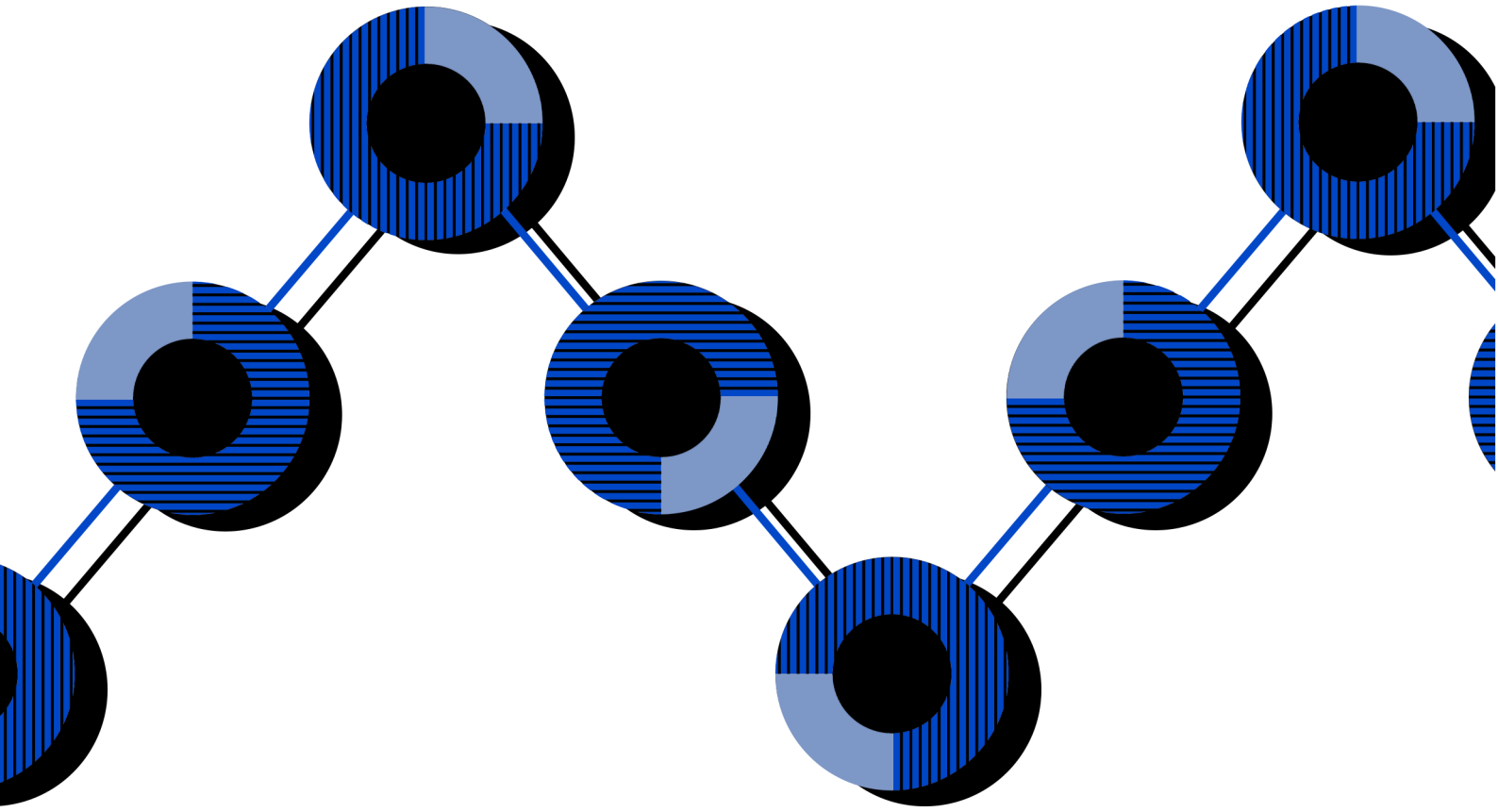
UK IN A CHANGING EUROPE

UK-EU REGULATORY DIVERGENCE TRACKER

Q4 2025



JOËL RELAND

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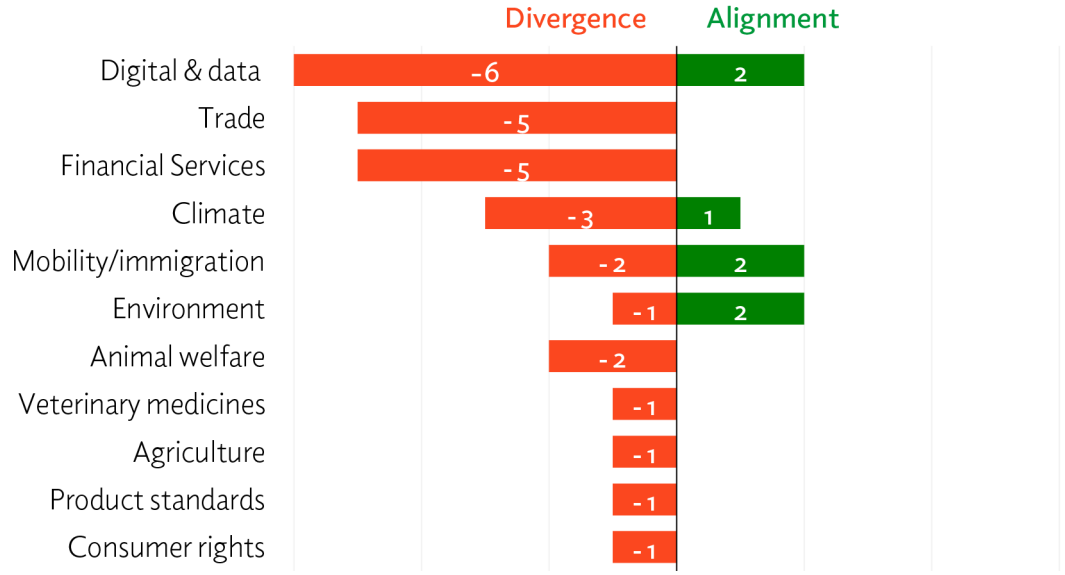
OVERVIEW

This is the fifteenth edition of the UK in a Changing Europe's regulatory divergence tracker, outlining how UK and EU rules and regulations have diverged in the period October-December 2025. This tracker identifies 19 cases of passive divergence (where the EU changes its rules in ways which the UK does not mirror) and eight cases of 'active' divergence (where the UK changes its rules in ways which the EU does not mirror). There are seven cases of alignment (where the UK and EU rules move closer to one another).

There has been significant recent UK-EU divergence over tech, trade and financial services policy

Cases of proposed regulatory alignment/divergence from October-December 2025, as identified by UK in a Changing Europe's 'Divergence Tracker'.

UK IN A CHANGING EUROPE



Source: UK in a Changing Europe, UK-EU Regulatory Divergence Tracker Q4 2025.

Last autumn saw a high degree of legislative activity at EU level, with the principal focus being the ongoing drive for regulatory 'simplification' to support economic 'competitiveness'. Political agreement has been reached on two significant environmental proposals covered in the previous tracker (reduced sustainability reporting requirements and a delay to the deforestation regulation) and the Commission has proposed a new package of measures to 'simplify' environmental legislation by reducing obligations on businesses to monitor and report their environmental impacts. The EU has also diverged further from the UK by scrapping its 2035 phase-out target for combustion engine vehicles and introducing a less ambitious 2035 emissions reduction target. Meanwhile a new digital 'omnibus' pacakge aims to reduce the administrative burden on companies subject to the EU's digital and AI rulebooks and includes

a relaxation of some personal data protections. These are areas where the EU previously had stricter rules than the UK but is now scaling back their extent.

One area where the EU has not, however, reined in its regulatory ambitions is on digital markets. The Commission has made five separate rulings against US tech companies (Google, Meta, X) and TikTok for violations of a range of laws relating to digital competition and safety. Most of these rulings are still provisional, though one, against Elon Musk's X, has resulted in a fine of €120m. These actions have led to significant criticism from the US government, which accuses the EU of deliberately attacking free speech and American business interests. The UK, by contrast, has been much more conservative in the application of its equivalent digital markets rulebook - only recently designating Apple and Google as companies of interest and being yet to formally open any investigations (though Ofcom has just opened an investigation into X under the Online Safety Act).

The UK's more emollient approach to US relations is also evident in the recent agreement it has made to increase both the price it pays for US drugs, by up to 25%, and the proportion of NHS spending on drugs, in exchange for zero-rated tariffs on its pharmaceutical exports to the US. The UK has also signed an updated trade deal with South Korea, though in reality this largely rolls over the existing terms of trade (with some loosening of non-tariff barriers) . The most significant trade-related development has been the EU-Mercosur deal, which was recently approved by member states. As with landmark UK trade deals signed in recent years, the macroeconomic benefits appear marginal, while certain member states continue to oppose the agreement on the grounds that it threatens EU farmers with increased competition from South American imports.

The most significant area of UK divergence has been in financial services. This tracker identifies four cases where the UK has reformed retained EU law on financial services (on short selling, transaction reporting, retail investment and corporate reporting), with the aim of reducing the regulatory burden on firms and encouraging greater investment activity in the UK. The EU is also trying to boost financial services activity, but has taken a different approach, with a new package of measures designed to remove barriers to trade between different member states by expanding the remit of the EU-level regulator and creating a new 'Pan-European Market Operator' status allowing trading venues to operate across the EU with a single license.

There are fewer cases of UK-EU alignment than in recent editions, though three significant developments are the UK agreeing to join Erasmus+ for 2027/28 (new negotiations are needed for the period 2028-2034); technical changes to the EU CBAM, which will lower tariffs on imports of electricity (including from the UK); and a renewal of the EU data 'adequacy' decision for the UK - ensuring a continued free exchange of personal data. The UK has simplified the

immigration rules for German school groups (mirroring measures already adopted for France), and its Environmental Improvement Plan brings it into closer alignment with the EU's appraoch in areas like air pollution, nature restoration, and chemicals restrictions – pre-empting some of the alignment that will be obligatory under a UK-EU SPS deal, which the two sides say they hope to have agreed by the next UK-EU summit. There are also cases where the UK and EU have similar intentions but have taken different approaches, such as reducing the rights of asylum seekers. The UK is introducing new powers to return asylum seekers to the country they have fled if it comes to be deemed 'safe' (modelled on the approach of Denmark), while the EU has proposed the creation of 'return hubs' where member states form agreements with third countries to process asylum claims on their behalf (not dissimilar to the UK's former 'Rwanda' policy).

Several other cases of EU divergence have implications for the UK. A plan to reduce restrictions on 'gene editing' techniques may result in the UK being required to adopt the new EU rules (which differ slightly from reforms already in place in England) under a potential SPS deal. New EU rules on a common charger type for electrical devices are now in force in Northern Ireland, with the UK having consulted on potential alignment but yet to make a decision. And the EU has decided to charge a €3 import duty on low-value parcels, with the aim of reducing the prevalence of cheap, unsafe goods sold via e-commerce sites like Shein; a problem which the UK has previously indicated it wants to keep pace with the EU on. Proposals to reform air passenger compensation rights have proven highly charged, with the Commission seeking to water them down while the Parliament wants to raise them, but should any changes be agreed upon, they will apply to British airlines and passengers operating within the EU.

Finally, there have been a couple of significant developments for Northern Ireland. The Windsor Framework grace period on veterinary medicines has expired, risking shortages of certain medicines in Northern Ireland, which the UK and EU may need to work to address. And the UK government has issued its response to Independent Review of the Windsor Framework (covered in the previous tracker), committing to take forward the vast majority of recommendations made.

ALIGNMENT

1. Education/Mobility

UK to join Erasmus+ for 2027/28.

ISSUE	IMPACT
In December, the UK and EU announced that the UK will join the EU's Erasmus+ scheme for the 2027/28 academic year. Erasmus+ provides opportunities for people to take up education, training, youth and sporting activities in other participating states - which include all EU, EEA and EFTA states as well as others. The UK's contribution for 2027/28 will be £570m, which the government says is a 30% discount on the default terms under the UK-EU Trade and Cooperation Agreement. The UK's historic payments were estimated at around £300m/year - though at that time Erasmus' budget was 44% smaller than it is now. The UK has only associated to the scheme for a single year, as the current Erasmus budget comes to an end in 2028, and the Commission reportedly made a concession on the UK's contribution as it is only joining for the final year of the current budget cycle. The Commission has proposed that the next budget, which runs from 2028-2034, be increased by 50% - meaning the UK is likely to have to pay significantly more for any future participation. The Times reports that future UK contributions could be over £800m.	The two sides committed to 'work towards' UK participation in Erasmus+ as part of last May's UK-EU 'Common Understanding' - and this is one of the first marquee pledges to be completed. Despite the UK's discount, there will still be questions about whether it represents value for money - as the UK will almost certainly get less out than it puts in. At the time when the UK was making payments of around £300m/year, the annual value of UK funding received ranged from roughly £100-125m/year - with almost twice as many EU students coming to the UK as vice-versa. Boris Johnson's government opted not to join Erasmus+ after Brexit, arguing it represented poor value for money. On the other hand, the current government argues that Erasmus is about "a lot more than money" emphasising the 'opportunities around education, training, youth, culture and sport for participants of all ages', and noting that over 100,000 Britons could benefit in the first year alone. The agreement could also be a means of building political goodwill with the EU, as the loss of UK-EU mobility rights, especially for young people, is felt by member states as perhaps the biggest cost of Brexit. This could, however, also be seen to weaken the UK's hand in negotiations on other aspects of the UK-EU 'reset', given it has now conceded on one of the EU's major asks - though the fact that UK participation needs to be renegotiated for 2028 onwards means Erasmus will soon be back on the agenda.

ALIGNMENT (UK)

2. Mobility

Easing of travel requirements for German school groups.

ISSUE	IMPACT
In October, the UK government announced that it would ease travel requirements for German school groups, mirroring changes already applied to French school groups since December 2023. The changes were agreed as part of the UK-Germany Treaty signed in July 2025. In October 2021 the UK left the 'List of Travellers' scheme, which allowed EU school children participating in an organised educational visit to the UK to enter without a passport or visa (if they were a national of a country requiring a visa). As a result, school children must now travel with a passport and either a digital pre-authorisation to travel (known as an 'ETA') or, if necessary, a visa. The UK is changing the rules so that people aged 18 or under who are studying in a German school or educational institution will be able to travel to the UK without any form of advance permission, if they are travelling as part of a school group of five or more. That dispenses with the need for an ETA or visa, but they will still require a passport.	Post-Brexit immigration requirements have posed several barriers to EU school groups visiting the UK. First, a majority of school children in many EU member states, including Germany, do not have a passport (as they can rely on their national ID card to move within the EU) leaving them unable to travel to the UK. Second, many school children (an estimated 15% in Germany) are nationals of countries which require a UK visa - adding significant cost (£127) and complexity to travel. Third, the recent introduction of the 'ETA' for EU nationals visiting the UK, creates additional cost (£16) cost and complexity. The concessions which Germany has obtained deal with the second and third obstacles, but not the first. The benefits may therefore be limited given so many German school children do not have a passport. Indeed, a 2022 survey by the Tourism Alliance found that the passport requirement was number one reason cited for declining school visits. The Tourism Alliance has also highlighted the negative impact on the UK economy. It reported an 83% drop in the number of EU students travelling to the UK in 2022 compared to 2019, which it estimated to amount to £875 in lost revenue. Though this was partly a pandemic effect, the drop-off in student numbers was far more limited (32%) for trips to EU destinations.

ALIGNMENT (UK)

3. Digital & data

'Strategic market status' designation for Apple and Google.

ISSUE	IMPACT
In October, the UK Competition and Markets Authority confirmed that Apple and Google would be designated with 'strategic market status' (SMS) in relation to their mobile platforms; as would Google in relation to its search and advertising services. An SMS designation signifies that a company has a position of entrenched power in a given digital market, and allows the CMA to impose conduct requirements in order to prevent competitive abuses stemming from that position. The CMA initially set out its proposals for the designations earlier this year, subject to a full consultation. In confirming the mobile decisions, the CMA outlined that most UK consumers use either an Apple or Google mobile device and are unlikely to switch between and that mobile platforms are the main gateway for users to access apps - making app developers highly dependent on Apple and Google for market access. In relation to the Google search and advertising decision, it stated that Google has 'substantial and entrenched market power'. The CMA notes that an SMS designation 'is not a finding of wrongdoing and does not introduce any immediate requirements', but it will 'consider proportionate, targeted interventions' to uphold fair competition. In relation to Google search and advertising, the CMA said it 'expects to begin consulting on possible interventions later in the year'; but, notably, no such statement was made in relation to the mobile platforms.	The CMA's announcements were widely expected following the preliminary decisions made earlier this year. They represent alignment with the EU which has already made similar designations under its equivalent legislation - the Digital Markets Act. However, it is notable that the CMA decision has not been accompanied by the imposition of any conduct requirements on Apple or Google - even though in July it set out a 'roadmap' of actions it would take in the case that SMS designations were confirmed. The CMA's approach appears more tentative than that of the European Commission - which has been very active both in opening investigations into market abuses (including a new investigation into Google's search function outlined in this tracker) and imposing conduct requirements, including fines, on companies for rule breaches (with a new ruling against TikTok and Meta also outlined in this tracker). The CMA is perhaps mindful of the significant criticism which the EU has received from the US government for its actions; and it has already hinted that it intends to take a less firm line on remedies than the European Commission. Despite this apparent cautiousness, the US recently announced that it had suspended the implementation of the UK-US 'tech prosperity deal' - in which US companies promised to invest billions in the UK - due to the UK not removing enough barriers to trade in other areas.

ALIGNMENT (UK)

4. Environment

Environmental Improvement Plan 2025.

ISSUE	IMPACT
In December, the UK government published its updated Environmental Improvement Plan 2025, setting a 'five-year roadmap' of new targets and measures to improve the environment in England. On pollution, there is a new interim target to reduce exposure to fine particulate pollution (PM2.5) by 30% by 2030 (compared to 2018 levels), with a mean concentration target of 10 micrograms/cubic metre. The government will also this year introduce the 'first-ever' plan to reduce risks from 'PFAS' chemicals (also known as 'forever chemicals') - a group of synthetic substances which take a very long time to degrade and pose risks to human and environmental health. The PFAS plan will include 'a range of regulatory and non-regulatory interventions' and the government will make a decision in 2027 on whether to introduce a restriction on the presence of PFAS in firefighting foams. The government also notes that the 'SPS' agreement which the UK and EU are negotiating commits the UK to alignment with EU safety standards for pesticides. It has thus committed to reforming the UK's chemicals registration regime (known as REACH) 'to enable protections that address chemical pollution to be applied more quickly, efficiently and in a way that is more aligned with our closest trading partners, especially the EU, by December 2028'. It says it will 'take regulatory decisions made by other trusted jurisdictions as the starting point' - implying that the UK	The plan represents a limited degree of UK alignment with EU standards, while it still lags the EU in some areas. The new 2030 target on fine particulate matter levels matches that of the EU - both in terms of the maximum permitted level and timeframe for reaching it. The Institute for European Environmental Policy (IEEP) notes, however, that the 10 micrograms per cubic metre target is still twice the level recommended by the World Health Organization (WHO), and says it should 'only be treated as a stepping stone towards meeting WHO recommendations'. The IEEP also notes that there are omissions in the latest UK plan - its targets remain less ambitious than the EU on nitrogen oxides, sulphur dioxide, ozone and coarse particulate matter. On the latter, Scotland has a more ambitious target than both England and the EU. On PFAS, there has already been significant divergence, with the EU adopting a range of restrictions on the presence of certain types of PFAS, while none have been imposed in Great Britain. Though the new UK plan commits to a range of interventions, it is unlikely to bridge the entirety of the gap which has emerged. The single concrete commitment to consider a restriction - on the presence of PFAS in firefighting foams - was already in train, and a decision is due only by 2027. The EU, in contrast, adopted a restriction in October 2025. There has also been significant divergence on chemical substances more broadly, with the EU having adopted thirteen new restrictions since

will actively replicate restrictions which the EU imposes.

On nature restoration, there is a new target to create or restore over 250,000 hectares of wildlife-rich habitats by 2030 (110,000 hectares higher than the previous target); and to reduce the rate of establishment of invasive non-native species. There is also a plan to restore around 40,000 hectares of Peatland in England by 2030 (and 280,000 hectares by 2050), supported by the Landscape Recovery and Countryside Stewardship projects under the UK's Environmental Land Management scheme. The government has committed an additional £500m to Landscape Recovery projects and £85m to support peatland restoration.

Brexit while the UK (bar Northern Ireland - which is subject to EU law here) has imposed none. The EU has also placed 38 'Substances of Very High Concern' on a candidate list while the UK has not added any. There seems likely to be more UK activity in this area, given the plan explicitly commits to being 'more aligned' with the EU by 2028 and implies an ambition to mirror EU regulatory decisions, while on pesticides it seems that alignment will be obligatory as part of the 'SPS' deal being negotiated.

The UK's plans for nature restoration since Brexit have been less ambitious than the EU's. The Wildlife Trusts argues that the new UK plan shows 'encouraging signs' but raises concerns that ambitions to increase habitat recovery sit alongside plans to weaken existing (EU-derived) habitat protections as part of planning reforms.

5. Climate

Changes to EU Carbon Border Adjustment Mechanism.

ISSUE	IMPACT
In December, the European Commission announced changes to the operation of its Carbon Border Adjustment Mechanism (CBAM). Since the start of 2026, the CBAM has levied duties on imports of a range of 'basic materials' (such as aluminium, cement, electricity, and steel) to ensure they pay the same tariffs on their carbon emissions as if they had been produced in the EU - where a carbon pricing regime is in effect. Just two weeks prior to the CBAM taking effect, the Commission announced changes to the methodology for calculating charges on electricity imports, so that the default price would be based the emission intensity of all electricity sources in the exporting country - rather than just a country's fossil fuel-based sources. This addressed concerns that countries (like the UK) with a high share of renewables in their energy mix risked being significantly overcharged for electricity exports. Technical changes were also made to simplify the process for declaring emissions. The Commission further announced that, from 2028, its CBAM would be extended to 180 'downstream' goods, made with a high share of steel/aluminium (79% on average) and with a high risk of 'carbon leakage' (where EU producers are undercut by foreign imports subject to fewer charges on their embedded emissions). 94% of the goods are industrial supply chain products, while 6% are household goods (such as washing machines, kitchen stoves, car doors and garden tools).	This has been classed as alignment because it mitigates the effects of existing EU-led divergence. The changes to the electricity pricing methodology should significantly reduce the CBAM charges imposed on British electricity exports. Though no official estimate has been made, the Commission notes that it will reduce 'the default values for electricity by over 30% on average, with a level of reduction exceeding 60% for specific countries (e.g. Ukraine). The higher the level of decarbonisation in the exporting country, the higher the reduction'. This also avoids higher spikes in electricity prices for EU consumers. The reforms have several other implications for the UK. First, the EU announcement did not include any unilateral exemptions for countries from its CBAM. There had been some suggestions that the UK might obtain a temporary exemption, given that it is currently negotiating with the EU to link their respective emissions trading schemes, but this has not proven to be. As a result, UK exporters remain subject to the EU CBAM until linkage is agreed or implemented. The two sides issued a joint statement in December 2025 expressing their ambition to complete negotiations (note: this is not the same as implementation) on linkage (as well as SPS and youth mobility) before the next UK-EU summit, which is set to take place at a yet-to-be-confirmed date later this year. Second, the expansion of the CBAM to downstream products might have implications for the UK in future, as it thinks about the

A 'Temporary Decarbonisation Fund' has also been established, under which EU producers of CBAM goods can claim back a portion of the carbon price they pay under the EU emissions trading scheme (ETS), in order to increase their competitiveness in third country markets (where domestic producers face lower charges on their emissions). Producers of goods identified as at 'increased risk' of carbon leakage will be eligible, with 25% of the funding coming from CBAM revenues, and the rest from the EU's own resources.

development of its own CBAM, set to be introduced from 2027. ETS linkage does not require harmonisation of CBAM policies, but the UK may want to adopt a similar approach to the EU in order to ensure its industries benefit from equivalent protection.

Third, and finally, the Temporary Decarbonisation Fund in effect amounts to EU subsidisation of heavy industry – reducing their overall operating costs and, in particular, increasing their competitiveness in third countries. The UK might deem that this puts EU companies at an unfair advantage compared to UK competitors which do not benefit from any rebate on their ETS charges. The UK could choose to raise a 'level playing field' concern under the TCA or to introduce equivalent support for its own industries.

6. Digital & data

Renewal of UK data adequacy decision.

ISSUE	IMPACT
In December, the European Commission announced the renewal of two 'adequacy' decisions for the UK (covering its General Data Protection Regulation (GDPR) and the Law Enforcement Directive). First issued in June 2021, these decisions allow a free flow of personal data between the UK and EU. Adequacy decisions in effect assert that another country or international organisation has a level of data protection sufficiently similar to the EU to allow a free flow of personal data between them. The EU introduced a 'sunset' clause for four years after the adoption of its original UK decision, due to concerns that the UK might try and diverge from EU GDPR – which it had adopted as a member state. In June 2025, the Commission adopted a six-month technical extension while it considered whether the UK's Data Use and Access Act, which has introduced some minor divergence from EU GDPR, represented grounds for non-renewal. The Commission has ultimately opted to renew the decision, while introducing a new sunset clause (which is not standard in a data adequacy decision) for December 2031.	Data adequacy significantly reduces the costs of UK-EU services trade, as without it businesses would have to introduce additional clauses into contracts covering the storage and processing of personal data. On the UK government's own estimates, the absence of data adequacy could have added £1.4bn to the costs of UK-EU trade over five years, and the 2031 deadline gives firms confidence that they can plan cross-border projects for the foreseeable future. Data adequacy also facilitates official cross-border cooperation between the UK and EU (on matters like police and judicial work), and on the island of Ireland (in areas like emergency services and health cooperation). Although the UK has introduced a slightly more liberal approach to data protection than the EU (for instance around user consent for data processing), the decision to renew was largely expected as the divergence is not hugely significant. Moreover, the law firm Lewis Silkin notes that the Commission in fact seems to have taken some inspiration from the UK in its own recent plans to simplify GDPR under its 'Digital Omnibus' proposal. The fact that the Commission has introduced another sunset clause for two and a half years after the deadline for the next UK general election might, however, imply that the EU still harbours concerns that a future UK administration might try to initiate more significant divergence from GDPR.

ALIGNMENT (UK)

7. Environment

Circularity plastics package.

ISSUE	IMPACT
In December, the European Commission outlined a package of reforms to loosen its rules on the recycling of plastics. Plastic bottles must currently contain 25% recycled content, rising to 30% by 2030, but the Commission has proposed a relaxation of the rules, by allowing producers to meet that target on a 'mass balance' basis - i.e. meeting the 25/30% target across their entire production process, rather than in every individual bottle. This is part of a wider set of proposals to ensure greater harmonisation of recycling rules across the EU, through common criteria for when plastic waste is legally considered recycled. Another proposal would also allow 'chemically recycled' material to count towards recycled content targets. Chemical recycling involves breaking down plastic back into basic chemicals. But a study by the US Department of Energy found that chemical recycling is highly inefficient, while also leading to the emission of toxic fuels - and that it would be less environmentally damaging to make new plastic from scratch. The Commission accepts that mechanical recycling (the only currently permitted process, which involves grinding plastic waste down) 'benefits from lower emissions and higher energy efficiency' but argues that 'chemical recycling can play a role where mechanical methods are not feasible - particularly when high-quality recycled material is needed, such as for food packaging'.	The Commission's proposal in effect represents a form of alignment with the UK, which from April 2027 will introduce a 'mass balance approach' and allow chemically recycled plastic to count as recycled content for the purposes of exemption from the Plastic Packaging Tax - which is provided if packaging contains at least 30% recycled content. It is one of a number of steps taken by the EU in recent months to loosen the environmental regulatory obligations placed on companies. The Commissions says that the changes are necessary to address 'a decline in recycling capacity and an uneven playing field in relation to international competition'. While it may increase overall rates of recycling, it is not clear that the environmental impact of that additional recycling will be positive, if it is based on chemical processes - and environmental groups have accused the EU of an act of 'greenwashing'. EU recycling operators have not expressed universal satisfaction with the proposals, in particular around the reforms to the customs code, where they wanted the Commission to go further and prevent EU-based producers from counting plastic recycled outside the EU from counting as recycled content. Plastics and chemicals firms have, unsurprisingly, expressed firm support for the changes.

8. Animal welfare

Phase-out of certain forms of animal testing.

ISSUE	IMPACT
In November, the UK government published a roadmap for the phasing out of animal testing where alternative methods are becoming available. By the end of 2026, there will be no more testing on animals for assessing whether new treatments cause skin or eye irritation and skin sensitisation. By the end of 2027, the aim is to no longer test the strength of botox on mice, and to no longer use animals when for viruses or bacterial that could accidentally contaminate medicines. By 2030, there will be a reduction in the use of pharmacokinetic studies (which track how a drug moves through the body over time) on dogs and non-human primates. There is also an aim to end the use of animals for veterinary vaccine testing 'as soon as is feasible', following international regulatory approval of an alternative quality control method. Funding has also been committed to support the development of new testing methods such as organ-on-a-chip systems (microchips which use human cells to mimic how organs work); AI tools for predicting the safety and effectiveness of medicines; and 3D bioprinted tissues to create realistic human tissue samples.	Though these are targets and not yet completed actions, the UK appears is showing greater appetite for reducing reliance on animal testing than the EU, which has not set equivalent targets in these areas. This continues a trend of animal testing (and rights) being one of the few areas where the UK has set stricter rules than the EU since Brexit. The UK has introduced a bans on live animal exports and on licenses for animal testing in relation to chemicals used exclusively in cosmetic products. Though the animal testing of cosmetic ingredients was technically banned under EU law in 1998, in many cases it still takes place in order to avoid contravention of other laws on staff safety in testing environments.

9. Corporate/Financial services

Changes to UK corporate reporting rules.

ISSUE

In October, the UK Chancellor outlined a new 'blitz on business bureaucracy'. The headline measure is a set of changes to UK corporate reporting rules - where companies submit annual reports on their operations for compliance purposes - to reduce the administrative burden.

The proposals include exempting some medium-sized private companies and all wholly-owned subsidiaries (an estimated 51,000 companies altogether) from having to produce a 'strategic report' (which reviews the previous year's operations and assesses future risks) in their annual reports. All companies will be exempted from the requirement to produce a 'Director's Report' for Companies House. The Treasury estimates that this could save businesses £230m a year in administrative costs.

These changes sit alongside increasing the monetary thresholds for determining the size of a company - which could see 132,000 companies reclassified and thus subject to lighter reporting requirements. Other changes include introducing digital verification for planning documents, to speed up planning approvals, and an 'online register of underground pipes and cables to prevent length and unnecessary delays caused by accidents.'

IMPACT

The government set a target in March to reduce 'the administrative burden of regulation by 25% by the end of the Parliament' - which they calculate as equivalent to £5.6bn in efficiency savings. The latest proposals build on an 'Action Plan' from March which claims to have identified £1.5bn in savings.

But most of these savings remain hypothetical - it remains to be seen whether the reforms, if enacted, have the anticipated effect. Many of the measures are also yet to be introduced. For instance, there is as yet no timetable for the introduction of the changes to the corporate reporting rules. It's also unclear what risks might stem from reducing the reporting obligations faced by companies - given they will be subject to reduced regulatory oversight.

The previous government made the same proposal to exempt medium sized companies from producing a strategic report (alongside doubling the employee threshold for a medium-sized company) but did not deliver the reforms before the general election.

10. Financial services

Changes to the UK short selling regime.

ISSUE	IMPACT
In October, the Financial Conduct Authority (FCA) proposed changes to the UK's rules on short selling, so that sellers will no longer have their identities publicly disclosed. In simple terms, short selling is where investors bet on a company's share price going down, and the practice is widely seen to have contributed to the 2008 global financial crisis. In response to the crisis, the EU introduced rules requiring all 'significant' short positions (above 0.1% of a firm's share capital) to be privately reported to the relevant regulator and publicly disclosed when above 0.5%. The FCA proposes getting rid of the public disclosure requirement, while increasing the threshold for privately reporting to the regulator to 0.2%, and extending the deadline for disclosures from 15:30 on the next trading day to midnight. It says it is aiming to 'remove unnecessary and disproportionate requirements, which may inhibit or discourage short selling that supports liquidity.' The FCA ran a consultation on its proposals over the last quarter of 2025, and will announce the final rules in April 2026, before 'phase 1' of implementation begins in June.	The FCA's proposal would see the UK diverge from EU regulatory standards and move closer to the US approach, where disclosures are anonymised and only made in aggregate (rather than on individual positions). The FCA says that the reforms would reduce "burdens for capital market participants while ensuring the market still gets the transparency it needs" and boost the government's mission to drive growth by making the UK a more attractive destination for financial firms. But others argue that the reforms are likely to benefit financial firms' own profits, without leading to economic growth or wider benefits, while also increasing the level of risk that the public is exposed to. Similar criticisms have been made, including by the chair of the Treasury select committee, of other financial services reforms introduced by this government.

11. Financial services

Reform of UK transaction reporting rules.

ISSUE	IMPACT
In November, the Financial Conduct Authority (FCA) published a proposal to reform the UK's transaction reporting rules, following a government steer to make it more 'proportionate, streamlined and agile'. The UK's existing rules were introduced under EU law in 2018, setting requirements around exactly what transaction information financial firms must submit to the FCA, to aid it in its regulatory responsibilities such as detecting and investigating market abuse, preventing financial crime and crisis response. The FCA's proposals include reducing the number of 'reporting fields' from 65 to 52; removing reporting obligations for six million financial instruments only tradeable in the EU, and for foreign exchange derivatives; reducing the default 'back reporting' period (where transactions must be resubmitted if there has been an error or omission) from five years to three; and disapplying some of the reporting requirements for trading venues when submitting information on clients not subject to UK reporting requirements. The FCA anticipates that its proposals will 'make markets cleaner' by reducing the regulatory burden on firms and 'improving trust, confidence and participation' and save companies over £100m a year in administrative costs. It also hopes that the reduced reporting obligations for trading venues on their foreign clients may encourage more firms to participate in UK markets.	This represents divergence from EU law – from which the UK's existing reporting regime is derived. HM Treasury announced in November 2024 that it would task the FCA with delivering a more 'streamlined' reporting regime as part of its 'commitment to reinvigorate our capital markets… to support growth across the UK'. The scale of reform is, however, less drastic than many financial firms were pushing for. The Financial Times reported in early 2025 that hedge funds wanted the FCA to remove reporting requirements for 'buy-side' actors (which include hedge funds) and rely instead on the data submitted by the 'sell-side' (e.g. investment banks) – arguing that the dual requirement leads to unnecessary duplication. This would have aligned the UK with many other jurisdictions, including the US and Japan, but the FCA rejected the proposal. The FCA argues that an exemption would be unsuited to the 'more international' nature of the UK market – where 56% of transactions involved a non-UK-based sell-side in 2024. Those sell-side firms are not subject to UK reporting requirements, meaning that 'a buy-side reporting exemption would result in complete loss of oversight for 56% of transactions executed by buy-side firms'.

12. Financial services

Changes to UK retail investment rules.

ISSUE

In December, the Financial Conduct Authority (FCA) announced changes to the rules on retail investment (stock market investments by individual consumers). The key change is a reform to the rules on how investment companies must present 'disclosures' (information on investment products being sold) to prospective customers. The FCA argues that the existing rules (derived from EU law) lead to disclosures which 'often contain excessive amounts of information, are unengaging, and typically rely on legalistic financial jargon', meaning most consumers do not read the documents.

It will thus replace the existing disclosure rules with a new 'Consumer Composite Investments' (CCI) regime promoting more consumer-friendly language. Comprehensive templates for product summaries will be replaced with minimum standards on the information to disclose (such as comparable key information about costs, risk and return, and past performance) and companies will have 'considerable freedom' over how they design and communicate that information. The FCA expects companies to avoid jargon and test communications in advance, and key information will have to be placed on a public website and be reviewed and updated at least once a year. The new regime will take effect from April, with an 18-month transition period before the new rules become obligatory.

The FCA is also consulting on changes to the definitions of retail and professional

IMPACT

Both the UK and EU have been trying to increase rates of retail investment, but have adopted different policy tools in the process. As well as reforming EU-derived rules on disclosure requirements, the Chancellor has reduced the amount that can be put into cash ISAs (which pay tax-free interest on savings), in order to incentivise consumers to look to elsewhere (e.g. stocks and shares accounts) for higher returns.

The EU, by contrast, is planning a more structural reform of its capital markets architecture to reduce the regulatory and trade barriers between the institutions of different member states. This is designed primarily to attract greater global investment into EU financial services, but it is hoped that greater integration of EU capital markets will also lead to the development of more retail investment opportunities.

The FCA proposals have been welcomed by investment firms, who will likely be able to sell more investment products as a result. It is not clear whether this translates into any significant gains for the UK economy, nor whether it might expose retail consumers to much greater risk.

investors - categorisations designed to protect retail investors from exposure to high-risk products unsuited to their financial means and experience. It proposes removing the current 'quantitative test', where clients must meet at least two of three criteria (having a portfolio of at least £500,000; having completed at least ten trades a quarter over the past year; and having worked in financial services for at least a year) to qualify as a professional. It argues that some non-professionals could meet the criteria and be 'inappropriately opted out of retail protections'; while some experienced investors may not meet the criteria and thus cannot access products which 'would better meet their needs'.

The FCA proposes replacing the test with an 'enhanced qualitative assessment', putting greater responsibility on firms selling investments to 'get it right' when assessing the suitability of a client for a product. They would have to consider a fixed set of factors in their assessment, and there would be new safeguards, where a client can only be categorised as professional if they actively request it and give 'informed consent'. The FCA also proposes introducing a new 'alternative wealth assessment' route, where 'very wealthy individuals' (portfolio of £10m+) can opt out of retail protections.

13. Immigration

Changes to UK asylum and returns policy.

ISSUE	IMPACT
In November, as part of its policy paper on changes to asylum and returns rules, the UK government announced its plan to remove the legal obligation to provide support to asylum seekers who would otherwise be destitute. This obligation derives from a piece of retained EU law (adopted in 2005) which the government promises to revoke in the 'coming months'. It will be replaced by a 'discretionary power to offer support, as previously provided under UK law'. The government says it will deny support to 'those who have the right to work and could therefore support themselves' and 'those who have deliberately made themselves destitute'.	This law change is part of a much wider - and very controversial - package of measures which significantly restrict the rights of asylum seekers in the UK. Other changes include quadrupling the amount of time asylum seekers standardly have to wait in order to obtain refugee status or permanent residence rights; and making refugee status temporary - so an individual can be returned if the country from which they fled comes to be deemed safe once again. The National Audit Office reports that the measures could have 'unintended consequences' such as increased homelessness among asylum seeker and growing case backlogs. Some measures (such as returning asylum seekers if their country of origin is deemed safe) are explicitly modelled on the approach taken by an EU member state, Denmark, but the removal of the obligation to provide support to asylum seekers who would otherwise be destitute is something that the UK can only do because it is no longer subject to EU law. The EU has also recently charted its own course in terms of new measures to limit the rights of asylum seekers - covered in a separate entry.

14. Trade

Expanded UK-Korea trade deal.

ISSUE	IMPACT
In December, the UK and Republic of Korea announced an expanded trade deal. The two sides first entered into an agreement in 2011, under the EU-Korea trade agreement, which was 'rolled over' into a UK-Korea agreement in 2021. The new agreement maintains UK tariff-free access to the Korean market at current levels (98% of all tariff lines), which is the same as the EU has. UK exporters would otherwise have faced tariffs from January 2026 due to the original UK-Korea agreement expiring. Goods which are repaired or modified in the UK before being re-exported to Korea will no longer face customs duties or tariffs, and 'rules of origin' have been updated to simplify the process for traders to prove they qualify for tariff-free access. The agreement further seeks to ease customs processes by promoting the use of electronic paperwork and increasing the number of Korean regulations published in English. UK media and advertising companies will be the first international firms to gain access to procurement opportunities in Korea's administrative capital, Sejong City. There are some clarifications on data localisation requirements (which set out when data can move freely between the UK and Korea) with the aim of facilitating digital services trade; and an agreement on shared principles for developing and using AI - including a commitment to promoting and improving interoperability between governance frameworks - which aims to help UK and Korean businesses more easily use each other's AI technologies.	Though the UK government presents the agreement as a 'momentous deal' which it has newly landed, in reality this is largely a rollover of existing provisions, with some additional measures to remove relatively minor technical barriers to trade. The UK's level of tariff-free access to the Korean market remains in effect the same, but some customs and other regulatory processes should become a little easier to navigate. The UK government claims that UK services exports to Korea could increase by £400m a year, long-term, as a result of the deal. That would represent a 5% increase on the £8.1bn worth of goods and services which the UK exported to Korea in the year to June 2025. Trade experts remain sceptical about the true size of any economic benefits which will be secured.

15. Trade/Medicines

UK-US pharmaceuticals deal.

ISSUE

In December, the UK and US announced a deal on pharmaceuticals trade. The agreement, which builds on the UK-US deal signed in May, will see the United States remove tariffs on UK pharmaceutical exports for an initial three years, in exchange for the NHS paying higher prices for US medicines.

This will be done by the UK government lifting the maximum permitted price which can be spent on procuring branded medicines for the NHS by 25%. This is the first-ever increase in the cap, which since 1999 has stood at £20,000-£30,000 for each additional year of good quality life they provide (known as QALYs). This will now rise to £25,000-£35,000 for future procurement of new medicines. The National Institute for Health Care Excellence (NICE), the body responsible for NHS medicines procurement, estimates that it will lead to 3-5 additional medicines being recommended each year - especially in oncology and rare diseases.

NHS spending on medicines is expected to increase from 9.5% to 12% of its budget as a result, and the Office for Budget Responsibility estimates the total cost at £3bn. The government has also set a target to double the amount the NHS spends on medicines (to 0.6% of GDP) over the next decade, while the sales tax paid by pharmaceutical companies will be reduced from 23% to 15%.

IMPACT

The average price paid for US-made drugs is much higher in the United States than in Europe. The US government argues that US patients are subsidising European ones and has threatened a 100% levy on branded US medicines, to pressure European countries to pay more. The 100% rate is yet to be levied on any country, but the UK deal has led to its medicines export tariff being zero-rated - a concession which no other country has obtained. The EU (along with Japan) has obtained a concessional rate of 15%.

The nature of the agreement means UK taxpayers are effectively subsidising the zero-tariff rate for exporters, and whether this is a worthwhile trade-off remains to be seen. Some experts warn that the forecast £3bn increase in drug spending could be an underestimate (not least as it does not factor in the reduced pharmaceutical sales tax), and that, unless the Treasury increases the NHS budget accordingly, it will lead to a funding squeeze for other health services.

Many pharmaceutical groups have unsurprisingly supported the measures, arguing it increases access to innovative medicines and provides UK medicines exporters with certainty. Industry unsuccessfully argued that the QALY rate increase should have been much greater (rising to £40,000-£50,000) to reflect price inflation since 1999.

16. Agriculture

Provisional agreement on proposal on new genomic techniques.

ISSUE	IMPACT
In December the European Council and Parliament reached provisional agreement on a Commission proposal to allow the use of new genomic techniques (NGTs - which alter the genetic material of an organism) in plants. At present, NGTs are barely used in the EU, because EU rules impose stringent requirements around how NGT-bred goods are risk-assessed labelled, tracked and monitored. The provisional agreement would introduce simplified rules for 'NGT1' plants, i.e. those that could have developed naturally or through conventional breeding methods. 'NGT2' plants, which could not have been developed via such means, and instead require the implanting of external material, will remain subject to existing rules. The Parliament and Council have introduced some technical changes and developments to the Commission's original proposal. They have established criteria for determining what an NGT1 plant is, and a list of 'intended traits' which will not be allowed in NGT1 plans - including insecticidal effects and tolerance to herbicides - due to the environmental harm they can do. They have also tasked the Commission with monitoring the impacts of NGTs to ensure they support sustainability goals (e.g. through increasing climate and pest resistance in crops). NGT1 plants will still be subject to traceability and labelling requirements, but these will be lighter touch. All NGT1 varieties will have	Proponents of NGT reform have long argued that the EU's current rules fail to recognise the scientific distinction between NGT1 and NGT2 - more often termed 'genetic editing' and 'genetic modification' - and as a result pass up opportunities to develop crops which are more sustainable, resilient and nutritious. MEPs have also seen a potential economic benefit for Europe in encouraging the development of new scientific techniques potentially worth trillions of euros; and argue that the reform gives farmers a 'fair chance to keep up' against challenges like climate change and pesticide resistance. Some groups have expressed concern about the lack of restrictions on patents, arguing that they don't go far enough in preventing patent holders from accumulating market dominance. They fear that smaller breeders could become entirely dependent on major corporations for access to NGT seeds and that this could lead to a "slow-motion collapse of independent breeding, seed-diversity and farmer autonomy". The EU reform has two major implications for the UK. First, it represents broad alignment with the England, which introduced a very similar distinction between genetic editing and genetic modification under the Genetic Technology (Precision Breeding) Act 2023. This was widely cited at the time as a benefit of Brexit. Second, the entire UK could be required to adopt the EU's NGT rules as part of the UK-

to be registered in official databases, and any seed bags containing NGT1 material must be labelled as such. NGT1 material will not be permitted in organic farming.

The Parliament failed in its attempts to introduce a ban on NGT patents, meaning farmers will not be able to freely use NGT1 seeds – and instead have to obtain permission from the patent owner. The Commission will introduce a code of conduct within 18 months of the new rules coming into force, to help breeders access NGTs; ensure licensing for NGTs occurs under 'fair and reasonable conditions'; and that there are 'amicable' settlement processes for cases where farmers may unintentionally have small amounts of 'patented' NGT-derived material in their fields.

EU 'SPS' deal currently under negotiation. In England, this would require amendments to the 2023 act, given that there are some technical differences in approach. For instance, the UK act covers animals as well as plants, but it may have to abandon the animal element as this will not be permitted under EU rules; while EU rules go further than the UK act on labelling and traceability.

The UK could push for gene editing rules to be exempted from the SPS deal. This would lead to regulatory divergence between England and the EU (as well as the rest of the UK, if devolved governments adopt the EU rules or develop their own policies which differ from England's), which would make it harder to trade gene-edited goods between the different jurisdictions.

17. Animal welfare

Regulation on the welfare of cats and dogs.

ISSUE	IMPACT
In November, the European Parliament and Council reached provisional agreement on the 'first ever EU standards for the breeding, housing, traceability, import and handling of cats and dogs'. To tackle the illegal pet trade, it will be obligatory for sellers and breeders to microchip cats and dogs within four years of the rules taking force. Owners will be subject to the rules after ten years (for dogs) and fifteen years (for cats). Establishments selling cats and dogs will have to ensure they are provided with adequate housing and sufficient fresh water and food, while dogs must have daily access to an outdoor area or be walked daily. They must also ensure inspection visits from vets. Practices which lead to abuse or health risks will be banned - including incestuous breeding; mutilations like and tail docking; and breeding for 'exaggerated or excessive traits that lead to significant health risks'- and there are limitations on the age and frequency with which animals can be used for breeding. Animals with exaggerated features will be banned from public shows, and there will be a ban on tethering animals (except for medical treatment) and the use of 'prong and choke collars without built-in safety mechanisms'. Pets being brought into the EU will be subject to equivalent standards, meaning they must be microchipped and pre-registered on a database at least five days prior to arrival. The provisional agreement is still subject to formal approval by the Council and Parliament before it enters into force.	The regulation has direct implications for British sellers of cats and dogs, and those travelling to the EU with their pet - as they will have to meet the new requirements around the pre-registration of their animal. The EU rules go slightly beyond some existing UK standards - but not on inspections and microchipping. It is also noteworthy that the EU has failed to reach institutional agreement on updated rules on the welfare of animals during transportation - a rare area where the UK has actively moved to impose stricter rules than the EU since Brexit. The new EU legislation could apply in Northern Ireland under the terms of the Windsor Framework, though this will not be determined until after the legislative process is completed. As detailed in a previous tracker, this could lead to some new administrative costs for the authorities charged with, for example, establishing the database of animals and enforcing the new rules in Northern Ireland; and some rehoming establishments might have to invest significant funds to meet the new regulatory requirements.

18. Climate

EU 2035 and 2040 climate targets.

ISSUE	IMPACT
In November 2025, the European Council agreed its 2040 climate target - for a 90% reduction in net greenhouse gas emissions compared to 1990 levels - alongside an 'indicative' (i.e. non-binding) target of 66.25%-72.5% by 2035. The 2040 target includes 'flexibility options' which could reduce the target level which member states have to reach. From 2036, up to 5% of total EU emissions reductions may come from international carbon credits - i.e. the financing of international climate projects - with member states potentially allowed to use them for another 5% of emissions in emergency cases (such as following wildfires). The use of 'domestic permanent carbon removals' will be allowed under the EU emissions trading scheme, whereby unavoidable emissions in hard-to-abate sectors are offset through technologies to directly remove CO2 from the atmosphere. The Commission initially proposed the 90% target in July 2025, but the Council has expanded some of the flexibilities, for instance by increasing the permitted use of carbon credits from 3% to 5% and postponomg the application of the 'ETS2' (which imposes levies on emissions in road transport and buildings) from 2027 to 2028. It has also introduced an assessment every two years to track progress - which could potentially lead to the 90% target being reviewed if it is leading to economic problems.	Negotiations over the EU's new targets were protracted, and only finalised very shortly before the COP30 summit in Brazil, where signatories were required to submit their 2035 targets (known as NDCs). Certain member states refused to sign off on the agreement until the carbon credit allowance was increased from 3% to 5% and the ETS2 was delayed by a year. The biennial progress review was a further compromise. The climate think tank E3G takes the view that, though reaching agreement before COP was 'essential', the compromise result 'raises concerns'. It notes that the indicative 2035 target 'lacks decisiveness' and says it would be a 'mistake' to use the flexibilities around meeting targets as 'shortcuts' which curtail more ambitious emissions reductions. The use of carbon credits has been widely criticised, including by the EU's scientific advisory board, for allowing countries to continue emitting more fossil fuels. That board had also recommended a 2040 target of 90-95% - meaning the Commission and Council opted for the lower end of the scale. The UK has not yet set its 2040 target but its 2035 target, of 81%, is much higher than the EU's and was announced much earlier, in January 2025 (though whether it will meet that target is another question, to which the answer is not yet clear). The difficulty the EU had in coming to agreement, coupled with the decision to water down ambition, risks undermining the EU's influence as a global leader on climate.

19. Climate/Industry

Amendments to ETS state aid guidelines.

ISSUE	IMPACT
In December, the European Commission adopted an amendment to the state aid guidelines for its emissions trading system (ETS). The EU ETS levies tariffs on companies' carbon emissions in certain industrial sectors, including electricity generation, in order to bring down their overall emissions. The state aid guidelines, which took effect in 2021, allow member states to compensate selected industries for a proportion of their 'indirect emission costs' – i.e. the higher electricity prices they have to pay as a result of the ETS 'carbon price' imposed on electricity generation. Sectors are eligible if they are considered at risk of 'carbon leakage' – when companies relocate production processes outside of the EU to avoid ETS costs. These are primarily energy-intensive, heavy industries like iron and steel. The amendment makes 20 new sectors (and two subsectors) eligible for support, including organic chemicals and certain parts of the ceramics, glass and battery sectors. For sectors already eligible for support, the proportion of their costs which they can claim compensation for rises from 75% to 80% (while standing at 75% for the new sectors). Non-listed sectors will also be eligible for support if a member state can prove they are at 'genuine risk of carbon leakage'.	This reform has potential implications for the UK, given it is in the process of negotiating with the EU to link their respective ETS schemes – so that they become interoperable and establish a common 'price' for carbon emissions. Though ETS linkage does not require the two sides to harmonise their approach to state aid/ subsidies for affected sectors, they UK may harbour concerns if EU industries are in effect receiving a rebate on their ETS costs – as this would undermine the competitiveness of UK firms against them. On the other hand, the UK has a more generous approach towards 'free allowances' for affected sectors (which similarly reduces with ETS costs). Either side could argue that the others' forms of financial support amounts to an unfair competitive distortion of the 'level playing field' – and such matters will likely be under discussion during the live negotiations on linkage.

20. Climate/Vehicles

Changes to emission-free vehicle targets.

ISSUE

In December, the European Commission watered down its target for the phase-out of petrol and diesel cars. Under the first von der Leyen Commission's 'Green Deal', the EU imposed a de facto ban on the sale of new petrol and diesel cars from 2035, by requiring a 100% reduction in tailpipe CO2 emissions (compared to 2021 levels) from new cars sold after that date. But this target has now been reduced to 90%, leaving room for the continued sale of petrol, diesel and hybrid vehicles.

The EU says that the remaining 10% of emissions will need to be offset through two schemes, crediting manufacturers for emissions savings made through the use of EU-made 'low-carbon steel', and e-fuels and biofuels. E-fuels are extremely expensive and emissions-intensive to produce while biofuels are not a viable technology for widespread use. 'Small affordable electric cars made in the EU' will be subject to 'super credits', with the emissions savings they generate counted at 1.3 times their actual value. A 2030 55% emissions reduction target for carmakers has been relaxed, allowing them to miss it and instead make it up with higher reductions in 2031 and 2032. The 2030 target for vans has been cut from 50% to 40%.

From 2030, member states must ensure that a specific share of corporate cars and vans registered by large companies are zero- or low-emission. The targets differ by member state depending on 'market maturity and national circumstances'.

IMPACT

This represents divergence from the UK, which retains its target for all new cars sold from 2035 to be 100% emission-free. The UK was already more ambitious that the EU, given the sale of petrol and diesel cars will end by 2030, although earlier this year it opted to permit a limited number of hybrid vehicles for sale through to 2035. The UK government has said it will not water down its own 2035 target, but the EU's action could make it harder for the government to hold the line. A minister has indicated that a review will be initiated in 2027 to determine whether intermediate targets (which mandate increasing levels of emission-free sales each year) remain viable.

The EU decision is the result of heavy lobbying by Germany and Italy - two member states with major car industries - and the centre-right European People's Party bloc, which argued that it is necessary to protect the European car-making industry which is struggling to compete against Chinese competitors in the zero-emission market.

The EU decision has proven highly controversial, both for the damage it does to the EU's international climate leadership, and to its net zero ambitions. Cars and vans respectively represent 16% and 3% of EU CO2 emissions, and Commission's estimates that the 90% target will result in a quarter of cars sold after 2035 emitting CO2.

21. Consumer rights

Reform of EU air passenger rights.

ISSUE	IMPACT
In October, the European Parliament set out its 'red lines' on the reform of air passenger rights, leading to a conflict with the Council of the EU. The Council set out its position in June, proposing significant reforms to existing compensation rights. Under the current rules, if a passenger experiences a delay of three hours or more, they can claim €250 for a short-haul flight (under 3,500km) and €600 for a long-haul flight (over 3,500km). The Council proposed extending the minimum delay to four hours for short-haul flights and six hours for long-haul, alongside increasing the compensation for short-haul (to €300) and reducing it (to €500) for long-haul. It also proposed a new obligation for airlines to provide compensation even in 'extraordinary circumstances', unless they can prove they took all reasonable steps to avoid disruption; and rights for passengers to claim compensation if their flight is cancelled less than 14 days before departure, or if denied boarding on a return flight because they did not take the outbound one. Other Council proposals aim to make claiming compensation easier, by obliging airlines to send passengers a pre-filled claim form when entitled to compensation, stricter obligations for airlines to share information with passengers about their rights, and a deadline of 14 days for airlines to respond to a compensation request (which passengers would have six months to submit). The European Parliament has, however, pushed back, with the Transport and Tourism	The issue of air passenger compensation has long proven controversial, with the Commission first proposing increasing the delay thresholds (to nine and twelve hours) in 2013. This led to a prolonged impasse which the Council sought to break with its new proposed limits of four and six hours - before it was rejected by the Parliament. The Danish Council Presidency had sought additional negotiations with the Parliament's committee in late 2025 to try and reach a compromise position, but the committee refused the talks. If its original negotiating position is endorsed by the Parliament this month, the Council will be left with four months to effectively decide whether to accept or reject the proposal. The latter seems most likely. The committee's position has, unsurprisingly, sparked major criticism from the airline industry - which claims that 70% of cancelled flights would not have been had there been a five-hour threshold for compensation. MEPs supportive of the committee position argue that a one-hour increase in threshold for short-haul flights would amount to a "rip off", reducing the number of passengers entitled to compensation by two thirds. It could also lead to an increase in the number of delayed flights as airlines would have a much larger margin to play with before compensation costs kick in. Any changes to EU rules would have a significant impact on UK consumers and

Committee's negotiating guidelines asserting that the current three hour delay threshold and compensation levels should be kept in place. It further proposes obliging airlines to send passengers their pre-filled form within 48 hours; giving passengers a year (rather than six months) to file a claim; and introducing immediate compensation for passengers denied boarding.

Beyond compensation, the Parliament supports giving passengers a right to carry on one small cabin bag (max dimensions 100cm, max weight 7kg) for free, alongside a small personal bag; a ban on 'check in fees' for correcting misspelled passenger names or to allow children under 14 to sit next to their accompanying passenger; and a right to choose between a paper or digital boarding pass.

airlines. UK airlines are subject to the EU air passenger rights regime when operating flights within the EU, or from the EU to a non-EU country. UK citizens (like all passengers) are also protected by the regime on any flight taking off within the EU; and on flights arriving into the EU from outside when operated by an EU airline.

22. Digital & data

Digital 'Omnibus' package.

ISSUE	IMPACT
In November, the European Commission announced its 'Digital Omnibus' - a package of measures to simplify its AI and digital regulations. It modifies the AI Act to delay the introduction of rules on the use of 'high-risk' AI by up to 16 months (from August 2026 until December 2027), subject to the availability of the necessary tools and standards. High risk AI covers technologies which post a risk to people's lives, health, safety, fundamental rights or the environment (e.g. medical devices and tools to aid critical infrastructure, employment or law enforcement). Creators of high-risk AI are subject to a range of obligations around risk management, transparency oversight etc., while companies deploying high-risk AI must meet rules around, for example, registration, monitoring and incident reporting. The Commission also proposes amending the act to simplify technical documentation requirements for small and medium-sized companies. Separately, the Commission proposes addressing 'cookie banner fatigue' by reducing how often cookie banners pop up on websites; introducing design rules so users can easily choose whether to accept or reject cookies; and allowing users to save their preferences through central settings in browsers and operating systems. It also proposes amendments to the personal data protection rules (known as 'GDPR') through clarifications on the definition of	The chief aim of the package is to reduce the administrative burden on companies subject to the EU digital and AI rulebooks, with the Commission claiming that its various proposals could lead to one-off savings worth billions for business, with the European Business Wallets creating an additional €150bn/year in savings. The CEO of Booking.com argues that the EU's rulebook has prevented the rollout of new AI technologies such as its latest customer chatbot. Left and liberal groups in the European Parliament have, on the other hand, raised concerns about the implications for individuals' personal data protection and safeguards against AI. The EU has also come under pressure from the United States over its firm regulation of tech, which it claims amounts to discrimination against US companies. Some reports suggest that the simplification package is designed to appease Washington and draw concessions in other areas (such as trade tariffs). The UK has taken a comparatively laxer approach than the EU, both on tech and, especially, AI. It has, unlike the EU, not introduced fixed rules which creators of different forms of AI have to comply with - instead relying on principles to guide individual regulators. One longstanding criticism of the EU's rules-based approach is that it risks quickly becoming outdated due to the fast-moving nature of AI. The EU, however, had hoped that, by moving early, its rulebook would be adopted internationally by firms - allowing it

personal data; how personal data can be used AI; and when organisations need to conduct impact assessments and notify about data breaches. Cybersecurity reporting requirements will be simplified, through the creation of a 'single entry point' via which companies complete all the necessary incident reporting processes. At present, there are several different reporting portals relating to different cybersecurity laws.

A new European Business Wallet will be introduced, creating a 'unified digital tool' through which public and private bodies can digitise a range of interactions including creating, timestamping, sealing, storing and exchanging documents. The Commission says this will help with scaling up businesses, paying taxes and communicating with public authorities.

to establish the global norms on AI regulation. The new simplification package implies, however, an acceptance of that this has not come to pass - with economy Commissioner Valdis Dombrovskis stating "we cannot afford to pay the price for failing to keep up with demands of the changing world."

The EU decision to loosen GDPR rules could have implications for the UK, which had previously looked into reducing the prevalence of pop-up cookies banners before it became apparent that this risked losing 'adequacy' with the EU's data standards - this curtailing the free exchange of personal data between the UK and EU. The UK could now opt to mirror the EU's GDPR simplifications without imperilling adequacy.

The digital omnibus follows six other 'omnibus' packages designed to reduce the regulatory burden on business in the EU and thus increase their 'competitiveness' against international firms.

23. Digital & data

X fined for Digital Services Act infringements.

ISSUE	IMPACT
In December, the European Commission fined the social media site X €120m for breaches of its Digital Services Act (DSA), which aims to create a 'safer digital space in which the fundamental rights of all users are upheld'. This is the first time a fine has been issued for non-compliance with the DSA (though other investigations have been opened, and fines have been issued for violations of its sister Digital Markets Act) and the Commission outlined three specific violations. First, it found the 'blue checkmark' used by X to denote 'verified accounts' (i.e. notable public figures or institutions whose identify has been proven) to be violating the DSA prohibition on deceptive design practices. This is because X allows anyone to pay for a 'blue checkmark' without their identity being properly verified. The Commission says this 'exposes users to scams, including impersonation frauds, as well as other forms of manipulation by malicious actors'. Second, it found that X's advertising repository (a public database of adverts on the platform which can be searched to detect scams, false advertising and other 'hybrid' threats) does not meet the DSA's transparency and accessibility requirements. The Commission states that the repository includes 'design features and access barriers, such as excessive delays in processing, which undermine [its] purpose' and there is also a lack of 'critical information, such as the content and topic of the advertisement, as well as the legal entity paying for it'.	The Commission issued a preliminary finding against X in July 2024 and, following a full investigation, it has now upheld its findings and imposed a fine. The political ramifications could be significant, given that X is owned by Elon Musk, a figure with close ties to the Trump government. Shortly before the Commission made its announcement, US Vice President Vance wrote (on X) that 'The EU should be supporting free speech not attacking American companies over garbage', while the US Ambassador to the EU called it 'regulatory overreach targeting American innovation'. The US Commerce Secretary also said in November that the EU should "reconsider" its tech regulations if it wants the US to reduce tariff rates for its steel and aluminium exports. X has responded by removing the European Commission's access to its advertising account on the platform. It is hard to gauge exactly how severe the fine is. Apple and Meta were fined €500m and €200m respectively for violations of the EU Digital Markets Act (DMA - which aims to limit big tech companies' dominance of digital markets) in April 2025. X's €120m fine might seem low by comparison, but the maximum fine under the DMA is 10% of a company's global annual turnover, whereas under the DSA it is 6%. With X reported to have had a turnover of just under $3bn in 2024, a fine of €120m could be close to the maximum permitted limit.

Finally, the Commission found that X is failing to comply with its obligation to provide researchers with access to its public data. Independent access by researchers is explicitly prohibited under X's terms of service, and the processes which are available are deemed by the Commission to 'impose unnecessary access barriers'.

The Commission states that the fine takes into account 'the nature of these infringements, their gravity in terms of affected EU users, and their duration'. X has sixty days to inform the Commission of how it will bring the infringement around the blue checkmark to an end, and 90 days to set out on 'action plan' for addressing the other two infringements. Continued non-compliance could lead to further fines.

The UK equivalent to the EU DSA is the Online Safety Act, but it does not include transparency obligations around ads, a requirement to provide researchers with access to public data or the same language about deceptive design practices.

24. Digital & data

TikTok and Meta found in breach of Digital Services Act.

ISSUE	IMPACT
In October, the European Commission announced its preliminary finding that TikTok and Meta are in breach of obligations under the Digital Services Act (DSA). The DSA aims to create safer digital spaces. The Commission found TikTok, Facebook and Instagram (the latter two are owned by Meta) in breach of transparency obligations as they 'may have put in place burdensome procedures and tools for researchers to request access to public data'. This limits the ability of researchers to investigate whether those platforms are exposing users to illegal or harmful content. The Commission also found that both Facebook and Instagram lack easy and accessible tools for flagging illegal content, stating that their approach 'seems to impose several unnecessary steps and additional demands on users' and that interface designs 'can be confusing and dissuading'. It also found that users were unable to make full use of their right to challenge content moderation decisions on Facebook and Meta, as the appeal mechanisms do not 'appear to allow users to provide explanations or supporting evidence to substantiate their appeals'. This is a preliminary ruling, giving the companies time to examine and respond to the findings as well as take measures to remedy breaches. If the Commission ultimately upholds its original decision (and suitable remedial action is not taken), it is able to impose fines of up to 6% of annual worldwide turnover on the companies.	This is another case of the EU taking action against US tech companies over regulatory breaches - which my compound existing anger within the White House. That said, as this is a preliminary ruling, it is possible that the case will be resolved without the Commission resorting to fines (if the companies take action to address the concerns or can prove the Commission's concerns are unfounded). Moreover, in other recent cases (relating to competition in digital markets rather than online safety), the Commission was widely seen to have opted for a relatively low fine so as not to excessively antagonise the US government. The UK's equivalent to the DSA is the Online Safety Act, which contains similar obligations for platforms to have systems in place for users to flag harmful or illegal content - though not the same requirements to share ad data with researchers. So far UK regulators have not taken parallel action against the companies in question. The UK has generally taken a less interventionist approach than the EU to perceived non-compliance by tech companies with digital legislation.

25. Digital & data

Investigation into Google over potential Digital Markets Act breach.

ISSUE

In November, the European Commission opened an investigation into the Google over a potential breach of its Digital Markets Act (DMA). The DMA is designed to prevent the largest companies from abusing positions of power to distort competition in digital markets. The Commission is concerned that Google's search service - which has a position of entrenched market dominance - is unfairly demoting results from certain parties.

Its monitoring indicates that Google demotes search results which include promotional content from third parties. This is part of Google's 'site reputation abuse policy' which aims to prevent attempts to manipulate search result rankings. But the Commission says this 'appears to directly impact a common and legitimate way for publishers to monetise their websites and content' and thus potentially limits 'publishers' freedom to conduct legitimate business, innovate, and cooperate with third-party content providers.'

The Commission aims to complete its investigation within 12 months. If it finds that a breach of the DMA has taken place, it will set out the measures which Alphabet (Google's parent company) must take to redress its concerns and could impose a fine of up to 10% of global turnover.

IMPACT

This investigation follows a Commission decision in September to fine Google €2.95bn for a breach of antitrust rules (which predate the CMA) and the requesting of information from Google's Play store and Search functions (among others) over whether they are doing enough to meet their obligations under the Digital Services Act to prevent fraudulent content.

Such action has already antagonised the US government - and the UK has not followed the EU in opening anywhere near as many cases under its own, similar, legislation. That said, the Competition and Markets Authority did in October announce that it had designated Google with 'strategic market status' in relation to its search function and mobile platform.

26. Digital & data

Antitrust investigation into Meta.

ISSUE	IMPACT
In December, the European Commission opened an investigation into Meta over whether it has breached EU antitrust rules by restricting AI companies' access to WhatsApp. Meta announced in October that it would prohibit companies from providing AI services to customers via 'WhatsApp Business Solution' - a tool which allows businesses to communicate with customers via WhatsApp. That means companies cannot, for example, use WhatsApp to connect customers to 'conversational' AI assistant/chatbot services. They are permitted to use AI in support of the provision of other services (like automated messages to customers) - as long as AI is not the main service being provided. The Commission deems that, as a result of this policy, other AI providers may be blocked from using WhatsApp to reach customers, leaving Meta's own 'Meta AI' service with exclusive access to the domain. If confirmed, this could be a breach of Article 102 of the Treaty on the Functioning of the European Union, which prohibits the abuse of a dominant position to prevent or restrict competition within the single market. The Commission is now carrying out an in-depth investigation into whether a breach of its rules has occurred.	The Commission argues that this is a pro-competitive measure, aiming to prevent 'dominant digital incumbents from abusing their power to crowd out innovative competitors' in the 'booming' AI market. Smaller AI firms argue that Meta's actions are depriving European consumers of the opportunity to use innovative AI assistants. Meta could also be in breach of UK competition law, given it is largely derived from EU law and has barely changed since Brexit. The UK government and Competition and Markets Authority have, however, so far given no indication that they are interested in opening a comparable case. In theory, if Meta is found in breach of EU law, this could result in a scenario where WhatsApp is opened up to third party AI services in the EU but not the UK (or the rest of the world). On the other hand, Meta might opt to change its policy globally, meaning third party AI services would become available in the UK. EU regulatory interventions against US companies have attracted significant attention of late - both for the frequency with which they have occurred and the strong criticism they have drawn from the US government. This case is somewhat distinct as it is not based on the EU's landmark recent digital legislation - the Digital Markets Act and Digital Services Act - and instead relates to longer-standing antitrust rules.

27. Digital & data

Antitrust investigation into Google.

ISSUE	IMPACT
In December, the European Commission opened an investigation into Google over a potential breach of its antitrust rules in relation to its AI tools. A first concern relates to Google's AI services: the AI-generated summaries at the top of Google search results and the 'AI mode' which answers user queries in a chatbot style. These services make use of content published online, and the Commission wants to determine whether Google is adequately compensating publishers for that content. There is a concern that Google is abusing its dominant position in the search engine market, so that publishers must either allow Google to use their content without fair compensation, or else risk losing access to Google Search altogether - on which many publishers are highly dependent for web traffic. A second, related concern is that Google's generative AI tools are being trained on content uploaded to YouTube (owned by Google) without appropriate compensation for the creators of the content. Anyone uploading a video to YouTube is obliged to allow Google to use the data for a range of purposes including the training of AI models, without any form of compensation or opt-out option, while rival AI developers cannot use YouTube content. The Commission will investigate whether these practices are taking place and, if proven, whether they amount to a breach of rules prohibiting the abuse of a dominant position, under Article 102 of the Treaty on the Functioning of the European Union.	The Commission states that "AI is bringing remarkable innovation and many benefits for people and businesses across Europe, but this progress cannot come at the expense of the principles at the heart of our societies". It points to "diverse media, open access to information, and a vibrant creative landscape" as key tenets of a "free and democratic society" which it is looking to protect. Many online publishers have expressed concern about the impact of Google's AI overview on their revenues. Google search users are less likely to click on links (generating advertising revenue for the website) if Google has already taken the most salient information from those links and put it into its 'AI overview' at the top of the search results. The Daily Mail claims that this feature it has reduced the number of clicks it receives from Google Search by 50%. This is the second investigation into Google covered in this tracker, and the fifth case of action against US tech companies over digital regulation and/or competition law breaches. The potential political ramifications are discussed in the other cases.

28. Environment

Environmental 'Omnibus' package.

ISSUE	IMPACT
In December, the European Commission unveiled its latest 'Omnibus' package of regulatory simplification proposals - this time in relation to environmental legislation. It contains five key elements. First is a proposed regulation to speed up environmental assessments and permit processes for developers, through 'combined' assessments (i.e. scrapping individual assessments for industrial emissions, water discharges and chemical waste residues), 'defined and accelerated timelines', and the digitisation of certain processes. There will also be a 'toolbox' where certain sectors or projects which are defined as 'strategic' can benefit from accelerated processes. Second, companies will no longer be required to include 'transformation plans' as part of the 'Environment Management Systems' (EMS) in which they must set targets and performance measures for meeting industrial emissions reduction requirements. EMS's will also no longer be audited; while farmers and aquaculture operators will be exempted from some of the reporting obligations. Third, the Substances of Concern in Products (SCIP) database, into which companies are required to report data on hazardous substances in products, is being repealed. The Commission says that its role will 'progressively' be fulfilled by other measures - namely the One Substance One Assessment package (streamlining chemical data submissions) and the Digital	The reforms will reportedly reduce the administrative requirements related to environmental legislation by 25% by 2029. The Commission claims that this will save businesses around €1bn a year and argues that its proposals 'do not pose significant risks to the environment because they target administrative obligations without reducing environmental standards'. This is highly dubious, not least as the proposals (in line with all the other 'Omnibus' packages) were released without an impact assessment. Some of the proposals, in particular those on environmental assessments and environment management systems, reduce the level of accountability placed upon companies in relation to their environmental obligations - increasing the risk that they will not meet the required standards. There are also question marks around the changes to the reporting of data on hazardous substances, given that the systems which will replace the SCIP database - which environmental groups argue is vital - are not yet fully established. The WWF says the proposals put 'air, water, and public health at risk' and 'focus only on reduced compliance costs, ignoring the far larger price of pollution, ecosystem decline, and climate-related disasters'. ClientEarth points out that failures to comply with environmental law already costs the EU €180-325bn annually. In terms of divergence, the most notable reform is the first one, on speeding up environmental

Product Passport (which will provide comprehensive information on a product's origin and material, among other things).

Fourth, 'Extended Producer Responsibility' rules (which impose obligations on companies to take responsibility for the waste management of the products they make) will be simplified so that EU-based companies need only appoint one 'authorised representative to fulfil obligations' within the EU - rather than one in every member state in which they operate.

Finally, technical requirements around geospatial data will be harmonised across different pieces of EU legislation to reduce compliance costs for those submitting it.

The proposals will now to go the European Council and Parliament for discussion.

assessments and permitting processes. The UK government has a similar objective but has taken a more drastic approach, by watering down some of its existing environmental protection rules which are derived from EU law. EU officials have reportedly raised concerns directly with UK counterparts that the UK's divergence in this area could amount to a breach of 'level playing field' obligations under the Trade and Cooperation Agreement.

Yet the Commission says that it will this year 'stress test' parts of its own legislation - including habitats rules which have been targeted for reform in the UK - with wildlife groups expressing concern that existing protections could be eroded.

29. Financial services

Measures to integrate capital markets.

ISSUE	IMPACT
In December, the European Commission announced a package of measures designed to 'fully integrate EU financial markets'. The package of measures seeks to tackle four sets of barriers to trade: fragmented trading infrastructure (with over 300 different trading venues across EU member states); divergent and duplicative requirements between member states; fragmented supervision across member states; and regulatory obstacles to innovation. The Commission proposes enhancing the power of the EU-level regulator – the European Securities and Markets Authority (ESMA) – to give it direct supervisory control over central counterparties, central securities deposits, and crypto-asset service providers; as well as making it the final authority on asset management supervision. The aim is to ensure firms receive the same treatment regardless of where they operate within the EU, and the move would give ESMA control over more than 100 additional entities, including major EU stock exchanges, and the power to settle disputes between national regulators. To fund the shift, 50% of ESMA's budget will be sourced from the EU budget (up from 40%) while national regulators' contributions will drop from 60% to 50%. Other measures aim to reduce technical barriers to trade between member states, by introducing new 'passporting' opportunities (which facilitate trade) for certain sectors and a new, 'Pan-European Market Operator' status for trading venues which allows them to operate	The European Commission is trying to reduce the barriers to trade in financial services within its single market. The EU's financial services architecture is fragmented, with, for example, 35 stock exchanges, 14 clearing houses and 32 central securities deposits (as well as individual regulators for each member state). In the US, 75% of exchanged trading takes place across five venues – whereas the EU uses twice as many venues for the equivalent volume of trade. This fragmentation leaves firms facing differing requirements across member states, adding cost to intra-EU financial trade. The EU Commissioner for financial services notes that some entities have to report to over 20 different national authorities – and argues that a lack of trust between those regulators stands in the way of greater integration. The Commission highlights that the market capitalisation of EU stock exchanges in 2024 was worth 73% of EU GDP, compared to 270% in the US, and the Draghi Report identified greater control for the EU's central regulator, ESMA, as a 'key pillar' in growing capital markets. Some member states with looser financial oversight have expressed opposition to ESMA's enhanced role, while others argue that it could help address the fact that some national regulators are failing to properly assess risks, for example when authorising cryptocurrencies. The Commission also argues that less fragmented capital markets will enable more

across the EU with a single license - rather than requiring separate ones for each member state. The EU is also seeking to simplify some of its capital markets regulatory framework (converting directives into regulations and 'streamlining' some of the sub-directives), and changes will also be made to the regulatory framework on distributed ledger technology (which underpins cryptocurrencies) 'to relax limits, increase proportionality and flexibility, and provide legal certainty, thus encouraging the adoption of new technologies in the financial sector'.

investment by private citizens, noting that 'approximately EUR 10 trillion of EU retail savings are currently held in bank deposits... generat[ing] a relatively low return when compared to investments in capital market instruments'. The UK government has also sought to get citizens to transfer more savings into investments through a public awareness campaign and cutting the tax-free savings limit for cash ISAs.

It remains to be seen how great an impact the EU's reforms have, and they are still subject to negotiation between the European Parliament and member states. If the EU is able to make itself a more attractive destination for financial services trade, this may have negative effects on the UK economy, given that the City of London serves as a chief competitor to EU member states in the financial services sector.

30. Product standards

Radio Equipment (Amendment) (Northern Ireland) Regulations 2025.

ISSUE	IMPACT
In October, the UK government laid a statutory instrument giving effect to the EU's updated Radio Equipment Directive in Northern Ireland. It creates new 'common charging' rules designed to reduce the frequency with which consumers have to buy new chargers, thus cutting down on electronic waste. The rules stipulate that electrical equipment (including mobile phones, tablets, digital cameras and earbuds) must use the same USB-C type charger. From 28 April 2026, the requirement extends to laptops. Devices must also be programmed to allow 'fast charging' when plugged into any compatible charger, and consumers have been given option to purchase new electrical equipment without a charger if they prefer. Producers must also provide 'relevant visual and written information' about the charging characteristics of the product, to help consumers understand whether their existing charger is compatible with it.	Northern Ireland may feel benefits from the new rules, in terms of consumers having to buy fewer chargers and generating less electronic waste per capita. The change does, however, create divergence with the rest of the UK which has not (yet) introduced equivalent legislation. The consequence is that some GB-based manufacturers, who may not be producing to the updated EU requirements, are no longer able to sell into Northern Ireland. Overall, however, Northern Irish consumers are unlikely to suffer from supply shortages as other companies worldwide are adapting their processes to meet the new EU requirements. Any GB-NI divergence could be short-lived, as the UK government launched a consultation in October 2024 on whether to, in effect, mirror the EU rule changes. It is, however, yet to publicly respond following the call for evidence.

31. Migration

EU common system for the return of third-country nationals.

ISSUE	IMPACT
In December, the European Council agreed a proposal to significantly reform its asylum rules. The proposal will now be brought to the Parliament for negotiations. One proposal is to establish 'return hubs' for asylum seekers in non-EU countries. This would allow EU member states to send asylum seekers who have had their application rejected to another country with which they have signed an agreement. The country in question must respect 'international human rights standards and principles of international law, including the principle of 'non-refoulement' (i.e. not returning a refugee to the country from which they have fled or another country where they would be at risk). A list of 'safe' countries has been set out: EU accession candidate countries, Bangladesh, Colombia, Egypt, India, Kosovo, Morocco and Tunisia. Another new measure is mutual recognition of return decisions, meaning that one member state can enforce a 'return decision' issued by another - rather than that member state having to first issue a return decision of its own. This will be facilitated by the creation of a new 'European return order' form, through which member states log return decisions into a central database. Mutual recognition will be optional to begin with, and the Commission will make an assessment after two years on whether to make it mandatory. Some member states had expressed concern that obligatory mutual recognition could lead to 'frontline' EU states which receive a large number of migrants	The EU proposals have proven highly controversial, with Amnesty International stating that it "mirrors the harrowing, dehumanising and unlawful mass arrests, detention and deportations in the US, which are tearing families apart and devastating communities". From a divergence perspective, both the UK and EU have recently taken steps to strengthen their powers to deter and remove asylum seekers - but though different policy approaches. The EU return hubs are not dissimilar to the previous UK government's 'Rwanda plan' (abandoned by the current government before anyone was sent to Rwanda), under which the UK would have sent some asylum seekers to Rwanda to have their claims processed, with the Rwandan government ruling on their claims and offering them asylum if successful. This went somewhat further than the EU's proposal, which is to send asylum seekers to third countries if their claim is unsuccessful. Some EU member states (Italy and the Netherlands) have already signed such bilateral deals with third countries (Albania and Uganda respectively). The UK, by contrast, is no longer focusing on return hubs and instead seeking to expedite asylum decision processes. It has also followed the EU in stripping back the existing rights of asylum seekers (albeit in different ways), for example by quadrupling the amount of time they have to wait to obtain refugee status or

(like Spain, Italy and Greece) allowing rejected asylum seekers to cross into another member state, which then has to take responsibility for enforcing the return decision.

There are also proposed changes to existing rules on detaining and deporting migrants, such as new obligations on asylum seekers whose claims have been rejected to 'comply with the obligation to leave the territory of the member state in question and to cooperate with the authorities'. Non-cooperation can lead to the withdrawal of benefits and work permits, and criminal sanctions including imprisonment, and authorities will have powers to search asylum seekers' homes and seize their belongings. There are special measures for 'people who pose a security risk', including the option to ban them from entry for longer than the usual maximum period of ten years, and to detain them, including in prison, for 'longer than normally foreseen'.

permanent residence rights, and introducing a power to return asylum seekers to the country they fled if it comes to be deemed safe.

32. Migration

EU-Mercosur Partnership Agreement.

ISSUE	IMPACT
In January 2026, the European Council approved the signing of the EU-Mercosur Partnership Agreement - establishing new preferential tariff rates between the EU and four South American countries (Argentina, Brazil, Paraguay and Uruguay). Political agreement between the Commission and Mercosur was reached in December 2024, but member state approval was a major hurdle to overcome in the ratification process. Austria, Hungary, France, Ireland and Poland all voted against the deal (Belgium abstained), but they do not collectively represent a large enough proportion of the EU's population (at least 35%) to block it. The agreement removes duties on over 90% of EU exports to Mercosur, significantly reducing tariff rates (staggered over time) for goods such as cars (currently facing a 35% rate), machinery (14-20%) and chemicals (up to 18%) which form the bulk of EU exports to South America, as well as other key export sectors like dairy (28%) and wine (27%). Mercosur agrifood exports to the EU will also benefit from reduced tariffs, but products must meet EU animal and plant health standards. The agreement has proved controversial primarily because of concerns among EU farmers that they will face increased competition from South American meat exporters, who do not face such stringent regulatory requirements in their production processes as EU farmers. The Commission has proposed 'safeguard' measures during the 'transition period' before the agreement is fully	This agreement has been a long time in the making, with negotiations first beginning 25 years ago. The Commission and Mercosur have presented this as a sign of their commitment to trade openness and prosperity in a world of rising protectionism. The Commission estimates that the deal will increase EU GDP by 0.05% (€77.6bn) by 2040. The UK is not in negotiation with Mercosur to secure a comparable agreement, though some have argued that it should follow suit. The impact on EU farmers remains a sensitive issue, and has led to protests in member states including France and Poland. Others, such as Germany, are much more supportive of the benefits it provides for automotive exports. Italy played a pivotal role as kingmaker, ultimately opting to support the agreement after gaining concessions around additional safeguards and funding for farmers. This is the first time that an EU free trade agreement has been approved without the unanimous agreement of all member states - highlighting tensions between member states over to how approach a more uncertain global trading environment There is some potential impact on the UK in relation to its SPS deal with the EU, which is currently under negotiation. If the deal is agreed, agricultural goods from the EU will no longer be subject to border checks when entering Great Britan. Because of the EU-Mercosur deal, there could be a greater volume of South American meat among flows from

implemented, to try and address these concerns. Member states may ask the Commission to launch an investigation, with a view to temporarily suspending preferential tariffs for 'sensitive' agricultural sectors including beef, poultry, sugar and citrus fruits, if import volumes of a sensitive good rise (or prices fall) by 8% per year (compared to a three-year average) in a member state.

The Commission will also 'constantly and proactively monitor imports of sensitive products' and impose stronger import controls on sensitive goods to ensure 'stronger alignment of production standards... notably on animal welfare and pesticides from Mercosur countries'. Separate to the agreement itself, the Commission has proposed further measures to appease famers, such as increasing farmer funding by an additional €45bn under the next budget cycle (2028-2034), and cutting import duties for certain fertilisers.

The agreement must still be approved by the European Parliament, and the four Mercosur states, before it is fully ratified.

the EU - and so the UK will effectively be relying on EU border agents to ensure that the additional imported meat meets the necessary standards for circulation in the UK/EU SPS area. UK customs officials will also need to ensure that any South American meat is subject to the correct tariffs when entering from the EU - given the UK will be levying higher rates than the EU once the EU-Mercosur deal takes effect.

33. Trade

Customs duty for low-value packages.

ISSUE	IMPACT
The European Council agreed in December to introduce a customs duty of €3 for 'low-value' parcels (worth under €150) imported to the EU from July 2026. Low-value parcels are at present exempted from import tariffs, and the €3 duty is a temporary measure to fill the gap until the EU has finalised a new, permanent arrangement - where low-value parcels will become subject to import tariffs and the associated customs paperwork and controls. The chief purpose of the duty (and future tariff regime) is to combat the widespread import of unsafe goods via 'e-commerce' sites like Temu and Shein. 4.6 billion 'low value' parcels were imported to the EU in 2024 (90% from China), with the rate having doubled in two years; and the Commission reports that many of the products - in particular toys and cosmetics - do not meet EU safety standards. E-commerce sites are not classed as retailers and therefore not responsible for the regulatory conformity of goods sold via their platforms. Alongside ending duty exemptions, the Commission's proposal for tackling the problem, set out earlier this year and covered in a previous tracker, includes new powers for national authorities to investigate cases of concern and a 'handling fee' (initially suggested at €2 for items sent directly to consumers and €0.50 for packages sent to warehouses) on low-value imports to fund the supervisory work.	This measure builds on other actions already taken to combat cheap, unsafe goods. The EU has introduced new obligations for supply chain operators to ensure the safety of goods sold via online marketplaces (without imposing direct accountability on the marketplaces themselves) via its General Product Safety Regulation; and in July the Commission found Temu to be in breach of obligations under the Digital Services Act to assess the risks of illegal products being sold via its site. The UK government has stated its intention to similarly combat the sale of unsafe goods via online marketplaces, but is yet to take any comparable steps (on duties or regulatory oversight). This divergence could lead to more goods from online marketplaces being directed to GB, as it becomes more costly and complex to sell them into the EU (and NI) markets. The Commission has framed its new duty on low-value goods as "an important step towards ensuring a level playing field for European businesses" and combating the "increasing volume of goods sold online... from third countries, notably China". The United States also abolished its import duty exemption threshold (set at $800) in 2025. The EU also recently carried out raids at a Temu office looking for evidence of unfair subsidisation. This could lead to growing EU-China tensions, with China condemning the action as "unreasonable" and warning of the risk of growing "protectionism" and "politicisation" of trade.

34. Trade

EU-South Africa Clean Trade and Investment Partnership.

ISSUE	IMPACT
Ahead of the G20 summit in South Africa last November, the EU and South Africa signed a 'Clean Trade and Investment Partnership' (CITP) with a particular focus on critical minerals. The EU described the CITP as 'the first of its kind', designed to enhance its clean technology supply chains, while deepening trade and political relations with partner countries. It includes the mobilisation of finance from EU development banks and export credit agencies into South Africa, while South Africa will 'improve the business environment for EU countries' and promote public procurement opportunities in clean sectors. It sits alongside an MoU 'on a partnership on sustainable minerals and metals in value chains', which 'aims to identify and jointly develop industrial projects of common interest across the exploration, extraction, refining and recycling of minerals and metals'. President Cyril Ramaphosa emphasised that this means South Africa will now be processing as well as extracting minerals, so that it 'moves up the value chain'.	The global supply of critical minerals – which are vital to the development of green technologies and defence industries – is dominated by China, which accounts for 90% of mining and 70% of refinement. This leaves Europe vulnerable to overdependency on resources from China – which recently introduced new export controls on such goods. Establishing new partnerships like the EU-South Africa one is a vital part of securing and diversifying supply chains. The EU has also made recent agreements with Zambia, the Democratic Republic of Congo and Namibia, but remains well behind China in terms of the quantity of supplies it is procuring. The UK government published a 'Critical Minerals Strategy' policy paper in November, which aims to 'build resilient UK and global supply networks' and sets a target for no more than 60% of the UK's aggregate demand for critical minerals to come from a single country by 2035. For the time being, however, the UK is behind the EU in terms of both the number of international partnerships it has signed, and legislative action (the EU passed the Critical Raw Materials Act in 2024 which sets targets and procedures for increasing domestic production). That said, both the UK and EU are well behind in the global race for supplies, and the two sides could do more to procure critical materials together and build partnerships with other countries. This could be a topic for a future UK-EU summit.

UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is based at King's College London.

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