of qualifications and touring artists - receive only cursory mentions in the 'Common Understanding' with no formal commitments to action.	Since the TCA took effect, GB agrifood exports to the EU have been subject to range of additional paperwork and checks, which have led to a 34% drop in EU exports, according to the Food and Drink Federation. Research from the University of Aston finds that an SPS deal could lead to a 23% increase in UK exports and a 6% increase in imports, while increasing the GVA of the agricultural sector by 0.22%. John Springford of the Centre for European Reform estimates that this could increase UK GDP by about 0.1% over ten years - reflective of the relatively small size of the UK agricultural sector. The proposal is also significant because it is the first time the UK has countenanced 'dynamic alignment' with EU legislation, in exchange for frictionless market access. This means the UK will subject to almost all EU agrifood rules without any say over them (bar some 'decision-shaping' powers during the development of relevant legislation). Negotiations may not be straightforward, especially if the UK seeks lots of exemptions from dynamic alignment, and the two sides will have to agree on a system for resolving disputes with a role for the European Court of Justice as the final authority. There are further challenges around implementing the deal, as this will require the UK to adopt an array of relevant EU laws which have taken effect since Brexit and establish systems for being notified of and implementing further legislative changes in future.

2. Climate

UK-EU summit: proposal to link emissions trading schemes.

ISSUE	IMPACT
The UK-EU 'Common Understanding' includes a committement to try and link the two sides' respective emissions trading schemes (ETS). This is something the TCA says they 'shall give serious consideration to'. The UK and EU each currently have their own independent ETS, which levies tariffs on the carbon emissions from a range of industrial sectors. Companies have to buy 'allowances' to cover their total carbon emissions, with the ETS setting the price of allowances and a cap on the total number available for purchase. Linking systems would mean that UK companies could purchase allowances from the EU system and vice-versa - creating a larger, more liquid market for UK businesses - while also creating a harmonised carbon price between the UK and EU. Linkage will necessitate UK dynamic alignment with relevant EU law and a financial contribution. The exact terms of the linkage - including sectors in scope and the range of EU law to which the UK is subject - remains to be determined.	The key effect of ETS linkage is that the UK and EU would no longer be subject to each other's Carbon Border Adjustment Mechanisms (CBAMs), which take effect from 2026 (EU) and 2027 (UK). These levy tariffs on imports of ETS-covered goods, to ensure they pay the same price for their carbon emissions as if they were produced domestically. Around £6.7bn worth of the UK's EU exports would have been subject to the EU CBAM in 2021, meaning it could add hundreds of millions of pounds a year to the cost of trade (though recent changes to reduce the scope of the EU CBAM are likely to lessen the impact) while also creating new administrative costs for exporters in terms of calculating and declaring embedded emissions. ETS linkage is, however, a highly technical process and it could take some time to agree on how to create a harmonised carbon price and trading system. It seems unlikely in the extreme that this process will have been completed by the start of 2026, when the EU CBAM takes effect, meaning the UK will face CBAM tariffs at that point unless a temporary exemption is agreed. Another challenge is that the UK carbon price has consistently been much lower than the EU's, meaning UK firms may face higher carbon tariffs as a result of linkage, at least in the short-term. On the other hand, linkage to a larger market could well make the UK price less volatile - bringing greater certainty to business and investors.

3. Energy

UK-EU summit: proposed UK entry into EU internal electricity market.

ISSUE	IMPACT
The UK-EU 'Common Understanding' includes a commitment to '(e)xploring the participation of the United Kingdom in the European Union's internal electricity market' (IEM). This facilitates the sharing of energy supplies between member countries, using a coordinated system to work out how to most efficiently redistribute flows across interconnected energy markets – based on daily prices and demand. The UK left the IEM as part of Brexit and, as a result, has had to rely on a more complex system of forecasts and auctions for trading energy with the EU – creating inefficiencies which have increased wholesale costs by hundreds of millions of pounds a year. While the TCA commits the two sides to finding a way to solve this inefficiency, the UK and EU have so far been unable to come up with a viable alternative trading model, leaving UK IEM participation as a potentially neater solution. This would enable full UK participation in EU energy trading platforms and require UK dynamic alignment with EU regulations related to the internal electricity market, though the exact 'necessary parameters' of this remain to be determined. The two sides also agreed to put the TCA's energy chapter on a 'permanent footing'. The chapter, which sets out the core terms of UK-EU energy cooperation, was set to expire in June 2026. The two sides have agreed to extend its application, as per the terms of the TCA, to 31 March 2027, to 'provide for legal certainty	The commitment to put the energy chapter on a permanent footing is designed to give long-term certainty to business. The potential expiry of the terms of energy cooperation may otherwise dampen businesses' enthusiasm for long-term investments supporting cross-border energy trading, due to the risk that the core terms of cooperation change. It is unclear at this point whether the terms of the energy chapter – which are relatively limited – will be updated or expanded as part of the process. The process for UK participation in the internal energy market (IEM) remains much vaguer, with the two sides committed only to 'exploring' the option – not to immediately embarking on negotiations. There will be technical and regulatory hurdles to overcome as part of any re-joining process, and the UK will have to ensure its systems are compatible with the design of the IEM, which has changed somewhat since Brexit. UK IEM membership might result in fractional reductions in energy bills for consumers – due to more cost-efficient trading – but, more significantly, it would facilitate the installation of more advanced interconnectors in the North Sea, enabling the supply of more renewable energy into the UK and EU grids and reducing the cost of meeting offshore wind targets by perhaps 1-2%.

and predictability' in the shorter-term, as they discuss making the terms of cooperation permanent.

Any negotiation on UK participation in the internal energy market would be done independently of the renewal of the TCA's energy chapter. The former is a political negotiation which requires the formal approval of EU member states before talks can begin, while the latter is a procedural matter for the joint Partnership Council which governs the TCA.

4. Fisheries

UK-EU summit: extension of TCA fisheries chapter.

ISSUE	IMPACT
At May's UK-EU summit the two sides agreed to extend the terms of cooperation on fisheries until 30 June 2038. The existing terms of cooperation - which set the level of EU access to UK waters and vice-versa - were set to expire at the end of 2026. Under the extended agreement, core fishing rights remain exactly the same: there are no changes to EU quota shares for UK fish stocks. The key change is that these shares are now set for twelve years rather than being subject to annual negotiations from 2026 onwards. The EU was keen for a long-term extension to avoid the matter of fishing rights - one of the most difficult points of the original TCA negotiations - becoming a regular sticking point, and to give EU fishers long-term certainty about their access rights.	The decision to roll over fishing rights was presented in some quarters as the UK 'capitulating', signing away any potential power to reduce EU quota shares for more than a decade. Scottish fishers - who take the majority of UK catches - have been particularly vocal on this point, though they have done relatively well out of the post-Brexit settlement, seeing their landings increase by 17% in value (compared to a 8% fall for English vessels). Yet the UK government appears to have decided that it was worth sacrificing any potential changes to the fishing settlement for other agreements as part of the UK-EU summit. The EU insisted that a long-term settlement on fisheries be made before it agreed to the UK's request for a negotiation on an 'SPS' deal. If completed, this could have significant benefits for GB seafood exporters, in terms of the removal of most border checks and paperwork and the lifting of an EU ban on imports of bivalve molluscs (oysters, scallops, mussels etc.) from GB. The removal of such trade bureaucracy is especially important for seafood, as it is highly perishable and cannot afford to sit for hours at customs - the volume of UK fish exports to the EU has fallen by 29% since 2019.

5. Mobility

UK-EU summit: proposed 'youth experience scheme'.

ISSUE	IMPACT
The UK-EU 'Common Understanding' includes a commitment to 'work towards a balanced youth experience scheme'. This would enable young EU nationals to move to the UK, for any purpose, for a time-limited period (and vice-versa), though the exact details (e.g. caps on overall numbers, visa duration) are still uncertain. They have also agreed to 'work towards' UK association to the EU Erasmus+ study abroad programme. UK participation will require a financial contribution. The communiqué reiterates a commitment that there will be 'no legal barriers' to UK nationals using eGates when travelling to and from the EU (as EU nationals already can in the UK) once the EU's new 'Entry/Exit' digital border system takes effect. While the government has presented this is a win, this was a pre-existing EU position and not a new commitment made as part of the summit.	The Labour government had repeatedly rejected the idea of a youth mobility scheme in the past, branding it as a return to freedom of movement - even though such a scheme requires EU nationals to apply for a visa, only allows them to stay for a time-limited period and will include a cap on numbers. However, the idea was one of the EU's key demands for the summit (along with an extension of the fisheries chapter) and the UK thus had to accommodate the proposal in order to secure its own key interests. John Springford of the Centre for European Reform has previously estimated that a youth mobility scheme could increase UK GDP by 0.1-0.5% over ten years due to more EU nationals working in the UK - though much will depend on how many people are allowed in under the scheme and how long they can stay for. Negotiations could prove fraught, especially if the EU insists on its citizens being allowed to pay 'home' tuition fees, which are much lower than overseas ones, or if the UK government becomes more concerned about the impact of the scheme on net migration figures. The commitment for the UK to rejoin Erasmus+, which facilitates overseas study placements between member countries, was unexpected. The government reportedly views it is as poor value for money, given the relatively low uptake by UK students, with the UK likely to put significantly more into the budget than it would get back.

6. Security & defence

UK-EU Summit: Security and Defence Partnership.

ISSUE	IMPACT
As part of the UK-EU 'Common Understanding', the two sides agreed a Security and Defence Partnership. This provides for six-monthly dialogues between the UK Foreign Secretary and the EU High Representative for Foreign Affairs and Security Policy 'to conduct and enable strategic consultations in thematic and geographic areas of joint interest'. The two sides will also now 'swiftly explore any possibilities' for defence industrial cooperation via UK participation in the EU SAFE instrument. There are also commitments to closer cooperation on law enforcement and irregular migration, though these will not be based on formalised new agreements.	Whereas the majority of commitments made at the UK-EU summit were for the two sides to negotiate agreements in future, the Security and Defence Partnership is one of the few aspects which has already been finalised. This reflects the fact that it is a relatively light-touch agreement, which sets a schedule for regular dialogue rather than establishing binding legal or financial commitments to one another. The main significance of the agreement is that it serves as a first step towards deeper cooperation - including potential UK participation in the EU's €8bn SAFE programme to support joint procurement for defence industrial projects. This would, alongside energy and SPS, represent another element of UK reintegration into the EU market. The UK may also seek to participate in other parts of the EU's Common Security and Defence Policy (CSDP), such as joining Permanent Structured Cooperation (PESCO) projects on a range of defence aspects. This could also be aided by an agreement having just been struck on the future status of Gibraltar - as Spain has so far refused to approve UK participation in a PESCO project on military mobility due to the longstanding impasse over Gibraltar.

7. Borders/Trade

Gibraltar agreement.

ISSUE	IMPACT
The UK government and government of Gibraltar have reached a political agreement with the EU on the future arrangements for Gibraltar. Gibraltar is not subject to the TCA and since Brexit has been relying on ad hoc arrangements to maintain an open land border with Spain, over which approximately 15,000 people (more than half of Gibraltar's workforce) cross each day. Since 2021, Gibraltar, the UK and the EU have been trying to negotiate a permanent settlement that maintains the free movement of persons and goods between Spain and Gibraltar. The key area of contention has been Gibraltar's airport and port as, if the Gibraltar-Spain border remains open, they risk becoming gateways for people and goods to enter the EU without undergoing border checks. The three parties have now agreed that 'dual Gibraltar and Schengen border checks' will be carried out at the airport and port, respectively by Gibraltar and Spanish officials, so that there need be no checks on people travelling across the Gibraltar-Spain border. Spanish guards will in theory be able to refuse UK citizens entry in some circumstances. For goods, a customs union has been agreed between Gibraltar and the EU (this is not the same as Gibraltar joining the EU customs union) in order to remove checks on goods crossing the Gibraltar-Spain border. That means Gibraltar will have to ensure all goods circulating on its market meet EU standards, with goods bound for Gibraltar subject to Spanish customs checks. For that reason,	This agreement creates greater alignment between Gibraltar and the EU, in terms of a customs union and open land border. The deal is significant because it provides long-term certainty for Gibraltar while also addressing a tension in the UK-EU relationship. Spain has resisted UK participation in certain EU military cooperation schemes due to the Gibraltar issue, and it may similarly have refused to sign off on other agreements to deepen UK-EU cooperation if the issue remained unresolved. As the legal text has not yet been published, the exact nature of the deal remains somewhat uncertain. There has been some contention over whether or not Gibraltar is joining the Schengen area, with the UK Foreign Secretary branding the idea that it was doing so as "fake news". Gibraltar will retain an independent visa policy and the open border with Spain rests not on formal Schengen membership but on the decision to create 'dual' UK and EU border checks at Gibraltar's port and airport – similar to the model at St Pancras station where French officials pre-emptively conduct immigration checks on the UK side of the border. Nevertheless, Gibraltar will de facto integrate into the Schengen area, with people able to freely cross its border with the EU without passport checks. The UK had been reluctant to allow Spanish officials onto the ground at Gibraltar's airport – preferring it to be EU officials – as this could symbolically undermine Gibraltar's sovereignty from Spain; but this now appears to be a point on which it has relented. The UK notes that the

almost all cargo will have to pass through Gibraltar's port rather than the airport. Gibraltar will also align its import duty rates to the EU's minimum VAT rate of 17%.

The full legal text still needs to be finalised and then ratified by all relevant parties.

final agreement will include 'a clause agreed by all sides which makes explicitly clear that the final Treaty does not impact sovereignty', and the deal is supported by the government of Gibraltar.

8. Climate

Changes to UK and EU phase-out rules for combustion engines.

ISSUE	IMPACT
Both the UK and EU have watered down rules on the transition to electric vehicles in attempts to support their automotive industries in the face of increased tariffs from the United States. In April 2025 the UK announced that it will permit the sale of new full and plug-in hybrid vehicles until 2035, rather than 2030, but the 2030 phase-out date remains in place for new petrol and diesel cars remains in place. It has also introduced greater flexibility for manufacturers in terms of meeting annual targets for sales of electric vehicles - allowing them to use increased sales in future years to offset earlier targets which are missed. Fines for missing annual targets have also been reduced by 20% per vehicle. The EU is, similarly, introducing greater flexibility for car-markers in how they meet emissions targets. Carmakers were initially required to reduce their overall by emissions by 15% by 2025 (compared to 2021 levels), with a €95 fine for every additional gram of CO_2 emitted per vehicle. They will now have until 2027 to meet the target, with manufacturers able to offset any shortfalls in emissions reductions in 2025 or 2026 with higher reductions in 2026 and/or 2027. The proposals were presented as part of an 'Action Plan' for the automotive sector in March 2025, and approved by the Parliament in May 2025.	This reflects the common challenge which the UK and EU face in driving forward the decarbonisation of their respective automotive sectors - a key pillar in reaching net-zero - while maintaining their international competitiveness in the face of additional tariffs from the United States and increased competition from Chinese electric vehicles in receipt of major subsidisation. While broadly supported by carmakers, the decisions have been criticised by environmental groups who argue that it risks slowing down the transition to electric vehicles (EVs) at a time when sales are surging. Sales in the EU increased by 24% in Q1 2025 compared to the same period the year before, while the UK saw record EV sales in 2024. The UK remains ahead of the EU in having an initial phase-out date of 2030, rather than 2035, for the sale of new petrol and diesel cars (though some member states also have a 2030 target).

9. Energy

UK Industrial Strategy.

ISSUE	IMPACT
In June 2025 the UK government unveiled its Industrial Strategy. A core aims is reducing 'two of the biggest barriers facing UK industry - high electricity prices and long waits for grid connections'. From 2027, under a 'British Industrial Competitiveness Scheme', electricity costs for 7,000 electricity-intensive businesses (in sectors like automotive, aerospace and chemicals) will be exempt from energy levies including the Renewables Obligation, Feed-in Tariffs and the Capacity Market. The government says this will reduce their electricity costs by up to £40 per megawatt hour. The companies in scope, as well as further detail on the nature of the exemptions, will be announced following a consultation. The government will also cover a greater proportion of the electricity network charges paid by around 500 of the most energy intensive firms - increasing from 60% to 90% from 2026. The estimated cost of the support schemes is £2bn over four years but the government has yet to indicate how this will be financed. A new Connections Accelerator Service will seek to create quicker access to energy grids for major investment projects, and it is expected to be operational from the end this year. The government may use new powers in the Planning and Infrastructure Bill to reserve grid capacity for what it deems 'strategically important projects'.	The strategy seeks to bring UK industrial energy costs more into line with those of the EU. According to the lobby group Make UK, UK steelmakers currently pay an average of £66 per megawatt hour (MWh), compared to £50/MWh in Germany and £43/MWh in France. While the strategy offers greater subsidies for heavy industry to help with their energy costs, it does not include measures for reducing the root cause of the issue - high UK wholesale energy costs. The government hopes to address this through increase supplies of renewable energy into the grid, while reintegration into the EU's internal energy market (as committed to in May's UK-EU summit) could also have a positive effect. The EU's Clean Industrial Deal, published in February this year, also seeks to reduce energy costs for the most intensive industries, but puts a greater emphasis on bringing down wholesale costs. There are plans to decarbonise key sectors by fast-tracking and increasing funding for renewable energy projects, and to make energy markets and consumption more efficient by developing a new methodology to improve grid efficiency, increasing energy market integration, promoting longer-term electricity contracts, and financing energy efficiency initiatives.

10. Competition

Strategic steer to the Competition and Markets Authority.

ISSUE	IMPACT
In May 2025 the UK government published a 'strategic steer' for the Competition and Markets Authority (CMA) setting out 'how the government expects the CMA to support and contribute to the overriding national priority of this government - economic growth.' The steer core steer is for the CMA to become less interventionist - with fewer and shorter investigations. The paper asserts that anti-competitive conduct should be tackled 'as swiftly as possible' and that the CMA should 'consider the actions being taken by… agencies in other jurisdictions internationally, and, where appropriate, seek to ensure parallel regulatory action is timely, coherent and avoids duplication'. Reviews are also being conducted into the threshold tests for intervening in mergers and the use of remedies in investigations. This is, again, about limiting the number of interventions made by the CMA, with the Chancellor promising to 'free businesses from the shackles of regulation'.	The UK has more control over its competition regulation post-Brexit but government appears to prefer continued EU alignment, with it explicitly telling the CMA to take 'parallel regulatory action' to other international regulators (like the Commission) rather than trying to develop a distinct approach. The CMA has been a particular target for government in recent months and years, after taking a more hands-on approach post-Brexit, in particular by choosing (unlike the EU) to block Microsoft's acquisition of Activision in 2023 - a move which was designed to protect competition in the emerging 'cloud gaming' market but which was strongly criticised by Microsoft. The previous Conservative government criticised the decision and published a strategic steer which is strongly echoed in the new government's own steer. The government presents these reforms as simplifying administrative processes but the underlying implication is that it views growth as better served through a fundamentally more liberal approach to competition policy, allowing major companies to concentrate their power over markets rather than by encouraging greater competition between smaller entities. The CMA's chair stepped down in January 2025 citing a 'different approach' to economic growth.

11. Competition/Digital & data

CMA to designate Google with 'strategic market status'.

ISSUE	IMPACT
The UK's Competition and Markets Authority (CMA) has announced its intention to designate Google with 'strategic market status' (SMS) under the UK's new Digital Markets and Competition Regime, which came into effect last year. A final decision will be made in October. Google would be the first company to be designated with SMS, signifying that a company is in a position of entrenched dominance over a particular digital market. The CMA has powers to impose conduct requirements on companies with SMS, in order to improve competition. Google's web search engine accounts for over 90% of search results, and the CMA notes a number of concerns stemming from this position of dominance, including: • Higher costs for advertising on its search engine 'than would be expected in a more competitive market'. • 'Limited transparency and fairness in how Google ranks and presents search results'. • Limited control for publishers over how their content is used in search and AI-generated results. • Agreements with mobile phone companies to make Google the default search engine, making it 'more difficult for competitors to reach customers'. • Innovative businesses suffering from a lack of access to search data when developing new services.	As noted in previous divergence trackers, the UK's Digital Markets and Competition Regime is very similar to the EU's Digital Markets Act. The EU regime came in earlier and the Commission has already designated a number of large tech companies with 'gatekeeper' status (the equivalent of SMS); imposed requirements for behavioural change; and, recently, issued fines against Meta and Apple for non-compliance. The CMA intervention over Google is in line with an investigation opened by the European Commission in March last year, into whether Google's search engine results were favouring its own services over competitors'. The CMA states that, following a strategic steer from the government, it is taking action in line with steps taken 'in other jurisdictions such as the EU and US'. Alphabet (Google's parent company) made some changes to its search result format in the EU as a result of the Commission's investigation, and this could mean that those same changes now take effect in the UK. That said, the Commission ruled in March this year that Alphabet still self-preferences its own services over others'. If that ruling is confirmed it could lead to a fine for Alphabet. It remains to be seen whether the CMA adopts as firm a line as the Commission or is satisfied with the initial changes which Alphabet made to its search functionality in the EU. It also remains to be seen whether the CMA opens investigations in other areas where the

The CMA has published a 'roadmap of potential actions' it could take if Google is designated with SMS. These include:

- Requiring a screen where users can choose their preferred search engine.
- 'Ensuring fair and non-discriminatory ranking of search results'.
- 'More control and transparency for publishers over how their content collected for search is used, including in AI-generated responses and search results more generally'.
- 'Supporting data portability to help new businesses bring innovative products to market'.

From 2026, the CMA also intends to consider further actions 'to address more complex issues', including how Google controls and negotiates advertising contracts on its services.

Commission has taken action. For example, the Commission ruled in March this year that Alphabet has failed to comply with an obligation to allow app developers to steer customers to offers outside of the Google Play app store, and charges unjustifiable fees for developers using its app store. This, too, could result in a fine for Alphabet.

An independent inquiry group recently advised the CMA that Microsoft is using its position to distort competition in the cloud services market, recommending that it consider using its powers to intervene. It will be interesting to see whether the CMA opts to take action given it has previously been rebuked by both the current and former government for taking a more interventionist stance than the EU on Microsoft's position in cloud services, by proposing to block its acquisition of the gaming company Activision.

The question of digital markets regulation is a sensitive one for both the UK and US as they seek agreements with the US to remove newly-erected trade barriers. The UK and US have stated their intention to negotiate a digital trade deal - which could be made tricker if the UK is seen to be mirroring the EU's approach in going after US tech companies - while a relaxation of the Digital Markets Act has been mooted as a way for the EU to secure US trade concessions.

12. Trade

UK to join the Multi-Party Interim Appeal Arbitration Arrangement.

ISSUE	IMPACT
In June 2025 the UK government published its Trade Strategy. The paper contains a range of measures designed to boost UK trade performance, but most significant from a divergence perspective is the announcement that the UK will join the Multi-Party Interim Appeal Arbitration Arrangement (MPIA). The MPIA was established by the EU and other WTO members in 2020 as a 'stop-gap' replacement for the WTO Appellate Body (AB) - the chief WTO forum for hearing appeals on trade disputes. In 2019 the US opted to block new appointments to the AB - due to wider dissatisfaction about its treatment at the WTO - meaning it has been unable to function since. In response, the EU and 15 other members launched the MPIA as an alternative arbitration forum, with the US deriding it as a 'China-EU arrangement'. As of last year, 53 of 166 WTO member countries (including the 27 EU states) were members, though this did not include a number of major trading nations such as India, Indonesia, South Korea and the UK. Other measures in the strategy include a target a review of whether to join the Pan-Euro-Mediterranean Convention (discussed in the next entry); further agreements on mutual recognition of professional qualifications; critical minerals partnerships with the EU, US, and the Republic of Korea; and new clean energy cooperation with Brazil, the Philippines and Mexico.	The paper is notable for the central importance it places on the EU as a part of the UK's trade strategy. This contrasts clearly with the 'Global Britain' approach of previous governments, which actively sought to replace EU trade with other international agreements. The significance of the MPIA decision is primarily symbolic: it has opted to side with the EU over the US on the issue of trade arbitration. The strategy paper says this 'sends a clear signal that the UK is committed to the principles of free and fair trade' and the UK is reportedly also playing an active role in supporting the EU's efforts to build a new alliance with the trans-pacific 'CPTPP' bloc - which the UK joined post-Brexit - to remodel global trading rules in light of the issues at the WTO. This forms part of an ongoing trade rapprochement with the EU, with Trade Minister Douglas Alexander stating that the UK-EU Summit in May "was not a single standout event but the start of a process of annual UK-EU summits... We will keep talking, keep working and keep seeking opportunities for British business". This focus on deeper EU ties does not, however, preclude the UK from also building its own independent trade policy. The strategy outlines ambitions for a range new partnerships, building on the recent trade agreements made with India and the US (while another with the Gulf States is reportedly close).

13. Trade

UK to consider joining Pan-Euro-Mediterranean Convention.

ISSUE	IMPACT
Another commitment made in the UK Trade Strategy (see entry above) is for the UK to consider joining the Pan-Euro-Mediterranean (PEM) Convention. The PEM is an accord between a wide range of countries in the Euro-Mediterranean area - ranging from Iceland to Morocco - which, in simple terms, gives signatories more flexibility over where they can source components from for their goods exports. The PEM affects 'rules of origin', which establish what proportion of a good must be 'local content' to qualify for preferential tariffs under a free trade agreement. For example, at least 55% of a bus's components must originate from the UK or EU to qualify for tariff-free trade under the UK-EU TCA. The PEM allows signatories to count components from any PEM country as 'local content' when trading with another PEM country. So, for example, were the UK to join PEM, Moroccan-made seats in a UK-made bus would be considered as 'local content' when exporting that bus to the EU.	As with the commitment in the trade strategy to join the EU-supported MPIA, this is another example of the UK seeking to build closer trading ties with the EU. Yet, despite the fact that Maroš Šefčovič, the European Commissioner in charge of the UK relationship, suggested in January that the UK could join PEM, the Commission is now briefing that it would not support UK attempts to join. Though the PEM is not an EU institution, it has de facto powers to block UK accession, as it would have to agree to incorporate PEM rules into the TCA for UK membership to be meaningful. The shift in Commission attitude seems to reflect a new stance that only economic commitments made in May's 'Common Understanding' are up for discussion until the next UK-EU summit. This may be designed to stop the UK trying to freelance other ideas into negotiation: such as agreements on mutual recognition of conformity assessments or financial services. The macroeconomic benefits of PEM membership would be very modest, giving UK sectors on average 1-3% more flexibility in terms of where they source components from when meeting EU rules of origin, with the greatest benefits likely to be felt by the automotive, chemicals and pharma, and machinery sectors. For some sectors, the administrative complexity of proving compliance with PEM rules could outweigh the trade benefits.

14. Cross-cutting

New additions to the Windsor Framework.

ISSUE	IMPACT
The UK government has agreed to add four new EU acts to the Windsor Framework, meaning that they will apply in Northern Ireland. Under the terms of the Windsor Framework, new EU Acts cannot be applied in Northern Ireland without prior approval from the UK government. The UK is meant to seek prior consent from Members of the Northern Ireland Assembly (MLAs) via a vote known as an 'applicability motion' but, notably, it has not sought such a motion in three instances while, in the other, it has overruled MLAs who did not approve the relevant applicability motion. The latter case relates to **Regulation 2023/2411 on Non-Agricultural Geographical Indications (GIs)**. This extends the EU's GI regime, which grants intellectual property rights to goods made in a specific location and way, to craft products. An applicability motion on its application failed to pass in March last year - despite a majority of MLAs voting in favour - as it did not gain 'cross-community' support, with all Unionist MLAs voting against it. However, the UK government has opted to overrule the MLAs, as it deems the act 'would not materially impair the free flow of goods or divert trade between Great Britain and Northern Ireland, and that it could indeed offer new opportunities'. It has also committed to review the UK's own GI regime for craft goods 'in light of this decision' - implying potential consideration of alignment with the EU rule change. The three acts which have been applied without an applicability motion are **Regulations**	Four important implications emerge from this set of decisions. First, it shows that MLAs' 'democratic consent' powers to block the application of EU law are far from absolute. The UK government has used its powers to overrule MLAs in multiple cases where it disagrees with their assessment about the impact of EU law. This may well reflect concerns in Westminster about negative spillover into the UK-EU relationship if the government keeps seeking to block the application of EU law in Northern Ireland without clear evidence that it could lead to significant disruption. Second, however, it is also notable that in many cases the government is suggesting that, to address MLAs' concerns about GB-NI divergence, it will instead consider aligning with the EU regulations on a UK-wide basis. This suggests that the use democratic consent tools may become a regular trigger for UK-wide alignment with EU legislation. It will be interesting to see how often the UK government uses its powers in the forthcoming Product, Regulation and Metrology Bill for this purpose. Third, the UK government has seemingly ignored its obligation to wait for the passing of an applicability motion by MLAs before adding the three other acts to the Windsor Framework. Even though the government suggests there are no regulatory impacts of concern, this could be seen by MLAs as Westminster ignoring key commitments it has made to them around the scrutiny of EU law.

2024/1392 and 2024/1501 on Ukraine/Moldova tariff liberalisation, which reduce tariffs on goods from those two countries, and **Regulation 2024/1252 on Critical Raw Materials**, aiming to improve the EU's security of supply and free circulation of said materials. In each case the UK government assesses that the EU act 'will not create a new regulatory border'.

The government has, however, not yet made a decision on the application of two other EU regulations: **2024/1689 on Artificial Intelligence and 2024/2847 on Cyber Resilience.** It says both 'are complex and will require further dialogue and consideration as to their interaction with the Framework'.

It has also rejected a request by MLAs (who pulled the 'Stormont Brake') to block the application in NI of an updated EU regulation on the classification, labelling and packaging of chemical substances. Secretary of State Hilary Benn stated that the "specific test wasn't met for doing so" but acknowledged 'the sincere and genuine concerns raised by Members' and promised a consultation on developing a 'consistent regime across the United Kingdom'. This implies whole-UK alignment with the EU rule changes, with Benn noting that the EU rule change 'has some merits' and 'will be accounted for in the UK's considerations of its domestic regime'.

Fourth, the application of the EU AI Act could become bone of contention - given the UK government has asked for more time to consider the effects. AI is especially sensitive because the UK is interested in actively diverging from the EU framework, with the hope of attracting investment in AI development as a result. Were Northern Ireland to align with the EU AI Act, it would not be able to exploit these potential regulatory advantages. The application of the EU AI Act in NI could also lead to some new compliance costs for NI regulators and businesses, in terms of ensuring EU requirements around risk management are being met when AI is used in NI - similar to the potential implications from having to enforce proposed new EU standards on animal welfare.

15. Agriculture/SPS

Council mandate on new genomic techniques.

ISSUE	IMPACT
The European Council has agreed a negotiating mandate to develop new legislation on 'New Genomic Techniques' (NGT). It proposes a distinction between 'category 1' plants (developed using genomic techniques to accelerate changes that 'could occur naturally or through conventional breeding methods' - this is often called gene editing) and 'category 2' (adding genetic material to produce plants which could not have been bred naturally - this is often called genetic modification). At present, there is no distinction in EU law between gene edited and genetically modified plants. All are classified as genetically modified organisms (GMOs) and subject to significant restrictions. They must be labelled, tracked and monitored, and face lengthy risk assessment at member-state level, meaning they are barely used in practice. Under the proposal, gene edited plants would be subject to a simpler regulatory process. A notification will have to be added to a publicly available database prior to their placement on the market - but they will not be subject to risk assessment or labelling (except for seeds, which will need labels in order to ensure they are not inadvertently used in organic farming). Genetically modified plants would remain subject to the same regulatory restrictions as now. The Council also agreed to introduce powers for member states to prohibit the cultivation of GMOs on their territory and to take measures	This represents a rare case of EU alignment with UK post-Brexit legislation, as the UK has already acted to simplify regulations on gene edited goods in England under the Genetic Technology (Precision Breeding) Act 2023. Defra notes that the EU's proposal is 'very similar' to the UK framework in its distinction between genetic editing and genetic modification. However, there are likely to be some differences in what the EU and UK consider to fall into each category; and the EU's proposal only covers plants, while the UK one covers plants and animals. The EU will also require genetically edited seeds to be labelled as such, while the UK will not. These divergences could prove a challenge now that the UK and EU have agreed to negotiate an SPS deal, based on UK dynamic alignment with EU plant and animal health regulations. The EU is likely to ask the UK to come into line with its somewhat less liberal regime. Alternatively, the UK could push for gene editing policy to be part of the 'short list of limited exemptions' to be included in the SPS deal. This would lead to regulatory divergence between England and the EU as well as rest of the UK (given gene editing is a devolved policy), with implications for ease of export. The more exemptions the UK government negotiates the more friction would remain in GB-EU and GB-NI trade arrangements. There are widely seen to be advantages in more

to avoid the unintended presence of GMOs in other products. Gene edited products will not be permitted in organic farming and member states can adopt special measures to prevent their presence there.

The EU Presidency will now initiate negotiations with the Parliament on a final text for the regulation.

liberal use of genetic editing techniques, as these can be used to develop crops which are more nutritious, diverse, resistant to climate change and pests (thus reducing pesticide use).

The issue of genetic editing remains sensitive in the EU. The additional powers provided to member states to prevent the presence of gene edited products in organic farming is reflective of the concern of some (notably the French food safety regulator) that genetically edited goods pose health risks comparable to GMOs.

16. Climate & environment

EU 'Omnibus' package.

ISSUE	IMPACT
The European Commission has adopted a new 'Omnibus' package (of multiple simultaneous reforms aiming) to 'cut red tape and simplify EU rules for citizens and business'. This addresses a number of significant pieces of EU legislation. **The Corporate Sustainability Reporting Directive (CSRD):** requires large companies to report on the social and environmental impacts of their practices. The Omnibus package would reduce its scope by about 80%, to cover roughly 10,000 (rather than 50,000) companies with more than 1,000 employees and a turnover of €50m+ or balance sheet of €25m+. Companies will also have to submit a reduced amount of data and the Commission will lose its power to adopt sector-specific standards. Reporting requirements will be delayed by two years for companies who were set to start reporting in 2026 or 2027. **The Corporate Sustainability Due Diligence Directive (CSDDD):** requires large companies to monitor and address environmental and human rights violations in their supply chains. The Omnibus package proposes a one-year delay to the application of the requirements, and removing the obligation to 'systematically conduct in-depth assessments' of 'indirect' partners in their supply chains. The maximum interval between assessments will be extended from one year to five and companies will no longer, as a last resort, have to terminate contracts with suppliers found in breach of the regulations.	This case has been classified as alignment because it reduces the scale of divergence with the UK compared to the original legislative proposals. As a result of the changes, many UK firms are likely to now be exempted from obligations under the CSDD, CSRD and CBAM – thus removing potentially significant new costs on trade with the EU. The omnibus package is a key part of the Commission's strategy 'to make the EU's economy more prosperous and competitive', building on the Draghi report, which argued that regulation makes it harder for EU businesses to scale up compared to US and Chinese competitors, and the November 2024 Budapest Declaration which committed to 'drastically reducing administrative, regulatory and reporting burdens, in particular for SMEs'. This aligns with thinking behind the UK 'action plan' to reduce the regulatory burden on business. However, the extent to which the Omnibus package simplifies administrative costs has been questioned. The Commission estimates that changes to the CSRD and CSDDD will save businesses around €5bn a year, but EU Observer reports that these savings are 'too small to meaningfully impact corporate balance sheets' as the existing cost of compliance with the CSDDD is estimated to be 0.09% of a company's net profits. The World Economic Forum notes that a 'shift in obligations may cause inconsistent sustainability reporting, regulatory uncertainty

The Taxonomy Disclosures, Delegated Acts and **Taxonomy Climate and environmental Delegated Acts**: underpin the EU 'Taxonomy' which defines what constitutes sustainable financial activities. The Omnibus package makes reporting requirements optional for companies with under 1,000 employees and a net turnover below €450m, and companies will no longer have to conduct assessments of economic activities that are not 'financially material' to their business (defined as those below 10% of total turnover, capital expenditure or total assets). Activities which are only partially aligned with the Taxonomy may now also be considered sustainable.

The Carbon Border Adjustment Mechanism (CBAM): levies tariffs on the carbon emissions created during the production of a range of goods imported to the EU. The Omnibus package proposes exempting 'small importers' from CBAM obligations (to declare and pay tariffs on embedded emissions) claiming to 'spare 90% of concerned companies from reporting requirements, while still covering 99% of the Co2 emissions'. Reporting requirements for those still in scope will also be simplified.

InvestEU and EFSI Regulations: set criteria for the projects the EU can invest in. The omnibus package proposes expanding the definition of SME to allow more companies to receive funds, and reducing reporting requirements for smaller fund recipients.

These measures are subject to approval - and potential amendment - by the EU institutions, which is likely to take some months. Each component of the Omnibus will be approved individually rather than as a package.

and a delay in sustainability investments', given businesses have already begun adapting to the new EU regimes, and that initial market reactions 'imply that a lack of a clear framework will actually lead to more bureaucracy and weaken the competitiveness of businesses, as other parts of the world, such as Japan and China, shift towards tighter sustainability regulations'.

The think tank E3G argues that the 'Commission positions decarbonisation as an economic driver, yet deregulating the sustainable finance framework undermines this objective'.

Other EU green legislative proposals could also come to be abandoned in the near future, with the Commission announcing in June 2025 its intention to drop the planned Green Claims Directive (covered in a divergence tracker from two years ago) which seeks to prevent companies from making misleading claims about the environmental credentials of their products. The administrative cost to business has been cited as the chief reason, and the major socialist and liberal groups in the Parliament have threatened to withdraw their support for President von der Leyen as a result.

17. Financial services

EU equivalence decision extended for UK clearing houses.

ISSUE	IMPACT
In January 2025 the European Commission decided to extend its 'equivalence' decision for UK central counterparties (also known as clearing houses) until 30 June 2028. Clearing houses act as intermediaries in derivatives trades to reduce the risk for the trading parties. The decision means that UK clearing houses will continue to be able to benefit from simplified access to the EU market for the next three years. This is the only equivalence decision from the EU on UK financial services which is still in force. The Commission has emphasised that the decision is a temporary one to 'ensure EU financial stability in the short-term and provide clarity to EU financial market participants'.	This decision reflects two important points. First, EU firms remain highly dependent on UK-based clearing houses, through which the vast majority of their derivatives trade are cleared. Letting the equivalence decision expire would therefore have significant costs for EU firms. Second, the EU would like to reduce its reliance on London-based clearing houses in the longer-term: hence the time-limited nature of the decision. The Commission had previously been seeking to oblige EU firms to clear a defined proportion of their trade through EU-based clearing houses, before watering down its proposals as firms made clear how disruptive it would be to their operations. Nevertheless, the Commission appears to still harbour ambitions to reduce its 'over-reliance' on London-based clearing houses. This is borne of a desire for greater control of its financial systems, as well as the fact that financial services is an area where the UK and EU see each other more as systemic competitors than partners: reflected in a flurry of recent plans by the UK to simplify its financial regulations.

18. Financial services

Savings and Investments Union.

ISSUE	IMPACT
In March 2025 the European Commission adopted a strategy for a Savings and Investments Union (SIU). This aims to encourage EU citizens to invest more of their savings into capital markets. The strategy will create more opportunities for citizens to make capital markets investments, while the Commission will also introduce initiatives aimed at improving access to capital in critical sectors, including for small and medium enterprises (SMEs). The strategy also intends to identify and remove regulatory barriers to cross-border activity between member states in capital markets, asset management and fund distributions; and to 'propose measures to ensure all financial market participants receive similar treatment, irrespective of their location in the EU'. The SIU sets the broad vision of the Commission's strategy, which will now be put into action through the development of legislative measures - which are yet to be announced. The Commission will publish a review of its progress in Q2 2027.	The European Commission notes that EU households around €10 trillion in bank deposits and that 'they usually earn less money than investments in capital markets'. It argues that the SIU can offer citizens better returns while also generating new investment in critical sectors, citing the Draghi report's estimate that an additional €750-800bn per year of investment is needed by 2030 to boost European economic competitiveness. The UK government has shown a similar interest in channelling private savings towards investments, with Chancellor Rachel Reeves stating in May that "a lot of money is put into cash or bonds when it could be invested in equities, in stock markets, and earn a better return for people." There is speculation that the government may reduce the yearly allowance for cash ISAs (where up to £20,000 can be saved yearly while earning tax-free interest) In June, the government introduced its Pension Schemes Bill, which includes new rules to help create more pension 'megafunds' (valued at over £25bn), which the government argues are better placed to invest in big infrastructure projects; and makes provisions for a new system showing how well pension schemes are performing, to help consumers obtain better returns on their investment. Given their common aims to drive more private savings into capital markets, it will be interesting to see whether they try to share expertise or coordinate approaches in any way - for example via the Joint EU-UK Financial Regulatory Forum.

19. Cross-cutting

Policy paper on regulators supporting growth.

ISSUE	IMPACT
In March 2025 the UK government published a policy paper on its 'New approach to ensure regulators and regulation support growth'. The plan focuses on three key actions. First is tackling the complexity and burden of regulation. Key measures include merging the Payments Systems Regulator (which ensures competition and innovation within the payment systems sector) into the Financial Conduct Authority; and easing environmental permit and license requirements for low-risk activities to speed up planning processes. Second is reducing uncertainty in the regulatory system. Key actions include streamlining the duties of major regulators like Ofgem and the Office for Road and Rail to allow focus on 'key national priorities'; a new 'strategic steer' for the Competition and Markets Authority to use its tools 'proportionately, with growth and investment in mind'; and supporting the Financial Conduct Authority to create more flexible regulation for 'early-stage innovative firms'. Third is challenging excessive risk aversion in the system, based on a more consistent cross-departmental approach to risk management. There will be formalised performance reviews for all departments to undertake with the regulators they sponsor; while the government has developed a new AI Opportunities Action Plan and Regulatory Innovation Office to develop regulatory frameworks in emerging sectors which 'provide more certainty for innovators'.	This paper emphasises the extent to which the government sees regulatory reform as central to its mission to drive economic growth. Having ruled out increased borrowing or higher taxes as means to generate additional revenue for investment, it is having to look at ways to encourage innovation, investment and efficiency in the public and private sector. There is a clear focus in the plan on services, and in particular emerging sectors, where the government is keen to embrace greater risk appetite and encourage innovation among firms developing new technologies. This appears to be an area where it thinks it can get a competitive edge on the EU - which has already taken a more restrictive approach to regulating AI. The EU is also seeking to reduce the administrative burden on companies via its omnibus package, but this focuses on reining in the scope of recently developed environmental and social legislation, whereas the UK is more focused on developing steers to guid regulators in their work. Some EU-derived regulations like the habitats directive could be in scope for removal or reform as the government seeks to find ways to speed up planning and approval processes for housebuilding. There is, however, a risk that the government is losing sight of the outcomes it wants to achieve in a quest to cut as much red tape as possible. Regulators are being asked to expend lots of effort on matters which are ultimately quite trivial, like increasing the limit on

Alongside this, the government announced 60 relatively small 'growth-boosting measures' like reviewing the £100 limit on contactless payment limits to speed up queues at checkout.

contactless payments and merging regulators. In other cases, like merging regulators, the administrative cost of delivering reform could well be greater than the existing inefficiency costs it is seeking to eliminate.

20. Agriculture/SPS

Ban on travellers' EU meat and dairy imports.

ISSUE	IMPACT
The UK government has banned travellers from bringing dairy and meat products from the EU into Great Britain in order to prevent the spread of foot and mouth disease. This means travellers cannot bring in a range of common items like sandwiches, cheese and cured meats. The ban does not apply for those arriving from Northern Ireland, Jersey, Guernsey, or the Isle of Man.	This is a minor inconvenience for travellers to Great Britain, however it is symbolic of the potential for greater restrictions on the movement of food now that the UK is no longer part of the EU. The SPS deal which the two sides are set to negotiate will create a 'Common Sanitary and Phytosanitary Area' which may have implications for whether the UK can continue with its ban.

21. Artificial intelligence

AI Opportunities Action Plan.

ISSUE	IMPACT
In January 2025 the UK government published its AI Opportunities Action Plan, produced by the entrepreneur Matt Clifford, which includes 50 recommendations for how to use AI 'to boost growth, raise living standards, transform public services, create the companies of the future'. Key recommendations include: • Creating new AI 'growth zones' with enhanced access to power and support for planning approvals - to speed up the development of AI infrastructure. • Increasing public computing capacity twentyfold. • Creating a 'National Data Library' so that AI developers can securely access public data sets to aid their work. • Creating an 'AI Energy Council' to 'understand the energy demands and challenges' related to AI development. The plan focuses on increasing the prevalence of AI in UK life, rather than developing a new regulatory framework. However, there is a recommendation to commit to funding regulators so they can 'scale up their AI capabilities'. This implies that the new government remains committed to its predecessor's approach of providing regulators with autonomy to develop their own AI regulatory frameworks, based on guiding principles. This contrasts with the EU's approach which has been to develop an overarching regulatory framework setting clear rules on how the technology can and cannot be used.	In some respects, the plan represents a continuation of UK-EU divergence over AI. First, because the new government has not sought to deviate from the regulatory approach as its predecessors, which is different from the EU. Second, because the UK is committed to increasing its own 'sovereign' AI infrastructure. In another respect, however, there are plenty of parallels between the UK plan and the European Commission's 'AI Continent Action Plan', outlined in April 2025, which also focuses on upscaling AI capacity. It includes plans to strengthen the EU's supercomputing infrastructure to support the development of new AI models and applications; and to set up large-scale 'gigafactories' to produce around 100,000 new chips for AI technologies. Similarly to the UK's planned data library, there is a plan to establish 'Data Labs' for creating 'high-quality data volumes from different sources' to help AI development; and to 'facilitate international recruitment of highly skilled AI experts and researchers' through fellowship schemes. Two of the main challenges faced by the UK and EU will be securing sufficient funding and managing the energy demand of increased AI use. On the former, the EU's InvestAI initiative aims to mobilise €200bn in funding the cost, including €20bn committed to AI gigafactories; while the cost - and source of funding for - UK plans remains vaguer. On the latter, the UK has made more explicit commitments to look at how to manage the challenges around energy demand.

22. Digital & Data

Data (Use and Access) Bill.

ISSUE	IMPACT
The UK government introduced the UK Data (Use and Access) Bill in October last year, which creates the potential for some limited divergence from EU data protection legislation (known as GDPR) if and when it becomes law. Consequently, the European Commission has proposed a short extension of six months to the two data 'adequacy' decisions it has adopted for the UK, which acknowledge UK data protection standards as equivalent to its own and allow for a free flow of personal data between the UK and EU. The decisions will now expire on 27 December 2025, giving the EU more time to determine whether the UK legislation - once finalised - maintains sufficient adequacy with EU GDPR to warrant a longer-term extension of the decisions. It initially adopted the adequacy decisions in 2021 but - unusually - included a 'sunset' clause, under which they expire after four years. This was driven by concerns that the UK might seek to diverge from EU data protection regulations post-Brexit. The Bill will become law after completing its passage through Parliament, and is subject to potential amendment before then.	The UK bill provides for some limited divergence from EU standards, for instance removing the requirement that individuals must always give their explicit consent for their data to be processed by automated decision-making technology. There also appears to be some divergence in terms of the interpretation of data subjects' rights, while members in the House of Lords are pushing for stronger automatic copyright protections for artists from AI, rather than them having to 'opt out' from permitting AI to use their intellectual property. The UK government and the independent regulator, the Information Commissioner's Office, both claim to be confident that the Bill does not threaten the UK adequacy decision. Ultimately, however, there is no perfect science to determining this. Even if the UK's standards remain higher than other countries (like Argentina) which also have adequacy decisions, the EU is not obliged to renew the UK decision. It is likely to consider whether the threats to EU personal data from any divergence outweigh the significant costs to UK and EU businesses of removing it. The initial decision is estimated to have saved UK companies hundreds of millions of pounds a year. It would also undermine UK-EU police and judicial cooperation and cross-border cooperation on the island of Ireland, where data sharing is vital in areas like emergency services and health cooperation.

23. Digital & data

Apple withdraws Advanced Data Protection in Britain.

ISSUE	IMPACT
In February 2025 Apple announced that it is withdrawing once of its most secure cloud storage services, known as Advanced Data Protection (ADP), in the UK following action from the UK government under the UK Investigatory Powers Act. This Act (which pre-dates Brexit) gives the government powers to seize communications data as part of investigations. Apple said it could no longer offer ADP for iCloud users in Britain, which is a tacit acknowledgement that it had been asked to open up its ADP data to UK authorities. ADP uses end-to-end encryption, which prevents even Apple from accessing the data. That means that creating a 'back door' into the system for UK authorities would have exposed data from iCloud users all over the world.	This case means that Apple users in the UK are not able to access the most secure cloud storage service which is available to those in the EU (as well as the rest of the world). The case was criticised by US President Donald Trump, who compared it to "something... that you hear about with China". It remains to be seen whether it becomes a sticking point if the UK and US seek to negotiate a 'digital trade deal' in future, as was indicated in the recent US-UK trading agreement. The Trump administration has previously proven itself highly sensitive to the treatment of US tech companies by European governments, deeming excessive intervention as an attack on US economic interests. It accused the EU of using 'lawfare' against US tech companies by subjecting them to what they see as excessive regulatory burdens through measures like the Digital Markets Act and Digital Services Act.

24. Environment

Deposit return scheme.

ISSUE	IMPACT
In January 2025 the UK government announced plans for a deposit return scheme (DRS) for England and Northern Ireland, set to come into effect in October 2027. This will see consumers charged an up-front fee when buying a drink in a single-use container, which can be reclaimed by depositing the used container at a collection point. The aim is to increase the rate of recycling of single-use bottles and cans. Notably, the government announcement states that a DRS will also be introduced in Scotland. The powers to create a DRS are devolved and the Scottish government had planned to bring in its own scheme before other parts of the UK, but delayed its plans due to a conflict with the UK government over the inclusion of glass bottles (which will not be part of the DRS in England and Northern Ireland). It now appears that Scotland will align its DRS - in terms of scope and launch date - with England and Northern Ireland. The Welsh government says it 'remain(s) committed to bringing forward a DRS) but first needs to undertake further work on how to include glass in its scheme.	There is no EU-wide deposit return scheme but many member states operate their own scheme (and many cans sold in the UK carry the relevant markings). The EU could in theory forbid the sale of containers bearing UK DRS markings, if they felt it would confuse their consumers. This would then complicate life for businesses which would need separate labels for the UK and EU markets. The case also highlights the constraints which the UK Internal Market Act (IMA) imposes on devolved policymaking powers, with Scotland having abandoned plans for a different DRS design and Wales seemingly struggling to diverge. Under the IMA's 'market access principles', one part of the UK cannot create regulation which prevents the import of goods from another part, unless a specific 'exclusion' is agreed with Westminster. The Scottish DRS rubbed against this as containers made in other parts of the UK would lack the correct labelling for sale in Scotland. The previous UK government agreed to provide a temporary exclusion allowing the Scottish DRS to operate, on the proviso that it became interoperable with the schemes in the rest of the UK once they were up and running. But it refused to grant an exemption for glass bottles, as these will not be included in England and Northern Ireland's DRS. The government said such 'permanent divergence... would add cost and complexity to the schemes in particular to hospitality and retail sectors, as well as adding consumer inconvenience'.

25. Environment

Independent review of Defra's regulatory landscape.

ISSUE	IMPACT
In April 2025 Defra published an independent review of its regulatory landscape The review concludes that UK environmental regulation is 'outdated, inconsistent, layered and labyrinthine'. It does not recommend a 'bonfire of regulation' but instead calls for a 'targeted ongoing programme of streamlining and modernising' via a 'rolling programme of reform', identifying a number of 'early priorities': The Water Environment (Water Framework Directive) (England and Wales) Regulations 2017; The Conservation of Habitats and Species Regulations 2017; The Reduction and Prevention of Agricultural Diffuse Pollution Regulations 2018; and The Environmental Permitting Regulations 2016. It is not yet clear which aspects of the above legislation might be reformed. Much of it is EU-derived, and the habitats regulations in particular were already a target for the previous government, which claimed that obligations around nutrient levels in wastewater prevented the development of new housing projects. The report emphasises the need to remove rules which slow down planning approval or development processes. It recommends updating the Environmental Permitting (England and Wales) Regulations 2016 'to allow regulators more flexibility to take sensible, risk-based decisions', while the Environment Agency and Natural England will be provided with new strategic steers with an emphasis on not "blocking" development and nature restoration programmes.	This is part of the UK government's wider drive to boost growth by streamlining regulation. It is difficult to offer an assessment of the impact until specific policy proposals are outlined, but, assuming plans are brought forward to remove some regulations, two obvious questions are likely to arise in a divergence context. The first is whether the simplification of regulation creates environmental risks, for example in terms of greater environmental pollution due to fewer safeguards around planning and development. The second, connected, question is whether the EU might view this as a breach of the level playing field commitments in the TCA, where the two sides are committed to uphold the environmental standards they had in place when the agreement was signed. Were the UK to radically reduce its regulatory protections compared to the EU, the EU might view it as a competitive distortion with UK businesses facing fewer regulatory barriers than their EU counterparts. This could in theory allow the EU to take 'rebalancing measures' in terms of tariffs or other restrictions on certain UK exports.

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26. Environment

Proposed ban on bottom trawling.

ISSUE	IMPACT
The UK government has proposed a ban on bottom trawling - a fishing practice which involves dragging large nets along the seabed - in 41 'marine protected areas' (MPAs) in English waters, spanning 30,000km2. It also proposes a ban on the use of static nets and traps in five MPAs The purpose of the restrictions is to protect marine habitats and species including lobster, clams, soft corals and langoustines. It builds on restrictions already in place across 18,000 km2 of English waters. Overall, there are 141 MPAs covering 93,000km2. The government estimates the annual cost to UK business of the proposals to be £530,000, but estimates the net benefits of the scheme over 20 years at £3.1 billion - in terms of environmental protections and climate regulation. A consultation on the proposals runs until 1 September.	The UK is able to take this action due to the increased regulatory control it has over its waters post-Brexit. It remains to be seen whether EU fishers complain that the UK government is unfairly restricting their access to its waters. While they have not challenged previous UK bans on bottom trawling, the EU did raise a legal challenge to a ban on the fishing of sand eels in English and Scottish waters - with the EU's claims having recently been partially upheld by an independent tribunal.

27. Financial services

UK delays application of Basel 3.1 rules.

ISSUE	IMPACT
The UK Prudential Regulation Authority (PRA) has delayed by one year the implementation of new global banking rules, known as 'Basel 3.1', until 1 January 2027. The Basel rules were developed following the 2008 global financial crisis with the aim of improving banks' risk assessment processes. Basel 3.1 is designed to ensure banks hold sufficient capital in wholesale trading activities. The PRA says the reason for the delay is to allow 'more time for greater clarity to emerge about plans for its implementation in the United States' while also noting the need for 'taking into account competitiveness and growth considerations'. The United States had already pushed back the application of the new Basel capital rules until January 2027. The UK and EU had both previously pushed back their implementation date to January 2026. Shortly after the PRA decision to delay this by a further year, the EU announced a consultation on potentially following suit.	The UK decision can be seen as a response to Chancellor Rachel Reeves' call for the UK financial services sector to embrace a greater risk appetite. The PRA decision has sparked concerns in the EU that the UK is embarking on a 'race to the bottom' on financial services regulation but EU industry is reportedly in favour of the Commission following the UK and US in opting for an additional year's delay. EU concerns about the competitiveness of its financial services sector against the UK's are already evident in its refusal to grant the UK any further 'equivalence' decisions (which remove regulatory barriers to trade) in financial services despite a relatively high degree of continued regulatory alignment.

28. Financial services

Reform of UK Capital Requirements Regulation.

ISSUE	IMPACT
The Financial Conduct Authority (FCA) has published proposals to simplify the UK Capital Requirements Regulation (CRR) which the UK adopted as an EU member state. These set requirements on how much capital banks and investment firms must hold. This was part of post-financial crisis attempts to ensure the financial stability of such institutions. The proposed changes would apply to certain investment firms but not banks. The FCA proposes changing the definition of 'own funds' ('high-quality capital that firms must hold to absorb losses and maintain financial resilience during periods of stress') for investment firms to remove reference to the UK CRR. This does not change the level of capital which firms are required to hold, but adds flexibility around the types of capital permitted. The FCA says that the FCC rules were 'designed for banks, making them complex and not tailored to investment firms' business models'. It claims it 'does not expect firms to change their capital arrangements as a result' but that it will reduce the volume of legal text which firms have to comply with by about 70%, thus reducing compliance costs. The FCA has invited feedback on its proposal and expects to publish a statement later this year, with the new framework expected to come into effect from 1 January 2026.	This is another case of the UK seeking to diverge from the EU over its application of the suite of 'Basel' international banking regulations instituted after the 2008 financial crisis. The UK has already moved to delay the implementation of the latest round of measures (known as 'Basel 3.1') by a year compared to the EU. It is also looking to relax EU-derived rules for asset management firms around risk management. The proposal forms part of a wider push by government to get financial services regulators to lighten the regulatory burden on firms. No assessment appears to have been published on the expected economic impact of this proposal.

29. Financial services

Reform of alternative investment fund regulations.

ISSUE	IMPACT
The UK government and Financial Conduct Authority (FCA) have launched a consultation on the regulation of 'alternative investment fund managers' (AIFMs). The UK adopted the EU AIFM Directive in 2013 as part of post-financial crash efforts to reduce risk exposure in the financial services sector. All AIFs with €100m or more of assets must comply with the 'full scope' of requirements around deposits, risk management (reporting to regulators, stress tests, ensuring proper valuation), disclosure for investors; and remuneration for directors and certain staff. They must also hold substantially more reserve capital. The government proposes increasing the threshold at which AIFMs are subject to those requirements to £5bn (roughly €6bn). This would reduce the number of AIFMs subject to full scope requirements from 699 to 64, covering three quarters of total net assets rather than 99%. There will be a new 'mid-sized' regime for firms with assets below £5bn but above £100m.	The FCA's view is that the proposal strikes an 'adequate balance' between risk management and reducing the regulatory burden on firms. It argues that the current regime imposes a 'cliff-edge' for small AIFMs which must make 'abrupt and significant changes' to comply with new rules once they cross the 'full-scope' threshold. It says this 'creates barriers for firms as they grow', though presumably firms would anticipate the regulatory changes as they grow towards the current threshold. The FCA argues that the new 'mid-sized' regime is appropriate for many UK AIFMs which are 'boutique firms' that 'do not have the same level of market presence or pose the same level of risk as the largest full-scope AIFMs'. As with other reforms to financial regulations, there is no clear impact assessment of the economic effects - nor of the administrative costs of the existing regulation - though the UK clearly thinks it can get a competitive edge on the EU in this area. Some in the industry warn that - if the UK goes too far in its deregulatory drive - the EU could respond by blocking fund managers from 'delegating' their assets to UK firms (which currently manage 85% of European assets). The EU reformed its AIFM rules last year, introducing stricter disclosure requirements, but it - notably - left the UK delegation regime in place.

30. Mobility

UK Electronic Travel Authorisation.

ISSUE	IMPACT
As of April 2025, almost all foreign visitors to the UK, including EU nationals, are required to obtain an Electronic Travel Authorisation (ETA) for short-term trips. The ETA is similar to a US ESTA. It is not a visa but rather a form of digital travel permission, required even for nationals of countries who have the right to enter the UK visa-free. British and Irish citizens and those with settled status are exempted from ETA requirements. The application can be done online and most applicants will get a decision in minutes (though visitors are advised to apply three days in advance). An ETA costs £16 and lasts for two years. The UK government argues that the ETA will make immigration processes 'quicker and more secure'; as travellers have to submit their biographic, biometric and contact details; as well as answer screening questions, prior to their arrival in the UK.	The UK ETA is similar to an EU scheme known as 'ETIAS', which will require UK (as well as other third country) nationals to obtain pre-authorisation before travel to the EU. The expected launch date for ETIAS - which has already been delayed repeatedly - is now the last quarter of 2026. In principle the ETA and ETIAS should not create major disruption for travellers in either direction, though some may have issues if they are unaware of the need to obtain authorisation in advance. However, the Northern Irish government continues to express concern about the impact on tourism in Northern Ireland - as an ETA is required for non-UK nationals crossing from Ireland into Northern Ireland. This could have a major negative impact on Northern Irish tourism, as over 70% of visitors arrive via Ireland. Indeed, one in four tourists from Europe and one in five from North America say that, in light of the ETA, they would opt not to travel to Northen Ireland. Non-UK and -Irish nationals who are resident in Ireland do not need an ETA to enter the UK (including Northern Ireland).

31. Mobility

Immigration white paper.

ISSUE	IMPACT
In May 2025 the UK government published a white paper containing eight proposals to tighten the immigration system. They are: • Shortening the list of jobs for which someone can get a skilled work visa. • Ending the recruitment of social care workers from overseas. • A potential levy on universities' income from overseas students. • Tougher compliance rules universities sponsoring student visas. • Reducing the length of time graduates can stay on to work in the UK from two years to 18 months. • Stricter English language rules for visas. • Increasing the standard qualifying period for UK permanent residence from five years to ten. • Making 'the very highly skilled' to come to the UK on 'Global Talent' and 'High Potential' visas. The white paper is a set of proposals and none of these changes has yet been enacted.	The economic impacts of the white paper are hotly contested. The government argues that the large increase in inward migration under the UK's post-Brexit immigration system (which broadly made it easier for foreign nationals to come and work or study in the UK) has done 'incalculable damage to the country', whereas many experts argue that that it is 'economically irrational' and based on a misreading of both migration patterns and the public mood. The proposals could, however, somewhat circuitously, lead to an increase in EU migration to the UK – which has been net negative since 2021, even as migration from the rest of the world has increased dramatically. This is because a tightening of wider immigration controls was seen in some quarters of government as a necessity if a UK-EU youth mobility scheme is to be agreed to. For EU nationals unable to apply for the youth mobility scheme, however, the proposals in the white paper would make it even harder for them to move to the UK.

32. Trade

UK-US 'economic deal'.

ISSUE	IMPACT
The UK and US have agreed an 'economic deal' which reduces tariffs and increases quotas on exports of selected goods. It is not the same as a fully-fledged free trade agreement, as it does not cover 'substantially all trade' and is not legally binding. Tariffs on UK car exports to the US will be reduced from 27.5% to 10% for the first 100,000 exports per year (accounting for the vast majority). This matches the 10% tariff which the UK imposes on US car imports and is a potentially major benefit for the UK's largest US export sector (worth £6.4bn). Tariffs have also been removed on aerospace components including jet engines. Tariffs on UK steel and aluminium exports are meant to be reduced from 25% to zero. However, negotiations are ongoing, with complications over the types of steel subject to exemptions. The majority of UK steel is reprocessed (rather than melted and poured) in the UK, and this does not meet the usual US requirements around rules of origin. In the meantime, the UK has been exempted from the doubling of US steel tariffs to 50%, which applies to imports from the rest of the world, remaining on the 25% rate instead. The two sides have agreed to a reciprocal quota of 13,000 metric tonnes of tariff-free beef exports. This significantly liberalises UK market access for US beef, which was previously subject to a quota of 1,000 metric tonnes and a tariff of 20%. The UK has not relaxed its food standards, meaning imports of	The UK would not have been able to negotiate such a bilateral agreement with the United States were it still a member of the EU. The UK's automotive and steel sectors thus benefit from lower tariffs on their US exports than EU competitors. In other sectors, both the UK and EU remain subject to the same universal 10% US import tariff, meaning the terms of UK-US trade are still significantly worse than before Donald Trump re-entered the White House (with an average effective tariff rate of 11% rather than 1%). Economists do not expect the new deal to have a noticeable impact on UK GDP. The EU and US continue to discuss their own potential bilateral deal, though EU officials do not expect to secure as preferable terms as the UK has. The EU has threatened to impose €95 billion of additional tariffs on selected US goods (including aircraft, cars and bourbon) if the talks fail. Ignacio García Bercero, of the think tank Bruegel, has questioned whether the US-UK deal undermines the World Trading Organisation's 'most favoured nation' principle, which only permits a state to offer preferential tariffs to another if it is part of a fully-fledged trade deal covering 'substantially all trade'. Others, however, have argued that the UK and US may be able to work around this by presenting it as the start of wider free trade negotiations which will last for years. Nevertheless, the EU has not so far reacted negatively to the UK-US deal, and in fact

hormone-fed beef will not be allowed. The UK is also removing tariffs on US ethanol, exposing UK farmers to greater competition in the production of what the National Farmers Union calls a ‘profitable outlet’ and leading to the potential closure of the UK’s main bioethanol plants.

The two sides say they will continue to work on enhancing trade in other sectors, such as pharmaceuticals, with the US agreeing to preferential treatment for the UK on any future pharmaceutical tariffs. They are also exploring a ‘technology partnership’ to collaborate in certain sectors and ‘digital trade deal’ to ‘strip back paperwork for digital firms trying to export to the US’. The UK has not so far altered its Digital Services Tax which affects major US tech companies.

appears to be using it as something of a template as it pursues its own bilateral agreement with the US. Moreover, the UK has upheld its regulatory standards in areas like food standards and plant and animal health – which might otherwise have imperilled the proposed ‘SPS’ deal with the EU.

33. Trade

UK-India Free Trade Agreement.

ISSUE	IMPACT
In May 2025 the UK and India concluded talks on a free trade agreement (FTA). Tariffs are to be removed on 99% of Indian goods exported to the UK, while 92% of UK exports will see their tariffs reduced or removed. The government says this will initially be worth £400 million a year, doubling to around £900 million a year after ten years (as tariff reductions are scaled up). By that point, two thirds of UK exports for India will be eligible for tariff-free trade. Some of the UK's most significant Indian export sectors are spirits and cars. These will, respectively, see their tariffs reduced from 150% to 75% (reaching 40% after ten years); and from 100% to 10% - though cars will be subject to an as-yet-unspecified quota limit. Other notable sectors covered by the deal include cosmetics and food. The two sides have also agreed a 'Double Contributions Convention' (DCC) alongside the FTA, which means that when an employee moves between the UK and India for work they (and their company) will only have to pay social security contributions in one country. Employees on a temporary transfer of up to three years will be allowed to keep paying social security contributions in their home country to avoid fragmenting their record of contributions. The deal is still subject to a final legal review from both sides before it is formally signed off.	This is the third major bilateral FTA which the UK has signed post-Brexit (alongside ones with Australia and New Zealand) as well as joining the 'CPTPP' trade bloc of Indo-pacific states. This is potentially the most economically significant deal signed so far, with the government claiming that it will increase UK GDP by 0.1% 'each and every year in the long term' and offer UK consumers 'greater choice' in terms of access to Indian clothing, footwear and food. The provisions primarily focus on goods trade, with more limited benefits for services. The Law Society has criticised the 'missed opportunity' to include provisions on legal services, while there is no coverage of pharmaceuticals, despite the UK having previously pushed for changes to Indian intellectual property law to protect branded pharmaceutical products. The exemption of some Indian workers from social security contributions under the DCC was a key Indian negotiating ask, as Indian companies are among the leading users of intra-company transfers in the UK. An Indian official claimed it could save Indian companies around 20% in salary costs, and the DCC has been criticised by some opposition MPs for 'undercutting British workers'. The government argues that the UK already has such agreements with a range of other countries.

34. Agriculture/SPS

Revised rules on agricultural product marketing.

ISSUE	IMPACT
In December 2024 the European Commission proposed amendments to the Regulation establishing a common market organisation of agricultural products. Much of the reform focuses on contracts and mediation between farmers and buyers, but there is also a proposal to define how the terms 'fair', 'equitable', and 'short supply chains' can be used in the marketing of agricultural products. This is the only aspect of the proposal that falls within the scope of the Windsor Framework - meaning it would apply in Northern Ireland. The use of 'fair' and 'equitable' would only be allowed if they inform consumers about existing practices which support 'stability and transparency' between farmers and purchasers; a price considered equitable by farmers; or if they contribute to one or several UN sustainable development goals. The term 'short supply chain' would only be permitted if it informs consumers about a 'direct connection' or a 'close connection and geographical proximity' between the farmer and the final consumer'. The Commission has powers to specify further conditions. The products covered include fruit and vegetables, live trees and other plants, milk and milk products, beef, veal, pig meat, sheep meat, goat meat, eggs and poultry meat. The act is still in its first proposed form and thus subject to amendment, with no date set for implementation.	Should the act be passed, goods placed on the Northern Irish market would have to meet the new requirements around the use those specific terms. But an official from the Northern Irish Department of Agriculture, Environment and Rural Affairs) told the Windsor Framework Democratic Scrutiny Committee that the proposal is 'not likely' to have a significant impact on Northern Ireland which justifies triggering the Stormont Brake. She noted that goods will continue to be able to move between Great Britain and Northern Ireland under the Windsor Framework's green lane (which eases regulatory checks and controls for goods proved not at risk of entering the EU market) without having to meet the new requirements. GB manufacturers will, however, have to ensure they comply with the new wording requirements when exporting goods to the EU. If the UK and EU have signed an SPS deal by the time the EU legislation comes into the effect, the UK may be obliged to adopt the EU legislation by default.

35. Climate

Amendment to EU Climate Law.

ISSUE	IMPACT
The European Commission has proposed an amendment to the EU Climate Law, which sets legally binding targets for the EU on its path to net zero emissions by 2050. The amendment sets a new target to achieve a 90% reduction in emissions by 2040, building on the target of 55% by 2030. It also introduces new 'flexibilities' in reaching net zero, allowing up to 3% of the target to be met by the purchasing of international carbon credits. This permits member states to include financial support for international climate initiatives as part of their own emissions reductions from 2036-2040. There is also a proposal for changes to the EU emissions trading system (ETS), which levies tariffs on carbon emissions in industrial production processes, so that producers can claim back the tariffs on goods exported beyond the EU. This is designed to make EU-made goods more competitive against foreign-made ones which are not subject to carbon tariffs. The measure will apply to goods at risk of 'carbon leakage' - where companies move their operations offshore to avoid EU carbon tariffs - suggesting some industries may not be able to benefit from the rebate if they are not deemed at risk. A formal proposal, laying out the specifics, will be made by the end of 2025.	The UK and EU are broadly aligned on their net zero ambitions, and the UK will have to set out its own 2040 target ahead of COP30 in November this year, which is likely to be similar to the EU's. Yet the EU's revisions contain a couple of potentially significant pieces of divergence. The decision to permit the use of carbon credits towards emissions reduction targets could be perceived by international partners as a sign of the EU weakening its net zero ambitions. The EU and UK have so far not used them, with the EU's scientific advisory board advising against them on the grounds that they allow countries to continue emitting more fossil fuels. Their adoption by the EU could undermine international trust in it as a climate leader and push other countries to lower their own ambitions ahead of COP30. The EU's 90% target is also on the lower end of the European Scientific Advisory Board's 90-95% recommendation. Meanwhile, the changes to the ETS will reduce the scale of carbon levies faced by certain EU industries - which might make them more competitive against counterparts in the UK who cannot make use of such an exemption under the UK ETS. This could lead the UK to consider a similar rebate as the two sides begin talks on linking their emissions trading schemes.

36. Digital & Data

Apple and Meta fined under EU Digital Markets Act.

ISSUE

In April 2025 the European Commission issued fines to Apple and Meta under the aegis of its Digital Markets Act (DMA). This is the first time fines have been issued under the DMA, which took effect in 2023 and imposes obligations upon the very largest tech companies to uphold fair competition in digital markets.

The Commission has ruled that Apple breached the 'anti-steering' obligation by imposing restrictions on app developers which prevent them from directly informing consumers of 'alternative and cheaper offers' for procuring their app outside of the Apple app store. Apple has been fined €500m as a result and been ordered to remove the restrictions in question.

Meanwhile, Meta has been ruled in breach of obligations around users' personal data. The DMA requires companies to seek users' consent for combining personal data between services (e.g. taking their Facebook data to tailor ads to them on Instagram) and, if that consent is not given, to offer a 'less personalised but equivalent alternative'. Meta introduced a 'consent or pay' model in which users had a binary choice between consenting to their data being combined or else paying for an service without personalised ads. The Commission ruled that Meta was failing to offer users a 'less personalised but equivalent alternative' - i.e. a free version of its services with less personalised ads.

Meta has been fined €200m and the Commission is assessing whether a new option

IMPACT

These are landmark rulings as they represent the first fines issued under the DMA, which has been vaunted as a powerful new tool for the Commission to combat big tech's market domination. At the same time, the fines issued are relatively small compared to the €1.8bn and €797m issued last year to Apple and Meta respectively for violating antitrust laws, and falling well below the maximum permitted threshold of 10% of global turnover.

Commission officials say that the reason for this is that the DMA remains relatively new and the decisions could still face legal challenge, but some have suggested that this could be a strategy to avoid increasing tensions with the Trump White House - also pointing to the fact that both Apple and Meta have received a 'sweetener' with the Commission closing another DMA-related investigation into Apple (around default browsers and apps) and dropping Facebook Marketplace from the DMA's purview.

Tech regulation is one of the areas where the UK has hinted it may adopt a lighter-touch approach than the EU as it looks to build trade ties with the US, including a possible 'digital trade deal'. The UK does in fact have very similar powers to the EU to impose obligations on large tech companies under the Digital Markets, Competition and Consumers Act (DMCCA), which was made law in May last year, and in January opened its first investigations under the act, covering some similar terrain to the Commission.

it has offered 'that allegedly uses less personal data to display advertisements' is compliant with the DMA. The Commission has also decided that the Facebook Marketplace service should no longer be subject to the DMA as it does not meet the relevant threshold in terms of market domination.

The UK Competition and Markets Authority (CMA) recently indicated its intention to take action over Google's search and advertising services suppressing results about rival services; and it is also looking into whether Apple and Google's mobile systems suppress users' ability to access rival digital wallets, app stores and browsers. These investigations mirror ones already opened by the Commission (though it has dropped its investigation into default apps and browsers). Decisions are expected by October, which could lead to new conduct requirements for the companies. It is only if they fail to comply with any future conduct requirements that fines may be issued.

37. Digital & data

EU International Digital Strategy.

ISSUE	IMPACT
In June 2025 the European Commission adopted an International Digital Strategy, setting out a plan for the EU's international digital cooperation. It has three key objectives: to expand international partnerships on digital issues with other countries; to develop a 'tech business offer' to support digital capacity building in other countries; and to 'strengthen global digital governance, by promoting a rules-based global digital order, in line with the EU's fundamental values'. Cooperation will focus on a range of areas including digital infrastructure, emerging technologies, digital governance, cybersecurity, digital identities (including mutual recognition arrangements) and online safety. Specific proposals to support the strategy will be unveiled in due course by the European Commission and High Representative for Foreign Affairs and Security Policy.	The strategy does not create any immediate policy divergence with the UK (though it might in due course). However, it sends an important signal that the EU recognises it cannot go it alone in its ambitions for 'tech sovereignty', i.e. reduced reliance on US tech companies for its digital infrastructure. The strategy acknowledges a 'productivity gap' between the EU and US based on 'the superior ability of the US to innovate, scale-up globally and succeed in the tech sector'. The EU does not have the capacity to wean itself entirely off US (and other countries') technology in areas like cloud services, AI and microchips. Therefore, the focus of the strategy is on reducing the EU's technological dependency on a single partner for specific technologies by building a more diverse range of digital partnerships. This more collaborative approach may open doors for new cooperation with the UK, which has shown very similar instincts to the EU when it comes to regulating digital markets and online safety.

38. Energy

EU Clean Industrial Deal.

ISSUE

In February 2025 the European Commission presented its 'Clean Industrial Deal', intended to accelerate the decarbonisation of EU industrial sectors while ensuring they remain internationally competitive. There are 40 measures, including:

- **The Industrial Decarbonisation Accelerator Act** to speed up permitting for projects to aid industrial decarbonisation.
- **The Circular Economy Act**, to reduce waste and emissions by creating a 'single market for waste and reusable resources'.
- **Revision of the Public Procurement Directive** to include sustainability, resilience and European preference criteria in strategic sector procurement processes.
- **A Clean Industrial Deal State Aid Framework**, to more quickly approve state aid for renewable energy/clean tech projects.
- **Progressing the Critical Raw Materials Act** by selecting 47 'Strategic Projects' across the EU for extracting, processing, recycling and substituting critical raw materials.
- **A proposed Industrial Decarbonisation Bank** to provide €100bn in further funding.
- **'Simplifying' the Carbon Border Adjustment Mechanism (CBAM)** - see the entry on the EU 'Omnibus' package.
- **An Affordable Energy Action Plan** to reduce energy bills through eight actions, improving grid efficiency through a new methodology for network charges; greater energy market integration; promoting the uptake of longer-term electricity contracts; and the financing of energy efficiency initiatives.

IMPACT

The UK has also sought to reduce industrial energy costs through its own recent Industrial Strategy, but there is divergence in the focus of the two approaches. The UK strategy focuses more on subsidising costs for energy-intensive industries than actions to drive industrial decarbonisation and increase energy efficiency.

It remains to be seen how the Commission translates its commitments into action, given that the package requires the development and delivery of a wide range of new legislative proposals, backed up by sufficient funding. Some member states, notably France, have criticised the deal as 'homeopathic' for not sending strong enough signals about the need to accelerate industrial decarbonisation, with the €100bn of additional investment significantly less than was recommended in the Draghi Report on the EU's industrial competitiveness. France also wants the scope of the EU CBAM to be widened to include finished products as well as materials.

The European Environmental Bureau has criticised the deal for weakening the 'holistic approach' of the EU's Green Deal, set up under the first von der Leyen Commission, 'using competitiveness as a false pretext to justify unacceptable concessions to polluters'. It welcomes the drive towards electrification via renewables and the promotion of circularity, but has criticised the focus of political and financial support on 'energy-intensive' industries while ignoring plans to detoxify the chemicals industry and 'increase zero-pollution and toxic-free manufacturing capacity'.

39. Mobility

EU Entry/Exit System.

ISSUE	IMPACT
The European Commission in May agreed a deal with the Council and European Parliament to launch the EU Entry/Exit System (EES) from October 2025. The EU EES creates a new 'digital border' which verifies travellers' passport and biometric information each time they enter or exit the EU, with the date of entry/exit logged digitally. This replaces the existing practice of 'wet stamping' passports to show when someone has entered or exited the EU and gives member states 'real time' access to travellers' personal data, which the Commission says 'will significantly reduce the likelihood of identity fraud and overstay'. The EU EES has been covered in previous divergence trackers and was initially meant to take effect in 2022 but has been repeatedly delayed. This was due to problems with getting the necessary systems in place for recording and verifying passengers' biometric data. The Commission is now planning a phased launch, with member states expected to have started using the EES for a minimum of 10% of border crossings by the end of the first month. After three months, the EES should be in use at 35% of member state border crossing points. And after six months, the EES is meant to be in place for all crossings.	The EES is likely to have an impact on travel between the UK and EU, especially at the Channel Tunnel, Port of Dover and St Pancras Eurostar terminal - which take large numbers of passengers into France. Under a reciprocal UK-France agreement, French border checks are done on the UK side, meaning EES systems need to be in place at those departure points. The Channel Tunnel operator, Getlink, has previously estimated that the average time taken to process a car will increase from under a minute to five-to-seven minutes - due to the fact that passengers have to register their biometric information the first time they encounter the EES. That said, the phased approach now being taken may somewhat reduce that impact, as not all passengers will have to use the EES from day one.

40. Product standards

Product Liability Directive.

ISSUE	IMPACT
The EU's revised Product Liability Directive came into force in December 2024. The original Directive took effect in 1985 and introduced harmonised standards on consumer protection against damage caused by defective products. The updated Directive aims to ensure the rules are fit to address modern challenges like technological shifts and increasingly global supply chains. To adapt the rules to modern technologies, the definition of a product has been updated to include software and AI systems, digital manufacturing files (which enable the automated control of things like 3D printers) and digital services integrated into a product (like navigation tools for autonomous vehicles). There are also changes to liability rules, with a 'layered' set of responsibilities for different operators in the supply chain. Any operator who modifies a product outside the manufacturer's control becomes liable for defects. When a manufacturer is non-EU based, an 'authorised representative' or the distributor assumes responsibility (mirroring changes under the General Product Safety Regulation). The definition of damage (for which producers are liable under the Directive) has been widened to include material losses, property damage and destruction of data. Manufacturers are now liable for damage caused by insufficient software updates or cybersecurity failures. The burden of proof remains on the claimant to prove the product was defective; the damage	These changes have a direct effect on manufacturers in Great Britain, who will be subject to the new, more 'claimant-friendly' requirements whenever they place a product on the EU market. The changes are especially significant for those producing digital products, which were not previously subject to the regime, and medical devices, where victims can claim compensation for a period of 25 years rather than ten. Northern Ireland is subject to the updated directive under the terms of the Windsor Framework, meaning it must transpose the necessary legislation by December 2026. This will give consumers in Northern Ireland greater rights to claim compensation than those in Great Britain, which remains subject to the Consumer Protection Act 1987. It is unclear whether the stricter liability will deter any GB-based businesses from exporting to NI, but the NI Assembly's Democratic Scrutiny Committee concluded that it would not have a significant impact which provides grounds for triggering the Stormont Brake. The UK government says it 'is considering the product liability legislation as it applies in England, Wales and Scotland, as we also believe it necessary to update it to bring it in line with recent technological developments'. This might imply an interest in aligning with the updated EU legislation in future, especially as it the Product Regulation and Metrology Bill creates powers for the government to mirror EU product safety regulations.

caused; and the causal link between the two. But the directive removes the requirement to prove a causal link when the evidence is ‘excessively difficult’ to obtain, while manufacturers are newly obliged to disclose necessary information in court when the claimant has proven the ‘plausibility of the claim’.

Operators remain liable for ten years after a product is placed on the market, but this is extended to 25 years for certain health-related products where the damage may take longer to appear. Member States have until December 2026 to transpose the directive and implement the necessary changes.

41. Product standards

Revised Construction Products Regulation.

ISSUE	IMPACT
In December 2024 the EU adopted a revised version of its Construction Products Regulation. This harmonises rules around the marketing of products in order to better enable their free movement within the single market. It sets out a future approach to developing common standards and brings re-used and recycled products into the scope of the legislation - meaning they can also be subject to harmonised standards. The definition of 'economic operators' is expanded to include online marketplaces which sell construction goods, and there will be a new system for consumers to report concerns about products. The regulation integrates construction products into the 'Digital Product Passport' system created under the ecodesign regulation, meaning that products must carry a label providing consumers with information about a range of performance and conformity criteria. It is expected to be established in 2026 and become mandatory from 2027.	The revised regulation will take effect in Northern Ireland, meaning some new obligations for goods to be placed on the Northern Irish market. This includes maximising the use of recycled materials, designing products to be used for as long as possible, and complying with new labelling and Digital Product Passport obligations. This could create new administrative costs for Northern Irish manufacturers which competitors in the rest of the UK do not face, while GB-based manufacturers will also have to ensure they meet the new requirements if they wish to keep exporting to NI and/or the EU. Given the importance of the EU as an export market, it is likely that many GB-based manufacturers will voluntarily meet the new requirements, but this cannot be guaranteed in all cases - meaning there is a risk that some GB-based companies opt to stop exporting to NI rather than adapt to the new technical requirements. There are also administrative costs for market surveillance authorities in Northern Ireland, which must establish the new reporting system for concerns about defective products. Nevertheless, the UK government does not anticipate that the EU reform will have 'significant impacts' on NI producers or GB-NI trade, with one of the reasons for this being 'planned domestic reforms in the rest of the UK'. This may imply that the government intends to mirror the EU reforms using the powers in the Product Regulation and Metrology Bill.

42. Product standards/Energy

Ecodesign and energy labelling rules.

ISSUE	IMPACT
New EU rules took effect in June 2025 which set new requirements around the durability, energy efficiency and repairability of smartphones, tablets and cordless phones. The changes stem from two pieces of EU legislation: the Ecodesign Regulation and the Energy Labelling Regulation which were both passed in 2023. The Ecodesign Regulation sets out minimum standards for smartphones, cordless phones and tablets to the sold on the EU market. This covers the level of resistance to drops, scratches, dust and water; battery durability (a minimum capability of 800 charge cycles while retaining 80% of the initial battery capacity); an obligation on manufacturers to replace spare parts in 5-10 working days for at least seven years after the last model is sold in the EU; an obligation on manufacturers to continue providing operating system updates for at least five years after the last model is sold in the EU; and an obligation to provide 'fair access' to professional repairers for necessary software and firmware updates. The Energy Labelling Regulation requires smartphones and tablets to display information on energy efficiency, battery lifespan and resistance to dust, water and accidental drops, as well as a 'repairability score' (from A to E) on the label to help consumers make an informed choice about the lifespan of products they buy. This information will also be placed on a publicly available database.	These regulations were part of the EU's Circular Economy Action Plan from 2020 - designed to reduce energy consumption and electronics waste while improving consumer choice. By 2030, the Commission claims that the new rules will have reduced energy consumption from relevant devices by a third (equivalent to more than half of electricity consumed in Malta) and lead to €20 billion in savings for consumers. All products placed on the EU and NI market must meet the new requirements, meaning British manufacturers will have to make sure they are compliant with the new regulations. This may create some initial export costs for businesses. As the rules apply in NI, Northern Irish manufacturers will be obliged to meet the new requirements while GB-based companies who do not sell to the EU or NI will not. The UK government has indicated its ambition to remain aligned to new EU rules which reduce the environmental impact of products under its Product Regulation and Metrology Bill. This implies the government might opt to use the powers in the bill to mirror these EU regulations, once the bill has become law.

43. Product standards/Trade

Customs Union Reform Package.

ISSUE	IMPACT
In February 2025 the European Commission announced a package of measures to tackle the widespread sale of unsafe and counterfeit products via e-commerce sites like eBay, Amazon, Temu and Shein. The Commission reports that 4.6 billion 'low-value' consignments (with a value of under €150) entered the EU in 2024 - twice as many as in 2023 - and that many of these were not compliant with EU regulatory standards. The e-commerce platforms on which many such items are bought are not required to ensure the compliance of the goods with EU law. The Commission has proposed a 'Customs Union Reform Package' which would remove the duty exemption on goods worth under €150 - meaning they would become subject to customs checks. A €2 'handling fee' will also be levied on low-value imports sent to consumers (with a fee of €0.50 for packages sent to warehouses). The EU says this is to support the work of customs authorities - though it clearly incentivises companies to ship small items through warehouses rather than directly to consumers - giving customs authorities greater oversight. It has also proposed 'coordinated controls between customs and market surveillance authorities' to better monitor for non-compliant goods entering the EU market, including risk analysis to identify trade flows with the greatest rates of non-compliance. Once member states have put these measures into place, the Commission will consider whether further action is needed.	This forms part of a package of measures which the Commission has taken to combat the sale of non-compliant goods via e-commerce sites. Last year, the General Product Safety Regulation placed new responsibilities on various actors in the supply chain to ensure the safety of products placed on the EU market. For Great Britain, one potential consequence is that it becomes a 'dumping ground' for non-compliant goods which can no longer be placed on the EU market, and that British consumers are at greater risk of exposure to unsafe or defective goods than those in the EU (and Northern Ireland). The UK government has explicitly cited 'ensuring the responsibilities of… online marketplaces' as one of the potential purposes of the Product, Regulation and Metrology Bill, which creates powers for the UK to mirror EU legislative proposals. It remains to be seen whether and to what extent this is done in practice. The changes also mean low-value consignments moving from GB to the EU and NI will now be subject to customs checks - adding costs for exporters.

44. Trade/Product standards

Single Market Strategy.

ISSUE	IMPACT
In May 2025 the European Commission announced its 'Single Market Strategy' which aims to 'reduce existing barriers holding back intra-EU trade'. It will focus on what it calls the 'terrible ten' barriers to trade: which include overly complex rules; lack of recognition of professional qualifications; delays in standard-setting; fragmented rules on packaging, labelling and waste; non-harmonised product rules; diverging national services regulations; burdensome procedures for temporary posting of workers; and territorial supply constraints. The measures proposed include making product labels clearer and more accessible, with digital labels using QR codes to help consumers more easily access product information. Almost all products will also eventually have a digital product passport 'providing comprehensive information about each product's origin, materials, environmental impact, and disposal recommendations'. There are also proposals to establish what the Commission calls a '28th regime', enabling businesses to set up digitally within 48 hours and to operate to common rules on tax, labour and insolvency across the EU; and to improve mutual recognition of professional qualifications via digital tools and the extension of automatic recognition schemes.	While the strategy is primarily about trade within the single market, it could have some effects on UK businesses. Most notably, the plan for digital labels will affect GB manufacturers, as they will in future have to ensure that they have such labelling on their products if they are to be sold in the EU or Northern Ireland. This could add new administrative costs, not only in terms of adding QR codes to packaging but also in obtaining all the necessary information (on the product's origin, environmental impact, disposal method etc.). The strategy more broadly intends to harmonise a range of rules at EU level. This could have either positive or negative impacts for GB exporters, depending on the exact nature of the changes. On the one hand, life could be made easier if they only have one cross-EU standard to work towards. But, on the other hand, new cross-EU regulations could lead to a new layer of stricter or more complex requirements for exporters than was in place previously. The provisions on a '28th regime' could be of significance to UK-based businesses, if it allows them to more quickly and easily set up an operation inside the EU, which may help with navigating administrative barriers to trade such as those created by the General Product Safety Regulation.

45. Trade

EU-Mercosur free trade agreement.

ISSUE	IMPACT
In December 2024 the EU and the Mercosur countries (Argentina, Brazil, Paraguay, Uruguay) reached political agreement on a free trade agreement. The agreement removes tariffs on around 90% of goods traded between the two blocs, while EU companies get improved access to Mercosur markets for public procurement, services and critical raw materials. Mercosur agrifood exports to the EU will benefit from reduced tariffs, but products must meet EU animal and plant health standards. The Paris Agreement (keeping global temperature increases below 2 degrees) is an essential part of the agreement, and there are commitments to halt deforestation and on upholding labour rights. Negotiations on the agreement began in 1999, with an agreement in principle reached in 2019, before political agreement in 2024. The next step is for the deal to be approved by the member states of Mercosur and the EU, which could be challenging as the deal will not pass if four or more EU member states, representing at least 35% of the EU's population, vote against it. Some chapters, like the one on investment, requires the unanimous approval of all 27 member states, and the Commission is thus likely to seek to pass it separately to the core chapters on trade.	This represents divergence as the UK has not agreed a post-Brexit trade deal with Mercosur, nor is it in the process of negotiating one. UK businesses will not benefit from the liberalised terms of trade on offer to the EU, and some commentators have argued that the UK should seek to follow suit. On the other hand, the deal has been met with a lot of opposition in the EU, particular due to the increased competition which farmers will face from cheaper South American meat imports. France in particular has indicated its opposition to the agreement, as have Poland, the Netherlands and Austria. This creates the possibility that the deal may not get the necessary approval from EU member states. One of the reasons the deal has taken so long to agree is opposition in South America to the EU's proposed regulation on deforestation, which Brazilian President Lula has branded as 'unilateral and punitive' due to the heavy bureaucratic burden it places on South American producers. It is not infeasible that the regulation - which is yet to take effect - is raised as an issue by Mercosur states during the ratification process.

46. Environment/Fisheries

Arbitration tribunal ruling on UK sand eel fishing ban.

ISSUE	IMPACT
In May 2025 an arbitration tribunal ruled on a case brought by the EU against the UK regarding the latter's ban on the fishing of sand eels in its waters. The UK instituted the ban in order to protect depleted stocks of sand eels, which are a key food source for marine wildlife. But the EU contended that the ban was not based on the 'best available scientific evidence'; was not 'proportionate and non-discriminatory'; and thus led to a restriction on the EU's rights to access UK waters which was 'not justified or justifiable'. EU fishers take 99% of the sand eel catch in English waters. The tribunal dismissed the EU's claims that the UK ban was un-scientific and discriminatory. It also ruled that the decision to ban fishing in Scottish waters was proportionate; but that the ban on fishing in English waters did not 'have regard' for principles of proportionality. It thus ruled that the UK 'is in breach of its obligation to grant full access to its waters to fish sandeel' and 'required to take the necessary measures... to bring itself in compliance'. What that means in practice remains unclear; the UK government says it 'will now undertake a process in good faith to bring the UK into compliance' but asserts that there 'is no legal obligation for the UK to reverse the closures while the compliance process takes place, and the report does not indicate that compliance must require reversing the closures.'	The split nature of the ruling means both sides are able to claim victory. The EU can point to the ruling that the UK breached its TCA obligations, while the UK can point to the the bulk of the EU's claims being dismissed. Ultimately, it represents managed divergence as the UK will have to take some kind of remedial action to account for previous divergence. The key question now is about what remedial action the UK will take. The government insists that it will not have to reverse the closure of English waters, but it might for instance have to issue financial compensation to EU fishers or grant them some limited or temporary access rights. A decision to allow EU fishers some limited access to English sand eel stocks may prove more controversial than a financial settlement, especially for environmental groups who see the ban on sand eel fishing as an important measure to protect marine wildlife. It is also worth noting that the ruling did not disrupt wider UK-EU relations, reflecting a growing maturity in the relationship. Two weeks after the ruling, the two sides were able to agree a long-term rollover of the TCA's fisheries chapter as well as other steps to deepen cooperation at the UK-EU summit. As the UK response to the ruling stated: 'Disputes and the use of resolution mechanisms are a normal part of a mature relationship with international partners. We will continue to act in the national interest as we work towards a strong and lasting partnership with our European neighbours.'

47. Mobility

EU Settlement Scheme status automation.

ISSUE	IMPACT
In January 2025 the Home Office introduced a new process under the EU Settlement Scheme (EUSS), whereby EU, EEA and Swiss nationals with pre-settled status can be automatically upgraded to settled status. The EUSS was established to provide permanent residence rights for EU nationals resident in the UK before Brexit. 'Pre-settled status' was granted to those resident for less than five years, providing temporary leave to remain for five years. Before pre-settled status expired, individuals had to make a further application for 'settled status' - granting permanent residence rights - and risked losing their residence rights if they failed to to do so. This loss of residence rights was ruled unlawful by the High Court and the UK government has introduced five-year extensions for those whose original pre-settled status expires, to give them more time to upgrade to settled status. But the problem remains that some people may be unable (or unaware of the need to) upgrade - leaving them unable to prove their legal status. The decision to automatically upgrade individuals to settled status when they become eligible is designed to deal with this. Upgrades will be done by the Home Office checking individual records against government data - to ensure they have remained resident in the UK and for evidence of criminal conduct. The government is 'considering appropriate next steps' for individuals who no longer meet the conditions for having pre-settled status - for instance if they have not remained resident in the UK.	This represents managed divergence in that it is designed to manage and reduce some of the difficulties created by EUSS. The challenges faced by EU nationals around settled status have been one of the chief ongoing concerns of the European Commission related to the implementation of the Brexit agreements. Soon after the Labour government was elected, the Commission made clear that wider progress on the 'reset' of relations was conditional on addressing challenges faced by EU citizens in the UK. There are, however, still some question marks around the functioning of the automatic upgrade system. For example, what happens in cases where the Home Office is unable to automatically determine that an individual is eligible for settled status? Many may lack a clear 'digital footprint' showing continuous residence in the UK. Will such individuals be offered other means of proving their eligibility? Thus, while the automatic extension process should help ease the challenges somewhat, it does not put to bed all the issues related to EU citizens' rights. Another outstanding issue is that the Commission in December 2024 reopened legal proceedings against the UK (which were paused in 2023 during the Windsor Framework negotiations) over what it sees us unfair restrictions placed on the rights of EU citizens' family members to move to the UK during the post-Brexit 'transition period' in 2020.

48. Trade

Ongoing implementation of the Windsor Framework.

ISSUE	IMPACT
Several new elements of the Windsor Framework have been implemented in recent months. As of 1 January 2025, medicines approved and licensed in the UK for use in Northern Ireland now require a 'UK only' label. The European Commission states that it is satisfied that this measure provides 'reasonable assurance' that the medicines will not be moved into the EU. As of May 2025, business-to-business parcels moving from GB to NI require customs declarations. Private consumer-consumer, consumer-business and business-consumer parcels do not face customs requirements when going from GB to NI, but the sender must submit additional information on the goods' description, weight and value. 'Click and collect' orders, where a Northern Irish consumer orders an item in GB to be delivered to an NI business address for collection, are also exempt from customs declarations. As of July 2025, the majority of retail goods have to labelled as 'not for EU' when being moved from GB into NI. The labelling was already required for meat and dairy products but it now extends to a much wider range of plant and animal products. Goods are required to carry such labels if they are to benefit from much lighter-touch checks when being exported from GB to NI.	The changes on not for EU labelling have generated some business disquiet, in particular around the cost of having to get goods re-labelled. There is also a concern that some companies may stop supplying NI rather than bother to adopt the new labelling - or export through the more cumbersome 'red lane' where they face full customs checks. Some businesses are also worried that the labels put consumers off (as they erroneously think the label means products do not meet EU food standards) and have questioned why the change is needed when the UK and EU are set to harmonise their plant and animal health regulations as part of an SPS deal - which once in place negates the need for such labelling. Yet any SPS deal is unlikely to be in place until 2026-7, and the UK government may see the full implementation of its obligations under the Windsor Framework as an important show of good faith the EU ahead of negotiations. The change on parcels is not a dramatic but William Bain of the British Chambers of Commerce notes that it will "bring a new sense of complexity" for businesses, with some potentially uncertain about what they have to do under the new rules. Many consumers have already been submitting information on the content of packages before posting them to NI, as this information is often asked for by the shipping company.

49. Trade

The Official Controls (Amendment) Regulations 2025.

ISSUE	IMPACT
The implementation period for the UK's Border Target Operating Model (BTOM), which implements checks on EU agrifood imports into GB, has been extended until 31 January 2027. The transitional period was previously set to expire on 1 July 2025. The change was made via a statutory instrument titled The Official Controls (Amendment) Regulations 2025. Under the transitional arrangements, there is greater flexibility in how the system operates, with the ability to use pilot certification schemes, reduce the frequency of checks and conduct them in locations other than border control posts.	This represents managed divergence as it seeks to mitigate some of the ongoing challenges with implementing divergence. Operators have struggled to implement the full scale of systems and checks required under the BTOM and thus made significant use of the existing flexibilities in the regime. The extension of the transitional arrangements allows this to continue for the foreseeable future and avoids potential trade disruption. If the UK and EU deliver on their ambition to negotiate an SPS deal, the BTOM border checks become largely redundant. The extension until January 2027 may thus indicate that this is the time by which the UK government anticipates an SPS agreement will be operational.

50. Trade

UK terminates bilateral investment treaties with EU member states.

ISSUE	IMPACT
In December 2024 the European Commission referred the UK to the European Court of Justice over its non-termination of 'Bilateral Investment Treaties' with six EU member states (Bulgaria, Czechia, Croatia, Lithuania, Poland and Slovenia) designed to promote foreign investment. The Commission says such treaties 'conflict with EU law' and notes that all member states committed in 2019 to terminate them via a common treaty - which the UK did not sign. Though the UK has now left the EU, the Commission takes the view that the six bilateral treaties remained 'intra-EU' agreements - because they were concluded while the UK was a member state; and their continued existence after Brexit thus constituted a breach of EU law. Two weeks prior to the Commission's referral, the UK government announced its intention to terminate the six treaties, which it subsequently did in January 2025, bringing the case to a close.	This represents managed divergence as it relates to the continued contestation of post-Brexit legal obligations. The UK decision to sever the treaties reflects a change in tone under the new government, which appears more conciliatory towards EU concerns and willing to take steps to manage them for the sake of more harmonious relations.

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020 7848 2630
info@UKandEU.ac.uk
TheUKinaChangingEurope
@UKandEU

www.UKandEU.ac.uk

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